JUMBO PRIME PROGRAM (FIXED)

Primary Residence

Purchase & Rate/Term Refinance

Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$750,000	75%	85%	700	12 Months PITI	N/A
	$2,000,000	80%	80%	700	12 Months PITI	
	$2,500,000	75%	75%	700	24 Months PITI	
	$3,000,000	70%	70%	700	24 Months PITI	
Condo	$750,000	75%	85%	720	12 Months PITI	
	$2,000,000	80%	80%	720	12 Months PITI	
	$2,500,000	75%	75%	720	24 Months PITI	
	$3,000,000	70%	70%	720	24 Months PITI	
	$2,000,000	75%	75%	700	12 Months PITI	
	$2,500,000	70%	70%	700	24 Months PITI	
	$3,000,000	65%	65%	700	24 Months PITI	
2 Units	$2,000,000	75%	75%	700	18 Months PITI	
3-4 Units	$2,000,000	70%	70%	700	36 Months PITI	

Cash Out Refinance

Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$1,500,000	70%	70%	720	12 Months PITI	>65% LTV/CLTV: $400,000 <=65% LTV/CLTV: $500,000
	$2,000,000	65%	65%	720		

Second Home

Purchase & Rate/Term Refinance

Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$650,000	80%	80%	700	18 Months PITI	N/A
	$1,000,000	75%	75%	700	18 Months PITI	
	$1,500,000	75%	75%	700	24 Months PITI	
	$2,000,000	70%	70%	700	24 Months PITI	
Condo	$650,000	80%	80%	720	18 Months PITI	
	$1,000,000	75%	75%	720	18 Months PITI	
	$1,500,000	75%	75%	720	24 Months PITI	
	$2,000,000	70%	70%	720	24 Months PITI	
	$650,000	75%	75%	700	24 Months PITI	
	$1,000,000	70%	70%	700	18 Months PITI	
	$1,500,000	70%	70%	700	12 Months PITI	
	$2,000,000	65%	65%	700	24 Months PITI	

Cash Out Refinance						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$1,000,000	75%	75%	700	18 Months PITI	$350,000
	$1,500,000	65%	65%	720	24 Months PITI	
	$2,000,000	60%	60%	720	25 Months PITI	
Investment Property						
Purchase, Rate/Term Refinance & Cash Out						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$1,000,000	60%	60%	740	24 Months PITI	$400,000
	$2,000,000	60%	60%	740	30 Months PITI	

JUMBO PROGRAM (ARM)

Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
Primary Residence						
Purchase & Rate/Term Refinance						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$750,000	75%	85%	720	12 Months PITI	N/A
	$2,000,000	80%	80%	720	12 Months PITI	
	$2,500,000	75%	75%	720	24 Months PITI	
	$3,000,000	70%	70%	720	24 Months PITI	
2 Units	$2,000,000	75%	75%	720	18 Months PITI	
3-4 Units	$2,000,000	70%	70%	720	36 Months PITI	
Cash Out Refinance						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$1,500,000	70%	70%	720	12 Months PITI	>65% LTV/CLTV: $400,000 <=65% LTV/CLTV: $500,000
	$2,000,000	65%	65%	720		
Second Home						
Purchase & Rate/Term Refinance						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$650,000	80%	80%	720	18 Months PITI	N/A
	$1,000,000	75%	75%	720	18 Months PITI	
	$1,500,000	75%	75%	720	24 Months PITI	
	$2,000,000	70%	70%	720	24 Months PITI	
Cash Out Refinance						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$1,000,000	75%	75%	720	18 Months PITI	$350,000
	$1,500,000	65%	65%	720	24 Months PITI	
	$2,000,000	60%	60%	720	25 Months PITI	
Investment Property (1)						
Purchase, Rate/Term Refinance & Cash Out						
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Reserves	Max. Cash-Out
1 Unit	$1,000,000	60%	60%	740	24 Months PITI	$400,000
	$2,000,000	60%	60%	740	30 Months PITI	

(1) 7/1 and 10/1 ARMs Only

LOAN PURPOSE

REFINANCE OF LOANS WITH LESS THAN ONE YEAR SEASONING

If the first lien being paid off was a purchase transaction, and the original purchase price, as stated on the application, is less than the new appraised value the file should contain documentation supporting the increase in value (e.g. appraisal indicates increasing values for the market, appraisal comparable support increasing values, documented home improvements, or a copy of the original appraisal showing the original appraised value higher than the original sales price).

If the increase in value is unsupported, the underwriter should use the lower of the original purchase price or the new appraised value to determine LTV/TLTV/CLTV.

RATE/TERM REFINANCE

NMSI will consider transactions meeting the following criteria to be Rate/Term refinances:

- Payoff of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new Loan)
  - If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the HUD1 Settlement Statement from the borrower's purchase of the subject property, or documentation of home improvements made to the property, must be provided evidencing the proceeds were used in their entirety to acquire or improve the subject property.
- Payoff (as defined above) of any subordinate mortgage lien used in its entirety to acquire or improve* the subject property
- Payoff (as defined above) any other mortgage lien against the subject, provided:
  - The lien has been open at least 12 months, and
  - Total draws in the past 12 months do not exceed 2% of the new first mortgage amount.
- Standard Loan fees (e.g., closing costs on the new mortgage; pre-paids, such as interest, taxes and insurance, etc. and points).
- Incidental cash to the borrower not to exceed 1% of the principal balance of the new Loan amount.

  Note: Home improvement costs may include the following:
  - Materials
  - Architectural fees
  - Supplies
  - Labor
  - Liability insurance on laborers
  - Installation costs (water, sewer, well, etc.).
  - Permits
  - Nonrecurring costs of obtaining financing, including origination fees, discount points, title searches, recording fees.
  - Temporary buy-downs are not allowed.

CASH-OUT REFINANCE:

Allowed. Any refinance transaction not meeting the requirements for a rate/term refinance is a Cash-out refinance.

- ***Delayed Financing/Allowable Cash-out for Properties Recently Purchased with Cash***
  If borrowers have purchased a primary or second home for cash within the preceding 90 days, an application may be considered to provide cash-out as a reimbursement of the borrower's cash investment providing all of the following are met:
  - HUD1 or Closing Disclosure indicating cash purchase within 90 days prior to the application.
  - Maximum LTV/CLTV based on the purchase LTV/CLTV matrix.
  - Maximum DTI based on the purchase DTI requirements.
  - Minimum Loan Score based on the purchase Loan Score requirements.
  - The LTV/CLTV will be based off the lesser of the original purchase price or current appraised value**.**
  - Borrower has exhibited a historic level of assets to support the cash purchase (supported by Schedule B of the last two years' tax returns) or other supportive documentation to verify receipt of such funds. A paper trail evidencing the funds used to acquire the subject property is acceptable as long as the funds had been on deposit at least 90 days prior to the date of the original transaction.
  - Funds used for the original purchase cannot be borrowed, except by means of a fully secured Loan (for example, margin account, or other real estate). These will be treated on a case-by-case basis.
  - Not allowed in Texas.
  - The Loan must be registered and Closed as a Cash-out refinance since the borrower is already in title to the property. The Loan can be underwritten based on purchase transaction guidelines.

PROPERTY LISTED FOR SALE

NMSI will not provide financing on any refinance transaction secured by a property:

- Currently listed for sale, or
- Listed for sale within the six months prior to the Loan application.

OCCUPANCY

- Owner-Occupied
- Second Home
- Investment properties are allowed with the following restrictions:
  - Fixed, 7/1 & 10/1 ARM only - 5/1 ARM not allowed
  - Allowed on one unit properties only - Cooperatives not allowed
  - Two years property management experience required if rental income from subject is used to qualify
  - Maximum DTI of 38%

PROPERTY TYPEY

ACCEPTABLE PROPERTY TYPES

- Single family detached or attached dwellings
- Condominiums/PUDs.
- Factory built except manufactured (mobile) homes
- Cooperatives.
- Properties with accessory units.

UNACCEPTABLE PROPERTY TYPES

- Timeshare
- projects

- Unimproved land
- Mobile home type manufactured housing
- Condotels/Resort Condominiums
- Hotel Condominium
- Log, earth or dome homes
- Hobby farms

PROPERTY FLIP TRANSACTIONS
- Not allowed

PROPERTIES WITH RESALE/DEED RESTRICTIONS
- Not allowed

PROPERTIES LOCATED ON ISLANDS
The following are considerations when making lending decisions on island properties:
- Regardless of where a property is located, it must be suitable for residential use and occupancy year-round. This is the area of greatest concern and the one most critical in determining acceptability. On some islands, public and private utilities such as water and electricity are not available year round, and the properties have no central heat source. These properties are ineligible for financing.
- The island should be accessible via public transportation. If a boat or ferry is the only means of access, it should be public, not private transportation. Public transportation is defined as that which is owned or controlled by local or state governing agencies or has been established for generations and is now considered public with assurance of public ownership should the business close.
- Due to location, access, and availability of utilities, the property may suffer limited marketability. Marketability must be demonstrated by sales of comparable properties.

PRODUCTS

- Fixed Rate 15 and 30 years
- 5/1, 7/1, and 10/1 LIBOR ARMs

ADJUSTABLE RATE DETAILS

- Interest rate adjustment caps
  - 5/1, 7/1 & 10/1 ARMs: Initial: 2% up/down; Subsequent: 2% up/down; Lifetime: 5% up
- Margin: 2.250
- Index: 1-Year LIBOR (London InterBank Offer Rate)
- Interest rate Floor: The interest rate Floor is equal to the Margin
- Change dates:
  - 5/1: The first Change Date is the 60th payment due date. There is a new Change Date every 12 months thereafter
  - 7/1: The first Change Date is the 84th payment due date. There is a new Change Date every 12 months thereafter

- 10/1: The first Change Date is the 120th payment due date. There is a new Change Date every 12 months thereafter

- Conversion Option: None
- Assumption: ARM products are assumable to a qualified borrower after the fixed term

QUALIFYING RATE & QUALIFYING RATIOS

QUALIFYING RATES FOR ARM PRODUCTS

- 7/1, 10/1 - Qualify at the greater of the fully indexed rate (index + margin) OR Initial Note rate, not to exceed the start rate plus lifetime cap.
- 5/1 ARM – Qualify at the greater of the Fully indexed rate (index + margin) OR Initial Note rate plus 2%

QUALIFYING RATIOS

	Front End Ratio	Total Debt to Income Ratio	Occupant Borrower's Ratio w/ Non-occupant Co-borrower
Fixed Rate, Primary Purchase and Primary Rate/Term Refi Transactions	36%	43%	43%
Investment Properties	36%	38%	38%
All Other Transactions	36%	40%	43%

LOAN AMOUNT

- Minimum: $ 417,001 / Maximum: $ 3,000,000

BORROWER ELIGIBILITY

- U.S. Citizens
- Lawful Permanent Residents
- Non-Permanent Residents must meet the following requirements
  - A-1, A-2, A-3, E-1, E-3, G Series, H-1, L-1, O-1A, O-1B, O-2, TN NAFTA , TC NAFTA Visas are accepted.
  - Minimum two year history of residence, employment and credit in the U.S., or Borrowing with a U.S. citizen or permanent resident alien.
  - A Borrower with an expired visa may be considered, subject to each of the following:
    - Visa classification is one of the eligible visas listed above.
    - Confirmation that the Borrower has submitted an application for extension of the visa or an application for a green card. Documentation includes, but is not limited to:

        - USCIS Form I797 (Issued when an application or petition is approved)
        - USCIS Form I797C or I797E (must not state that the application has been declined)
        - application for extension of current visa (USCIS Form I539or equivalent) or copy of application for green card (USCIS Form I485 or equivalent) and electronic verification of receipt from the USCIS web site.
    - If the borrower is sponsored by the employer, the employer may verify that they are sponsoring the visa renewal.
    - All standards for determining stable monthly income, adequate credit history and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are nonpermanent resident aliens.

- Ineligible Borrowers included, but are not limited to:
    - Foreign Nationals
    - Diplomatic Immunity

NON ARMS LENGTH TRANSACTION

- Loans for second home or investment properties are not eligible for purchase by NMSI Funding if the transaction includes non-arm's length and/or at-interest characteristics.

PROPERTIES PURCHASED FOR OCCUPANCY BY A DIRECT FAMILY MEMBER

When the subject property is being purchased for occupancy by a direct family member (parents, siblings, children):

If…	And the borrower's relationship is…	Then occupancy is considered…
Only the occupant borrower's income is needed to qualify	N/A (borrowers do not have to be related)	Primary residence
Only the non-occupant borrower's income is needed to qualify	Direct family members (parent/child or siblings)	Second home
	Not direct family members	Investment property
Both the occupant and non-occupant borrowers' incomes are needed to qualify	N/A (borrowers do not have to be related; relationship does not impact occupancy type)	Investment property

When qualifying using only the non-occupant borrower's income (i.e., the direct relative occupant is not required to be on the Loan), the following applies:

If…	Then…
The primary income earner's Loan Score is ≥740	The maximum LTV/CLTV is 5% below the second home policy.
The primary income earner's Loan Score is ≥700 and <740	The maximum LTV/CLTV is 10% below the second home policy.

TITLE CHANGES

These are transactions where the borrowers have been transferred into title, perhaps by a quit claim deed, and may include a transfer from one individual to another or from an LLC or another business entity to an individual. The borrowers are attempting to refinance the existing mortgage from the previous owner's name to their name. This situation presents red flags for credit and transaction risk similar to the risks of a flip transaction.

These transactions are ineligible, unless the:
Title change is due to marriage, divorce, or death, and

- Borrower must qualify under normal underwriting.
- Transaction may be considered as a rate-term or cash-out refinance (refer to eligible transaction requirements specified previously in this section).
- The reason for the title transfer must be explained.
- To evidence the relationship in this chain of title and to show that there is not an unrelated party entering the chain of title, one of the following must be met:
    - Appropriate legal documents (such as divorce decree, marriage certificate, or estate documents) must be obtained.
    - Status of the new title holders must be identified and fulfilled in Schedule B-1 of the title work.

OR
Borrower has been in title for more than six months, and

- Transaction may be considered according to the Requirements listed in Identity of Interest Transactions, along with the following additional requirements:
    - Transaction may be considered as a rate / term or cash-out refinance (refer to eligible transaction requirements specified previously in this section).
    - The reason for the title transfer must be explained.

CREDIT

BUSINESS CREDIT REPORTS

Business credit reports are not required; however, there are certain circumstances when it will be imperative to obtain a business credit report to determine the acceptability of a Loan.

When the Borrower's business entity is a corporation, subchapter "S" corporation or a partnership, it is at the sole discretion of the underwriter to determine the appropriate times to require a business credit report.

MINIMUM LOAN SCORE REQUIREMENTS

To be eligible for Jumbo financing, NMSI requires a minimum Loan Score of at least:

- Purchase and rate/term transactions with fixed rate product require a minimum Loan Score of 700
- All other transactions require a minimum Loan Score of 720
- Non-traditional credit is not allowed

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

BANKRUPTCY, FORECLOSURE, DEED-IN-LIEU, SHORT SALE, REPOSSESSION REQUIREMENTS AND LOAN MODIFICATIONS

Borrowers with a bankruptcy, foreclosure, deed-in-lieu, short sale, repossession, or Loan modifications are subject to the following requirements:

- LTV/CLTV greater than 70%: Not allowed
- LTV/CLTV less than or equal to 70% is allowed when:
  - The adverse Credit was due to extenuating circumstances and a minimum of 60 months re-establishment of credit since the discharged/dismissal/completion date, or
  - The Adverse Credit was due to financial mismanagement and 84 months re-establishment of credit since the discharged/dismissal/completion date.

CHARGE-OFF

- Individual, unpaid charge-off less than or equal to $500 is allowed with no requirement to pay off.
- Individual, unpaid charge-off more than $500 is not allowed.

MONTHLY DEBT OBLIGATIONS

PAYOFF VS. PAYDOWN

Accounts may not be “paid down” to less than 10 months to allow the borrower to qualify. Installment or mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the borrower is not allowed.

HOUSING EXPENSE RATIO

The housing expense ratio equals the total monthly primary housing expense divided by the qualifying monthly income. The monthly housing expense is the sum of the following:

- Monthly principal and interest payment on the borrower’s primary residence.
- Monthly principal and interest payments are required for interest only HELOC payment calculations.

  Note: See table under Liabilities – Revolving Accounts below for methods of calculating home equity line of credit (HELOC) payment.
- 1/12th of the annual real estate taxes (do not use a lot only tax figure for new construction).
- 1/12th of the annual hazard insurance premium (including flood, earthquake, or subsidence insurance if any)
- Monthly leasehold payments if applicable.
- Monthly homeowners association dues, condominium maintenance fees, or cooperative monthly assessments if applicable.

TOTAL DEBT RATIO

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

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

- The total proposed monthly housing expense. Payments on all revolving accounts with a balance.
- Payments on all installment obligations with 10 or more monthly payments remaining until payoff.
- When calculating the DTI, full principal and interest payments are used for all other mortgages, including home equity lines of credits (HELOCs) on other real estate held by the borrower. See table under Liabilities Analysis – Revolving Accounts below for methods of calculating HELOC payment.

- For Closed End subordinate loans (not HELOCs) with an interest-only feature: Qualify using monthly principal and interest payment, based on full amortization over the term of the loan remaining as of the date the loan is or will be recast, at the fully indexed rate or any introductory rate, whichever is greater, not including any rate/payment discounts that will not apply over the term of the loan.

- Real estate loans (if not accounted for in rental income analysis).
- Child support.
- Other continuing obligations.

It is not acceptable to pay down installment debts to less than 10 months in order to qualify. Installment debts must be verified as paid-in-full at closing in order to exclude the debt from the borrower's qualifying ratios.

Debts lasting less than 10 months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after Loan closing, especially if the borrower will have limited or no cash assets after Loan closing.

Some debts may be excluded from total obligations with additional documentation. See Liabilities analysis for additional information. All debts, including debts that are excluded from ratio calculations, should be listed on the application.

Obligations not considered long term debt, and therefore excluded from DTI, include:
- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts
- Commuting costs Union dues
- Automatic deductions to savings accounts
- Child care
- Voluntary deductions

Employment/Income Stability

The following analysis is required:
- Only income that is reasonably expected to continue for at least three years should be considered. For additional information, see BORROWER EMPLOYMENT AND INCOME ANAYLSIS.
- Stability of employment must also be considered when determining if the income should be used in qualifying.
- For self-employed borrowers, stable income is generally considered to be a 24-month average of net income.
- When reviewing information from a tax return, a 24-month income average is used when two years' tax returns are required and a 12-month average when one year's tax return is required.

SUBORDINATE FINANCING

For transactions including subordinate financing, the following requirements apply:
- For HELOC and Closed End Loans: Negative amortization is not allowed; scheduled payments must be sufficient to cover at least the interest due.
- For Closed End Loans: Balloon payments are not allowed.
- For Closed End Loans with Interest-Only feature: see Total Debt Ratio above.

REVOLVING ACCOUNTS

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

The minimum payment amount for all revolving accounts with a balance must be included in the total monthly obligations.

If the credit bureau does not reflect a payment on a current reporting liability, a payment should be calculated as follows:
- Revolving: The greater of $10 or 5 percent of outstanding balance.
- Home equity line of credit (HELOC): When calculating the DTI, full principal and interest payments are used for all other mortgages, including home equity lines of credits (HELOCs) on other real estate held by the borrower. See the table below for methods of calculating HELOC payments. This is to account for loans that require less than a full principal and interest payment, including but not limited to Interest Only.

Transaction	
New HELOC on subject property or Cash-out refinance first lien – all subordinated HELOCs on subject property	When there is a payment reported on the credit bureau, use: Full credit line limit 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster Or, Obtain the Note and use: - Full credit line limit - 20-year amortization term - Fully indexed rate (prime + margin) from the Note - + 2.0 NMSI qualifying economic adjuster When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: - Full credit line limit - 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster Or, - 5% of the outstanding balance
Rate/term refinance – Existing HELOC on subject property	When there is a payment reported on the credit bureau, use: - Outstanding balance - 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster Or, Obtain the Note and use: - Outstanding balance - 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster

	When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: - Outstanding balance - 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster Or, - 5% of the outstanding balance
Non-subject property HELOC	When the HELOC is aged less than or equal to 12 months (calculated from open date to note date) - Obtain the Note and calculate the qualifying payment based on: - Full credit line limit - 20-year amortization term - Actual rate/margin may be verified with a copy of the note - Do not include any rate/payment discounts that will not apply over the term of the line When there is a payment on the credit bureau and a copy of the note is not available: - Full credit line limit - 20-year amortization term - Current prime rate - + 1.50 margin - + 2.0 NMSI qualifying economic adjuster - Do not include any rate/payment discounts the will not apply over the term of the line When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: - Outstanding balance or full credit line limit, as outlined above - 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster Or, 5% of the outstanding balance or full credit line limit, as determined by above criteria If the borrower has sufficient liquid assets to pay off the full credit line limit amount in addition to standard policy requirements for post-closing reserves, the qualifying payment calculation may be based on outstanding balance rather than the full credit line limit. When the HELOC is aged more than 12 months (calculated from open date to note date) Obtain the Note and calculate the qualifying payment based on:

	- Outstanding balance - 20-year amortization term - Actual rate/margin may be verified with a copy of the note When there is a payment on the credit bureau and a copy of the note is not available: - Outstanding balance - 20-year amortization term - Current prime rate - + 1.50 margin - + 2.0 NMSI qualifying economic adjuster When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: - Outstanding balance or full credit line limit, as outlined above - 20-year amortization term - Current prime rate - + 1.5 margin - + 2.0 NMSI qualifying economic adjuster Or, 5% of the outstanding balance or full credit line limit, as determined by above criteria
Non-subject property – first mortgage/lien	When calculating the DTI, full principal and interest payments are used for all first mortgage/lien on all real estate owned/held by the borrower. Note: This is accounts for Loans that require less than a full principal and interest payment, including but not limited to Interest Only.

Note: Prime rate can be found in the Wall Street Journal.

HELOCS ON REAL ESTATE OWNED OTHER THAN THE SUBJECT PROPERTY

For qualifying purposes, Mortgage payments included HELOCs, must use a fully indexed, fully amortized principal and interest payment calculation.

First mortgages on a non- subject property will use the following data to calculate a qualifying principal and interest payment:

- Outstanding principal balance
- Fully indexed note rate
- Existing amortization term

Borrowers should be qualified with a full PITI payment including Homeowner Association fees, if applicable.

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

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

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

- Document sufficient assets to pay off the full balance (beyond cash required to close and reserves). In addition, use the greater of 5 percent of the balance or $10 for a qualifying payment.
- If sufficient assets are not available, use the full balance for a qualifying payment; if a lower payment amount can be documented from the creditor, that amount may be used for qualifying purposes.
- Follow verbal verification requirements or obtain a written verification or account statement. Refer to Verbal Verification of Employment (VVOE) for documentation requirements.

INSTALLMENT ACCOUNTS

Installment accounts are accounts that fully amortize or have a balloon payment at a predetermined date. The account balance cannot be increased during the term of the loan. Payments are made on a regular basis and may be fixed or adjustable.

Whenever the installment debt's payment amount is not provided on the credit report then documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:

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

Installment debts with less than 10 monthly payments remaining may be excluded from the qualifying ratios, but must be listed on the application. It is not acceptable to pay down installment debts to less than 10 months in order to qualify. Installment debts must be verified as paid-in-full at closing in order to exclude the debt from the borrower's qualifying ratios.

DEFERRED PAYMENTS, BALLOON PAYMENTS, AND SINGLE PAYMENTS NOTES (INCLUDING INTEREST ONLY PAYMENT NOTES)

Some debts may have deferred payments or are in a period of forbearance. These debts must be included in the qualifying ratios if scheduled to begin or come due within 12 months of the mortgage Loan closing. Examples of installment debts with deferred payments include:

- Debts on automobiles, furniture, and appliances for which the initial payment is delayed for a period of time as part of a promotional campaign by the retailer.

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

  - Deferred payments must be included if the amount of the debt or payment affects the borrower's ability to pay the mortgage after Loan closing, especially if the borrower will have limited or no cash assets after Loan closing, (such a borrower with high ratios / no or low cash assets after closing with a sizable debt event that is just outside of the 12 month window for inclusion in ratios).
  - Deferred payments on student loans and deferred payments on revolving accounts must be included in the total debt ratio.
  - Balloon and single payment Notes must be considered in the underwriting analysis:
    - If sufficient liquid assets (excluding assets used to meet reserve (post-closing liquidity)/down payment/closing costs requirements) can be verified to pay off Note, the Note does not need to be

included in the ratios.

- If sufficient liquid assets cannot be verified, verify the term of the Note, and include a payment in the ratios based on amortization over remaining term of the Note.

When the credit report does not include a payment on the debt, documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:
- Direct verification from the creditor.
- Copy of the installment loan agreement.
- Student loan certification from the financial institution holding the loan.

LEASE PAYMENTS

The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining until the end of the lease term.

BUSINESS DEBT

Business debts for which the borrower is personally liable are usually included in long term debt according to the requirements for revolving or installment accounts. Installment debts with 10 or more monthly payments remaining and revolving debts may be excluded if the account has a satisfactory payment history and all of the following is provided as evidence that the business is paying the debt:
- The account does not have a history of delinquency.
- Minimum of 12 months of consecutive canceled checks from the business.
- The cash flow analysis of the business takes the payment obligation into consideration.

CHILD SUPPORT

Child support payments must be documented with a copy of the court order (such as a divorce decree).

Child support payments with less than 10 monthly payments remaining may be excluded from the qualifying ratios. A copy of the court order is required.

Alimony and separate maintenance payments to be paid policy must be followed. See Borrower − Employment and Income Analysis – Other Income - Alimony and Separate Maintenance Payments to be Paid.

NET RENTAL LOSS

If the analysis of rental income on an investment property as described in employment and income analysis indicates a loss, the monthly net rental loss is included in the long term debts.

SALE OF PRIOR HOME

The borrower’s previous mortgage payment does not have to be included in long term debt as long as one of the following can be provided:
- A copy of the HUD-1 or Closing Disclosure from the sale of the real estate.
- Departure Residence Policy is met. See Departure Residence Policy.

BRIDGE LOANS

The payment on a bridge loan may be excluded from the total debt ratio when the following documentation is provided:
- A copy of the fully executed sales contract for the previous residence.
- A lender’s commitment to the buyer of the previous residence (if the executed sales contract includes a financing contingency).
- Documented reserves of six months’ payments covering all liens on the previous residence.

RENTAL OF PREVIOUS RESIDENCE LISTED FOR SALE

See Departure Residence Policy.

SUBORDINATE FINANCING

Payments on closed end subordinate financing (installment loan) must be included in the monthly housing expense or in long term debt if there are 10 or more monthly payments remaining.

Payments on any HELOC with an outstanding balance must be included in the monthly housing expense or in long term debt (depending on whether the primary residence of other real estate secures the line).

READY RESERVE ACCOUNTS

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

LOANS SECURED BY A FINANCIAL ASSET

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

LOANS FROM 401(K), 403(B), AND KEOGH PLANS

Payments on loans from 401(k), 403(b), and KEOGH plans must be included in qualifying ratios unless there are sufficient liquid assets to pay off the debt. If sufficient liquid assets exist then the payment can be excluded.

MARGIN ACCOUNTS

If the borrower discloses the existence of a margin account on the application or it is indicated on brokerage account statements, repayment must be considered and included in total monthly obligations unless the value of the stock exceeds the amount of the Loan.

GROUP SAVINGS

If the borrower is part of a group savings plan with a remaining obligation period of 10 months or more, the monthly contribution to the account must be included in the total obligations to income ratio.

CONTINGENT LIABILITIES

Contingent liabilities are debts in which the borrower has become a cosigner / guarantor with another person. A contingent liability exists when an individual is held responsible for payment of a debt if another party defaults on the payment. These could be a present co-signed loan, a loan that was assumed, or a loan assigned to another party by court order. Contingent liabilities must be included in liabilities if there are 10 or more monthly payments remaining.

COSIGNED LOANS

The monthly payment on a cosigned loan with 10 or more monthly payments remaining may be excluded from long term debt if there is documentation that the primary obligor has been making regular payments during the previous 12 months and does not have a history of delinquent payments on the loan during that time. If the payments have not been paid on time or if there is no evidence that someone other than the borrower is making payments, the cosigned loan is treated as borrower’s own obligation. Copies of canceled checks for the most recent 12 months or a statement from the creditor are acceptable documentation.

The above applies to:
- A car loan
- A student loan
- A mortgage
- Any other obligation

ASSUMPTIONS

Contingent liability must be considered when the borrower remains obligated on an outstanding mortgage (including conventional, FHA insured, VA guaranteed, or any other mortgage or line of credit) secured by property that:
- Has been sold or traded within the last 12 months without a release of liability; or
- Is to be sold on assumption without a release of liability being obtained.

If a property has been sold on assumption, the following documents are required:
- Copy of the documents transferring ownership of the property.
- The assumption agreement executed by the transferee.

When a mortgage is assumed, the contingent liability may be excluded from the total monthly obligations, if:
- A payment history from the servicer of the assumed loan is obtained showing that the mortgage has been current during the previous 12 months; or
- Value of the property, as established by an appraisal or the sales price on the HUD-1 Settlement Statement or Closing Disclosure from the sale of the property, results in a LTV/CLTV ratio of 75 percent or less.

PREVIOUSLY PAID IN FULL

The monthly payment on a debt may be excluded from the total monthly obligations if the borrowers can document that they no longer owe the debt. The following documents are required:
- Copy of the documents detailing debt paid in full.
- Copy of the documents releasing liability.

COURT ORDER

If the obligation to make payments on a debt has been assigned to another person by a court order such as a divorce decree, the payment may be excluded from the total monthly obligations regardless of the number of payments remaining. The following documents are required:
- A copy of the court order or divorce decree.
- For mortgage debt, a copy of the documents transferring ownership of the property.

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

BANKRUPTCY

If a debt has been included in a court order such as a bankruptcy, the payment may be excluded from the total monthly obligations regardless of the number of payments remaining. The following documents are required:
- A copy of the bankruptcy papers detailing the debt to be excluded.
- For mortgage debt, a copy of the documents transferring ownership of the property.

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

PENDING LAWSUITS

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

EMPLOYMENT

JOB CHANGES

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

EMPLOYMENT GAPS

The borrower must provide a detailed two year employment history. Obtain a written explanation from the borrower for any gaps in employment that span one or more months. Gaps in employment due to the borrower attending training or schooling for a specific profession should be favorably considered. Verification of the schooling (for example, diploma, or transcripts) must be provided.

EMPLOYMENT BEGINNING AFTER SUBJECT LOAN CLOSING

Loans may close prior to the start date with a New Employer provided the following requirements are met:

- Primary residence and 1unit only.
- Maximum 80% LTV.
- Purchase transactions only.
- Salaried borrowers only.
- Fully executed non-contingent employment contract or offer letter indicating salary and start date is required. The contract must be fully guaranteed and non-revocable.
- The time period between closing date & commencement of employment must not exceed 60 days.
- Borrower must have adequate cash reserves to cover PITI during employment gap plus two additional months over and above any other reserve requirements that may apply.
- Post Close verbal Verification of Employment and Paystub not required.
- Documentation evidencing all contingencies have been satisfied must be provided prior to closing.

EMPLOYMENT LESS THAN TWO YEARS THE FOLLOWING APPLY:

- For borrowers who are reentering the workforce after an absence of six months or more, the borrower's income may be qualifying income if the borrower has been at the current employer for a minimum of six months and can document a two year work history prior to an absence from employment using traditional employment verifications and/or copies of IRS form W2s or pay stubs.
- A move from dependence on public assistance to reliance on employment and earned income should be viewed as a positive factor.

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

CONTINUANCE OF INCOME

Income sources that may have a finite period of receipt such as the income types listed below must have a continuation period of at least five (5) years. The continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

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

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

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

DECLINING INCOME POLICY (SELF-EMPLOYMENT, BONUS, OVERTIME, COMMISSION, RESTRICTED STOCK)

- When income has declined less than 20 percent or greater decline in self-employed, bonus, overtime, commission and restricted stock income in the past two years or year to date, risk/offset factors, underwriters will use judgment to determine whether similar assessment is warranted (for example, Loans with debt ratios at or near maximum allowed could be impacted with even small income declines). The list of risk/offset factors include but are not limited to the following:
  - Is the decline an isolated or a onetime occurrence?
  - Has the decline been addressed and expectations for non-recurrence documented /supported?
  - Are the bonus or commission income programs being used to qualify still in place?
  - Has it been verified that the amount of income used to qualify will continue?
  - Is the proportion of declining income relative to total income?
  - Self-employment income is frequently more volatile and less stable than other professional income sources.
  - Additional years of income trending may be required to support stability and expected continuance.
- If the self-employed, bonus, and commission income has declined more than 20%, then:
  - The lower income must be used in qualifying.
  - Income cannot be averaged with previous higher years' income or current income unless both of the following apply:
    - Decline is an isolated, onetime occurrence.
    - The reason for onetime decline has been satisfactorily addressed and documented to support a strong expectation of non-recurrence or further decline in income.

- If there have been declines over multiple years or further declines are possible, an additional risk offset of one of the following is required:
  - DTI ratio at least 5% less than required.
  - Housing ratio less than 36%.
  - Reserve (post-closing liquidity) over minimum required.
  - For self-employed borrowers, the CPA must be contacted to provide documentation and support for income trends and continuance.
    - For borrowers with bonus or commission income, the employer must be contacted for income trends and continuance as well as verification the employee is still eligible and that programs are ongoing:
    - If a publicly held company, earnings reports can be used to evidence favorable business trends.

Note: Reserve (post-closing liquidity) exceptions with declining income are generally not available. Loans that do not meet all the declining income guidelines may not be eligible for approval as submitted.

INCOME ANALYSIS - RESTRICTED STOCK

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

The following documentation is required:

- Issuance agreement or equivalent (part of the benefits package), and
- Schedule of distribution of units (shares), and
- Vesting schedule, and
- Evidence that stock is publicly traded, and
- Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)

Calculation of income:

- To determine the restricted stock price use the lower of: current stock price, or the two year stock price average.
- Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. The average stock price should be applied to the number of stock units vested each year. If stock income is declining, refer to DECLINING INCOME POLICY (SELFEMPLOYMENT, BONUS, OVERTIME, COMMISSION, and RESTRICTED STOCK.
- Future vesting must support qualifying income.

INCOME ANALYSIS - SELF-EMPLOYED BORROWERS

Borrowers are considered self-employed when their income is derived from a business in which they maintain a majority owner interest or can otherwise exercise control over the business' activities. Generally, a 25% or greater ownership interest in the business is considered a majority. There are circumstances where borrowers may be considered self-employed if they own less than 25% of a business.

Example: In partnerships with each of five general partners owning 20%, the borrower is considered self-employed if this 20% ownership is the borrower's major source of income.

Increased Risk Consideration
Self-employed borrowers present a greater credit risk than salaried borrowers because their income is directly linked to the success of their business. The following additional risks are associated with self-employed borrowers:
- Difficulty in verifying actual income/cash flow.
- Cash flow may not be regular because it is affected by marketplace fluctuations.
- Business may decline if borrower becomes ill.
- Borrower may be liable for business debts.
- Business may suffer from inadequate control or dissension among partners.
- Maximum financing for a borrower self-employed less than two years.

Two- year history
Income from self-employment may be considered stable if the borrower has been self-employed two or more years. Stable income is the average income for the previous two years. Any income from self-employment earned by the borrower must be documented with tax returns or financial statements prepared by the borrower's accountant.

Income of a borrower with at least one year, but less than a two-year history of self-employment may be considered stable if both of the following requirements are met:
- Borrower must have had at least two years of previous successful employment in the same occupation.
- Borrower must be able to document a reasonable probability of business success based on market feasibility, research, or studies and pro forma financial statements.

The following factors must be carefully considered when a borrower has been self-employed for at least one year, but less than two years:
- The borrower's training and experience.
- The location and nature of the business.
- The demand for that type of business in the area.

Less than one-year history
Income from a self-employment of less than one year may not be considered effective income.

SOLE PROPRIETORSHIP

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

Sole proprietorship liability
In a sole proprietorship, the individual owner is personally liable for all debts of the business, and, therefore, has unlimited liability. No distinction is made between the owner's personal assets and the assets used in the business. Either may be taken by creditors to satisfy business obligations.

Sole proprietorship death of owner
With a sole proprietorship, the death of the owner would terminate the business and place the assets into probate, delaying the disposition of assets to creditors and heirs. There is no legal provision for continuity of sole proprietorships.

Sole proprietorship risks
Management control of the business is concentrated in the owner. While this is useful for rapid decision making, continuity of the business may be endangered by:
- A lack of checks and balances.

- Illness or long absence of the owner.
- Inability to raise adequate capital.

Sole proprietorship taxes
The business income or loss is reported on Schedule C, Internal Revenue Service (IRS) Form 1040, and included with the individual owner's tax return.

Sole proprietorship qualifying income
Income based on the individual tax returns, IRS Form 1040, for the previous two years is averaged. If the earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

PARTNERSHIP

A partnership is basically a sole proprietorship multiplied by the number of people involved. A partnership is based upon a contractual relationship formed to carry on a trade or business.
- In a general partnership, each partner is personally liable for the total debts of the business.
- In a limited partnership, a limited partner is liable only to the extent of his own investment in the business.

▪ GENERAL PARTNERSHIP

General partnership liability
A general partnership is formed so that each partner is personally liable for the debts of the whole business. Therefore each partner is responsible for the actions of every other partner. This can create significant control problems and the necessity for a written partnership agreement. The personal liability to partnership creditors exists even after the partnership is dissolved.

General partnership dissolution
Unless specified in the partnership agreement, a partnership is dissolved immediately upon the death, withdrawal, incompetence, or insolvency of any one partner.

General partnership risks
There may be a lack of prompt and centralized control particularly where loose assignment of responsibilities exists. The concept that equal partners have equal voice may produce more reasonable judgment but may also cause more frequent arguments.

Generally, large amounts of capital are difficult to obtain because of the relative instability of this form of organization.

General partnership taxes
Partnerships are treated like sole proprietorships. Although the partnership is not subject to taxation, it is required to calculate and report partnership income on IRS Form 1065, United States Partnership Return of Income. The net income distributable to each partner is reported on Schedule K1 of IRS Form 1065 and on the individual's Schedule E, Part II.

Partners then pay taxes on their proportionate share of net partnership income at their individual tax rate, whether or not the income was actually withdrawn from the partnership.

General partnership qualifying income
Refer to EVALUATING PARTNERSHIP TAX RETURNS (IRS FORM 1065) AND SCHEDULE K1 below.

▪ LIMITED PARTNERSHIP

Limited partnership liability

Limited partnerships are usually formed for the purpose of investing money. Limited partners usually take a loss on this invested money. In turn, this reduces their taxable income. Limited partners have limited decision making opportunities and their liability is limited to the amount they invest. Unlike general partners, a limited partner's death or withdrawal does not terminate the partnership.

Limited partnership capital
Limited partnerships raise capital by attracting investors in the form of limited partners. As a result, limited partners are an excellent source of capital for the general partners without any loss of management control.

Limited partnership taxes
Limited partnerships carry the same tax implications as general partnerships and sole proprietorships. Both the limited and general partners in a limited partnership pay taxes on their proportionate share of net income as reported on their individual tax returns. Limited partners report their income or loss to the IRS on Schedule K1 of Form 1065 and the individual Schedule E, Part II.

Limited partnership qualifying income
Refer to EVALUATING PARTNERSHIP TAX RETURNS (IRS FORM 1065) AND SCHEDULE K1 below.

CORPORATION

Corporations are state chartered businesses owned by stockholders. The stockholder is not personally responsible for the debts of the corporation. The corporation's profits (retained earnings) are put back into the business or are distributed to stockholders as dividends. A corporation may choose to do both. The ultimate legal control of a corporation rests with its owners, the shareholders. These shareholders delegate their control to an elected board of directors. The board of directors, in turn, elects the officers of the corporation who are responsible for the day-to-day operations of the business.

Corporation taxes
Corporations report their income and losses on the United States Corporation Income Tax Return, Form 1120. Schedule L of IRS Form 1120 presents the current year corporation balance sheet. Income to the officers is reported by a W2 and is reflected on IRS Form 1040.

Corporation qualifying income
Qualifying income is determined by using a two-year average of income reported on W2s.
Refer to Evaluating Corporate Tax Returns (IRS Form 1120) below.

Corporation additional income
For an analysis of corporate tax returns, refer to Corporation qualifying income below.
For an analysis of financial statements in this document, refer to Financial Statements Analysis below.

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

Subchapter S corporation substantial risk
Because S corporations are generally small, startup businesses, which are taxed like partnerships, they are in the developmental stage and present a substantial underwriting risk.

This is particularly true because the limit on the number of shareholders allowed affects sources of borrowing and limits management options.

Subchapter S corporation taxes
S corporations pass gains and losses onto their shareholders, who are then, taxed at the tax rates for individuals. Income is detailed on IRS Form 1120S (U.S. income tax return for an S corporation), and is transferred to the individual shareholder's personal returns by the Schedule K1. The owners' salaries are reported on W2s.

Subchapter S corporation qualifying income
Refer to Evaluating S Corporation Tax Returns (IRS Form 1120s) And Schedules K1 below.

REQUIRED INCOME DOCUMENTATION

The following documents are required for all self-employed borrowers on loans that require documentation of income:

VERBAL VERIFICATION OF EMPLOYMENT – SELF-EMPLOYED REQUIRED DOCUMENTATION

If any borrower on a loan is self-employed, a verbal Verification of Employment must be completed not more than 30 calendar days prior to the date printed on the note. Employment needs to be verified by analyzing tax returns and financial statements.

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

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

The verification must be documented in writing, including:

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

TAX RETURNS

Copies of signed individual income tax returns for the past 2 years including all applicable schedules are used to document income.

The following are acceptable documents:

- Tax returns signed by borrower(s), regardless of date, or
- Form 8879 indicating that e-signatures are filed, or
- Tax return signed, stamped, or letterhead by CPA.

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

- **CORPORATIONS, S-CORPORATIONS, PARTNERSHIPS**

  The following additional documentation is required if the business is a corporation, Subchapter S corporation, or partnership:

  Business Income Tax Returns

  Copies of signed federal business income tax returns for the previous two-years with all applicable schedules attached:
  - Corporation - IRS 1120.
  - S corporation – IRS Form 1120S and Schedule K1.
  - General partnership- IRS Form 1065, and Schedule K1.
  - Limited partnership – IRS Schedule K1.

  Financial statements

  The individual preparing financial statements cannot be an immediate relative of the applicant.

  A year-to-date profit and loss (P&L) statement and balance sheet are required if more than four months have lapsed since the last fiscal year end. Since balance sheet information is not included on the Schedule C, balance sheets are also required for sole proprietorships when less than four months have lapsed since the last fiscal year end.

  The individual preparing or reviewing the financial statements must be an appropriate third party:
  - An unrelated and qualified individual (e.g. accountant / bookkeeper), including employee of the applicant's business, particularly if that employee has filed tax documents with the IRS.
  - An appropriate third party who has reviewed the document or other record prepared by the consumer is also acceptable.

  Additional reviewed or audited financial statements prepared by a certified public accountant may be required at the discretion of the underwriter. Cases which may warrant reviewed or audited financial statements are:
  - An applicant who has been self-employed for less than two years.
  - Excessive variation in income or expenses from year to year.
  - Reported delinquencies on the business credit report.

- **SOLE PROPRIETORSHIP**

  The following additional documentation may be required if the business is a sole proprietorship:

  Balance sheet

  A balance sheet for the previous two years may be required at the underwriter's discretion if the business has significant assets, employees other than family members, and regularly prepares separate business financial statements.

  Request for tax returns from IRS (Form 4506T)

  Seller to obtain fully executed IRS Form 4506T from the borrower for each business tax return that was used in the Loan decision.

EVALUATING TAX RETURNS

INCOME CALCULATION METHODS

Two approaches to income calculation must be considered:
- NMSI Cash Flow Method - considers distributions that the borrower is taking from the business.
- Baseline Method - considers the net income from the business.

Calculations for each method are shown below. The lowest income figure resulting from these calculations must be used to qualify.

INTRODUCTION

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

AVERAGING

Because self-employment income may change each year, an average better approximates the borrower's long-term earning ability.

EARNINGS TREND

Establish the borrower's earnings trend. Annual earnings that are level or increasing are acceptable. However, a large decline in gross income over two or three years may result in an unacceptable income source, even if the borrower's current income and debt ratios meet the guidelines.

- Earnings trends from the previous two years are established using the tax returns. If borrower: Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
- Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.

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

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

INCOME SOURCE

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

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

SCHEDULE C

Business income or loss

This is the business income or loss for a sole proprietorship. Income is calculated as follows:

	Baseline Method	**NMSI Cash Flow Method**
Schedule C - Profit or Loss From Business (Sole Proprietorship)	Net profit + depletion + depreciation	Net profit + expenses for business use of home + depletion + depreciation - meal and entertainment exclusion + amortization/casualty loss

Note: Qualifying income will be the lesser of the two calculation methods above.

SCHEDULE D

Capital gain or loss

Capital gains or losses generally occur only one time, and should not be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an effective earning trend. If the trend:

- Results in a gain, it may be added as effective income, or
- Consistently shows a loss, it must be deducted from the total income.
- Anticipated continuation of income must be documented through verified assets.

SCHEDULE E

- **Part I** (For self-employed borrowers who also have rental income) Refer to INCOME ANALYSIS – RENTAL INCOME.
- **Part II** Income or loss from partnerships and S corporation income or loss is determined by reviewing the business tax returns.

SCHEDULE F

Farm income or loss

This is the profit or loss from farming. Income is calculated as follows:

	Baseline Method	**NMSI Cash Flow Method**
Schedule F **- Farm Income or Loss**	Net profit (loss) + depreciation	Net profit (loss) - nonrecurring other income/loss + depreciation + amortization/casualty loss + expenses for business use of home + Non-Tax Portion Ongoing Coop and CCC Payments

Note: Qualifying income will be the lesser of the two calculation methods above.

EVALUATING CORPORATE TAX RETURNS (IRS FORM 1120)

Purpose of review

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

Additional income

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

- Borrower has the legal right to withdraw income from the corporation, per corporate resolution or comparable document.
- Withdrawal of additional income will not impact the business operations, based on careful analysis of the corporate financial statements.
- The business has positive sales and earnings trends.

Verify right to business funds
Before proceeding with the analysis of additional income, it should be verified that the owner / borrower has a right to these funds. Verification includes corporate resolution or other comparable document.

Calculation
Income is calculated as follows:

	Baseline Method	**NMSI Cash Flow Method**
C- Corporation	Officer's compensation (W-2) + Borrower's share of: taxable income - tax liability + depreciation + depletion	Officer's compensation (W-2) + dividends/distributions + loans to shareholders - loans from shareholders - unreimbursed employee expenses

Note: Qualifying income will be the lesser of the two calculation methods above.

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

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

EVALUATING S CORPORATION TAX RETURNS (IRS FORM 1120S) AND SCHEDULES K-1

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

The primary source of income for an owner of an S corporation comes from W-2 wages, which are traced to the Compensation of Officers line of the IRS Form 1120S and reported on IRS Form 1040. However, if the borrower needs (and has the legal right) to draw additional income from the corporation to qualify for this Loan, further evaluation is necessary to verify that the business is capable of contributing additional income. The following are required:
- Documentation of ownership and access to income.
- The business must have adequate liquidity to support the withdrawal of earnings. The business must have positive sales and earnings trends.

If the borrower meets the above requirements, calculate income as follows:

	Baseline Method	NMSI Cash Flow Method
S- Corporation	Officer's compensation (W-2) + Borrower's share of: Ordinary income/loss + net rental real estate income (loss) + depreciation + depletion - total obligations payable in <1 year	Officer's compensation (W-2) + cash distributions + loans to shareholders - loans from shareholders - unreimbursed employee expenses

Note: Qualifying income will be the lesser of the two calculation methods above.

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

EVALUATING PARTNERSHIP TAX RETURNS (IRS FORM 1065) AND SCHEDULE K-1

All Partnerships

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

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

- Documentation of ownership and access to income.
- The business must have adequate liquidity to support the withdrawal of earnings.
- The business must have positive sales and earnings trends.

If the borrower meets the above requirements, calculate income as follows:

	Baseline Method	NMSI Cash Flow Method
Partnership	Partner's share of: Ordinary income/loss + net rental real estate income (loss) + guaranteed payments + depreciation + depletion - total obligations payable in < 1 year	Guaranteed Payments to Partner - capital contributed during year + withdrawals and distributions + loans to partners - loans from partners - unreimbursed partnership expenses

Note: Qualifying income will be the lesser of the two calculation methods above.

The Schedule K-1 (IRS Form 1065) is used to determine the borrower's percentage of ownership.

RE-EVALUATION OF BUSINESS INCOME

Introduction

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

Recent withdrawals

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

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

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

FINANCIAL STATEMENTS ANALYSIS

Purpose of analysis

Self-employed borrowers' ability to repay the mortgage Loan depends on the stability and success of their business because the net income from that business will be used to repay the mortgage.

Financial statements of the business should be reviewed if there are any doubts about the continued stability of the business. Income statements and balance sheets can be evaluated for solvency (the ability to repay debts) and profitability (the ability to achieve monetary gain).

By reviewing financial statements for two or more years, the underwriter can develop a historical view of operations.

The two principal business statements that reveal the financial status of a company are:

- Balance sheet: An overview of a business, which shows a company's financial position at one point in time.
    - Income statement: The short-term (one year or less) look at a business, which shows the income realized and expenses incurred over that period.

The balance sheet

The balance sheet presents what a company or individual owns and owes at a specific point in time, usually the last day of the year. The balance sheet is an indicator of the individual's or company's financial strength.

Balance sheet organization

The balance sheet has two sides and lists the general ledger account balances in three main categories:

Assets are things of value owned by the company or individual and are shown on the left side of the balance sheet.

Liabilities are debts owed by the company or individual to its creditors in exchange for goods and services required to operate the business. They are shown on the right side of the balance sheet.

Stockholder's equity, sometimes called capital, is the value of the financial interest put into the business by its stockholders, owners, or both and is shown on the right side of the balance sheet.

Must balance

Both sides of the balance sheet must be equal as shown in the following formula:
Assets = liabilities + stockholder's equity.

Typical balance sheet categories

Assets	Liabilities
Current assets: Cash - Accounts receivable - Inventory - Prepaid expenses - Marketable securities Fixed assets: Property, plant, and equipment (less accumulated depreciation)	Current liabilities: - Accounts payable - Notes payable (current portion) - Federal income tax payable Long-term liabilities: - Mortgages - Notes payable - Bonds

Intangibles and other assets: - Goodwill - Patents - Trademarks - Copyrights	**Stockholder's equity** - Capital stock - Capital surplus - Retained earnings

Assets

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

Current assets

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

Current assets include:

- Cash: all money on deposit or in petty cash.
- Accounts receivable: money owed to the business for goods and services.
- Inventor: finished goods, goods-in-process or raw materials.

Fixed assets

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

Other assets

Other assets are long-term rights and privileges which are intangible but add value to a business because of their worth. These include:

- Copyright: Exclusive rights to publish and sell a musical, literary, or artistic piece of work for a number of years.
- Patent: A document granting a privilege to someone who has invented a product or a concept.
- Goodwill: Accrues when a business's rate of expected future earnings is greater than the rate of earnings normally realized in the industry.
- Trademark: The right to use an identifying name or mark given exclusively to a company (for example, Coca-Cola®).

Liabilities

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

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

Stockholder’s equity

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

There are three categories:

- Capital stock: A share of interest or ownership in a company. There are two types: Common stock & Preferred stock.

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

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

Organization
- The income statement is made up of two major sections: Inflow of revenue.
- Outflow of expenses.

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

Sample Income Statement	
Sales (revenue, including returns and allowances)	$0,000
Less: cost of goods sold	(000)
Gross profit on sales	$0,000
Less: selling expenses general administrative expenses other expenses	 (000) (000) (000)
Other sources of income	$0,000
Less: federal income taxes	(000)
Net income	$0,000

INCOME DEFINITION

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

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

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

Expenses
- **Selling expenses**
  Selling expenses are incurred to produce the sales revenue. Included in the selling expenses are

commissions and salaries to salespeople, advertising, and travel and entertainment.

- **General and administrative expenses**
  General and administrative expenses include office expenses, staff salaries, and other overhead expenses, which are unrelated to directly producing sales revenues.
- **Other expenses**
  Other expenses are the expenses incurred outside of the main operations of the business. These include dividend and interest expense.

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

INCOME ANALYSIS – SALARIED INCOME

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

INCOME IS VERIFIED WITH ONE OF THE FOLLOWING:

- Verification of Employment (VOE) form, completed by the employer.
- Current pay stubs, a verbal VOE (Exhibit 3), not more than 20 business days prior to the date printed on the Note, and most recent two years of W-2 forms.
- Employment verification for the most recent two full years must be documented.
- A borrower with a 25% or greater ownership interest in a business is considered self-employed and is evaluated as a self-employed borrower for underwriting purposes. See INCOME ANALYSIS – SELF-EMPLOYED BORROWERS – Definition/risk/stability for circumstances when borrowers may be considered self-employed if they own less than 25% of a business.

OVERTIME INCOME

Overtime may be used as stable monthly income if the employer verifies:

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

If the employment verification states that the overtime income is unlikely to continue, it may not be used in qualifying.

The underwriter will develop an average of overtime income for the past two years. Periods of overtime income less than two years may be acceptable, provided the underwriter can justify, document and confirm in writing the reason for using the income for qualifying purposes.

To document, obtain all of the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income.
- W-2s covering the most recent two years
- Verbal VOE (Exhibit 3) not more than 20 calendar days prior to the date printed on the Note.

BONUS INCOME

Bonuses may be used as stable monthly income if the employer verifies all of the following:

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

If the employment verification states that the bonus income is unlikely to continue, it may not be used in qualifying.

The underwriter will develop an average of bonus income for the past two years. Periods of bonus income less than two years may be acceptable, provided the underwriter can justify and document in writing the reason for using the income for qualifying purposes.

To document, obtain all of the following:
- Most recent YTD paystub or salary voucher documenting at least one month of income.
- W-2s covering the most recent two years.
- Verbal VOE (Exhibit 3) not more than 20 calendar days prior to the date printed on the Note.

  Refer to Assets – Down Payment for additional requirements when using bonus income as qualifying income and as cash to close.

COMMISSIONED BORROWER

Borrowers who received commissions must provide all of the following:
- The most recent two years' federal tax returns to verify commissions earned and expenses incurred.
- Current paystub.
- Most recent two years' W-2 forms.
- Verbal VOE (Exhibit 3) not more than 20 business days prior to the date printed on the Note.

Commission income must be averaged over the previous two years. Commission income earned for less than one year is not considered effective income unless the underwriter can verify and document in writing that the borrower's compensation changed from salary to commission within a similar position with the same employer.

Borrowers whose commission income was received for more than one year, but less than two years, may be considered favorably if the underwriter can do both of the following:
- Document the likelihood that the income will continue.
- Soundly rationalize accepting the commission income.

Commission income received for a minimum of two years from similar positions with different employers within the same industry may be considered if the underwriter can soundly rationalize accepting the commission income.

If the borrower is self-employed, for documentation requirements see INCOME ANALYSIS – SELF-EMPLOYED BORROWERS.

INCOME ANALYSIS – RENTAL INCOME

ELIGIBLE RENTAL INCOME

The following are acceptable sources of rental income:
- Rent received from investment properties or other units of an owner-occupied multifamily property may be considered stable income.
- Rents received from a live-in aide, generated from a disabled borrower's 1 unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage.

Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in-aide then makes rental payments to the borrower. This source of income is non-taxable and is not reported on the borrower's personal tax returns.

This income source may be considered stable monthly income, if both of the following are met:

- The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis.
- The live-in aide plans to continue to reside with the borrower for the foreseeable future.

INELIGIBLE RENTAL INCOME

The following are ineligible rental income types:

- Rent from boarders in a single-family property that is also the borrower's primary residence. Income from a live-in aide may be allowed.
- Rent from a property that is the borrower's second home.

SUBJECT PROPERTY

The following documentation is required for all investment properties if rental income is to be used:

- The operating income statement (Fannie Mae 216 / Freddie Mac 998) is required for 2-4-unit primary or 1-unit investment properties. The Single-family Comparable Rent Schedule (Fannie Mae 1007 / Freddie Mac 1000) is required for 1-unit investment properties.
- Income used to qualify must be supported by Operating Income Statement / Comparable Rent Schedule.

In addition, when the subject property has been owned for at least 12 months:

- The borrower's prior year complete and filed federal individual tax return including Schedule E.
- Rental income from commercial rental properties requires two years' complete and filed federal individual tax returns, including schedule E.

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

- Copies of the present, signed leases may be used only if the borrower has a two-year history of property management experience as evidenced by the most current two years' filed and signed federal IRS 1040 tax returns.
- Three months of canceled checks or bank statements verifying receipt of rental income.

Property Management Experience – 1 Unit Investment Property

When the subject property is a 1-unit investment property and rental income from the subject property is being used to qualify, two years' property management experience must be documented with the most current two years' filed and signed federal IRS 1040 tax returns.

Insurance Requirements

Rent loss insurance covers rental losses that are incurred during the period that the property is being rehabilitated following a casualty.

Rent loss insurance is required:

- For 1-unit investment property where borrowers are relying on rents from the units they will not be occupying.
- If the income from those units is used to qualify the borrowers.
- The insurance must provide coverage for an amount equal to a minimum of six months of the rental income.

Operating Income Statement (Fannie Mae Form 216/Freddie Mac Form 998)

For 1-unit investment property, use the net cash flow found on the operating income reconciliation section of the form unless income/loss used to qualify is supported by another acceptable source of documentation:

- If net cash flow is a positive figure, it should be included in qualifying income.
- If net cash flow is a negative figure, it should be included with the long-term debts.

The monthly housing expense is already accounted for in the net cash flow so it should not be added to the long-term debts.

Investment income/loss on the subject property cannot be aggregated or netted with other real estate owned.

PROPERTY OTHER THAN SUBJECT PROPERTY

The stability of the rental income must be documented through one of the following:

- A current lease;
- An agreement to lease, or
- A rental history over the previous 24 months. Gaps greater than 3 months require an explanation from the borrower.

Qualifying Rental Income

When the rental income is derived from property other than the subject property, the qualifying rental income is the net cash flow. Net cash flow must be established by the following:

- When the property has been owned for at least 12 months:
  The most recent complete personal tax return (1040) including Schedule E.
- When the property has been owned less than 12 months and is not reflected on the borrower's most recent, filed federal individual tax returns:
  Current lease agreements may be used only if the borrower has a two-year history of property management experience as evidenced by the most current two years' filed and signed federal IRS 1040 tax returns.

If net cash flow is to be determined by Schedule E of IRS Form 1040 tax return or current lease agreements, see below for calculation information.

There are two methods for calculating rental income from the Schedule E: Baseline method and Cash Flow method. Both methods must be calculated. Use the lesser of the two methods to qualify the borrower.

- **Cash Flow method**
  Make the following adjustments to the net income shown on Schedule E to determine the monthly operating income:

	Net Income
+	Depreciation, mortgage interest, real estate taxes, insurance and homeowners association fees, if any
-	Unallowed losses, if any
+	Loss carry-overs from previous years, if any
=	Annual operating income
÷	Annual operating income 12 months
=	Monthly operating income

  Positive net rental income from Schedule E of the borrower's tax returns or positive net cash flow from Freddie Mac 998/Fannie Mae 216 or Freddie Mac 1000/Fannie Mae 1007 may be considered stable monthly income.

  Negative net rental income from Schedule E of the borrower's tax returns or negative net cash flow from Form Freddie Mac 998/Fannie Mae 216 or Freddie Mac 1000/Fannie Mae 1007 must be considered a liability for qualification purposes.

  When using rental income to qualify from a 2-4 unit primary residence that is not the subject property:

- The current monthly principal, interest, taxes, insurance (PITI) payment on the borrower's primary residence must be included in the qualifying ratios.
- The monthly operating income should be included in qualifying income.

For an investment property, subtract the monthly housing expense from the monthly operating income to determine the net cash flow.

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

Aggregate net rental income may be counted as stable monthly income, provided the reliability of receipt is clearly supported by the documentation in the file.

Aggregate net rental loss from investment properties and 2-4 unit primary residences must be considered a liability for qualification purposes.

The monthly housing expense is already accounted for in the net cash flow so it should not be added to the long-term debts.

- **Baseline method**
  Only Depreciation shown on Schedule E may be added back to the net income or loss. Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability.

- **Lease Agreements**
  Deduct a 25% maintenance expense/vacancy factor from the monthly rent stated on the lease agreements to determine the monthly operating income.

When using rental income to qualify from a 2-4 unit primary residence that is not the subject property:

- The current monthly PITI payment on the borrower's primary residence must be included in the qualifying ratios.
- The monthly operating income should be included in qualifying income.

For 1-4 unit investment property, subtract the monthly housing expense. From the monthly operating income to determine the net cash flow.

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

The monthly housing expense is already accounted for in the net cash flow, so it should not be added to the debts

INCOME ANALYSIS – OTHER INCOME

SECOND JOBS/PART-TIME INCOME

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

Note: When a borrower's primary employment is less than a typical 40-hour work week that income should be evaluated as regular, on-going primary employment.

A part-time/second job is considered stable income if:

- The borrower's primary profession lends itself to a second job.
- Income can be verified as having been received and uninterrupted for at least two years.
- Income is expected to continue for at least three years.

-

To document provide all of the following:

- Most recent YTD pay stub covering one month,
- W-2s covering the two most recent tax years, and
- A Verbal Verification of Employment (Exhibit 3) within 20 business days prior to the date printed on the Note.

Part-time income not meeting the qualifying requirements may not be used in qualifying.

SEASONAL INCOME

Seasonal part-time or seasonal second job income can be considered as stable income when the borrower has a two-year history of receipt in the same line of work, there is a reasonable expectation that the borrower will be rehired the next season, and that the income is likely to continue for the next three years.

To document, obtain all of the following:

- Seasonal employment income must be reported on the borrower's two most recent years' federal tax returns.
- Year-to-date (YTD) paystub or salary voucher documenting at least one month of income.
- W-2s covering the two most recent years.
- Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note.

Every attempt should be made to obtain a VVOE. However, if the VVOE is unattainable due to business closure during specified times of the year the underwriter should use judgment to determine if the income source will continue. The borrower does not have to be currently employed in order to use seasonal income, if received for the last two years and reasonably expected to continue.

SEASONAL EMPLOYMENT WITH ASSOCIATED UNEMPLOYMENT COMPENSATION

Seasonal employment with associated unemployment compensation can be considered as stable income when the borrower has a two-year history of receipt in the same line of work, there is a reasonable expectation that the borrower will be rehired the next season, and that the income is likely to continue for the next three years.

To document, obtain all of the following:

- Seasonal employment and unemployment income must be reported on the borrower's two most recent years' federal tax returns.
- YTD paystub or salary voucher documenting at least one month of income.
- W-2s covering the two most recent years.
- Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note.
- Proof of receipt of unemployment compensation for two years.

Every attempt should be made to obtain a VVOE. However, if the VVOE is unattainable due to business closure during specified times of the year the underwriter should use judgment to determine if the income source will continue. The borrower does not have to be currently employed in order to use seasonal income, if received for the last two years and reasonably expected to continue.

UNEMPLOYMENT COMPENSATION

Income derived from unemployment compensation is generally not to be considered stable due to the limited duration of its receipt. Seasonal unemployment compensation income may be used when an applicant is employed.

To document Seasonal Income with Unemployment Compensation include the following:

- Two most recent years' federal tax returns.

- YTD paystub or salary voucher documenting at least one month of income. Borrower expects to be rehired next season.
- W-2s covering the two most recent years.
- Verbal VOE within 20 business days prior to the date printed on the Note. Proof of receipt of unemployment compensation for two years.

BORROWER'S INCOME PER JOB/CONTRACT BASIS

Borrowers whose income per job/contract basis is equal to or greater than 25% of their total income are considered to be self-employed. See INCOME ANALYSIS – SELF-EMPLOYED BORROWERS.

AUTOMOBILE ALLOWANCE

An automobile allowance may not be used for qualifying and may not be used to offset a car payment.

CAPITAL GAIN INCOME

Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements:

- Must have a two-year consecutive history of receipt and likely to continue for the next three years.

RESTRICTED STOCK

Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock should not be confused with stock options.

To document restricted stock income include the following:

- Issuance agreement or equivalent (part of the benefits package)
- Schedule of distribution of units (shares)
- Vesting schedule
- Stock must be publicly traded
- Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)

Calculation of income:

- Stock price should be averaged.
- In most cases the lower of current price or the price of the stock averaged (generally a minimum of 2-years) should be used to support qualifying income. The average stock price should be applied to the number of stock units vested each year.
- Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. If stock income is declining, refer to DECLINING INCOME POLICY (SELF-EMPLOYMENT, BONUS, OVERTIME, COMMISSION, RESTRICTED STOCK.

Future vesting must support qualifying income. Value of future vesting should be based on the lower of current value or the average of stock price.

EMPLOYMENT BY RELATIVES OR TRANSACTION PARTICIPANTS

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

- Borrower's signed and completed personal federal income tax returns for the most recent two years.
- If business is a corporation, obtain either of the following:
  - A signed copy of the corporate tax return showing ownership percentage.

- A signed letter from the corporation accountant stating the borrower has no ownership interest in the corporation.

- Most recent two years' W-2 forms. Year-to-date pay stubs covering 30 days.
- Verbal verification of employment (Exhibit 3) within 20 business days prior to the date printed on the Note.

Current income reported on the pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current pay stubs, further investigation is needed to determine whether income is stable.

MILITARY INCOME

Military Income – Active Duty Personnel – Within 12 Months of Release from Active Duty

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

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

- Documentation that the service member has reenlisted or extended the period of active duty to a date beyond the 12-month period following the projected Loan closing date.
- Verification of civilian employment following the release from active duty (with all pertinent underwriting documentation, such as job position, rate of pay, start date, number of hours scheduled per week, and probability of continued employment).
- A statement from the borrower indicating the intention to reenlist or extend active duty to a date beyond the 12-month period and a statement from the veteran's commanding officer confirming that the service member is eligible to continue on active duty and the commanding officer has no reason to believe the reenlistment or extension of active duty will not be granted.
- Other strong positive underwriting factors that minimize the effect of the possible discharge such as a non-military spouse's income being so high that only minimal income from the active duty member is needed to qualify, along with evidence that the veteran and spouse will be remaining in the community in which the property is located. A down payment of at least 10% and exceptional cash reserves would also minimize the effect of a possible release from active duty.

Military Income – Probability Of Continued Employment

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

Military Income – Non-Taxable Income

Some military income is non-taxable. Other military income is partially taxed. Examples include:

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

Quarters allowance, variable housing allowance, clothing allowance, and rations are not taxed. See Other Income – Non-Taxable Income.

Military Income – Reservist or National Guard (Called To Duty) Obligation

Broker must ask every applicant, whose income is being used to qualify for a Loan, if their income is subject to change due to participation in a reserves/national guard unit due to activation.

When the answer is yes, broker must determine what the applicant's income may be if activated. If the income is:

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

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

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

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

To accomplish this, a statement must be obtained that affirms that a veteran-applicant's status relative to membership in the Reserves or National Guard has been ascertained and considered. The statement should be made as part of the origination package.

Military Income – Military Reserve Income

For income to be used for qualifying purposes, substantiate income by documenting all of the following:

- The continuity of employment and income history for the two years that precede the date of the mortgage application.
- YTD LES documenting at least one month of income.
- W-2s covering the most recent two years.
- Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note. (In lieu of a verbal VOE, a military LES within 30 days prior to the date printed on the Note date is acceptable).
- Provide proof that entitlements are expected to continue over a three-year period.

MORTGAGE DIFFERENTIAL INCOME

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

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

The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower. Two-year history is not required. The payments must be likely to continue for the next five years; However, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

PUBLIC ASSISTANCE/GOVERNMENT ASSISTANCE INCOME

In order to be included in the borrowers' qualifying income, income from public assistance programs must be verified as received for the past two months and must reasonably be expected to continue for at least five years; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income. Public assistance income should be documented by letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.

DISABILITY INCOME – LONG-TERM

General Requirements

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

Continuance

Continuance is not required for Social Security Disability Income (SSDI). For all other types of long-term disability income, the income must be likely to continue for the next 5 years. The continuance requirement may be reduced to 3 years if this income source contributes 25% or less of the qualifying income.

- If documentation does not contain any indication that the income will terminate within the next 5 years, assume income will continue for the next 5 years.
- If documentation indicates a termination date or conditions for termination of the payment, the termination must not occur within the next 5 years.

  Note: If the documentation indicates the borrower's benefits are subject to periodic reviews or evaluations, this is not an indication that the income is unlikely to continue and does not require additional documentation for determining likelihood of continuance.
- If documentation indicates an expiration or modification date (such as reaching a certain age, etc.), verify that the remaining term is for at least 5 years.

Documentation

An Award Letter or equivalent written documentation confirming the source, amount, frequency, and borrower as the recipient of the payments must be provided.

Calculation Requirements

- Use the actual monthly amount received unless disability income is non-taxable. Refer to Other Income - Non-Taxable Income requirements in this Section regarding grossing up income.
- If the documentation indicates a reduction of the payment, use the lowest income indicated during the next 5-year period.

TEMPORARY LEAVE/SHORT-TERM DISABILITY/FAMILY LEAVE INCOME

Temporary Leave

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

A borrower that is on, or scheduled to be on, temporary leave may still qualify for approval. A Loan with a borrower on temporary leave, including parental leave, is not ineligible for purchase merely because of such leave status. NMSI may purchase a Loan with a borrower on temporary leave provided:

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

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

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

Calculation Requirements

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

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

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

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

    *Note: I*f using assets to supplement income, manually reduce the assets before data entry of assets to avoid counting the same portion of these assets for both income and assets.
  - Written rationale explaining the analysis used to determine the qualifying income.

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

Documentation Requirements

All of the following:

- Verbal verification of employment. If the employer confirms that the borrower is currently on temporary leave, NMSI considers the borrower employed.
- Documentation of the borrower's pre-leave income and employment, regardless of leave status. And,
- Written statement from the borrower confirming he or she intends to return to active work status at the

current employer and the intended date of return (must be consistent with employer-generated document). And,

- Documentation generated by current employer confirming the borrower's eligibility to return to the current employer after temporary leave and the duration or end date of the leave period.
  - ✓ Acceptable forms of employer documentation include, but are not limited to:
    - An employer-approved leave request, or
    - A Family Medical Leave Act (FMLA) document, or
    - Other documentation generated by the employer or a third-party verifier on behalf of the employer

AND

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

- Award Letter or equivalent written documentation confirming the following:
  - The amount and duration of the temporary leave income, and
  - The borrower as the recipient of the payments, and
  - The name of the payer (insurance company, employer, agency, or other qualified and disinterested party)
- If liquid assets are used to supplement income, assets must be verified and meet documentation requirements.

ROYALTY PAYMENTS

Royalty payments must have a 12-month history of receiving payments on a regular basis and must have a continuation period of at least five years; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

Obtain completed, signed, individual federal tax returns for the most recent two years, including Supplemental Income and Loss and Schedule E, and a signed 4506-T.

SECTION 8 HOMEOWNERSHIP ASSISTANCE/HOMEOWNERSHIP SUBSIDIES

A monthly subsidy may be treated as income, if the borrower is receiving subsidies under Section 8 housing choice voucher home ownership option from a public housing agency (PHA). There is no requirement for the payments to have been received for any period of time prior to the date of the mortgage application. Section 8 voucher payments must be reasonably expected to continue for at least five years from the date of the mortgage application; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

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

RETIREMENT INCOME

Retirement income may be used if properly verified.

Acceptable documentation is:

- Most recent two months of bank statements, and one of the following:
  - Written verification from former employer
  - Federal tax returns
  - IRS 1099-R form

SOCIAL SECURITY INCOME

Social security income may be used if properly verified. Examples of acceptable documentation are:

- Most recent two months of bank statements.
- Social Security Administration benefit verification letter (sometimes called a proof of income letter, budget letter, benefits letter, or proof of award letter).

TIP INCOME

Tip income must be verified with two-year history of receipt.

To document, obtain all of the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income.
- W-2s covering the most recent two years.
- Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note. The employer must verify that the tip income is expected to continue in the written VOE or in a separate statement.

FOSTER CARE INCOME

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

CHILD SUPPORT, ALIMONY, OR MAINTENANCE INCOME

Child support, alimony, or maintenance payments may be used as income only if this information is volunteered by the applicant, and if there is evidence that the court-ordered amount has been received on a continual basis for the most recent 12 months. In order to be used as income, these payments must reasonably be expected to continue for a five-year period; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

If the payor has been obligated to make payments for less than 12 months, if the payments are not for the full amount, or are not received on a consistent basis, the income may not be considered for qualifying.

Required documentation:

- Final divorce decree
- Legal separation agreement
- Court order
- Voluntary payment agreement that has been approved by a court or is government- enforceable (for example, administered by a state agency) and acceptable evidence that payments have been received during the last 12 months, such as:
    - Canceled checks
    - Deposit slips or deposit receipts
    - Bank or other account statements
    - Tax returns
    - Court records

ALIMONY AND SEPARATE MAINTENANCE PAYMENTS TO BE PAID

Required alimony and separate maintenance payments must be deducted from income and should not be included in monthly liabilities. Alimony and separate maintenance payments must be documented with a copy of the court order (such as a divorce decree).

Required Alimony or separate maintenance with less than 10 monthly payments remaining does not need to be deducted from income. A copy of the court order is required.

NON-TAXABLE INCOME

Special consideration can be given to regular sources of income that are non-taxable such as: Child Support

- Disability benefits
- Retirement income
- Worker's Compensation benefits
- Military allowances
- Other income that is documented as being exempt from Federal income taxes

To be considered as qualifying income, the underwriter must obtain documentation verifying that:

- The particular source of the income is non-taxable
- Both the income and its non-taxable status are likely to continue

Acceptable documentation includes tax returns and/or awards letters. If the income meets these requirements, the amount of tax savings attributable to the non-taxable income may be added to the borrower's income to develop an adjusted gross income. The adjusted gross income is used in calculations for the income and debt rations. Standard qualifying ratios should not be exceeded when using grossed up income.

The following method must be used to determine the amount of tax savings that can be added back to the borrower's income:

- Add 25% of the non-taxable income to the borrower's qualifying income. This adjustment must be made whenever the non-taxable income source(s) is needed to qualify the borrower.

INTEREST OR DIVIDEND INCOME

Interest and dividend income may be used in calculating the qualifying income if the assets generating the income are verified and the interest income has been received for at least two years consecutively.

Complete, signed, individual tax returns for the most recent two years and a 4506-T must be used to verify this income.

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

Interest and dividend income must be expected to continue for three years if included in qualifying income.

NOTES RECEIVABLE, INSTALLMENT SALES AND LAND CONTRACTS

Secured or Unsecured

A copy of the Note is required to establish the payment amount and length of payment.

- Notes receivable payments must continue for at least five years; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.
- Installment sales and land contracts must continue for at least three years beyond the date of the mortgage application.

Evidence that these payments have been consistently received for the last 12 months must be verified through one of the following:

- Bank deposit slips or deposit receipts
- Canceled checks
- Bank or other account statements

- Tax returns

If the borrower is not the original payee on the Note, validate that the borrower is able to enforce the Note.

TRUST INCOME

Trust income may be used if the trust income will continue for at least five years; however the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income. A photocopy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of the payments should be obtained to verify the income and continuance of the income.

Trust account funds may be used for the required down payment, closing costs, and reserve (post-closing liquidity) if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

If trust agreement or trustees statement does not provide historical level of distributions, most recent two years of tax returns must be obtained.

FOREIGN INCOME

Foreign income, for borrowers who do not qualify under the borrower requirements, is acceptable only if the income can be verified on United States personal tax returns.

Foreign income should be paid in United States currency. However, income paid in foreign currency may be considered on a case-by-case basis if it is converted into United States currency.

The following documentation requirements must be met:
Funds in foreign accounts: Must be transferred to U.S. account. Completed Verification of Deposit (VOD) or the two most recent months' bank statements for U.S. account.

Foreign Source – Employment Income:

- Most recent two years complete personal tax returns (IRS Form 1040).
- For Foreign National borrower only: Form W-8 (If borrower does not have tax ID number) or Form W-9 (If borrower has tax ID number) and letter from employer (translated into English) with:
  - annual income for most recent two years,
  - current monthly income,
  - current employment status,
  - name and title of person providing information,
  - borrower's job title, and
  - term of employment.
- A Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note is required.
- Tax transcripts from processed 4506-T may be used in lieu of tax returns provided by the applicant.

Foreign Source – Interest/Dividend Income:

- Most recent two years individual federal income tax returns (IRS Form 1040).

UNACCEPTABLE INCOME

The following types of income or compensation cannot be included when calculating the borrower's qualifying income:

- Expense account payments. Automobile allowances.

- VA education benefits – education benefits used to offset education expenses are not acceptable.
- Retained earnings in a company.
- Rent from boarders living in the borrower's primary residence or second home. Proceeds from a reverse mortgage or other financing.
- Gambling income.

DEPARTURE RESIDENCE POLICY

CURRENT PRINCIPAL RESIDENCE IS PENDING SALE BUT WILL NOT BE SOLD (CLOSED) PRIOR TO THE NEW TRANSACTION:

Both the current and the proposed mortgage principal, interest, taxes and insurance (PITI) payments must be used to qualify the borrower for the new transaction, unless the following requirements can be met:

- A copy of the fully executed non-contingent sales contract for the departure residence (cash sale of the departure residence is not allowed), and
- A lender's commitment from a regulated institution to the buyer of the departure residence with all financing contingencies cleared, and
- Standard reserve requirements plus an additional six months PITI for departure residence. Borrower is required to have a 20% equity position in the departure residence based on contracted sales price. Further documentation may be required if there is a significant difference between the sales price and estimated property value.

When the departure residence will not be sold at the time of closing and is in a negative equity position, the following may be required to reduce the overall risk:

- Additional reserves to cover the negative equity of the departure residence, OR
- Pay down the lien on the departing residence to eliminate the negative equity.

EXISTING PRINCIPAL RESIDENCE CONVERTING TO SECOND HOME

- Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction, and,
- Reserve requirements are the greater of six months PITI for both properties or the standard post-closing/reserve requirements.

EXISTING PRINCIPAL RESIDENCE CONVERTING TO INVESTMENT PROPERTY

If there is documented equity of at least 30 percent in the departure property, 75 percent of rental income may be used to offset the mortgage PITI payment in qualifying when:

- Reserve requirements are the greater of six months PITI for both properties or the standard post-close liquidity, and
- Rental income is documented with a fully executed lease agreement when the borrower's tax returns reflect a two-year history of managing investment properties, as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, and
- Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account.

If rental income will not be used to offset the mortgage payment to qualify, the following reserve requirements must be met:

- The greater of six months PITI for both properties or the standard post-closing/reserve requirements.

If 30 percent equity in the departure property cannot be documented, or the borrower does not have a two-year history of managing investment properties as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, rental income may not be used to offset the mortgage PITI payment in qualifying and:

- Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction; and
- Reserve requirements are the greater of six months PITI for both properties or the standard post-closing/reserve requirements.

DEPARTURE RESIDENCE CONVERTING TO INVESTMENT PROPERTY EQUITY POSITION

To document equity position in the departure property converting to an investment property, a full appraisal must be obtained.

The appraisal must be dated within 120 days of the date printed on the Note of the current transaction.

ASSET

BONUS INCOME USED FOR CASH TO CLOSE

A borrower’s recent bonus may be used for cash to close when the impact to borrower’s qualifying income is analyzed.

It may be required to deduct the bonus from qualifying income when it is used as cash to close if the Underwriter determines that the borrower is unable to meet all financial obligations and living expenses until the next bonus payout. Considerations may include, but are not limited to:

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

USE OF CREDIT CARD FOR PAYMENT OF FEES

A credit card may be used to pay fees associated with the Mortgage. Acceptable fees are:

- Appraisal
- Credit Report
- Origination fee
- Commitment fee
- Lock-in fee
- Extended Lock fee

Acceptable credit cards are:

- Visa
- MasterCard
- Discover

The Loan must meet all of the following requirements:

- Borrower must have sufficient liquid assets to pay the amount charged (in addition to all other Closing costs).
- The maximum amount charged or advanced may not exceed 2 percent of the Mortgage amount.
- Under no circumstances may credit card financing be used for the down payment.

- The amount charged or advanced must be included in the borrower's total outstanding debt and the repayment of that amount must be included when determining qualifying ratios (greater of $10 or 5 percent of the outstanding balance).
- A copy of the charge receipt must be included in the Loan file.
- The HUD-1 or Closing Disclosure must reflect a paid outside/before Closing (POC) credit to the borrower for the amount charged.

USE OF PREMIUM PRICING

For all transactions, the funds derived from premium pricing (Credit for Interest Rate Chosen, CFIRC), are only allowed to be used to pay the borrower's typical Closing costs and/or prepaid expenses.

Typical prepaid items paid by the borrower:
- Interest charges covering any period after the settlement date.
- Real estate taxes covering any period after the settlement date.
- Hazard insurance premiums.
- HOA dues

Typical Closing costs paid by the borrower:
- origination fee
- discount points
- appraisal fees
- title searches and surveys
- title insurance
- taxes
- deed-recording fees
- credit report charges

CFIRC may not be used to pay any portion of the borrower's down payment, personal debts (ex: revolving debt), collection accounts, judgments, escrow shortages or any other item that is not considered a typical prepaid item or typical Closing cost paid by the borrower as listed above. Other property improvement expenses not related to the transaction or not required by the purchase contract are not allowed.

For transactions where CFIRC exists, cash back to the borrower as a result of the premium pricing is restricted to the lesser of 1% of the Loan amount or $2500.

GIFT FUNDS

For primary homes, the full down payment may be from a gift when the LTV/CLTV is 80 percent or less.

USE OF BUSINESS FUNDS

When a borrower has insufficient personal liquid assets to qualify or close, but has sufficient verified funds in a 100 percent owned business, the business funds may represent an adequate source of down payment and reserves (post-liquidity) if both of the following conditions are met:

- Business average annual cash flow is greater than the amount to be withdrawn/reserves.
- Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation. A three-year history of a balance greater than or equal to the amount being considered for reserves (post-closing liquidity) or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.

Full analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future.

The following questions need to be considered:
- What is the pattern of company cash flows? Do we have declining gross or net income?
- Do we have concerns about the type of business? Is the business experiencing a downturn?

Extreme care needs to be taken when considering business use of funds and in some cases even though a business is profitable, it may not be prudent to use the business assets in our transaction.

PROCEEDS FROM SECURED LOANS

Subordinate Financing

Subordinate financing, Closed End or HELOC, is allowed subject to the guidelines in Subordinate Financing.

The maximum LTV/CLTV* may not exceed the guideline limits for the product and occupancy type shown in Jumbo LTV Matrix.

*For Jumbo Loans, the CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit – rather than the amount of the HELOC in use – must be used.

IRA, 401(K), SEP, KEOGH, 403(B), AND IRS-QUALIFIED EMPLOYER PLANS

IRA, 401(k), SEP, KEOGH, and other IRS-qualified employer plans may be used for down payment and closing costs, up to the post-tax and post-penalty amount available to the borrower for distribution.

A copy of the plan statements for the most recent two months is required. The statement should be reviewed to determine the borrower's vested amount in the plan.

If there is a penalty for withdrawal, discount the asset by the applicable amount. Verification of liquidation is required.

TRADES

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

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

1031 TAX DEFERRED EXCHANGES

Refer to Other Assets For Down Payment.

STOCK, BONDS, MUTUAL FUNDS, U.S. GOVERNMENT SECURITIES AND PUBLICLY TRADED SECURITIES

Allowed. Refer to Cash Assets.

PUBLICLY TRADED STOCKS, BONDS, MUTUAL FUNDS, U.S. GOVERNMENT SECURITIES

A copy of the account statement for the most recent two months/quarter is required; proof of liquidation is required provided that the existence of these accounts is fully documented. When the asset is needed to complete the transaction, verify:
- the borrower's ownership of the asset,

- the value of the asset at the time of sale or liquidation, and
- the borrower's actual receipt of funds realized from the sale or liquidation.

RESTRICTED STOCK SUBJECT TO U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) RULE 144

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

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

DEPOSITORY ACCOUNTS

For all transactions, generally, single deposits that are greater than 50 percent of the borrower's monthly qualifying income should be explained and documented. Consideration will also be given to total monthly income, type of employment, total amount of all assets and reasonableness based on borrower's overall credit and transaction profile.

INELIGIBLE ASSETS

The following assets are not allowed: Sweat equity

- Group Savings
- Pooled Funds
- Saving cash to close
- Stock options in a qualified plan but not fully vested
- Stock options in a non-qualified plan
- Assets held in a UGMA (Uniform Gift to Minors Act) or UTMA (Uniform Transfers to Minors Act)

RESERVES/ POST-CLOSING LIQUIDITY (PCL)

- **Primary Residence Reserve/PCL Requirements**

<table>
<tr><th>Loan Amount/Adjusted Combined Loan Amount[1]</th><th>Single Family Detached/Attached, PUD, Co-op, Condo</th><th>2-unit</th><th>3- to 4-unit</th></tr>
<tr><td>Up to $1,000,000</td><td>12 months PITI</td><td>12 months PITI</td><td rowspan="2">36 months PITI</td></tr>
<tr><td>>$1,000,000-$2,000,000</td><td>12 months PITI</td><td>18 months PITI</td></tr>
<tr><td>>$2,000,000-$4,000,000</td><td>24 months PITI</td><td colspan="2"></td></tr>
<tr><td colspan="4">1. Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists. (i.e., when subordinate financing is a line of credit, the outstanding balance is used).</td></tr>
</table>

- **Second Home – Reserve/PCL Requirements**

Loan Amount/Adjusted Combined Loan Amount[1]	Single Family Detached/Attached, PUD, Co-op, Condo
Up to $1,000,000	18 months PITI
>$1,000,000-$2,000,000	24 months PITI
>$2,000,000-$4,000,000	36 months PITI
1. Adjusted combined Loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists.	

- **Investment Property – Reserve/PCL Requirements**

Loan Amount/Adjusted Combined Loan Amount[1]	Single Family Detached/Attached, PUD, Co-op, Condo
Up to $1,000,000	24 months PITI
>$1,000,000-$2,000,000	30 months PITI
1. Adjusted combined Loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists.	

Liquid assets verified to meet the reserve (PCL) requirements may be in the form of:
- Cash equivalents (checking, savings, or money market accounts)
- 100% of the vested value of publicly traded stocks, mutual funds, and government securities may be used.
- Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)
- Retirement funds may be used to meet up to 50 percent of the minimum reserve requirements.
- Gross retirement funds must be discounted by 30 percent to account for tax consequences (less any outstanding loan balances) to determine the actual funds available for reserve requirements.
  - There must be an additional 10% reduction if an early withdrawal penalty exists.
- 100% of Roth IRA (less outstanding loans)
- Equity proceeds from the sale of a residence.
- Funds held in business accounts may be eligible for use if the requirements detailed in Asset Section are met.

The following assets are ineligible for purposes of meeting the minimum reserve (PCL) requirement:
- Gift funds
- Borrowed funds
- Stock in a closely held corporation
- Proceeds from the sale of assets other than the sale of a residence. Proceeds from a cash-out refinance transaction.

INTERESTED PARTY CONTRIBUTIONS

Property Type	LTV	Contribution (1)
Primary Residence	≤80%	6%
1. HOA fees/dues prepaid by any party other than the borrower are not allowed.		

MULTIPLE FINANCED PROPERTIES

- The following guidelines apply to the number of 1-4 unit financed properties owned by all borrowers on the Loan transaction, not just the primary borrower.

Property Type	Then the maximum number of 14 unit properties that may be financed with NMSI is:	and the total maximum number of financed 14 unit properties with all lenders including NMSI is:
Primary	4	4
Second Home	4	4
Investment	4	4

- When aggregate financing for all properties owned by borrower exceeds $3 million one of the following is required: Min. reserve (post-closing liquidity) is 36 months PITI or Max. 50% LTV/CLTV.
- There are no restrictions on the number of properties that a borrower owns free and clear.

APPRAISALS

- All appraisals must be completed by NMSI Approved Appraiser
- Transferred/Assigned appraisals are ineligible.

Total Loan Amount	CLTV	Appraisal Documentation Required		
		Median Home Price Multiple		
		≤4 times Median Home Price	>4 ≤10 times Median Home Price	>10 times Median Home Price
≤ 1,000,000	All	One full appraisal (1)	One full appraisal1	One full appraisal1
>$1,000,000 ~ ≤ $1,500,000	≤70%	One full appraisal (1)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)
	>70% ≤80%	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)		
>$1,500,000 ~ ≤ $2,000,000	All	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)
>$2,000,000	All	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)

1. A full appraisal is one prepared on form 1004/70, 2090, or 1073. A PIA/PIW, 2055, 1075 or 2095 Summary Report is not acceptable.
2. All appraisals must be completed by a NMSI Approved appraiser
3. RVS review products will be ordered by Investor. LTV/CLTV will be based on the lower of the reviewed value or the sales price.

HIGH DOLLAR APPRAISAL ADDENDUM

A high dollar appraisal addendum is required when the total Loan amount provided by NMSI is greater than $2,000,000 and the property value is greater than $2,500,000 as evidenced by the purchase price or the owner's estimate of value stated on the application. The high dollar appraisal requirement is not based on the appraised value.

The high dollar appraisal addendum must include all of the following:

- A summary of sales located in the subject's immediate neighborhood even if the sales are not considered comparable by the appraiser and even if they are not used in estimating the subject's market value.
- Days on market (DOM) for each comparable sale.
- Marketing time required to realize the market value estimated for the subject property.
- Include a market analysis for all properties priced within 25% of the subject's estimated value that addresses each of the following three factors:
  - In the selected price range, how many sales have occurred in the last 12 months?
  - In the selected price range, how many properties are currently listed for sale?
  - In the selected price range, how many properties have had listings expire or be withdrawn in the last 12 months?
- For purchase transactions, also include:
  - Names and phone numbers of the listing and selling agents.
  - Total listing period for the subject property (include list price decreases, if any).

HIGHER-PRICED COVERED TRANSACTIONS

Qualified Mortgages defined as "Higher-priced covered transactions" under the ability to repay provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the Truth in Lending Act (TILA), are ineligible.

JUMBO PREMIER PROGRAM (FIXED & ARM)					
Primary Residence (1)					
Purchase & Rate/Term Refinance (4)					
Units (3)	Max. Loan Amount	LTV	CLTV	Min. FICO	Max. Cash Out
1 Unit	$2,000,000	80%	80%	720	N/A
	$1,000,000	80%	80%	700	
	$2,500,000	65%	65%	755	
2 Units	$2,000,000	80%	80%	720	
	$1,000,000	80%	80%	700	
3-4 Units	$1,500,000	70%	70%	720	
	$1,000,000	70%	70%	700	
Cash Out Refinance					
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Max. Cash Out
1 Unit	$1,000,000	80%	80%	700	$300,000
	$1,000,000	65%	65%	700	$500,000
2 Units	$1,500,000	80%	80%	720	$300,000
	$1,500,000	65%	65%	720	$500,000
Second Home (2)					
Purchase & Rate/Term Refinance					
Units	Max. Loan Amount	LTV	CLTV	Min. FICO	Max. Cash Out
1 Unit	$1,000,000	75%	75%	740	N/A
	$1,500,000	70%	70%	740	

(1) The following requirements apply to Primary Residence transactions;
- Non-Occupant Borrower, Co-signor or Guarantor:
  - Cash-out is not allowed.
  - 1-2 Units, Maximum 75% LTV/CLTV, 3-4 Units Maximum 70% LTV/CLTV.
  - Maximum occupant Borrower DTI 43%. See Borrower Eligibility.

(2) The following are not permitted on Second Home transactions -
- Non-occupant Borrowers, guarantors, or co-signers
- First time homebuyers
- Gift funds
- See Loan Purpose for additional requirements.

(3) Condominiums and PUDs Ineligible: Condominiums (including detached) are not eligible. 2-4 unit PUD projects are not eligible. See Property Eligibility for additional property requirements.

(4) Cash to Borrower(s): Lesser of 1% or $5000 maximum cash to Borrower for rate and term transactions. See Loan Purpose.

LOAN PURPOSE

PURCHASE TRANSACTIONS:

- The property seller must be the owner of record and proof that the property seller has owned the property for 12 months OR a chain of title for the last 12 months is required.
- Complete purchase agreements, including all addenda, are required. If the Purchase Contract has been assigned to buyer from a previous purchaser, then the loan is not eligible.
- Identity of interest or loans with non-arms-length characteristics are not eligible in this program.

REFINANCE TRANSACTIONS:

- LISTED WITHIN 6 MONTHS: Properties listed for sale in the last 6 months (on or before the application date) are not eligible for refinance transactions.
- Refinance of Restructured Loan or Short Pay off Loan is not allowed.
- LTV: If owned more than 12 months, LTV is based on current appraised value. The Borrower must be the owner of record and proof that the Borrower has owned the property for 12 months OR a chain of title for the last 12 months is required. If owned less than 12 months, see *Seasoning Requirements* in the Rate and Term and Cash-Out Sections below.
- MAXIMUM CASH TO BORROWER: Not to exceed the lesser of 1% or $5000 of the principal amount of the new loan.
- COSTS: Reasonable and customary closing costs, pre-paid items and seasoned junior liens may be incorporated into the loan amount.
- SEASONING REQUIREMENTS:
  - First Lien: No seasoning of existing first mortgage required. However, for properties owned < 12 Months: LTV/CLTV is based on the lesser of the appraised value or acquisition cost, regardless of any property improvements that may have been made since purchase.
    Property acquisition date may be measured from the purchase date on the closing statement, mortgage rating or other acceptable documentation in the loan file.
  - Closed End Seconds: One year seasoning on junior liens from funding, unless documentation is provided to verify the lien was incurred as part of acquisition.
  - HELOCs:
    - HELOC being paid down or off seasoned <12 months that was used to acquire the subject property can be considered rate and term
    - HELOC being paid down or off seasoned <12 months that has had no draws w/in 12 months >$2K, and new loan is <1% or $5K cash to Borrower, then new loan can be rate and term
    - HELOC being paid down or off is seasoned >12 months and no draws w/in 12 months >$2K, and new loan is <1% or $5K cash to Borrower, then the new loan can be considered rate and term, whether or not the lien was incurred as part of acquisition.

CONTINUITY OF OBLIGATION REQUIREMENT

There must be continuity of obligation if there is currently an outstanding lien that will be satisfied with the refinance transaction. Loans with an acceptable continuity of obligation may be underwritten as either a no cash-out or a cash-out refinance transaction based on the requirements in this section.

- Acceptable continuity of obligation is met when:
  - At least one Borrower obligated on the new loan was also a Borrower obligated on the existing loan being refinanced, and
  - At least one Borrower has been on title and will be obligated on the new loan.
- When there is no outstanding lien against the property, the following applies:
  - The loan is treated as a cash-out refinance transaction, and
  - The Borrower must be on title for a minimum of 6 months.

- If the Borrower is on title for less than 12 months, the loan is eligible with documentation confirming the subject property was purchased within the last 12 months.

CASH-OUT REFINANCE TRANSACTIONS:

- The requirements in "All Refinance Transactions" above, and primary residence only.
- Refinance of Restructured Loan or Short Pay off Loan is not allowed.
- Non-occupant Borrower, co-Borrowers and guarantors are not allowed. See Borrower Eligibility.
- Seasoning Requirements:
  - ALL Borrowers must have held title to subject property for a minimum of 6 months (Note date to application date)
  - There must be ≥ six (6) months seasoning of all existing liens on subject property (Note date to application date)
  - Properties owned at least 6 months, but less than 12 Months:
    LTV/CLTV is based on the lesser of the appraised value or acquisition cost, regardless of any property improvements that may have been made since purchase. (Property acquisition date may be measured from the purchase date on the closing statement, mortgage rating or other acceptable documentation in the loan file).
- Cash-out limitations includes payoff of unseasoned second mortgages (closed end seconds and HELOCs) and/or non-mortgage debt. (Seasoned liens secured by subject property are not included in the cash-out limitation).

DELAYED FINANCING:

Borrowers who purchased the subject property less than six months ago are eligible for a cash-out refinance if all of the following requirements are met:

- The new loan amount must not be more than the actual documented amount of the Borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid items, and points.
- The purchase transaction was an arm's length transaction. If the seller of the property was an LLC, the principals of the LLC must be documented.
- The purchase transaction is documented by the HUD-1 Settlement Statement or Closing Disclosure which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a HUD-1 Settlement Statement or Closing Disclosure if such a statement was not provided to the purchaser at time of sale.
- The LTV/CLTV must be based on the lesser of the original sales price or the current appraised value.
- The source of funds for the purchase transaction must be documented. Funds cannot be from gift, borrowed, or business funds.
- The preliminary title search or report must not reflect any existing liens on the subject property.
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.

RURAL PROPERTY LTV RESTRICTIONS:

For cash-out refinance transactions, the maximum LTV/CLTV for rural properties (as indicated on the appraisal) is reduced by 5%.

BUYOUTS

Refinance to buyout another party's interest is allowed subject to documentation that all parties have jointly owned and occupied subject for the 12 months prior to application date (exception for inheritance), and there is a signed, written agreement stating the terms of the property transfer and disposition of funds (such as a divorce decree).

INSTALLMENT LAND CONTRACTS

Installment Land Contracts and mortgage loans used to pay off a Contract for Deed are not eligible.

OCCUPANCY

PRIMARY RESIDENCE:

An owner occupied primary residence is a property that the occupant Borrower(s) intends to occupy as his or her principal residence, for the majority of the year, within 60 days of closing and for at least one year after. The loan documents must provide that the loan may be declared in default if the Borrower makes misrepresentations for any provision of the application, including occupancy.

- For refinance transactions, Borrower must reside in and hold title to the subject property at the time of application.

SECOND HOME:

- 1 unit property that the Borrower occupies for some portion of the year in addition to his or her primary residence.
- The property must be suitable for year-round occupancy and must not be located in the same market area as the Borrower's primary residence.
- Non-occupant Borrowers, co-signers and guarantors are not allowed.
- Second homes may be located in a major metropolitan area that the Borrower visits on a regular basis with a letter of explanation from the Borrower stating the reason that the home is not located in a vacation/resort area.
- Transactions where the property is being purchased for occupancy by someone other than the Borrower will be considered an investment property and are not eligible for this program.
- The Borrower must have exclusive control over the property and the property must not be subject to any kind of time sharing agreement, rental pools, or agreements that require the Borrower to rent, share or give management firm control over occupancy. See Property Eligibility.
- Rental income may not be used to qualify the Borrower. Occasional season rental is permitted. Reporting rental income on the Borrower's personal tax returns does not contradict second home status, but must be minimal. The hazard insurance policy may not contain any coverage for loss of rent.

INVESTMENT PROPERTIES:

- Not eligible under this program.

PROPERTY TYPE

ELIGIBLE PROPERTY TYPES

- SFR, townhomes, row homes, 2 - 4-unit properties
- Leasehold Estates (restricted - see Leasehold)
- Modular Pre-Cut/Panelized Housing – are treated as SFRs. (Manufactured homes are not eligible, see below)
- Planned Unit Development (PUD) – Must meet the requirements in Fannie Mae Selling Guide B4-2.3-01 not be an ineligible PUD, see Ineligible PUDs below.

INELIGIBLE PROPERTY TYPES

- 2--4 unit PUD Projects
- Acreage: Properties with acreage greater than 10 acres (truncating acreage for appraisal purposes is not allowed)
- Assisted Living Projects, board and care facilities
- Bed & breakfast, boarding houses
- Builder Model Leaseback
- Cantilevered Property
- Commercial and/or Industrial Properties
- Common Interest Apartments ("own your own")
- Concessions: New projects where the seller is offering sales/financing contributions/concessions in excess of established limitations for individual loans
- Condominiums, both attached and detached, are not eligible for this program.

- Conversions, including hotel or motel conversions
- Cooperatives (Coops)
- Exotic or non-traditional types of structures such as dome homes or log homes, houseboats
- Hawaii properties in lava zones 1 and 2. See State and Geographic Restrictions.
- Kitchen: Property without full kitchen
- Land loans (unimproved properties)
- Leasehold restrictions apply. See Leasehold.
- Litigation: Property with pending structural litigation. Non-structural litigation may be considered on a case-by-case basis.
- Manufactured homes and mobile homes, manufactured home projects
- Mixed Use properties
- Native American Land: Properties located on Indian (Native American) tribal or Trust Land, or "Indian Leased Land." See Leasehold.
- Non-Residential Use: Projects where more than 20% of the total space is used for nonresidential purposes
- Ownership: Projects where a single entity owns more than 10% of the total units in the project
- Resale deed restricted properties other than minimum age restrictions (See Deed Restrictions)
- Residential properties with a permanently affixed manufactured home on the property
- Square Footage: Properties with less than 650 square feet of habitable living space are not eligible
- Time share or segmented ownership projects, tax sheltered syndicate
- Utilities: Property without full utilities installed to meet all local health and safety standards (e.g.; continuing supply of potable water; public sewer or certified septic system)
- Working farms or ranches, hobby farms, hobby ranches or orchards
- Year-round occupancy: Properties not suitable for year-round occupancy are not eligible
- Zoning: Property that represents a legal, but Non-Conforming use if zoning regulations prohibit rebuilding the improvements to current density in the event of full or partial destruction. Property zoned and used for commercial or industrial purposes (commercial and industrial properties are not eligible)
- See State and Geographic Restrictions for property state restrictions.

PROPERTY FLIP TRANSACTIONS

- The property seller must be the owner of record, and
  - Property owned by property seller ≥ 12 months: Document ownership by property seller
  - Property owned by property seller < 12 months but > 6 months: Document 12 month chain of title
  - Property owned by property seller ≤ 6 months: Document chain of title and property flipping rules apply
- Prior sale of subject property occurred within 90 days, then the loan is only eligible for sale to NMSI if:
  - Property seller is Relocation Agency, or 2. Property seller obtained property through Foreclosure or Deed in Lieu, or 3. Property Seller obtained property through inheritance or divorce, and
  - Subject transaction must be for a primary residence only, and
  - All requirements for properties re-sold within 180 days are met (directly following here).
- Sale or ownership transfer of the subject property within the previous 180 days:
  - Loans with identity of interest or non-arms-length characteristics are not eligible for sale to NMSI under this program.
  - If 10% or more value increase from the prior sale, one of the following is required:
    - Second Appraisal from a different appraisal company (same AMC OK), or
    - Clear Capital Collateral Desktop Analysis - CA (CDA) (i.e., the CDA version without MLS data)
    - If the CDA value is more than 10% below the original appraisal(s), additional BPO and value reconciliation requirements apply. See Appraisal Review and Second Appraisals.
    - If a Second Appraisal is required, use the lower of the two values.
  - THE APPRAISAL(s) MUST SPECIFICALLY ADDRESS THE PRIOR SALE AND JUSTIFY THE PRICE INCREASE

PURCHASE CONTRACT ASSIGNMENT
If the Purchase Contract has been assigned to buyer from a previous purchaser, then the loan is not eligible for sale to NMSI.

DEED RESTRICTIONS
NMSI does NOT purchase loans subject to resale deed restrictions, other than an acceptable Age-Related Deed Restriction (i.e. minimum age requirement 55) on a one-unit Property for Borrower's principal residence that otherwise meets Fannie Mae requirements.

LEASEHOLD AND LIFE ESTATES
- Life estates are not eligible
- Loans secured by properties located on Indian (Native American) tribal land or Indian Trust Land or Restricted Land, and/or properties for which Borrower has a leasehold interest in same, are not eligible.
- Properties secured by other types of leasehold estates are acceptable provided the property is readily marketable, the leasehold is in full force and effect, is not subject to any prior lien or encumbrance by which the leasehold could be terminated or subjected to any charge or penalty, and does not terminate earlier the 5 years after Loan maturity date, and otherwise meets all Freddie Mac requirements (following the Freddie Mac standard).
  - Provide Freddie Mac Ground Lease Analysis (Form 461)

PRODUCTS
- Fixed Rate 15 and 30 years
- 5/1, 7/1, and 10/1 LIBOR ARMs

ADJUSTABLE RATE DETAILS
- Interest rate adjustment caps
  - 5/1, 7/1 & 10/1 ARMs: Initial: 2% up/down; Subsequent: 2% up/down; Lifetime: 5% up
- Margin: 2.250
- Index: 1-Year LIBOR (London InterBank Offer Rate)
- Interest rate Floor: The interest rate Floor is equal to the Margin
- Change dates:
  - 5/1: The first Change Date is the 60th payment due date. There is a new Change Date every 12 months thereafter
  - 7/1: The first Change Date is the 84th payment due date. There is a new Change Date every 12 months thereafter
  - 10/1: The first Change Date is the 120th payment due date. There is a new Change Date every 12 months thereafter
- Conversion Option: None
- Assumption: ARM products are assumable to a qualified borrower after the fixed term

QUALIFYING RATE & QUALIFYING RATIOS

QUALIFYING RATES FOR ARM PRODUCTS
- 7/1, 10/1 - Note rate
- 5/1 ARM – Greater of the fully indexed/fully amortizing rate or the Note rate + first change cap.

QUALIFYING RATIOS

- Primary Residence: Maximum DTI is 43.00%:
  - For transactions with non-occupant Borrowers, co-signers or guarantors, occupant Borrower(s) alone must meet the 43% DTI requirement.
- Second Home: Maximum DTI is 40.00%.
  - Non-occupant Borrowers, co-signors or guarantors are not permitted on second home transactions. See Borrower Eligibility.
- Qualifying Interest Rate – See the Program Matrix.
- Also see First Time Homebuyers for requirements specific to first time homebuyer qualification, including Payment Shock tests.

LOAN AMOUNT

- Minimum: $ 417,001 / Maximum: $ 2,500,000

BORROWER ELIGIBILITY

ELIGIBLE BORROWERS:

- All Borrowers must be individual, natural persons who are citizens of the United States or of a US Possession or Territory.
- Permanent resident aliens are eligible with documented permanent resident status.
- Living trusts may be eligible. See Trusts.

INELIBLE BORROWERS:

- Non-Permanent Resident Aliens
- Loans to owners and employees of the Correspondent Seller, its affiliates and subsidiaries or TPOs
- Non-individual legal entities such as corporations, general or limited partnerships, LLCs, real estate syndications, or investment trusts
- Borrowers with diplomatic immunity, or "foreign politically exposed" Borrowers
- Foreign Nationals, Non-Resident Aliens

NON-OCCUPANT BORROWER, CO-SIGNOR OR GUARANTOR:

- Purchase, rate-and-term transactions for primary residence only. 1-2 units - Maximum LTV/CLTV: 75%. 3-4 units – Maximum LTV/CLTV: 70%.
- Qualifying total debt ratio for the occupant Borrower(s) may not exceed 43%.
- Occupant Borrower must make the minimum contribution required for the program from their own funds.
- Must be a family member only.
- Any person signing an application for a loan is a "Borrower."
  - All "Borrowers" must sign the Note.
  - All "Borrowers" must meet NMSI Eligible Borrower requirements.
- A party with an interest in the property sales transaction, (including but not limited to the builder, property seller, or real estate broker) is not eligible as a non-occupant Borrower, guarantor, or co-signer.
- A non-occupant Borrower, guarantor, or co-signer must provide verification of income if income is being used to qualify.
  - All individuals who hold title are required to sign the security instrument, but are not required to sign the Note unless their income is being used for qualifying purposes.

BORROWER IDENTIFICATION:

- The identity must be confirmed for each Borrower whose credit is used for loan qualification. The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each Borrower.
- Evidence of a valid Social Security number is required for all Borrowers. Acceptable documentation for a Social Security number includes, but is not limited to, a valid Social Security card, a current paystub, W-2, or tax transcripts. Any Social Security number discrepancies that are identified must be resolved.
- See also Identity of Interest and Non-Arms-Length Transactions

FIRST TIME HOMEBUYERS (FTHB)

- A First Time Homebuyer transaction is one where no occupant Borrower has had an ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the Mortgaged Premises or has a scheduled mortgage payment history of less than 12 months:
  - Maximum loan amount is $1,250,000.
  - One unit properties only.
  - Primary residence only.
  - Borrowers Currently Renting:
    - Verification of 12 months rental payments is required, using 12 months cancelled checks or bank statements.
    - If cancelled checks are used, a copy of the lease agreement showing the due date is required
    - A direct written verification of rent (VOR) may be used in lieu of cancelled checks when the landlord is a documented management company
    - Greater of 12 months reserves or the minimum reserves from the Assets - Reserves table.
  - Borrowers living rent free:
    - Must have a minimum of 12 months reserves. (See Assets - Reserves).
- Payment shock:
  Cannot exceed 250% over the Borrower's current rental payment. Example:
  Current rental payment = $1,000 per month
  Current rent X 2.5 (250%) = $2,500 maximum increase (shock)
  Maximum increase ($2,500) + $1,000 current rental payment = $3,500 maximum new payment

TRUST ELIGIBILITY

- Land trusts (such as Illinois Land Trusts) and Community Land Trusts are not permitted.
- Revocable Inter Vivos "Living" trusts acceptable to NMSI.
  - A copy of the trust agreement is required except in states where lenders are required by state law to accept a certification of trust or a summary of trust.
  - Documents for loans where title is taken in a trust cannot be signed with a Power of Attorney.
  - Loans must meet the requirements in *Fannie Mae Selling Guide B2-2-05 Inter Vivos Revocable Trusts* and *Fannie Mae Selling Guide B8-5-02 Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements,* which among other things requires that the individuals establishing the Trust ("Borrowers") must sign as both individuals and Trustees.

NON ARMS LENGTH TRANSACTION

Loans for transactions with identity of interest or non-arm's length characteristics **are not** eligible for sale to NMSI under this Program. Examples of these types of transactions (not a complete list) include:

- Sales of properties between family members (see Established Relationship)

- Sales of properties between business associates
- Sales involving a business entity and an individual who is an officer or principal in that business
- Sales involving the builder/developer of subject property and an employee or affiliate of the builder/developer
- Transactions involving an assignment of the sales contract

CREDIT

CREDIT REPORT, CREDIT SCORE AND TRADE LINE REQUIREMENTS

- Residential Mortgage Credit Report (RMCR) or traditional tri-merge with applicable credit report supplements is required for all Borrowers.
  - Frozen Credit: Credit reports may not have "frozen credit." If a Borrower unfreezes credit after the initial report is run, then a new 3-file merged credit report must be obtained.
  - Fraud Alert Requirement: All credit reports must include FACT Act messages and at least one repository fraud alert product (i.e. Hawk, FACS+ or SafeScan). Alerts must be resolved.
  - Inquiries: Credit reports must list all inquiries made with the previous 90 days and written explanation for all inquiries within 90 days is required.
  - Credit Scores: Each Borrower, including those with no income used to qualify, must have a valid social security number and generate a traditional credit score from at least two of these repositories: Experian, Equifax, and TransUnion. Foreign credit is not acceptable. See the Program Matrix for minimum credit score requirements.
- QUALIFYING SCORE
  For each Borrower, qualifying score is the middle of 3 or lower of 2 scores, as applicable. Qualifying score for the loan is the lowest qualifying score of any Borrower.
- DEPTH OF CREDIT HISTORY
  For each Borrower whose income is used to qualify:
  - Minimum 24 month credit history with at least 3 active trade lines, each rated and paid satisfactorily for at least 12 months.
  - Borrower must have at a minimum 7 years of established credit history.
  - Foreign credit cannot be used to meet depth of credit history requirements.
- THE FOLLOWING ARE NOT ACCEPTABLE TO BE COUNTED AS TRADE LINES:
  "non-traditional" credit, loans in deferment period, accounts discharged through bankruptcy, authorized user accounts, judgments, charge offs, collection accounts, foreclosures, deed-in-lieu of foreclosure, short sales or pre-foreclosure sales, foreign credit.
- UNDISCLOSED DEBT EXPLANATION LETTERS:
  When the credit report reveals a significant debt not listed on the application, a written explanation from the Borrower addressing the omission is required. The absence of a written explanation from the Borrower will render the loan ineligible for purchase.

HOUSING PAYMENT HISTORY

- HOUSING PAYMENT HISTORY:
  - The occupant Borrower(s) must have a complete, most recent, 24 months rental and/or mortgage payment history documented in the loan file.
  - First Time Homebuyers (FTHB) must have at least 12 months minimum rental history for the occupant Borrowers who are FTHB. See First Time Homebuyers.
- HOUSING PAYMENT RATING:
  - No 30 day late payments in the past 24 months (0 X 30 / 24) on any rent payment or on any Mortgage Credit on ANY real estate owned by any Borrower on the transaction, and

- On the date of the loan application, the Borrower's existing Mortgage(s) must be current, meaning that no more than 45 days may have elapsed since the last paid installment date

- MORTGAGE PAYMENT HISTORY:
  - Must be on the credit report, or,
  - Private party loans: Documented by cancelled checks or evidence of electronic transfers (VOM alone is not sufficient), or
  - Institutional Lender: Documented by cancelled checks, evidence of electronic transfers, or through an official statement produced by the lender.

- RENTAL PAYMENT HISTORY:
  Must have the most recent 24 months or the portion of the last 24 months in which the Borrower was renting (12 months minimum for FTHB) as evidenced by:
  - Credit report rating for 24 months (if institutional and the institution rates), or
  - For the most recent 12 months, either: (a) an Institutional VOR, or (b) cancelled checks or evidence of electronic transfers
    - If cancelled checks are used for months 1-12, then a copy of the lease verifying the due date must also be provided
  - For months 13-24, either: (a) an institutional VOR, or (b) cancelled checks or evidence of electronic transfers, or (c) private party VOR.
    - Private party VORs are only acceptable if not from a family member or interested party to the subject transaction.
  - "Mortgage Credit" Defined: Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, HELOCs, mobile homes, and manufactured homes are considered mortgage credit, even if reported as an installment loan.

SIGNIFICANT DEROGATORY CREDIT EVENTS AND TRADE-LINES

Serious Derogatory Credit Event	Required Time Elapsed	Comments / Requirements
Foreclosure	7 years	Measured from completion date of the foreclosure action. Any repossession, or payment equal to or greater than 120 days of any "Mortgage Credit" is considered a foreclosure for purposes of this program.
Short Sale, Deed-in-Lieu, or Pre-Foreclosure sale		
Mortgage Included in Bankruptcy	See Comments	If a mortgage is included in a bankruptcy, the stricter measurement for the bankruptcy or foreclosure "required time elapsed" applies.
Bankruptcy - Chapter 7 or 11	7 years	Measured from discharge or dismissal to the disbursement date of the new loan.
Bankruptcy - Chapter 13		
Multiple Bankruptcies	7 years	Measured from last dismissal to the disbursement date of the new loan.
Loan Modifications (Restructured Loans)	7 years	Are not permitted in the past 7 years for any Borrower unless the modification was lender initiated, and documented proof is in the loan file showing the modification was not due to a distressed situation.

Mortgage Credit related "Serious Derogatory Credit Event" waiting time requirements apply to all Borrowers for all properties owned or previously owned, whether the Borrower(s) owned the property solely or jointly. "Mortgage Credit" is defined as: Payment histories on all mortgage trade lines, regardless of occupancy. Mortgage Credit includes first and second mortgage liens, HELOCs, mobile homes, and manufactured homes, even if reported as an installment loan.

Other Credit Events	Requirements
Past Due Accounts	- If any of the Borrower's accounts are showing past due payments, those accounts must be brought current prior to Loan close. - A credit supplement or other documentation showing that the accounts were current prior to loan close must be provided in the loan file.
Judgements, Garnishments, Liens and Potential Liens	- All delinquent credit obligations that have the potential to affect the subject Mortgage Loan's lien position or diminish Borrower's equity in the subject property must be paid off at or before closing including, without limitation: Delinquent taxes, delinquent property taxes, tax liens, judgments, garnishments and mechanics' or materialmen's liens - Verification of sufficient funds to satisfy these obligations must be documented. - Documentation of the pay-off or satisfaction must be provided. - No payment plans or subordination is allowed.
Aggregate Charge-Offs and Collection Accounts	- All non-lien charge-off and collection accounts exceeding $250 individually, or $1,000 in the aggregate must be paid off. - Documentation of the pay off or satisfaction must be provided.
Consumer Credit Counseling	- Borrowers must provide a satisfactory explanation for participating in Consumer Credit Counseling. - A Borrower may be eligible while they are in Consumer Credit Counseling (CCC) provided all of the following criteria are met: • Credit score requirements are met, and • Qualifying ratios must be calculated on the creditor's minimum monthly payment (per the credit report) versus the reduced consumer credit counseling payment, and • All accounts must be current , and • Cash out refinance transactions are not eligible.

MONTHLY DEBT OBLIGATIONS

- **ALIMONY AND CHILD SUPPORT:**
  Include if will continue for > 10 months under a legal agreement. May not be deducted from income. Provide obligation document.
- **AUTHORIZED USER:**
  Include in DTI but cannot be considered to meet minimum trade-line requirements.
- **BRIDGE LOANS:**
  Include in DTI. Proceeds cannot be used for Reserves. See Assets - Funds to Close, and Assets - Reserves.
- **BUSINESS DEBT IN BORROWER'S NAME**
  Include in personal DTI unless all of the following are met: 1. Evidence of payment by business for past 12 months, and 2. No 30 day late payments in past 12 months, and 3. Cash flow analysis of business considered payment as a debt. Note: If included in personal DTI, do not count against business.
- **CONTINGENT LIABILITY (CO-SIGNED LOANS)**
  Include in DTI unless there is evidence, such as cancelled checks or automated savings withdrawals, that the other party made satisfactory payments for past 12 months and account is current. Documentation for any omitted contingent liabilities, such as obligor cancelled checks, must be provided in the loan file. Appendix Q, Part IV, 5.b.
- **COURT-ORDERED ASSIGNMENT OF DEBT**

If Borrower was not released from liability, include in DTI or provide 1. Copy of court order assigning debt, and 2. Proof of transfer of ownership. The payment history of the debt does not need to be considered after the transfer date to another party.

- **DEFERRED (PROJECTED) INSTALLMENT DEBT**
  Include loans that are deferred or in forbearance in DTI. If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the Borrower's payment letters or forbearance must be obtained to determine the monthly payment that will be required at the end of the deferment period, to use for loan qualification.
- **DEFERRED STUDENT LOANS ONLY:**
  If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, 2% of the original principal balance of the student loan may be used to determine the monthly payment used for loan qualification.
- **HOME EQUITY LINES OF CREDIT:**
  If the HELOC does not require a payment and there is no recurring monthly debt obligation, or if the HELOC has a zero balance, no monthly payment needs be included in the recurring debt obligations. See Secondary Financing.
- **INSTALLMENT DEBT:**
  Installment debt that is not secured by a financial asset, including student loans, automobile loans and timeshares, etc., must be included in the Borrower's monthly debt obligations, if there are more than ten months remaining. Installment debt with fewer than ten monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the Borrower's ability to meet his or her monthly obligations.
- **PAYOFF INSTALLMENT DEBT TO QUALIFY:**
  Permitted in this program. If debts are being paid off, the source of funds must be documented and verified.
- **PAY-DOWN INSTALLMENT DEBT TO QUALIFY:**
  If debts are being paid down, the source of funds must be documented and verified. If an installment debt is paid off at closing, the creditor must provide a pay-off statement for which the same balance must be reflected as the pay-off amount on the HUD-1 Settlement Statement or Closing Disclosure.
- **LEASE PAYMENTS:**
  Include regardless of number of months remaining.
- **LOANS SECURED BY FINANCIAL ASSETS:**
  Borrowers may use their financial assets (e.g. life insurance policies, 401k accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan. The payment is not required to be included in DTI if the applicable loan instrument shows the Borrower's financial asset as collateral for the loan.
- **MORTGAGE ASSUMPTIONS:**
  Do not include the contingent liability (PITIA) for a property sold by the Borrower with an assumption, if all of the following are met: 1. Verification that property purchaser has at least a 12-month history of making regular and timely payments, 2. Evidence of transfer of ownership, 3. Copy of the formal, executed assumption agreement, 4. Credit report indicating consistent and timely payments were made. If timely payments for the most recent 12-month period cannot be documented, include PITIA for assumed property in the Borrower's recurring monthly debt obligations.
- **OTHER REAL ESTATE OWNED:**
  See Other Real Estate Owned, Liabilities and Current Residence Pending Sales or Conversion.

- **PROPERTY SETTLEMENT BUY-OUT:**
  Does not need to be included in the debt-to-income ratio provided there is documentation to evidence the transfer of title of the property.
- **REVOLVING CHARGES/LINES OF CREDIT:**
  Treat revolving charge accounts and unsecured lines as long-term debts and include in DTI. If the credit report does not show a required minimum payment amount and there is no documentation to support a payment of less than 5%, use 5% of the outstanding balance.
- **PAY-DOWN DEBT TO QUALIFY:**
  Not permitted in this program.
- **PAYOFF REVOLVING DEBT TO QUALIFY:**
  Permitted if the revolving account is paid in full and closed prior to closing. If the revolving account is not closed, the debt must be included in the debt-to-income ratio
- **UNDISCLOSED LIABILITIES:**
  Undisclosed Debt Explanation Letters: When the credit report reveals a significant debt not listed on the initial application, a written explanation from the Borrower addressing the omission is required. The absence of a written explanation from the Borrower may render the loan ineligible for purchase. See Credit, Credit Report.
- **UNREIMBURSED EMPLOYEE EXPENSES:**
  When a Borrower has out-of-pocket, unreimbursed business, determine the recurring monthly debt by developing an average of the expenses from the Schedule A and/or IRS Form 2106 for the number of years required.
  - When calculating the total debt-to-income ratio, the average for unreimbursed expenses should be subtracted from the Borrower’s stable monthly income.
- **VOLUNTARY RECURRING DEBT:**
  Not considered in the underwriting analysis or subtracted from gross income (e.g. 401k contributions, 401k loans, union dues, commuting expenses, open accounts with zero balances, federal, state, and local taxes, or other voluntary deductions).

EMPLOYMENT

DURATION

To be considered for qualifying purposes, base pay, bonus, and overtime income must have been received for a minimum of two years.

- If a Borrower does not meet the employment history requirement for the two years prior to the date of the loan application, and was previously in school or the military, obtain copies of the Borrower's diploma/transcripts or discharge papers.
- To be considered for qualifying, all income must be reasonably expected to continue for the first 3 years of the mortgage.

CHANGE OF POSITIONS

If the Borrower has recently changed positions with their employer, determine the effect of the change on the Borrower's eligibility and opportunity to receive any bonus or overtime pay in the new position. Documentation from the employer is required to determine if the bonus or overtime will continue at least the same or greater level.

VARIABLE INCOME:

A 2 year history of receipt of all variable income (such as bonus or commissions) is required. A level, upward or previously declining but stabilized trend in earnings must be established. If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but it may not be averaged over the period when declination occurred.

FAMILY OWNED BUSINESS

If a business generating any of the Borrower's W-2 employment earnings is family owned, the Borrower is considered Self-Employed unless:

- A letter is obtained from the business accountant verifying that the Borrower does not have a 25% or greater ownership interest in the business (and stating the actual ownership interest), and
- Borrower provides signed copies of 2 years personal tax returns supporting no ownership interest, Appendix Q, I.C.1.a, or
- A signed copy of the corporate tax returns is provided showing Borrower's ownership percentage as less than 25%, Appendix Q, I.C.1.b.

PART-TIME TO FULL TIME

Borrower must meet the 2 year's receipt of income requirement. If the Borrower does not meet the employment history requirement for the two years prior to the date of the loan application, and was previously in school or the military, obtain copies of the Borrower's diploma/transcripts or discharge papers.

EMPLOYMENT GAPS

For Borrowers with employment gaps within the past 2 years, the following are required:

- Written letters of explanation for employment gaps over 30 days in the last two years.
- Borrowers who are re-entering the workforce after an extended absence (of 6 months or more) may be considered to have stable employment if the following are met:
  - The Borrower has been employed in his or her current job for 12 months or more to use the income for qualifying.
  - A two-year work history prior to the absence from the workforce is documented.
- Note: A state or federally protected leave is not considered to be an extended absence from employment.

FURLOUGHED BORROWERS

Borrowers (with employment) in a state with an active furlough policy must qualify with the reduced income.

- Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the source is approved by the employer.
- Full pay may be used if there is evidence from the employer or third party documentation that the furlough will end within the next 60 days.

TEMPORARY LEAVE

- Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the Borrower's employer.
- If a Borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.
- It must be determined that during and after temporary leave, the Borrower has the capacity to repay the mortgage and all other monthly obligations.
- Return to Work Prior to First Mortgage Payment Will be Due
  - Use the regular employment income received prior to leave.
- Return to Work After First Mortgage Payment Will be Due
  - Use the lesser of the leave income or pre-leave regular employment income.
  - If the leave income is less than the pre-leave regular employment income:
    - Supplement with available liquid reserves
    - Total qualifying income may not exceed the gross monthly income received upon return to work

- Assets required to support the payment may not be counted towards available reserves
- The following documentation is required:
  - Verification of pre-leave regular income and employment history
  - No evidence or information from employer indicating Borrower does not have the right to return to work after leave period
  - Written confirmation of intent to return to work and agreed upon date of return are both evidenced by documentation by the employer (or third party service)
  - Verbal Verification of Employment; the Borrower is considered employed if the employer confirms the Borrower is currently on temporary leave
  - Amount and duration of Borrower's temporary leave income
  - Amount of regular employment income the Borrower received prior to leave
  - All available liquid assets used to supplement the reduced income for the duration of leave must be verifiable

INCOME - REQUIRED INCOME DOCUMENTATION

PAYSTUB REQUIREMENT

- Most recent year-to-date paystubs covering 30 consecutive days of earnings; providing adequate evidence of any overtime, bonus and/or commission income being used to qualify; must include gross earnings for the current pay period and year-to-date earnings for the most recent 30-day period; must be dated no earlier than 30 days prior to the loan application; if Borrower is paid hourly, the number of hours must be noted on the paystub.
- Paystub Requirement is not met if the employer does not provide a computer-generated or typed paystub. When the Paystub Requirement is not met, the most recent year's income tax returns and a written verification of employment, VOE, completed in its entirety are both required.

W-2s

Most recent 2 years W-2s, clearly identifying the Borrower as the employee and the employer name are required for each source of employment income.

WRITTEN VOE:

- If bonus and/or commission income is being used to qualify, a verification of employment form must be used to confirm ongoing employment and break out bonus and commission earnings, and
- A written VOE is required if the Paystub Requirement cannot be met. See Paystub Requirement above.
- A written VOE may not be used in lieu of 2 years W-2 forms and current paystubs and may not be used as "stand alone" documents for purposes of verifying the Borrower's income and employment.

VERBAL VERIFICATION OF EMPLOYMENT

- Verbal Verification of Employment (VVOE) Requirement: A VVOE to confirm the Borrower's current employment status is required for each Borrower within 10 business days prior to the Note date for employment income. (For self-employed Borrowers, see Self-Employment VVOE).
- Military: For Borrowers in the military, a military Leave and Earnings Statement (LES) dated within 30 calendar days prior to closing, or 31 days for longer months, is acceptable in lieu of a verbal verification or a verification of employment through the Defense Manpower Data Center.
- Phone Number: The lender must independently obtain the phone number and address for the Borrower's employer.
- Third Party Service: If using a third party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.), the following applies:
  - Request to third party must be within 10 business days prior to the Note date
  - Employment Verification between employer and third party must be within 35 calendar days prior to the Note date

- Verbal Verification of Employment Contents: A VVOE must contain all of the following information:
  - Date of contact
  - Borrower's date of employment, employment status and job title
  - Name, phone number and title of individual contacted at entity, and entity name
  - Name and title of associate contacting employer
- If a verbal verification cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same timeframe as a verbal verification of employment.

PERSONAL TAX RETURN REQUIREMENT

- Personal tax returns are not required if a Borrower's qualifying income is limited to salaries or wages reported on IRS Form W-2, if the Paystub Requirement is met and the Borrower or the Borrower's family does not own a 25% or greater interest in the company generating the borrower's W-2 wages. See Employment Income Documentation.
- For all other Borrowers at least two years of signed and dated personal tax returns are required.
  - Personal Income Tax Returns (Form 1040) must be complete with all schedules and W-2s, 1099s, K-1s, etc.,
  - Signatures and Dates: Tax returns must be signed and dated. Signature date must be on or prior to date of consummation of the loan (generally, date closing documents are signed, but definition may vary by property state).
  - Must be the Borrower's copy of the return filed with the IRS.
  - IRS transcripts may NOT be used in lieu of obtaining personal tax returns.

BUSINESS TAX RETURNS REQUIREMENT

- Two years business tax returns must are required for each business in which the Borrower has a 25% or greater ownership interest.
  - If Borrower receives W-2 wages from a company in which Borrower has 25% or greater ownership interest, this requirement applies.
  - Business Tax Returns must be complete with all attachments and schedules, including K-1s if applicable.
  - Signatures and Dates: Tax returns must be signed and dated. Signature date must be on or prior to date of consummation of the loan (generally, date closing documents are signed, but definition may vary by property state).
  - Must be the final version filed with the IRS.
  - IRS transcripts may NOT be used in lieu of obtaining business tax returns.
- K-1 Earnings: Business tax returns will not be required for businesses reporting K-1 earnings if:
  - The two most recent years K-1s reporting for that business both report positive self-employment earnings, and
  - The income from those K-1 earnings is not being used to qualify.

TAX RETURNS - AMENDED

- Amended tax returns must have been filed at least sixty (60) days prior to the earlier of the date of the mortgage loan application or the property purchase contract date, if applicable, unless the changes made are non-material to the amount of income claimed and qualification for the Mortgage Loan.

TAX TRANSCRIPTS

- PERSONAL
  - IRS transcripts may NOT be used in lieu of personal tax returns. (See W-2 Transcript in Lieu of 1040 Exception below).
  - A tax transcript must be obtained for all personal tax returns for every Borrower whose income or loss is being used to qualify, for each tax year covered by the income documentation used to qualify the Borrower(s).
  - If tax transcripts are not yet available, the loan file must contain a copy of an IRS or vendor document showing that no transcript is available.
- BUSINESS
  - IRS transcripts may NOT be used in lieu of business tax returns.

- Business tax return transcripts are required for every business entity where the Borrower has a 25% or greater ownership interest, when the income or loss is being used to qualify.
- If tax transcripts are not yet available, the loan file must contain a copy of an IRS or vendor document showing that no transcript is available.

▪ INCOME VARIATIONS
Any income variations in the current year's income > 15% from the most recent tax transcript must be adequately explained.

▪ INFORMATION VARIATIONS
Any information obtained through a transcript that is more comprehensive than the tax forms in the Mortgage Loan File (i.e., information on a 1040 transcript, where only a W-2 was required by the program guidelines and used to underwrite the Loan) must be accounted for when underwriting the Borrower.

▪ RETURNS NOT YET FILED
- For tax transcript timing requirements, see Fannie Mae Selling Guide B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.
- Provide an IRS Verification of Non-Filing if not yet filed.

▪ W-2 TRANSCRIPT IN LIEU OF 1040 EXCEPTION
- If personal tax returns are not required by this Program Guide and only W-2 wages are being considered in qualifying, then form W-2 transcripts are acceptable in lieu of form 1040 transcripts.
- IRS transcripts may NOT be used in lieu of W-2's.

Note: W-2 transcripts are generally not available for any year after the W-2 filed. For example, 2014 W-2 transcripts may not be available until 2016. In that case, a Form 1040 tax return transcript would be required to validate 2014 W-2 earnings for a loan being underwritten in 2015.

INCOME - SELF-EMPLOYED BORROWERS

Self-employment, Schedule C and Schedule F documentation are not required if income from those sources is not being used to qualify.

DEFINITION:

A Borrower is considered to be self-employed if any of the following conditions are true;

▪ If the Borrower has a 25% or greater ownership interest in a business (including a business than generates a Borrower's W-2 earnings) then the Borrower is considered to be self-employed.
▪ Borrowers who file an IRS form Schedule C or Schedule F are considered to be Self-Employed.

INCOME ANALYSIS:

Unless otherwise stated in this Program Guide, self-employment related income must be calculated using the requirements of Appendix Q, including Section I.D. General Information on Self-Employed Consumers and Income Analysis.

DURATION:

Evidence that the Borrower has at least two consecutive years of self-employment operating the same business in the same general location is required to demonstrate sufficient income stability for the income from that business to be considered in qualifying.

DOCUMENTATION REQUIREMENTS:

All of the following are required -

▪ Personal Tax Returns: Most recent two years of signed and dated personal tax returns with all schedules are required for all Borrowers who are considered "self-employed." See Personal Tax Return Requirements.

- Business Tax Returns: Two years of signed and dated business tax returns are required. See Business Tax Return Requirements.
- P & L and Balance Sheet: A year-to-date Profit and Loss Statement and Balance Sheet must be obtained for each sole proprietorship filing Schedule C or Schedule F, when income from that business is being used to qualify. See Profit and Loss Statement and Balance Sheet Requirements.
- VVOE - Self-Employed Confirmation of Employment: See Self-Employment Confirmation of Employment.
- Income Analysis Worksheet: An underwriting worksheet or written details documenting income, debt, and debt-to-income ratio calculations must be in the loan file, supporting the data on the 1008, and must demonstrate the Borrower's Ability to Repay. See Underwriter's Income Analysis Worksheet.
  - The analysis must include the underwriter's written justification and calculation methodology for any non-standard income (e. g. bonus, overtime, rental, commission).
  - The analysis must include support for any debts that are excluded from the debt-to-income ratios. (See DTI Requirements Table).
- Other Real Estate Owned: See Other Real Estate Owned – Liabilities, and Other Real Estate Owned - Income.

SELF-EMPLOYMENT LOSSES

- Net losses from self-employment and non-employment related sources must be deducted from qualifying income regardless of the longevity of the business activity, unless the business or activity producing the losses is documented to be discontinued.
  - Schedule C or F net losses must be deducted from qualifying income regardless of the longevity of the business activity, unless the business producing the losses is documented to be discontinued.

SELF-EMPLOYED CONFIRMATION OF EMPLOYMENT (VVOE)

- For each business the Borrower owns for which income is being used to qualify, a Self-Employed Confirmation of Employment (VVOE equivalent) is required to confirm the existence of the business through a third-party source within 30 calendar days prior to Note date.
- Self-Employed Confirmation of Employment (VVOE) Requirements
  - Verification of the existence of the Borrower's business from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, and
  - Verify the listing and address for the Borrower's business using a telephone book, the internet, or directory assistance, and
  - If contact is made verbally with a third party, document the source of the information obtained and the name and title of associate.
- If a verbal verification cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same timeframe that would be required for a Verbal Verification of Employment (VVOE) (within 10 business days from the Note date or funding date for escrow states).

PROFIT AND LOSS STATEMENT AND BALANCE SHEET REQUIREMENTS

Profit and Loss Statement and Balance Sheet are not required if net earnings are positive and income is not being used to qualify.

- Year-to-date Profit and Loss Statement and Balance Sheet are required for each business where income or losses are reported on IRS form Schedule C or Schedule F, and for businesses in which the Borrower has a 25% or greater ownership interest, irrespective of which tax form or schedules the Borrower uses to report income or losses, when the income or loss from that business is being used to qualify.
  - Net losses from Self-Employment and/or Non-Employment Related sources must be deducted from qualifying income, unless the business or activity producing the losses is documented to be discontinued.
- If tax returns for the previous year are not yet available, an additional year-end P & L and Balance Sheet for that year is required for each business when the income or loss from that business is being used to qualify.
- Signing and Dating

  - Neither Appendix Q nor NMSI require that P & L's and Balance Sheets be signed by the Borrower, however, if they are signed, the signature date must be at or prior to consummation.
- Age of Documents
  The P&L and Balance Sheet provided must cover at least through the period ending in the most recent quarter that ended one month prior to the application date. For example:
  - *Application date July 21, 2015*
    - One month prior to application date is June 21, 2015. Most recent quarter end prior to June 21, 2015 is March 31.
    - P & L and Balance Sheet must cover the period through the end of Q1, March 31, 2015
  - *Application date August 3, 2015*
    - One month prior to application date is July 3, 2015. Most recent quarter end prior to July 3, 2015 is June 30.
    - P & L and Balance Sheet must cover the period through the end of Q2, June 30, 2015

INCOME ANALYSIS – SALARIED INCOME

BONUS AND OVERTIME

- Bonus or overtime income may be acceptable if it has been received for at least two consecutive years.
- Documentation: All of the following are required -
  - Current paystub(s), and
  - Most recent two year's W-2s, and
  - Verbal Verification of Employment, see Verbal Verification of Employment, and
  - Written Verification of Employment (VOE).

COMMISSION INCOME

- Commission income may be acceptable if it has been received for at least two consecutive years.
- Documentation:
  For all Borrowers whose commission earnings are being used to qualify, irrespective of the percentage of that Borrower's total annual income, all of the following are required.
  - Most recent paystub(s), and
  - Most recent two year's W-2s or 1099s, and
  - Most recent two year's personal income tax returns with all schedules, and
  - Verbal Verification of Employment, (see Verbal Verification of Employment), and
  - Written Verification of Employment, employer letter or equivalent itemizing commission income.

INCOME ANALYSIS – RENTAL INCOME

Current leases are not required if income from these properties are not being used to qualify and the entire payment is being included in debt calculations.

REQUIREMENT FOR COPIES OF ALL CURRENT LEASES

- **Covered Loans**
  For loans that are covered under Regulation Z*, Rental Income Documentation Requirements:
  - Appendix Q, II.D.1-8 Rental Income requires a fully executed current lease in order to use consumer rental income for qualifying purposes-
  - Leases must be provided for both subject property and for each rental unit the Borrower owns for which consumer rental income is being used to qualify, irrespective of whether rents from that unit(s) are supported by the Schedule E.
  - Use of market rents or other approaches for determining rental income are not acceptable.

- Covered loans: Primary residence; second homes; or investment properties that the Borrower intends to occupy for more than 14 days per year.

- **Not Covered Loans**
  - Investment properties are not eligible for this program, thus all transactions are considered to be Covered Loans.

REQUIREMENT FOR INCOME DOCUMENTATION FOR ROLLED-OVER LEASES

- For ALL leases that have gone beyond the original term and have rolled over into month-to-month tenancy: In order to use rental income for qualifying, the following must be obtained -
  - Copy of the most recent lease, and
  - Current documentation of receipt of rent

  Note: "Rolled-over" leases are typical in some states, including California, where all leases rollover to month-to-month agreements at the end of the lease term, unless otherwise modified. This is to support compliance with the Stability of Income requirements of Appendix Q.

INCOME ANALYSIS – OTHER INCOME

MILITARY INCOME

- Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarters allowance and proficiency pay may be counted as income if they are verified as regular and continuous.
- Reserves or National Guard - Not Called to Active Duty
  - Military Reservists who have not been called to active duty may use their military reserve income to qualify, as long as they can provide a two-year history of receipt of the income.
- Reserves or National Guard - Called to Active Duty
  - If one of the Borrowers is on active duty or was called to active duty after the loan application was taken, comply with the following:
  - The Borrower must certify that the subject property is his or her primary residence
  - The subject property must be vacant (unless occupied by a spouse or legitimate immediate family member), will remain vacant and will again be the Borrower's primary residence when the temporary assignment is completed
  - The subject property cannot be rented or tenant occupied
  - The Borrower must certify that he or she will return to the subject property as his or her primary residence upon completion of the temporary assignment
  - The Borrower must provide documentation regarding the temporary assignment (orders supporting the assignment including duration)
- Borrower Qualification:
  - If the loan is a primary residence rate and term refinance and mortgage payment is not changing or is being reduced, qualify the Borrower using the Borrower's current job and income

If the loan is: purchase, cash-out refinance, or rate and term refinance and the Borrower's payment is increasing; or second home purchase or refinance; then use the lesser of the Borrower's reservist pay or their current job (or a combination of reservist pay and current job pay i.e. current employer pays reservist their standard pay minus reservist income).

ALIMONY AND CHILD SUPPORT

Alimony and child support payments will be considered provided the payment terms confirm that the income will continue for the first 3 years of the mortgage. For child support, if the child's age is not clearly defined, obtain additional documentation to ensure that income can be expected to continue for the first 3 years of the mortgage. Provide a copy of the legal agreement and evidence of stable receipt for at least the past 6 months.

AUTOMOBILE ALLOWANCES
Automobile allowances are considered stable income if the income has been received for the past two years. Include all associated business expenditures in DTI. Either cash flow or income and debt approach may be used to qualify. If not reported on 2106, then use income and debt approach- adding the allowance to monthly income and showing the lease in the Borrower's debt.

BOARDER INCOME
Not allowed.

CAPITAL GAINS
2 years history and sufficient assets must remain to generate ongoing income at the level used for qualifying for 3 years. Employment Related Assets: NMSI does not permit annuitization of Employment-Related Assets as Qualifying Income" ("amortized assets" or "asset depletion") in this program.

FOSTER CARE EARNINGS
Provide letter from organization providing the income and copies of deposit slips or bank statements confirming regular payments.

INTEREST AND DIVIDEND INCOME
Must document assets not depleted and are sufficient to continue for first 3 years of mortgage. May be used as long as tax returns or account statements support a two year receipt history. This income must be averaged over the two years. Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.

LONG-TERM DISABILITY
Documented long-term disability can be assumed to be on-going.

NON-TAXABLE INCOME
If the income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of nontaxable income that may be added to the consumer's income cannot exceed the appropriate tax rate for the income amount.

NOTES RECEIVABLE
Two years history required. Provide all of the following: 1. Copy of Note, 2. most recent 2 years personal income tax returns with all schedules showing receipt of Note income, and 3. Bank statements showing regular deposit of funds. Must continue for first 3 years of new loan.

OTHER REAL ESTATE OWNED:
See Other Real Estate Owned.

PUBLIC ASSISTANCE
Provide two-year history of receipt of income and letters or exhibits from the paying agency establishing the amount, frequency and duration of these payments. Must be expected to continue for at least first three years of loan.

RETIREMENT, PENSION, ANNUITY AND IRA DISTRIBUTIONS
Requires evidence of continuance for first 3 years of mortgage. (Evidence of continuance of corporate, government, social security, VA, or military retirement/pension need not be documented). The Borrower must have unrestricted access without penalty to the accounts. Provide one of the following: Copy of award letter or letters from the organizations providing the income, or most recent personal income tax return with all schedules, or most recent W2 or 1099, or most recent two months bank statements showing deposit of funds. See Asset- Reserves requirements on the use of retirement accounts as cash reserves.

ROYALTIES

Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible. Provide all of the following: Documentation that income can be expected to continue for first 3 years of mortgage, and 2 years personal income tax returns, and most recent 12 months bank statements showing deposit of funds.

SEASONAL INCOME:

Seasonal part-time or seasonal second job employment may be acceptable if the Borrower has worked in the same job or same line of seasonal work for the most recent 2 years. Provide ALL of the following: Most recent paystub(s), if available, and most recent two year's W-2s or personal income tax returns with all schedules, and written confirmation from the Borrower's employer that there is a reasonable expectation that the Borrower will be rehired for the next season.

SOCIAL SECURITY INCOME:

SS income for retirement or long-term disability will not have a defined expiration date and therefore is expected to continue. However, if not for retirement or long-term disability, confirm that the remaining term is expected to continue for first 3 years of mortgage. Provide **one** of the following: Social Security Administration's award letter, **or** most recent personal income tax returns with all schedules, **or** most recent SSA-1099, **or** most recent bank statements showing deposit of the funds.

TRUST INCOME

Confirm trust income continuance for first 3 years of mortgage. Provide a copy of the Trust Agreement or Trustee Statement to document the following: Total amount of designated trust funds, **and** Terms of payment, **and** Duration of trust, **and** what portion, if any, of income to Borrower is not taxable.

- If the Trust Agreement or trustee's statement does not provide the historical level of distributions, one of the following must be provided: Most recent two year's personal income tax returns with all schedules, **or** most recent two year's 1041 fiduciary tax returns with all schedules.

  Note: A Borrower's trust income may be taxed at a lower rate or it may be part of a partnership that writes off losses, which may result in no tax liability. Trust income is reported on the 1041 fiduciary income tax return, which includes a K-1 schedule. All beneficiaries of trust income receive IRS Form K-1 from the trust.

TEACHERS:

Annual salary must be verified. Stipends or supplemental income must be documented as regular and continuous.

- Borrowers with a contract for their first year of employment who have started work but have not received a paystub must provide all of the following: copy of contract, and written verification of employment, and Verbal Verification of Employment.
- Borrowers with a contract for their first year of employment with the school district must be on the job prior to closing.
- For teacher income paid over a 10-month period and obtaining financing during the summer months when income is not being received, provide all of the following: Final year-end paystub from the school, and Verbal Verification of Employment, and copy of the contract indicating that the Borrower is paid over a 10-month period. Qualify the Borrower based on the income received on the final year-end paystub.

TIP INCOME:

Must have been received for 2 years. Provide current paystubs and most recent 2 years W-2's.

UNEMPLOYMENT BENEFITS:

Unemployment benefits, such as those received by seasonal workers, must have been received for the past two years and be predictable and likely to continue for the next three years from the date of the application. Provide all of the following: Most recent two year's personal income tax returns with all schedules and Income must be clearly associated with seasonal layoffs and expected to recur.

UNION MEMBERS:
Provide Verbal Verification of Employment confirming Borrower is in good standing with union. If union cannot provide confirmation, a Verbal Verification of Employment with present employer is required. All of the following are required: 1. Current paystub(s) from present employer, 2. If there has been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings, and 3. Most recent two year's W-2s from all employers, and 4. Most recent two year's personal income tax returns with all schedules.

VA BENEFITS:
Provide letter or distribution form from VA verifying that income can be expected to continue for three years. (Retirement and long-term disability can be expected to continue).

INCOME ANALYSIS – INELIGIBLE INCOME

Includes any income source not meeting the requirements of this Program Guide or Appendix Q, and:
- Foreign Income – income from sources outside of the United States
- Future income
- Income derived from:
- Gambling
- Sources outside the United States
- Subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- Lump sum payments of lottery earnings, inheritances or lawsuit settlements that are not on-going (for at least the first 3 years of the mortgage
- Mortgage credit certificates
- Non-incidental income received from farming/agricultural use of a property
- Rental income received from the Borrower's single family primary residence or second home
- Retained earnings in a company
- Stock options
- Taxable forms of personal income not declared on personal income tax returns
- Trailing co-Borrower income
- Unverifiable income
- VA education benefits

DEPARTURE RESIDENCE POLICY

PENDING SALE OF CURRENT RESIDENCE:
- Reserve Requirements: (See Eligible Reserves)
  - Additional 6 months liquid reserves based on the PITIA of the retained property, and
  - Reserve requirements for the new loan per the Reserve Requirements Table.
- Calculate DTI using the PITIA of both the retained property and the new primary residence, or qualify based only on the new primary residence PITIA if the following are met:
  - Executed, non-contingent sales contract for the current residence, or
  - Executed, contingent sales contract and confirmation that any financing contingencies have been cleared.

CONVERSION OF PRIMARY RESIDENCE TO SECOND HOME:
- Reserve Requirements: (See Eligible Reserves)
  - Additional 6 months liquid reserves based on the PITIA of the retained property, and
  - Reserve requirements for the new loan per Reserve Requirements Table.
- Calculate DTI using the PITIA of both the retained property and the new primary residence.

CONVERSION OF PRIMARY RESIDENCE TO INVESTMENT PROPERTY

- To use rental income for qualification:
  - Borrower must have 30% documented equity in retained property.
  - Equity in the retained property may be evidenced by an automated valuation model (AVM), Broker Price Opinion (BPO) or an exterior-only inspection dated no more than 60 days prior to the Note Date.
  - A Borrower provided report of value is not acceptable to establish value.
  - Requires evidence that security deposit from the tenant has been deposited into the borrower's bank account
  - A family member, an individual with an Established Relationship with those involved in the transaction, or an interested party may not sign the lease agreement as the tenant.
- Reserve Requirements: (See Eligible Reserves)
  - Additional 6 months liquid PITIA reserves for the retained property, and
  - The greater of 6 months PITIA reserves for subject property, or reserve requirements per the Reserve Requirements Table.

ASSET

GENERAL REQUIREMENTS:

- All down payment funds, funds to close and reserves must be documented and verified. Electronic Verifications are acceptable.
- Large Deposits: Recently opened accounts, recent large deposits (generally greater than 25% of the monthly income) must be explained and documented.
- Unverified funds may not be used for down payment, closing costs or reserves.

ELIGIBLE DOCUMENTATION:

Unless otherwise specified in Assets, Funds to Close, or Assets, Reserves, acceptable asset documentation includes:

- 2 consecutive monthly account statements (dated within 30 days of application), or
- Quarterly or annual account statements dated greater than 30 days and less than 90 days are acceptable with verification that funds are still available.

INELIGIBLE DOCUMENTATION:

- VOD – Institutional Verification of Deposit – may NOT be used as a standalone documentation, but may be used along with one month account statement.
- If no average balance is provided on the VOD, then two months account statements are required.

EARNEST MONEY DEPOSIT:

Provide source of funds, copy of cancelled check, or copy of deposit check and proof check was cashed, or verify sufficient funds in Borrower's accounts.

ELIGIBLE SOURCE OF FUNDS TO CLOSE:

- **Bank/Financial Institution Accounts**: Individual and Joint Bank Accounts, Certificates of Deposit (CDs), Money Market Funds. Savings bonds with evidence of redemption.

- **Bridge Loans** must be included as a liability for qualifying purposes. A copy of the Note must be in the Loan file. (Proceeds from bridge loans may not be used to meet reserve requirements). If no monthly payment is required, calculate an interest only payment at the contract rate. Bridge loans may not be cross-collateralized against subject property.

- **Business Assets** may be used if the Borrower is 100% owner of the business and a letter from the business accountant is obtained to confirm that the withdrawal will not negatively impact the daily operations of the business.

- **Credit Card Financing**: When the Borrower uses a credit card to pay for certain fees that must be paid early in the application process, Borrower must have sufficient funds to cover these charges. The Borrower does not need to pay-off these charges at or prior to closing.

- **Foreign Assets** being used for down payment and closing costs must be held in a U.S. account prior to closing. If derived from sale of foreign asset or from assets held in a foreign institution, assets must be converted into US currency by an independent third party and placed in a US financial institution. Sale of the foreign asset and conversion must be fully documented. Foreign assets may not be used to meet reserve requirements. Borrower's source of down payment and/or closing costs must comply with the OFAC Sanctions Programs for funds originating from countries with OFAC sanctions.

- **Gift Funds:**

  Primary Residence
  - Gifts are acceptable on loan amounts up to $1 million.
  - A Minimum Borrower Contribution of 5% of the funds to close (and all of the Borrower's Reserves) must be from the Borrower's own funds.
  - The balance may be paid from any of the acceptable asset sources (such as Borrower funds, gift funds or eligible Secondary Financing.
  - Gift funds documentation: Gift letter signed by donor, proof of donors funds (e. g. withdrawal slip), and proof of transfer of gift from donor to Borrower.
  - Eligible Donors: spouse, child, parent, sibling, grandparent, aunt, uncle, domestic partner, fiancé or fiancée.
  - Ineligible Donors: Donors may not be, or have any affiliation with; Builder, Developer, Real Estate Agent, any other interested party to the transaction.
  - Gift funds may not be used for reserves. No portion of the gift may be subject to repayment.

  Second Home
  - Not allowed. The entire down payment must be paid from the Borrower's own funds. Gifts are not permitted for funds to close nor reserves for second home transactions.

- **Gift of Equity:**
  - Borrowers may receive a gift of equity from the seller of the subject property, provided the seller is someone with whom the Borrower has an Established Relationship. The gift must be reflected as a credit on the HUD-1 Settlement Statement or Closing Disclosure and must be clearly labeled as a gift of equity. A gift of equity is not considered a (property) seller contribution.
  - The donor must have sufficient equity in the property to cover the gift and a gift letter must be signed. The HUD-1 Settlement Statement or Closing Disclosure will satisfy donor's ability and receipt of gift verification.

- **Income Tax Refund** may be used with verification of receipt of funds and copy of signed, personal tax return.

- **Interested Party Contributions (IPCs), Financing Concessions:** All IPCs must be disclosed on the closing disclosure or settlement statement. Once the Borrower has met the Minimum Borrower Contribution of 5%, then: IPCs may not exceed 3% of the lesser of the sales price or appraised value. (Lender paid fees are not factored into the contribution limit).
  - Excess IPCs as well as sales concessions that take the form of non-realty items must be subtracted from the sales price when determining LTV/CLTV

- **Life insurance, cash value:** Requires written statement from life insurance Company specifying the amount of net cash value available to Borrower and verification of receipt of funds.

- **Loans Secured by Financial Assets:** Financial assets (life insurance policies, 401ks, IRAs, CDs, stocks, bonds, etc.) can be used as security for a loan. The payment on this type of loan is not required to be included in DTI provided the applicable loan instrument shows the Borrower's financial asset as collateral, see DTI Requirements Table.

- **Notes Receivable, Repayment of Loans:** Provide written agreement between the Borrower and recipient of loan, evidence the funds were withdrawn from the Borrower's account, and verification funds were withdrawn from loan recipient's account and deposited into Borrower's account.
- **Retirement accounts:** IRA SEP-IRA, KEOGH, 401(k), and 403(b): Most recent statement and evidence funds were withdrawn.
- **Stocks (listed company), Bonds:** Stocks must be vested and unrestricted or provide current statement or provide copy of certificate and dated internet stock list. Provide proof of liquidation and receipt. If stocks are in unlisted corporation - provide company CPA validation of price per share and proof of liquidation and receipt- if impact to Borrowers income, CPA to address.
- **Trust Accounts** where the Borrower is the beneficiary are acceptable if the value of the trust account, and the Borrowers' immediate access and conditions for access to the funds is verified by the trust manager or trustee. Verify receipt of funds from trust.
- **Wedding Gifts:** Provide a copy of the marriage certificate (not more than 6 months old) and verification of receipt of funds through an account statement or deposit slip

INELIGIBLE SOURCE OF FUNDS TO CLOSE:

- 1031 Tax Deferred Exchange proceeds (NMSI only permits 1031(k) for investment properties and investment transactions are not eligible for this program. See Loan Purpose).
- Custodial accounts - Accounts where the Borrower is not the beneficiary, such as custodial accounts
- Donated funds – typically from a church, municipality or non-profit organization, or Pooled funds – typically funds from a relative or domestic partner who resides with the Borrower
- Employer Assistance Programs or salary advances
- Individual Development Accounts
- Real estate commissions (even if Borrower is selling agent on subject transaction)
- Rent Credit or Option to purchase, or Trade Equity
- Sales Concessions, such as contributions in excess of actual costs, furniture, moving costs, and "giveaways" must be subtracted from the sales price when determining LTV/CLTV.
- Interest Rate Buy-downs and Payment Abatements are NOT acceptable, nor are other contributions/concessions that are not Fannie Mae eligible – Fannie Mae Selling Guide Section B3-4.1.

RESERVES

GENERAL REQUIREMENTS:

See the Reserve Requirement Table below for minimum number of month's reserves required. Additional reserve requirements and restrictions apply **for First Time Homebuyers**, and **Current Residence Pending Sale** or **Conversion transactions.**

- Minimum number of months' reserves is based on the combined amount of all loans secured by subject property.
- All reserves must come from the Borrower's own funds and must be documented and verified.
- Reserves are measured by the number of months of the qualifying payment (PITIA) for the subject property, unless otherwise noted.
- No gifts or borrowed funds may be used for reserves. See Ineligible Reserve Sources in this section.

Property Type	Combined Loan Amounts of All Loans Secured by Subject Property	Reserve Requirement
Primary Residence, Purchase Rate, and Term, Cash Out		

1-4 Units	≤ 1,000,000	6
	> 1,000,000 and ≤ 2,000,000	12
	> 2,000,000	18
Second Home, Purchase, Rate and Term		
1 Unit	≤ 1,000,000	8
	> 1,000,000 and ≤ 2,000,000	14
	> 2,000,000	20

- **FIRST TIME HOMEBUYER (MAXIMUM 1ST LIEN LOAN AMOUNT $1,250,000)**

Property Type	Combined Loan Amounts of All Loans Secured by Subject Property	Reserve Requirement
Primary Residence, Purchase Rate, and Term, Cash Out		
1-4 Units	≤ 1,000,000	12
	> 1,000,000 and ≤ 2,000,000	
	> 2,000,000	18
Second Home, Purchase, Rate and Term		
1 Unit	≤ 1,000,000	N/A
	> 1,000,000 and ≤ 2,000,000	
	> 2,000,000	

- **ADDITIONAL FINANCED PROPERTIES:**
  Add two (2) months subject property PITIA reserves for each additional Financed Property owned. See Borrower Eligibility for Financed Property definition and restrictions.
- **CURRENT RESIDENCE PENDING SALE OR CONVERSION**
  Total Reserve Requirement, plus - Additional 6 months liquid reserves based on the PITIA of the retained property. See Current Residence Pending Sale or Conversion.

ELIGIBLE RESERVE SOURCES:

Liquid reserves are those liquid assets that are readily available to a Borrower after the mortgage closes, and that are easily converted to cash. For purposes of this program guide, liquid reserves include:

- Funds in a bank/financial institution – individual, joint, or trust (if Borrower has access)
- CD/money market funds
- Savings bonds with statement from financial institution confirming Borrower is the owner and with proof of bond value
- Stocks (in listed corporations) /bonds, use 70% of face value
- Stocks (in unlisted corporations): Provide company CPA validation of price per share. Use 70%.
- Retirement accounts: IRA SEP-IRA, KEOGH, 401(k), 403(b): Use 50%. If Borrower is age 59 ½ or greater use 70%.
- Business assets may be used for reserves if Borrower files under Schedule C, is 100% owner of business, and accountant letter indicates that use of funds for reserves will not negatively affect the daily operations of the business.
- Trust Accounts where the Borrower is the beneficiary are acceptable if the value of the trust account, and the Borrowers' immediate access and conditions for access to the funds is verified by the trust manager or trustee
- Note: If Borrower has an outstanding obligation secured by an asset, subtract that amount from the asset value.

INELIGIBLE RESERVE SOURCES:

- 1031 tax deferred exchange proceeds
- Business assets, unless company files under Schedule C and Borrower is 100% owner of business
- Cash-out proceeds
- Credit card financing, cash advance on HELOC or other line of credit.

- Custodial accounts (Borrower not beneficiary)
- Donated or pooled funds
- Employer Assistance Programs, Salary Advances
- Foreign Assets
- Funds that have not been vested or cannot be withdrawn other than with the owner's retirement, employment termination or death
- Gift funds
- Individual development accounts
- Interested party contributions
- Loans secured by other real estate
- Real estate commissions
- Sale proceeds from assets or real estate
- Stocks in unlisted corporation, unvested or restricted stocks Unsecured loans and loans secured by other assets (including bridge loans, life insurance or assets from a fund administrator)
- Qualified tuition plans (529 plan)

SUBORDINATE FINANCING

CLTV CALCULATION:

No HCLTV is calculated for this program. HELOCs are included in the CLTV calculation as follows:

- The entire credit line limit based on the recorded lien (mortgage/deed of trust) must be used to calculate the CLTV and determine program eligibility.
- Even if a credit line has been reduced with a permanent modification of the original Note, the entire original line limit must be used to calculate the CLTV.

NEW SUBORDINATE LIEN DOCUMENTATION:

A copy of the Note and a certified copy of the security instrument indicating that it is being recorded subordinate to the new first lien are required.

RE-SUBORDINATING LIEN DOCUMENTATION:

A copy of the Note and a certified copy of the executed subordination agreement (or equivalent, as required by applicable state law) must be delivered with the Mortgage Loan file. (Note: Virginia Automatic Subordinations meeting Va. Code Ann. § 55-58.3 are acceptable for single family residence transactions if the second lien amount is not greater than $150,000).

SUBORDINATE LIEN REQUIREMENTS:

- Mortgage must be clearly subordinate to the Mortgage Loan being sold to NMSI.
- Mortgage cannot have a maturity date or a call option date of less than five years (from closing date), unless it is fully amortizing
- Monthly payments on subordinate financing must be included in housing and debt ratio analysis.
- Scheduled payments under the subordinate financing must be due on a regular basis, e.g., monthly, quarterly, or semi-annually, but no less than semi-annually and must be at least sufficient to meet the interest due.
- Subordinate financing must fully amortize during its term.
- If Graduated or Variable Payments; The combined annual payments are graduated to increase not more than the lesser of a 2% interest rate increase or 8.5% payment increase (first and second mortgage)

HELOC PAYMENT CALCULATION:

To calculate the qualifying payment of a subordinate HELOC, follow Fannie Mae Selling Guide Section B.3.6. (If the HELOC does not report a balance, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount based on the line amount or otherwise).

INELIGIBLE SUBORDINATE FINANCING:

- Employer Provided Financing
- Subordinate mortgages through a Community Second Mortgage/Down Payment Assistance Program
- Subordinate mortgages held by the property seller
- Tax and judgment liens
- Subordinate mortgages subject to an interest rate buy-down plan
- Subordinate mortgages that allow negative amortization (this does not include language in the Note warning Borrowers that the lack of payment may result in negative equity and negative amortization is not a feature of the product), contain a balloon feature, or a prepayment restriction/penalty.
- Subordinate mortgages that have wraparound terms

INTERESTED PARTY CONTRIBUTIONS

Property Type	LTV	Contribution
Primary Residence	$\leq$80%	3%

MULTIPLE FINANCED PROPERTIES

MAXIMUM FINANCED PROPERTIES PER EACH BORROWER

Each Borrower may be obligated on a mortgage for a maximum of four (4) financed, residential, 1-4 unit properties, including the subject transaction. (Does not include commercial properties, vacant land, timeshares, or manufactured homes not titled as real property).

- Partial or joint ownership is considered the same as total ownership in the property
- Ownership applies to financed properties owned by the Borrower, including any properties the Borrower owns outside of the United States
- A Borrower who is obligated on a mortgage, regardless of whether they hold title to the property is included in this limitation
- These limitations apply to the total number of all financed properties, not to the number of mortgages on the property
- Properties are subject to this limitation even if held in title by a corporation or S corp., if the financing is in the name of the Borrower

NMSI LOANS TO ONE BORROWER:

- Maximum exposure to NMSI in this program is the greater of: The Note amount of one loan if greater than or equal to $2 million, or combined loan amounts totaling $2 million.

MAXIMUM BORROWERS PER LOAN:

- Maximum four (4) Borrowers per loan.

APPRAISALS

- All appraisals must be completed by NMSI Approved Appraiser
- Transferred/Assigned appraisals are ineligible.
- General Requirements: All appraisals must additionally meet Fannie Mae appraisal requirements, and -
  - At least 3 comparable sales must have been closed within 12 months prior to the effective date of the appraisal, and comparable sales must be deemed otherwise valid and appropriate,
- Declining markets LTV Restriction: If appraisal indicates declining market, or if the property is located in an MSA in the Soft Markets MSA Table below, then maximum allowable LTV/CLTV is reduced by 5%.

Soft Markets MSA Table			
Property State	**MSA**	**MSA FIP**	**Counties**
CA	El Centro	20940	Imperial
CA	Fresno	23420	Fresno
CA	Visalia-Porterville	47300	Tulare
Maximum LTV/**CLTV** is reduced by 5% if: • Property is in an NMSI *Soft Market MSA*, from the table above, or • Neighborhood Section of Appraisal indicates "Property Values Declining."			

- **Second Appraisal Requirement** for ALL Loan Amounts > $1.5 M: A second appraisal from a different appraiser not affiliated with the original appraiser or the appraisal company (ordered through same AMC is acceptable) is required for loan amounts over $1,500,000. Appraised value for underwriting purposes is the lower of the two appraisals.
- **Review Appraisal, CDA Requirements** for loan amounts ≤ $1,500,000: Seller must obtain either a Clear Capital Collateral Desktop Analysis - CA (CDA) (without MLS data) OR a Second Appraisal (meeting above requirements) if:
  - LTV or CLTV > 75% for purchase or R/T refinance, or
  - LTV or CLTV > 65% for cash-out refinance, or
  - Subject transaction is a "flip" or resale of the property where purchase contract date < 180 days after the prior sale date, and subject sales price is more than 10% over the previous sales price. APPRAISAL(s) MUST SPECIFICALLY ADDRESS THE PRIOR SALE AND JUSTIFY THE PRICE INCREASE.
- **CDA > 10% Below Appraisal:** If the CDA option is chosen and it returns a value more than 10% below the original appraised value, then the Seller may use either the CDA value as the appraised value to calculate the LTV/CLTV OR obtain a Clear Capital Broker Price Opinion (BPO) and Clear Capital Value Reconciliation of Three Reports (Recon Form 3.0). The Value Reconciliation will take into account the original appraisal, CDA and BPO. The final value determined by Clear Capital will be used as the appraised value for the property.
- CDA Indeterminate Value: If CDA cannot determine a value, a second full appraisal is required.

ESCROW HOLDBACKS

- Loans that are pending escrow holdbacks (i.e., not fully disbursed) for improvements or repairs that are not yet complete are NOT eligible for purchase by NMSI.
- Prior to purchase by NMSI, escrowed completion funds must have been fully disbursed and work completed as evidenced by an acceptably completed Form 442/1004D, Appraisal Update and/or Completion Report.

ESCROW/IMPOUNDS

- Unless in violation of Applicable Laws, all Mortgage Loans with a loan-to-value ratio greater than 80% (not currently offered for this program) must have an escrow/impound account established at Loan close. (California does not permit requiring escrows for LTV's ≤90%. New Mexico does not permit requiring escrows for LTVs <80%).
- Mortgage Loans with escrow/impound reserves for any other item (including monthly mortgage insurance or hazard insurance) are required to have escrow/impounds for flood insurance if applicable.
- NMSI does not permit escrows for optional items (such as optional insurances).

REGULATORY COMPLIANCE

ABILITY TO REPAY RULE (ATR):

All Mortgage Loans in this program, must meet the requirements of the "Ability to Repay" (ATR) Rule in 12 CFR §1026.43(c) (2).

QUALIFIED MORTGAGE (QM) STATUS:

- Maximum points and fees for all loans in this program are limited to 3%.
- All loans are covered transactions under Regulation Z and must be Qualified Mortgages meeting the requirements in 12 CFR §1026.43(e)(2).
- NMSI does not purchase investment properties in this program.
- All transactions must be Safe Harbor QM: Rebuttable Presumption QM loans. HPML and HPCT are not eligible for purchase

APPENDIX Q:

For the purposes of calculating and documenting income, including the calculation of DTI, all loans must be underwritten using the standards and methods of the Qualified Mortgage (QM) rule in 12 CFR §1026.43 and the Standards for Determining Monthly Debt and Income in Appendix Q to 12 CFR 1026, and except where a more restrictive standard or method is required by this Program Guide.

HOMEOWNERSHIP COUNSELING DISCLOSURE:

A RESPA compliant Homeownership Counseling Disclosure must be provided with initial disclosures and documented in the loan file for all loans delivered to NMSI.

HIGH COST LIMITS:

Loans exceeding any applicable federal, state or municipal High Cost limits are not eligible for purchase by NMSI (e.g. HOEPA).

HPML/HPCT:

Higher-Priced Mortgage Loans (HPML) and Higher-Priced Covered Transactions (HPCT) under Regulation Z, are not eligible for purchase in this program.

TRID SIGNATURE REQUIREMENTS:

The final Closing Disclosure (CD) form must be signed by all applicant(s) (Borrowers).

UNDER-DISCLOSED TOTAL FINANCE CHARGE REQUIREMENT

Overlay to Regulation Z, 1026.23(g), Tolerances for Accuracy:
For all rescindable transactions with total finance charges under-disclosed by more than $35, the following must be documented in the loan file:

- If discovered prior to close:
  - Borrower refund for all under-disclosed amounts was issued, and
  - Rescission was re-opened, and
  - Any additionally required waiting period was met before loan close
- If discovered post-close:
  - Borrower refund for all under-disclosed amounts was issued, and
  - Rescission was re-opened
  - Additional rescission period has expired

Non-rescindable transactions with total finance charges under-disclosed by more than $100, the following must be documented in the loan file:

- Borrower refund issued for all under-disclosed amounts