UNDERWRITING GUIDELINE OVERVIEW	
INTRODUCTION	These underwriting guidelines are designed to provide responsible credit to borrowers currently underserved by traditional Agency/Government/Prime Jumbo markets. The guidelines are designed as a common-sense alternative to restrictive lending standards pervasive in the market today. The guidelines ensure that all borrowers demonstrate a clear ability to repay the loan while providing the flexibility to the lender to provide solutions for borrowers. These guidelines provide the general requirements and are to be used in conjunction with the Program Summaries. Refer to the Fannie Mae Seller's Guide for any subject not addressed in this guide.
ABILITY TO REPAY	Ability to Repay: All loans made under this program must meet the standards of the Dodd-Frank Act Ability to Repay Rule (ATR Rule) (Appendix Q) which requires the creditor to make a "reasonable and good faith determination…that the borrower will have a reasonable ability to repay the loan according to its terms" taking into consideration each of the following eight factors: • Current or reasonably expected income or assets, other than the value of the dwelling • Current employment status (if relying on income) • Monthly mortgage payment for the loan in question • Monthly payments on other loans secured by the same property • Monthly payments for "mortgage-related obligations" (i.e. property taxes, insurance and home association fees, ground rent, etc.) • Debts, alimony or child support obligations • Monthly debt-to-income ratio or residual income, that was calculated using the total of all of the mortgage and non-mortgage obligations as a ratio of gross monthly income Credit History
ASSUMABLE	Allowed on ARM products per Fannie Mae.
UNDERWRITING	All loans must be manually underwritten.
BORROWER BEST EXECUTION	Best Execution: All loans with balances within conforming balance loan limits must be run through Fannie Mae Desktop Underwriter ("DU") or Freddie Mac Loan Prospector ("LP") to determine if the Non-Agency Loan meets the borrower's best execution. • Underwriter must verify that borrower is ineligible for an Agency product through DU / LP Findings Report or other means • DU / LP Underwriting Findings Report must be included in the underwriting file • If AUS returns an Eligible for Delivery to agency, Underwriter must document reason(s) for ineligibility. Examples are non-warrantable condominiums or non-arm's length transactions. • The following documents must be included in the loan file to verify borrower's best • execution requirements: AUS Approve Ineligible or Refer Ineligible findings ran by the Lender indicating that the borrower does not qualify for an Agency product. (Prior to Close Review)

DOCUMENTATION TIMING	**Credit Documentation:** All credit documentation must be dated within 90 days of closing. **Asset Statements:** The most recent asset statement to verify the source of funds or reserves must be dated no more than 30 calendar days earlier than the date of the loan application, and not more than 90 days earlier than the date of the Note. Quarterly statement are permissible. **Income Documentation:** The most recent income documentation including paystubs, bank statements, and P&L reports, must be dated no more than 30 calendar days earlier than the date of the loan application, and not more than 90 days earlier than the date of the Note.

PRODUCT ELIGIBILITY	
TRANSACTION ELIGIBILITY	**<u>Purchase:</u>** Non-Agency products allow for a purchase transaction on both a primary residence and a second home. • A non-arm's length purchase transaction is allowed on a primary residence only. If reasonable explanation of the non-arm's length transactions is not included in the underwriting file, Underwriting should request a letter of explanation, providing reasonable explanation for the nature of the non-arm's length transaction. **<u>Refinance Net Tangible Benefit:</u>** • A Net Tangible Benefit is required for all refinance transactions. A letter of explanation for the refinance must be included in the loan file. • A Net Tangible Benefit includes but is not limited to a 5% reduction in PITIA, 5% reduction in DTI, a 2% reduction in rate, a reduced term, and/or change from an ARM to a fixed rate mortgage that results in a financial benefit to the Borrower. • For cash-out transactions, if one of the above net tangible benefits is not met, then the amount of the cash out must equal at least twice the borrower's cost for completing the transaction. • Underwriter must execute a Net Tangible Benefit acknowledgment form and include it in the loan file. **<u>Rate / Term Refinance:</u>** Non-Agency products allow for a rate/term refinance on both a primary residence and a second home. Refer to the Program Summaries for LTV, DTI and FICO restrictions: • Eligible liens: The mortgage amount may include the present first mortgage payoff and subordinate liens, regardless of seasoning. • Maximum Cash Back: Refer to the Program Summaries for maximum cash back. • There is zero cash back allowed for primary/homestead refinance transactions in the state of Texas. Rate Term refinances on Texas primary/homestead residences when the borrower is refinancing an existing 50(a)(6) lien or Home equity lien must be treated as Texas 50(a)(6) loan. • If the property was previously listed for sale, the listing agreement must be canceled at least six months prior to the application date. A copy of the canceled/expired listing should be placed in the file to verify that the property is not currently listed for sale. • Evidence of continuity of obligation is not required; however, evidence that the borrower is the owner of record on title is required. • A net tangible benefit is required. **<u>Cash-Out Refinance:</u>** Non-Agency products allow for a cash-out refinance on both a primary residence and a second home. Refer to the Program Summaries for LTV, DTI and FICO restrictions: • Eligible liens: The mortgage amount may include the present first mortgage payoff, subordinate liens, closing costs, payoff of debt and additional cash to the borrower. - Installment and revolving accounts may be paid off after loan application in order to qualify for the loan. Revolving accounts do not need to be closed.

TRANSACTION ELIGIBILITY	- Installment and revolving accounts may not be paid down after loan application in order to qualify for the loan nor may installment accounts be paid down to 10 payments or less to exclude payment from DTI calculations. - Cash out from this transaction may not be used to pay down debt to qualify for the loan. • Maximum Cash Back: Refer to the Program Summaries for maximum cash back. • Cash Out refinances on a Texas primary/homestead residence must be treated as Texas 50(a)(6) loan. • If the property was listed for sale within the prior six months, the listing agreement must be canceled at least six months prior to the application date. A copy of the canceled/expired listing should be placed in the file to verify that the property is not currently listed by a different agency. • NY CEMA cash-out refinance transactions are allowed. • A net tangible benefit is required. Refer to Refinance Net Tangible Benefit. • Evidence of continuity of obligation is not required; however, evidence that the borrower is the owner of record on title is required. • All borrowers must have 6 months seasoning on title. **<u>Debt Consolidation Refinance:</u>** A debt-consolidation cash-out refinance of a property is allowed to follow rate/term refinance pricing, LTV and FICO guidelines so long as the following conditions are met: • Cash-out Refinance: Underwritten as a Cash-out refinance, but priced as a • Rate/Term refinance • Property Ownership: Borrower must have owned the property at least 24 months. • Maximum Cash Back: Refer to the Program Summaries for maximum cash back. • Not allowed on a primary residence/homestead in Texas. Debt consolidation on a primary residence/homestead in Texas must follow Texas 50(a)(6) guidelines. • Direct Payment of Debt: Evidence that each creditor was paid directly at closing must be in the file. • Installment and revolving accounts may be paid down or paid off. Revolving accounts do not need to be closed. If the installment or revolving account is paid down, but not paid off, the DTI must be calculated using the current balance on the credit report. **<u>Delayed Financing:</u>** A cash-out refinance of a property previously acquired on an all cash basis will be treated as a rate/term refinance so long as the refinance occurs within 12 months of the original acquisition (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan). • **Rate/Term Refinance:** Underwritten and priced as a Rate/Term refinance • LTV is based on the lesser of the Purchase Price or current appraised value. Refer to the Program Summaries for LTV, DTI, FICO and maximum loan amount restrictions. • Rate term cash back amount restriction does not apply. • Delayed financing on a primary residence/homestead in Texas must be treated as a cash out transaction under Texas 50(a)(6) guidelines. - Note: If the appraiser denotes a declining market, the transaction must be treated as a cash-out refinance transaction.

TRANSACTION ELIGIBILITY	• The original purchase transaction was an arms-length transaction. - The borrower(s) may have initially purchased the property as one of the following: a natural person; - an eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; - an eligible land trust when the borrower is the beneficiary of the land trust; or - an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%. • The original purchase transaction is documented by a HUD-1/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/Closing Disclosure if a HUD-1/Closing Disclosure was not provided to the purchaser at time of sale.) • The preliminary title search or report must confirm that there are no existing liens on the subject property. • The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property). • If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the HUD-1/Closing Disclosure for the refinance transaction must reflect that all cash-out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan. • The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan. • Subordinate Financing: New and existing subordinate financing is not allowed
COMPLIANCE WITH LAW	Each Mortgage Loan must comply with all applicable federal, state and local laws, as amended from time to time, including, without limitation, usury, truth-in-lending, real estate settlement procedures, borrower credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws in effect at the time of origination **High- Cost Loans:** "High-Cost" loans, "Covered" loans, or any other similarly designated loan as defined under any federal, state or local law will NOT be eligible. Section 32 (HOEPA) loans or State high cost loans not allowed. **Higher- Priced Mortgage Loans:** "Higher-Priced" loans or any other similarly designated loan as defined under any federal, state or local law will be eligible so long as it meets all requirements of law including that an escrow of funds for taxes and insurance has been established in compliance with federal, state or local law. Total points & fees must be < 5%.

STATE RESTRICTIONS	Loans that exceed the New York Subprime or Maine higher priced thresholds are not permitted on primary residences. Loans in Massachusetts are not permitted. Refer to NMSI's Geographic Restrictions section for state restrictions.
CHAIN OF TITLE	All transactions require 12 month chain of title. Preliminary Title or Title Commitment must be no more than 60 days from the note date. A date down/title supplement is required after 60 days. Property seller on the purchase contract or borrower (on a refinance) must be the owner of record on title.
CONSTRUCTION TO PERMANENT FINANCING	A two time close in which the proceeds are used to pay off interim construction financing and replace with permanent financing is allowed.

BORROWER ELIGIBILITY	
BORROWER ELIGIBILITY	**US Citizens / Permanent Resident Aliens:** All US citizens and Permanent Resident Aliens are eligible provided that the borrower must be a natural person. **First time homebuyers:** • A First Time Homebuyer is an individual that has not had a mortgage in the past or owned a home in the past three years. **Co-Borrower:** If more than one borrower will be obligated for the loan, the credit, income and assets of each co-borrower must be reviewed and verified similarly to the requirements set forth herein for each borrower. However, if a co-borrower (whether self-employed or wage earner) is not utilizing income or assets to qualify but will be obligated for the loan, no income or asset documentation is required to be included in the loan file. **Non-Occupant Co-Borrowers:** Allowed so long as each of the borrowers and non-occupant co- borrowers execute the Note and Security Instrument Income: Non-occupying co-borrower’s income may be used for qualifying purposes. • Assets: Non-occupying co-borrower’s assets may be used to meet minimum borrower contribution requirements. • DTI: Non-occupying co-borrower’s liabilities must be included in the combined DTI. Combined DTI of < 43% is required. • The non-occupying co-borrower arrangement may not be used to develop a portfolio of rental properties. • Non-Occupant co-borrower must be a relative. **Maximum Borrowers:** Maximum number of borrowers is four **Title Vesting:** The following eligible: • Persons • Joint Tenants • Inter-vivos Revocable Trust
NON-PERMANENT RESIDENT ALIENS	**Non-Permanent Resident Aliens:** Permitted under the below requirements: • A valid social security number or an individual taxpayer identification (ITIN) is required. However, a social security card may not be used as evidence of employment eligibility. • Minimum one year history of credit and employment in the United States is required. • All non-permanent resident aliens must and ITIN borrowers provide evidence of a valid, acceptable visa or EAD as listed within documentation requirements below. • When utilizing an acceptable visa, a copy of the unexpired visa and a copy of passport must be included in the loan file. The following are acceptable visa classifications: - A Series (A-1, A-2, A-3) - These visas are given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the visa, are allowed. - E Series (E-1, E-2) Treaty Trader - This visa is essentially the same as an H-1 or L-1. The title refers to the foreign country's status with the United States.

NON-PERMANENT RESIDENT ALIENS	- G series (G-1, G-2, G-3, G-4, G-5) - These visas are given to employees of international organizations that are located in the United States. Some examples include the United Nations, Red Cross, World Bank, UNICEF and the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant's employer and/or by the viewing the applicant's passport. - H-1, Temporary Worker - This is the most common visa given to foreign citizen who are temporarily working in the United States. - L-1, Intra-Company Transferee - An L-1 visa is given to professional employees whose company's main office is in a foreign country. - TN, NAFTA visa - Used by Canadian or Mexican citizens for professional or business purposes. - TC, NAFTA visa - Used by Canadian citizens for professional or business purposes • I-797 documents can be utilized in lieu of a visa if it meets the following criteria: - I-797 evidences an approval for an acceptable visa class. - The approval term is not expired. - Visa extension is current with an end date that meets NMSI policy. • Employment Authorization Documents are permitted as long as they meet the following criteria: - If the borrower has <2 years within the US, a copy of a Passport used to enter the country and a copy of the I-94 issued by the USCIS are required. - If the borrower has > 2 years within the US, copies of the current and previous EAD cards are required. • Loans to non-citizens who have been granted political asylum require underwriting to non-permanent resident alien guidelines. A grant of asylum is for an indefinite period. Asylees and refugees must provide: - An unexpired Arrival and Departure Records (INS Form I-94); and - Copies of their employment authorization documents. • If the authorization for temporary residency status will expire within 3 months or if it is set to expire, confirmation from USCIS that employer has re-filed petition of extension is required. If there are no prior renewals, proof of a three year continuance must be determined, based on information from USCIS. • An individual classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole is not eligible. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at http://www.state.gov/s/cpr/rls/dpl/. • Non-permanent residents must be employed in the U.S. • If a non-permanent resident alien is borrowing with a U.S. citizen, it does NOT eliminate or reduce any ISA or other non-permanent resident alien documentation requirements.

NUMBER OF BORROWER FINANCED PROPERTIES	Number of Borrower Financed Properties: The borrowers are subject to limitations on the total number of properties that they can have financed at any given time depending on whether the transaction relates to the primary residence or a second home • Primary Residence: Unlimited • Second Home: Maximum 10 financed properties • Maximum four financed properties with NMSI
RELATIVE DEFINITION	Relatives are defined as: • borrower's spouse, • child, or other dependent or • any other person who is related to the borrower by blood, marriage, adoption, or legal guardianship, • domestic partner (an unrelated individual who shares a committed relationship with the primary wage earner, currently resides in the same household as the primary wage earner, and intends to occupy the security property with the primary wage earner), • fiancé, or fiancée
INTER-VIVOS TRUSTS	Living ("inter-vivos") trusts must comply with local state regulations and the following requirements to be eligible for financing. To be eligible the borrower must be: • The settler, or the person who created the trust, and • The beneficiary, or the person who is designated to benefit from the trust, and • The trustee or the person who will administer the trust for the benefit of the beneficiary, the borrower. Eligible borrowers include: • One or more borrowers with one living trust, or • Two or more borrowers with separate living trusts, or • Multiple borrowers with one or more holding title as an individual and one or more holding title as a living trust. Eligible property includes: • 1-4 unit primary residences • 1 unit second homes The following documentation is required: • The trust was validly created and is duly existing under applicable law, • A complete copy of the trust documents certified by the borrower to be accurate, or a copy of the abstract or summary for jurisdictions that require an underwriter to review and rely on an abstract or summary of trust documents instead of the trust agreements must be provided in the loan file.

PROPERTY REQUIREMENTS	
PROPERTY ELIGIBILITY	**Eligible Property Types:** • Single Family (Detached, Semi Detached, Attached) • All properties must have zoning which is common for the area • No acreage limit; however if the land value of any property > 5 acres exceeds 35% of the total property value, appraisal must confirm that the land-to-value ratio is common/typical for the subject market area • 2-4 units residential property • Planned Unit Development (Detached, Attached) • Modular Home (i.e. affixed to the land) • Leasehold Estates • Multiple parcels allowed per Fannie Mae Conventional Conforming Guidelines. • Log Homes provided they are customary and usual for the locality • Warrantable condominiums. (Attached and Detached) Warranty must meet FNMA's project review guidance. NMSI will not finance more than 25% of the units in any one project. Refer to Conventional Condominium guidelines for all other requirements. • Non-Warrantable Condominiums will be reviewed and approved by NMSI' Condo Team. Refer to the Non-Warrantable Condo Matrix. Final Risk Levels are determined by the Condo Team after a Full Review is performed. • A residential property, currently subject to a land contract where the proceeds from the new NMSI will pay off in full the land contract and the NMSI provides a clean first lien on the property.
INELIGIBLE PROPERTY TYPES	Ineligible Property Types: The following property types are not eligible for a loan: • Manufactured homes • Mobile homes • Dome properties • Mixed use properties • Unique properties • Houseboats • Timeshares • Hobby farms • Working farms, ranches, orchards, and/or commercial operations • Property used for commercial purposes • Unimproved land • Homes lacking full kitchen and bathroom • Agricultural zoned properties where the primary use of the property is not residential • Properties in less than average condition as documented by the appraisal • Foreclosed properties located in a state where a redemption period is allowed (allowed in some states for both Tax Sales and Judicial Foreclosures) until: The redemption period has expired AND the foreclosure sale had been confirmed AND clear and marketable title can be obtained

INELIGIBLE PROPERTY TYPES	**Acreage** • The primary use of the property must be residential and zoning must allow for residential use. Some communities have enacted a zone comprised of land located in an agricultural area but not suited to farming. An example of this type of zoning is A-3. Residential development is allowed in this zone, and while not limited to, is typically one home on one acre or less with sewer services or the minimum acres needed for on-lot sewage disposal. As the intended and allowable use of the land in this zone is residential and not agricultural, despite a prefix of agricultural in the zoning, properties are eligible as long as all other eligibility requirements are met. • Properties on privately owned and maintained streets require a private road maintenance agreement, except for properties in California. If the property is located within a state, other than California, that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required as long as the statutory provisions provided in the file. • The appraiser must consider all acres of the subject property and the comparables must be of similar size. • The property must be appraised and the final conclusion and estimate of value must be based on the actual acreage and lot size.
PROPERTY FLIPPING	• Property flip transactions will be considered as follows: - The property seller must be the owner of record. - A complete/full appraisal is required. - Loan must not reflect any interested party characteristics. • Loan files with property flipping indication(s) require a higher level of scrutiny during the loan review. Some examples of indicators include, but are not limited to: - Several ownership changes within a few months reflected on title or in Core Logic report. - The appreciation of the subject property exceeds the typical appreciation in the market. - The seller recently acquired the property for a significantly lower price, or there have been several transfers of the property according to the tax assessment records. - No real estate agent is involved in the transaction. - The property was recently in foreclosure, or acquired at an REO sale at a considerably lower sales price. - Parties to the transaction are affiliated by business relationships, or related by birth or marriage. - Owner listed on the appraisal and/or title does not match the property seller on the sales contract. - Sales contract has an unusually large earnest money deposit held by the property seller. - Unusual fees or credits are reflected on the HUD-1/Closing Disclosure. - Title commitment references other deeds to be recorded simultaneously. - Property seller is a corporation such as an LLC.

PROPERTY FLIPPING	• Exempt transactions include: - Re-sales of properties purchased by an employer or relocation agency in connection with an employee relocation. A relocation agency DOES NOT include individual real estate agents that advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area. - Property inherited by the seller. - Sales of properties by state and federally charted financial institutions (lender or servicer), Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac), U.S. Government, local or state agencies, or MI Companies when the property was acquired through foreclosure or deed in lieu of foreclosure. - Sales of properties acquired through a divorce settlement. **HPML Flipping Guidelines** • Applies to loans exceeding the Higher Priced Mortgage Loan threshold under Appendix Q,1026.35: - Sales within 0 – 90 days of seller's acquisition to execution of the purchase contract, and the purchase price increased > 10%, an additional appraisal (conducted by an appraiser independent from the first appraiser) with an interior inspection of the subject property is required. - Sales within 91 – 180 days of seller's acquisition to execution of the purchase contract, and the purchase price increased > 20%, an additional appraisal (conducted by an appraiser independent from the first appraiser) with an interior inspection of the subject property is required. - The borrower cannot be charged for the 2nd appraisal.
ESCROW HOLDBACKS	• All Escrow Holdback items must be: - Minor in Nature (minor plumbing leak, holes in window screens, etc.) - Not considered a safety or soundness issue. - Does not affect livability or structural integrity of the subject dwelling/property. - Does not impact the marketability of the subject property. - Does not affect the ability to obtain an occupancy permit (if required by local jurisdiction). • Note: The appraiser may complete the appraisal "as is" but these items must be reflected in the appraiser's opinion of value. • Maximum allowable holdback cannot exceed 5% of the value of the property. • Allowed on purchase and rate/term refinance transactions on new or proposed construction and existing properties. • Allowed on Cash-Out transactions where the funds are to be used for the improvements. • All occupancy types allowed. • Only available on 1 -4 unit properties, PUD (attached and detached), Condos (detached only) and Modular Homes. • The Escrow amount will be calculated at 150% of the cost to cure estimate. If the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.

ESCROW HOLDBACKS	• A certified contractor /appraiser must provide a written estimate itemizing all items that are considered incomplete with a cost to cure. - The items that are considered incomplete must state the improvements were completed in accordance with the requirements and conditions in the original appraisal report and be accompanied by photographs of the completed improvements. Final Inspection would tie out if the work was completed as planned, condition and establishment of value per the 1004d. • A Final Inspection will be required by NMSI confirming that all work has been completed. NMSI must obtain a final title report, which must not display any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. - If the final title report is issued before the completion of the improvements, NMSI must obtain an endorsement to the title policy that ensures the priority of NMSI's first lien position. • The completion escrow may not adversely affect the mortgage insurance or title insurance. • Escrow Holdback period not to exceed 180 calendar days (exceptions outside of this timeframe due to weather, parts of the sale contract, or does not affect the ability to obtain a occupancy permit can be considered). • Borrower Disclosure Information: - Terms of the escrow holdback account are to be communicated to the borrower at the time of discovery. - Process is to be defined as follows: ◦ Upon discovery that the property is incomplete or damaged, a review of cost to cure (if provided by appraiser) is to be discussed with the borrower. ◦ In case that the appraiser is unable to provide a cost to cure, a certified/licensed contractor is to be contacted by the client to obtain an estimate for all items that are outstanding or considered damaged/nonfunctional at the time of the appraiser. - An internal account must be established from the borrowers own funds to hold in escrow until the repairs/work is completed. - A satisfactory final inspection will be required to confirm completion. • NMSI will leave the work of managing the escrow funds with the Seller at time of loan funding. It will be the Seller's responsibility to monitor and disburse the funds in escrow and provide NMSI with a clear final inspection. • NMSI will require delivery of the 1004D confirming completion on loans where appraisal is "subject to" completion of improvements and the final title policy endorsement that ensures the priority of the first lien.

CREDIT AND HOUSING REQUIREMENTS	
CREDIT SCORE / CREDIT REPORT	• **FICO Credit Score:** Each loan requires a residential mortgage credit report to be included in the loan file. Refer to the Program Summaries for minimum FICO requirements. - Residential Mortgage Credit Report or tri-merged credit report in file from all three repositories should be considered; however, a minimum of two credit scores from two of the three credit repositories (i.e. Equifax, Experian, Transunion) are required for each borrower - Borrowers with a zero FICO score are not eligible • **Representative Credit Score:** The representative credit score for each borrower is the median of the three scores (or lesser of two, if only two scores are returned); the representative score for the loan is that of the borrower with the lowest representative score. • **Inquiries:** A written explanation for all inquiries within 90 days is required. • **Disputed Tradelines:** - Unresolved disputed accounts with both a $0 balance and last active date greater than 12 months ago are not required to be removed from the Credit Report. - Unresolved disputed accounts that were either active within the last 12 months or have a balance must have supporting documentation in the file to support the dispute. - When evidence is presented to dispute a tradeline, Underwriter discretion will be used to determine if re-scoring is necessary. If the underwriter determines that re-scoring is not necessary, the underwriter should provide documentation supporting such decision. In the case that the account is in dispute due to identify fraud the dispute is not required to be removed.
TRADELINES	**Minimum Trade-lines:** The primary wage earner must have a minimum of 2 open trade-lines (installment, revolving, mortgage, etc.) that have been reporting within the most recent 24 months (but are not required to be open for 24 months) - Joint accounts count as one trade-line for each borrower - 1 of the 2 must be open and active (i.e. utilizing credit or making payments) within the last 12 months, the other must have had activity within the most recent 24 months, but does not have to be open - Authorized User Accounts cannot be used to satisfy minimum trade line requirements. - If the borrower is 100% owner of a business, business tradelines can be utilized to satisfy this requirement so long as there is documentation in the loan file to confirm. **Supplemental Tradeline Requirements (Non Traditional Credit):** If the trade-line requirements above are not met, the borrower may still qualify if they can establish credit through the below Supplemental Tradeline Requirements: • **Credit References:** Primary wage earner must provide a minimum of 2 account references (first utilizing all available tradelines so that a traditional coupled with one non-traditional source would satisfy the

TRADELINES	requirement) with a 0x30x12 payment history (monthly or quarterly payments only). The following may be used as credit references: - Rental housing payment (per the below housing payment history requirements) - Utility Bills which could include but not limited to electricity, gas, water, phone (cell or landline) or cable/satellite television service - Automobile Insurance - Medical Insurance that is not deducted from payroll - Life Insurance Policies - Payment of household or renters insurance • The following must be listed as a Credit Reference and requires a 0x30x12 payment history, if available: - Rental housing payment - Automobile payment - Credit card payment • Credit References must be in the borrower’s name. • Credit References are required to be provided to a credit reporting vendor to create a nontraditional credit report to validate payment history. • Supplemental Tradelines are not allowed to be used for a 0 FICO or 0 reporting accounts. Supplemental Tradelines must be used in conjunction with existing established credit **Additional Requirements:** Supplemental Tradelines are allowed with the following parameters: • Primary Residence only • Purchase and Rate/Term refinance transactions only
HOUSING PAYMENT HISTORY	**Housing Payment History:** Each program allows for varying levels of housing payment history. Refer to the Program Summary for specific mortgage/rental history payment requirements. • Note: If all borrowers are currently residing together and at least one borrower is on the current note or lease, then the housing payment history may be used for each borrower. **Rental History:** Rental history must be evidenced by canceled checks or a Verification of Rent (VOR, which may be a private VOR) on a Fannie Mae acceptable form. **Borrowers owning properties free and clear:** If borrower does not have a current mortgage payment (i.e. free and clear), no housing payment history is required to be documented. **Living Rent-Free:** Borrowers that do not have the required housing payment history are still eligible to qualify for a purchase transaction of a primary residence so long as they are living rent free with a Relative and provide a Letter of explanation (LOE) executed by such Relative confirming that there is/was no monthly obligation. **First Time Homebuyers:** PORTFOLIO 103 does not require any housing payment history **Gaps in Housing:** Gaps in primary housing history or borrowers with greater than 9 months housing history but less than 12 months of housing history are allowed per the following restrictions:

HOUSING PAYMENT HISTORY	• Letter of explanation (LOE) regarding the gap in payment history • Primary Residence only • No more than 3 month gap permitted
Derogatory Events (BK, SS, DIL, MCO, FCL)	Each of the programs allows for one or more Derogatory Housing Events (as defined below) in the borrower, or co-borrowers, credit history generally inside of the waiting period requirements of Fannie Mae Conventional Conforming Guidelines. Refer to the Program Summaries for seasoning requirements related to Derogatory Events. **<u>Bankruptcy:</u>** • Chapter 7 • Chapter 13 • Note: A Chapter 11 Bankruptcy for a business that appears on the borrower's credit report is not a Significant Derogatory Event. • More than one bankruptcy will not be permitted. **Waiting/Accrual Period:** Seasoning on a Derogatory Event shall begin to accrue as follows and will be measured from accrual date of the Derogatory Event (as set forth below) to loan application date. Refer to the Program Summaries for seasoning requirements related to Derogatory Events. • <u>Bankruptcy Chapter 7</u>: From the date of dismissal/discharge. . If appropriate documentation is obtained to evidence that a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied. • <u>Bankruptcy Chapter 13:</u> From the date of filing the Ch. 13 case so long as the borrower's payment performance has been satisfactory and the borrower has received permission from the Bankruptcy Court to enter into the mortgage transaction (i.e., Ch. 13 BK may still be open). If the Ch. 13 has been satisfactorily discharged from the filing date and no confirmation of payment performance is required. If appropriate documentation is obtained to evidence that a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied. **Documentation:** • Bankruptcy Chapter 7: Copy of Bankruptcy discharge/dismissal documents • Bankruptcy Chapter 13: Copy of Bankruptcy discharge/dismissal documents **<u>Derogatory Housing Events:</u>** A Derogatory Housing Event is defined as either a: • Short Sale (SS) • Deed-in-lieu (DIL) • Mortgage loan charge-off (MCO) or • Foreclosure (FCL) Note: A modification is not a Derogatory Housing Event.

Derogatory Events (BK, SS, DIL, MCO, FCL)	**Waiting/Accrual Period:** • Short Sales: From the date the short sale closed • Foreclosure, Mortgage Loan Charge-Off, Deed- in - Lieu : From the date of completion. **Documentation:** • Short Sales: Copies of HUD-1s or Closing Disclosures evidencing date of sale • Foreclosure, Mortgage Loan Charge-OFF, Deed-in-Lieu: Documentation from lienholder or other 3rd party indicating evidence as deemed satisfactory by underwriter **<u>Letter of Explanation:</u>** A letter of explanation, signed by the borrower, must be provided for each occurrence of a Significant Derogatory Event and must be included in the loan file describing the nature of the event. **<u>Multiple Derogatory Housing Events (SS, DIL, MCO or FCL):</u>** Multiple derogatory housing events are allowed as long as the most recent event is seasoned per the seasoning timeframes in the Program Summaries.
Derogatory Credit	Derogatory Credit: All judgments, liens, collection accounts, charge off accounts, etc. affecting title must be paid in full at or prior to closing. If account was charged off greater than four years prior to application date the account will not be included in calculations below. Medical related collections or charge offs are not counted in calculation at any time. All other derogatory credit is subject to the following requirements: • **<u>PORTFOLIO 101:</u>** Derogatory Credit that cumulatively totals in excess of $5,000 must be brought current prior to or simultaneous with closing. • **<u>PORTFOLIO 102:</u>** Derogatory Credit that cumulatively totals in excess of $25,000 must be brought current prior to or simultaneous with closing. • **<u>PORTFOLIO 103:</u>** Derogatory Credit that cumulatively totals in excess of $25,000 are permitted. **<u>Collections subject to Payment Plan:</u>** Collection accounts subject to a payment plan are not required to be paid off so long as the borrower is current on the payments; however, they must be included in the calculation of the borrower's debt-to-income ratio. ***CAIVRS definition:*** Borrowers do not need to be screened using HUD's Credit Alert Interactive Voice Response System.

INCOME REQUIREMENTS	
General Policy	Appendix Q: Where applicable, and unless otherwise stated, the income of the borrower is to be calculated in accordance with Appendix Q to Part 1026 – Standards for Determining Monthly Debt and Income. **Income Verification:** Income used in calculating the borrower's debt-to-income ratio must be verified, stable and reasonably expected to continue. • The guidelines provided herein are intended to act as the general policy for documentation and calculation of income however individual circumstances may dictate a slight deviation from the guideline and the documentation and/or calculation of income may deviate so long as the Underwriter has a sound rationale for such deviation and reasonably documents the loan file. - An example is a situation where the borrower just changed jobs and only has 1 paystub but a contract for employment or long history of stable employment. • In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective, when properly verified and documented by the creditor. **Employment Verification:** If employment income is being utilized, the borrower's employment must generally be verified for the most recent two full years and the borrower must explain any gaps in employment that span two or more months, provided that allowances can be made for gaps so long as the gaps are documented and explained by the underwriter. • Underwriter may favorably consider the stability of a borrower's income if he/she changes jobs frequently; income stability takes precedence over job stability. **Stability:** The income of each borrower who will be obligated for the mortgage and whose income is being relied upon in determining ability to repay must be analyzed to determine whether the income level can be reasonably expected to continue. • Underwriter may assume that employment is ongoing (and therefore will continue) if the employer verifies current employment status and the Verification of Employment (VOE) does not expressly indicate that employment has been or is set to the terminated. • Underwriter should look to the stability of the borrower's income to support any nonmaterial deviation from the documentation or calculation of a borrower's income **Guidance:** Where guidance issued by the Agencies is in accordance with Appendix Q to Part 1026 (i.e. ATR Rules), creditors may look to that guidance as a helpful resource in applying Appendix Q. Moreover, when the following standards do not resolve how a specific kind of debt or income should be treated, the creditor may either exclude the income or include the debt, or rely on Agency guidance to resolve the issue. The following sections outline acceptable income and the related documentation and calculation requirements for all applicable income types

Wage Earners	**<u>Salaried Borrowers:</u>** A minimum history of two years of employment income is recommended, however, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history. • **Documentation**: - Paystub covering a minimum of 30 days and YTD earnings and IRS W-2 forms covering the most recent two-year period OR a completed Form 1005/1005(S). If the paystub does not contain YTD earnings, then the following is required:, - A completed Form 1005/1005(S), or - An automated verification system, such as The Work Number, then no Paystub or W-2 is required. • **Calculation:** Underwriter to utilize the paystub to determine the monthly income associated with the base salary of each borrower in accordance with Fannie Mae Conventional Conforming Guidelines (i.e. if borrower paid biweekly, monthly income). Calculation of income from the paystub must be compared with W-2, VOE and year-to- date earnings. Any variance must be documented by the underwriter and included in the loan file. • **Other:** <u>Borrowers Employed by a Family Owned Business:</u> In addition to normal employment verification, a borrower employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which may include: - Copies of signed personal tax returns, or - A signed copy of the corporate tax return showing ownership percentage. <u>Primary Employment Less than 40 Hour Week:</u> When a borrower's primary employment is less than a typical 40-hour work week, the creditor should evaluate the stability of that income as regular, on-going primary employment. **<u>Bonus / Overtime Income:</u>** Borrower should have received this type of income for the past 2 years and income documentation submitted for the loan must not explicitly indicate that Bonus / Overtime income is likely to stop. • **Documentation:** - Paystub covering a minimum of 30 days and YTD earnings and IRS W-2 forms covering the most recent two-year period, and - a completed Form 1005 /1005(S) • **Calculation:** Bonus / Overtime monthly income will be calculated as the total received over two years divided by 24. - If the Bonus / Overtime income has been received for less than 2 years, the Underwriter must justify and document in writing the reason for using the income for qualifying purposes.

Wage Earners	<u>**Commission Income:**</u> A commissioned borrower is one who receives more than 25% of their annual income from commissions. Generally, the Borrower must have received this income for the past two years and underwriter must reasonably determine that such income will likely continue. • **Documentation:** - Copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years (unless the borrower has received for less than 2 years, as permitted below); and either - a completed Form 1005 /1005(S), or - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. • **Calculation:** Commission monthly income will be calculated as the total received over two years divided by 24. - If the Commission income has been received for less than 2 years but greater than 1 year, the Underwriter may consider the income favorably if the underwriter can document the likelihood that the income will continue and soundly rationalize accepting the commission income. - If the Commission income is earned for less than one year, the income is generally not considered effective income; however, it may be permitted for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer. • **Other:** Unreimbursed expenses must be subtracted from gross income. <u>**Part-Time Income:**</u> Part-time income refers to employment taken to supplement the borrower's regular employment (i.e. not primary job and worked less than 40 hours). Generally, the Borrower must have received this income for the past two years and underwriter must reasonably determine that such income will likely continue. • **Documentation:** - Paystub covering a minimum of 30 days and YTD earnings and IRS W-2 forms covering the most recent two-year period. If the paystub does not contain YTD earnings, then Form 1005/1005 (S) is required, or - A completed Form 1005/1005(S), or - An automated verification system, such as The Work Number, then no Paystub or W-2 is required. • **Calculation:** Part-time employment monthly income will be calculated as the total received over two years divided by 24. - If the Part-Time income has been received for less than 2 years, the Underwriter must reasonably justify and document in writing the reason for using the income for qualifying purposes. • **Other:** A Borrower with a history of multiple employers is acceptable as long as income has been consistently received. Many low and moderate income families rely on part-time and seasonal income and lender should not restrict consideration of such income when qualifying the borrower.

Wage Earners	**Seasonal Employment:** Seasonal income is considered uninterrupted, as long as the borrower has constant history of seasonal income, and can be used to qualify the borrower. Generally, the underwriter must verify seasonal employment during the last 2 years: • **Documentation:** Document and verify that borrower has worked in same job or industry for prior two years and verify and confirm with Borrower's employer that there is reasonable expectation that the borrower will be rehired for the next season. • **Calculation:** Seasonal employment monthly income will be calculated as the total received over two years divided by 24. **Employer Differential Payments:** If the employer subsidizes a borrower's mortgage payment through direct payments, the total amount of the payments over a 12 month period is considered annual gross income and should be included in qualifying income but cannot be used to offset the mortgage payment directly. • **Documentation:** Document and verify that borrower receives the employer differential payments and they are reasonably expected to continue through paystub and/or verification of payment from employer. • **Calculation:** Monthly employer differential payment is added directly to monthly gross income. **Automobile Allowance and Expense Account Payable:** If the borrower receives automobile allowance or expenses, such payments may be considered income to the extent the allowance or expense exceeds actual expenditures: • **Documentation:** Borrower must provide: - IRS Form 2106, Employee Business Expenses, for the previous two years; and - Employer verification that the payments will continue. • **Calculation:** Monthly income will be calculated as the aggregate amount of expenses payable as set forth on the tax return divided by 24 less the borrower's monthly car payment and less any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance. - If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. **2106 Employee Business Expenses:** The underwriter must determine whether the borrower has unreimbursed employee business expenses for the following scenarios: • when a borrower has commission income that represents 25% or more of the borrower's total annual employment income, or • when an automobile allowance is included in the borrower's monthly qualifying income.

<table>
<tr><td>Wage Earners</td><td>
The underwriter must determine the borrower’s recurring monthly debt obligation for such expenses by developing a 24-month average of the expenses, using information from the borrower’s IRS Form 1040 including all schedules (Schedule A and IRS Form 2106). Automobile depreciation claimed on IRS Form 2106 should be netted out of this calculation.
For both of the above scenarios when calculating the total debt-to-income ratio, the monthly average for unreimbursed expenses should be subtracted from the borrower’s stable monthly income. Automobile lease or loan payments are not subtracted from the borrower’s income; they are always considered part of the borrower’s recurring monthly debt obligations.
</td></tr>
<tr><td>Self-Employed Borrowers (Appendix Q)</td><td>
<u>Appendix Q Self-Employed Definition:</u> A borrower with either 25 percent or greater ownership interest in a business or earns 100% of income from a self-employed entity but has <25% ownership (excluding dominion partnerships and W-2 employees) is considered self-employed and therefore the borrower’s income must be documented and calculated under the guidelines set forth herein.

Types of Businesses Structures: As a general matter, a self-employed borrower will utilize one of four corporate structures:

Sole Proprietorships,
“S” Corporations or Limited-Liability Company,
“C” Corporations and
Partnership. The documentation and calculation requirements for income will be dependent on the type of corporate structure utilized by the self-employed borrower.

Minimum Length of Employment: Income from self-employment is generally considered stable and effective if the borrower has been self-employed for two or more years.

However a self-employed borrower may qualify if they have been self- employed for less than two years but more than one year if the person has

at least two years of documented previous successful employment in the line of work in which the person in self-employed, or in a related occupation or
one year of employment and formal education or training in the line of work.

If the borrower has been self-employed for less than one year, such income should not be considered effective income unless the Underwriter can make a determination that such income is stable and is reasonably expected to continue and the borrower has substantial compensating factors addressing the borrower’s ability to repay the loan.

Documentation: Refer to the below table for required documentation:

Sole Proprietorships:

Signed and dated personal tax returns with all applicable tax schedules for the most recent two years.
Year-to-date Profit and Loss (P&L) statements and balance sheet (prepared by a CPA or third party). If the P&L and/or balance sheet is prepared by the borrower, the underwriter must provide a reasonable explanation for lack of third party preparation.

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Self-Employed Borrowers (Appendix Q)	◦ If the loan has an application date between 1/1 and 3/31 of a new calendar year, the previous full year's P&L and Balance Sheet is required. After 4/1 of a new calendar year, a current YTD P&L and Balance Sheet is required. ◦ The previous year P&L balance sheet are also required if the previous year's income is not documented by validated personal and business income tax returns. - ***S-Corps (or LLC), C-Corps, Partnerships:*** ◦ Signed and dated personal tax returns with all applicable tax schedules for the most recent two years. ◦ Signed and dated Federal business income tax returns with all applicable schedules. ◦ Year-to-date Profit and Loss (P&L) statements and balance sheet (prepared by a CPA or third party). If the P&L and/or balance sheet is prepared by the borrower, the underwriter must provide a reasonable explanation for lack of third party preparation. ◦ If the loan has an application date between 1/1 and 3/31 of a new calendar year, the previous full year's P&L and Balance Sheet is required. After 4/1 of a new calendar year, a current YTD P&L and Balance Sheet is required. ◦ The previous year P&L balance sheet are also required if the previous year's income is not documented by validated personal and business income tax returns. ◦ Documentation of the borrower's ownership percentage in the business either through tax returns, CPA letter or other reasonably reliable third party record. • **Calculation:** - **Personal Tax Returns:** First, underwriter must review the borrower's signed and dated personal tax returns for the most recent two years to determine adjusted gross income and should increase or decrease the adjusted gross income in accordance with Appendix Q guidelines. Refer to Appendix Q: IRS Form Calculations (after adjustment, the "Tangible Personal Income"). ◦ **Business Tax Returns:** Second, unless borrower is a sole proprietorship, underwriter must review the borrower's signed and dated business tax returns (taking into consideration borrower's ownership percentage of the business) for the most recent two years as follows depending upon the type of corporate structure utilized by the borrower's business (collectively and as applicable, the "Business Income Adjustments"). In each case, underwriter should consider the viability of the business based on the business tax returns to determine that the income is stable and is reasonably expected to continue. Underwriter should consider that a withdrawal of cash from the corporation/partnership may have a negative impact on the corporation's ability to continue operating and should be considered in the income analysis. ◦ <u>"S" Corporations or Limited-Liability Company:</u> Income for owners of "S" corporations comes from IRS form W-2 wages, and is taxed at the personal rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's personal IRS

Self-Employed Borrowers (Appendix Q)	Form 1040 (based on percentage of ownership) and underwriter must confirm that the amounts are substantially similar and document any variance. "S" corporation depreciation and depletion should be added back to the borrower's income in proportion to the borrower's share of the corporation's income. Borrower's income should be reduced proportionately by the total obligations payable by the corporation in less than one year unless the underwriter can document reasonable explanation as to why income should not be reduced. ◦ <u>"C" Corporations:</u> Income for owners of a "C" corporation will be determined by taking the total business income and multiplying it by the borrower's percentage of ownership in the business and then adjusting based on IRS Form 1120 as follows below. The underwriter must confirm that the personal income documented on the personal tax returns is substantially similar and document any variance - Depreciation and Depletion: Add the corporation's depreciation and depletion back to the after-tax income - Taxable Income: Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability associate with such business as documented in business tax return - Fiscal Year vs. Calendar Year: If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the personal tax return. - Partnerships: Income for the owner of a partnership should be equal to the borrower's proportionate share of the partnership's net income as evidenced by the signed and dated business tax returns and set forth on the borrower's personal tax returns and underwriter must confirm that the amounts are substantially similar and document any variance. The borrower's income should be adjusted by adding back depreciation and depletion to the income in proportion to the borrower's share of income and reducing income proportionately by the total obligations payable by the partnership in less than one year unless the underwriter can document reasonable explanation as to why income should not be reduced. ◦ <u>Partnerships:</u> Income for the owner of a partnership should be equal to the borrower's proportionate share of the partnership's net income as evidenced by the signed and dated business tax returns and set forth on the borrower's personal tax returns and underwriter must confirm that the amounts are substantially similar and document any variance. The borrower's income should be adjusted by adding back depreciation and depletion to the income in proportion to the borrower's share of income and reducing income proportionately by the total obligations payable by the partnership in less than one year unless the underwriter can document reasonable explanation as to why income should not be reduced.

Self-Employed Borrowers (Appendix Q)	◦ P&L and Balance Sheet: In order to ensure that the income is stable and can be expected to continue, the underwriter must review both the P&L and the balance sheet to confirm the viability of the business. Further, underwriter should confirm that the income trends of the business are generally similar with prior results (i.e. stable) and should provide a reasonable explanation for any significant variances. ◦ Income Calculation: When qualifying and calculating income, the underwriter must determine an annual amount by taking the borrower's two year Tangible Personal Income and adjust it based on two years of Business Income Adjustments (unless the corporate structure utilized is a sole proprietorship) (such amount, the "Aggregate Adjusted Annual Income"). - Borrower's monthly effective income should be equal to the Aggregate Adjusted Annual Income divided by 12 provided that: - If the borrowers provides quarterly tax returns, the underwriter may adjust the income (upwards or downwards) based on the period covered by the tax filings and the underwriter should document this adjustment accordingly, or - If the borrower is not subject to quarterly tax returns, or does not file them, then the underwriter may include income shown on the P&L statement, provided the income stream based on the P&L is generally consistent with the prior years' business earnings. - If the P&L statements for the business submitted for the current year show an income stream considerably greater than what is supported by the previous year's business tax returns, the underwriter should base the income analysis on the income verified through the tax returns unless the underwriter can provide a reasonable documented explanation for utilizing the higher income. - If the borrower's earnings trend for the previous two years is downward based on the personal and business tax returns 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 should be used to calculate his/her income unless the underwriter can provide a reasonable documented explanation for utilizing the higher income.
Rental Income	Rental income derived from properties owned by the borrower is acceptable as qualifying income so long as the borrower can document stability of the rental income through verifiable documentation which establishes a consistent history of receipt of rental income. Underwriter should generally confirm the rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation) provided that a shorter rental history may be permitted so long as the underwriter provides a reasonable explanation that evidences the stability and consistency of the future rental payments. If the borrower's primary business is the ownership of rental properties, then borrower should be qualified under the Self-Employed borrower requirements.

Rental Income	• **Documentation:** Rental income must be verified through delivery of either of the following: - ***Appendix Q Documentation:*** ◦ personal tax returns evidencing receipt of rental income on Schedule E of the tax return if personal tax returns are included in the loan file and ◦ either (a) a current executed lease agreement, (b) an executed agreement to lease or (c) rental history on the property over the previous 12 months as confirmed through cancelled checks or bank statements of borrower and ◦ reasonable evidence that the borrower still owns the property (which can include the real estate owned section of the executed Uniform Residential Loan Application). - ***Property owned less than one year:*** ◦ a current executed lease agreement or an executed agreement to lease and ◦ reasonable evidence that the borrower still owns the property (which can include the real estate owned section of the executed Uniform Residential Loan Application). • **Calculation:** - The underwriter should first add any depreciation shown on the personal tax return back to the total net income or loss and divide the total net income or loss by 12 with the resulting effective monthly income (either positive or negative) used for qualifying purposes. - If property is owned less than one year, underwriter should first take the gross monthly rental amount and reduce by 25% and then subtract total monthly housing expenses (i.e. PITI, homeowner's association, ground rents, etc.) associated with the rental property (taking consideration not to double count if mortgage property is included in borrowers credit report) with the effective monthly income (either positive or negative) used for qualifying purposes. • **Other:** - <u>Multi-Unit Occupied Property:</u> The rent for a multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes. Documentation and calculation requirements are identical to those set forth above. Rental income for the tenant-occupied unit should be considered gross income, only after deducting vacancy and maintenance factors (i.e. generally 25%) and may not be used as a direct offset to the mortgage payment. - <u>Rental Income on Vacated Property:</u> Underwriters should not consider rental income from a borrower's primary residence that is being vacated in favor of another primary residence, except under the conditions below: ◦ the borrower is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance and can document an executed lease of one year duration on the vacated property and receipt of a security deposit or first month's rent OR ◦ there is sufficient equity in the vacated property. The borrower must have at least 25% equity in the vacated property as

Rental Income	- Boarder Income: Rental income from roommates or boarders in a single family property occupied as a primary residence is acceptable and should be shown on the borrower's tax return for qualification purposes. If not shown on the tax return, underwriter must verify receipt of income through 12 months bank statements that establish stable and consistent receipt of roommate/boarder income along with executed letter from roommate/boarder evidencing monthly payment amount. Roommate/Boarder income should be considered gross income and may not be used as a direct offset to the mortgage payment.
Other Eligible Income	In addition to the above income sources, below is a list of additional income types that are allowed: **Alimony, Child Support and Maintenance Income:** Alimony, child support, or maintenance income should be considered effective income so long as the payments are likely to be received for the first three years of the mortgage. • **Documentation:** Borrower must provide both a - copy of final divorce decree, legal separation agreement, court order or voluntary payment agreement and - acceptable evidence that payments have been received during the last 12 months, such as cancelled checks, deposit slips, tax returns or court records. • **Calculation:** Monthly income utilized for qualification purposes is the sum of the amount received over the past year divided by 12. Gaps in payments may be acceptable so long as there is a reasonable letter of explanation from the borrower as to the gap in payment. • Note: Periods less than 12 months may be acceptable, provided the underwriter can adequately document the payer's ability and willingness to make timely payments. **Investment Income: Interest and Dividends:** Interest and dividend income is considered effective so long as the payments are stable and are reasonably expected to continue and should include two years of receipt history: • **Documentation:** Borrower must deliver: - two years personal tax returns evidencing receipt and - account statement from broker / investment advisor • **Calculation:** Total interest and dividend income received over the prior two years should be divided by 24 to determine eligible monthly income. • **Additional Requirements:** - Principal Used for Down Payment: If any of the borrower's invested principal is being utilized for the down payment, the underwriter must reduce the total interest and dividend income received over the past two years by the same percentage of invested principal that is used for the down payment. **Investment Income: Trust Income:** Trust Income is eligible for qualifying purposes so long at the payments are reasonably expected to continue for the first three years of the mortgage:

<table>
<tr><td>Other Eligible Income</td><td>

Documentation: Borrower must provide a copy of the Trust Agreement or other trustee statement, confirming the
- amount of the trust,
- frequency of distribution; and
- duration of payments. Borrower must also provide adequate documentation that the withdrawal of funds will not negatively affect income.
Calculation: Trust income received over the prior two years should be divided by 24 to determine eligible monthly income
Additional Requirements:
<u>Principal Used for Down Payment:</u> If any of the borrower’s invested principal in the Trust is being utilized for the down payment, the underwriter must reduce the total interest and dividend income received over the past two years by the same percentage of invested principal that is used for the down payment.

<u>Notes Receivable Income:</u> Income received by borrower from a note receivable or other substantially similar receivable is eligible so long as the underwriter determines that the income is stable and is reasonably expected to continue borrower has received for the prior 12 months.

Documentation: Borrower must provide a copy of the Note to establish the amount and length of payment and must evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns. If the borrower is not the original payee on the note, the creditor must establish that the borrower is able to enforce the note.
Calculation: Note income received over the prior 12 months should be divided by 12 to determine eligible monthly income.

<u>Retirement Income:</u> Retirement income either actually received by a borrower or received by a borrower planning to retire during the first three-year period following the closing of the loan is eligible and must include the amount(s) of:

Documented retirement benefits;
Social Security payments (documented with SSI awards letter); or
Other payments expected to be received in retirement

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<tr><td>Asset Depletion (PORTFOLIO 101 only)</td><td>Asset Depletion: Some programs (refer to PORTFOLIO 101 ARM, IO ARM, and Fixed Program Summary) allow asset depletion which attributes qualifying income to a borrower by depleting the liquid assets of the borrower over a fifteen (15) year period (i.e. Borrower can qualify solely if they can evidence liquid assets equal to or in excess of 180 months of PITIA payments). Depletion of verified liquid assets over a 15 year period is done to ensure that income attributed to a borrower is stable and is reasonably expected to continue. Liquid assets are defined as any asset that can be converted into cash quickly with minimal impact to the price received. Liquid assets include cash, money market, ETFs, etc. Any other liquid assets that the borrower has access to may be documented by the underwriter and considered on a case-by-case basis. Non-liquid assets include real estate, private securities, etc. and cannot be used for Asset Depletion.</td></tr>
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Asset Depletion (PORTFOLIO 101 only)	**<u>Asset depletion used as sole income source:</u>** borrower may be qualified solely from the income stream derived from the asset depletion calculation. In this instance the income amount derived from the asset depletion calculation must meet or exceed total PITIA. **<u>Supplemental Asset Depletion:</u>** if asset depletion is used as a supplement to traditional income sources (i.e. W2, self employed, etc.) the income amount derived from the asset depletion calculation must equal or exceed 25% of the Effective Income minus the Asset Depletion Income (example below) for the borrower. PITIA threshold does not apply in this instance. Example: $756,000 of liquid assets/180 = $4,200 Wages = $13,000 Net Rental Income = $500 Child Support = $1,000 Total = $14,500 $4,200/$14,500 = 29% is acceptable • **Documentation:** - 12 months of bank statements, account statements, fund statements, etc. that evidence stable liquid assets over such time period. (Only large deposits within the most recent two months must be explained and sourced.) - An executed letter of explanation from borrower in which borrower acknowledges their intention to liquidate assets in order to pay current expenses. Any significant variance in the principal amount of the liquid assets over the 12 month period must be documented and a sound rationale for concluding the liquid assets are stable must be included in the loan file. Underwriter should review the statements to ensure there are no express restrictions on the liquidity of the assets. - Assets used for the monthly calculation of the income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower on the mortgage loan. - The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below: ◦ Cash in Bank Account: 100% ◦ U.S. Government Receivables (T-Bills, Treasuries, etc.): 100% ◦ Stocks/Bonds/Mutual Funds that are not retirement accounts: 85% ◦ 529 or similar college fund: 50% ◦ Retirement Accounts (401K, IRA, 403B, etc.): (A) if borrower is of retirement age (59.5) and the terms of withdrawal show borrower has access to funds, 100% and (B) if borrower is not of retirement age (59.5), 0% ◦ Business bank accounts may not be used for asset depletion • **Calculation:** The monthly qualifying income utilized for calculation of the debt-to- income ratio is the total eligible liquid assets divided over 180.

<table>
<tr>
<td>Asset Depletion (PORTFOLIO 101 only)</td>
<td>
<table>
<tr><td colspan="2">Example: Calculation of Net Documented Assets</td></tr>
<tr><td>IRA (made up of stocks and mutual funds) 85%</td><td>$ 500,000</td></tr>
<tr><td>Cash in Bank account 100%</td><td>(+) $50,000</td></tr>
<tr><td>Total eligible documented assets</td><td>(=) $550,000</td></tr>
<tr><td>Minus funds required for closing (down payment, closing costs, reserves</td><td>(-) $100,000</td></tr>
<tr><td>(a) Subtotal</td><td>(=) $ 450,000</td></tr>
<tr><td>Monthly income calculation based on 15 year term ($450,000/180)</td><td>$2,500/month</td></tr>
<tr><td colspan="2">The monthly income must equal or exceed the PITIA. Monthly income that does not equal the full PITIA are not eligible as a supplement or the sole source of income</td></tr>
</table>
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<tr>
<td>Restricted Stock Unit Income (If allowed by the Product)</td>
<td>
Some programs (refer to Program Summaries) allow restricted stock units (“RSU”) which allows a percentage of a borrower’s awarded restricted stock units (“RSU”) from a public company to be attributed as qualifying income, as long as the borrower has received for the prior 2 years, subject to certain calculations below. Refer to the Program Summary for whether or not RSU income is allowed.

Documentation: In order to evidence RSU income, the borrower must submit the following for the prior 2 years:
- Two years W-2’s, confirming receipt of RSU income
- Most recent paystub evidencing receipt of RSU income or a letter from the employer evidencing receipt
Calculation: 65% of aggregate gross RSU income is allowable as qualified income and the monthly RSU income is the total gross RSU income received over 2 years, divided by 24.

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<tr>
<td>Military, Government Agency and Assistance Program Income</td>
<td>
Income from Military, Government Agency and Assistance Programs is allowed, subject to the below documentation.
<u>Military Income:</u> In addition to military related base pay, the following additional military entitlements are allowed as forms of pay and eligible to be qualified income:

Documentation: Borrower must document in writing the following eligible forms of military pay over the past 2 years:
- Income from variable housing allowances
- Clothing allowances
- Flight or hazard pay
- Rations
- Proficiency pay
Calculation: 100% of the above forms of military related income can be used as eligible income. The monthly eligible Military Income is the current Military income.
- Underwriter must verify that the income is reasonably expected to continue for 3 years.

<u>VA Benefits:</u> Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable as qualified income.

Documentation: The borrower must provide to the lender documentation from the VA to evidence the borrower’s VA benefits over

</td>
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</table>

Military, Government Agency and Assistance Program Income	the past 2 years. The following exception applies: - Note, education benefits used to offset education expenses are not acceptable • **Calculation:** 100% of the VA Benefit related income can be used as eligible income. The monthly eligible VA Benefit income is the monthly VA Benefit Income as set forth on the documentation from the VA. **Government Assistance Programs:** Income received from government assistance programs is acceptable as qualified income. • **Documentation:** The borrower must provide to the lender documentation from the paying agency that verifies the income over the last 2 years and indicates that the income is expected to continue for at least three years. The following exceptions apply: - Unemployment income must be documented for two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment. • **Calculation:** 100% of the Government Assistance Program related income can be used as eligible income. The total eligible monthly Government Assistance Program income is the total Government Assistance program income over the last 2 years, divided by 24. - Underwriter must verify that the income is reasonably expected to continue for 3 years
Projected Income	Projected income is acceptable for qualifying purposes under the following guidelines: • Written document verifying the income and situation from the borrower's employer and • Written letter of explanation from the borrower that the income will begin within 45 days of loan closing • Acceptable borrower situations: - Cost-of-living adjustments - Performance raises - New Jobs: The following also apply: ◦ verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment, ◦ the borrower must have a binding contract for employment with general standard terms. • **Calculation:** The lender may consider 100% of the projected income from the above eligible exceptions as qualifying income. The total monthly eligible Projected Income is the total Projected Income over the next 2 years, divided by 24.
Non-Borrower Household Income	Income from a non-borrower household member may be included as a compensating factor to allow for a debt-to-income (DTI) ratio greater than program guidelines, however the non-borrower household income is not included as qualifying income and is not considered when calculating the DTI ratio. • The non-borrower household income must be documented by verifying consistent receipt by borrower over the prior 12 months utilizing reasonably reliable third party records.

<table>
<tr><td>Non-Borrower Household Income</td><td>The stability and expected continuance of the non-borrower household income must be documented by obtaining a letter of explanation from the non-borrower contributing to the household income that they expect to continue to contribute such amount of the next 12 months.</td></tr>
<tr><td>Gaps in Employment</td><td>Any gaps in a borrower’s employment history for the prior two years must be verified.

Verification: The end dates / start dates of any job changes within the most recent two full years must be verified with either paystubs, VOEs, or employment contracts to ensure that there are no gaps in employment history.
<u>Gaps:</u> One month, or more, gaps in the past two years must be satisfactorily explained in writing by the borrower.
<u>Multiple Gaps:</u> Multiple job gaps or frequent changes in employment in the past 24 months should be carefully reviewed to determine if the borrower’s employment is stable and likely to continue.
<u>School / Military:</u> If the borrowers have been employed less than two years but were previously in school or in the military, a copy of the diploma or discharge papers must be obtained.
<u>Re-Enter Workforce</u>: A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:
- Is employed in the current job for six months or longer; and
- Can document a two year work history prior to an absence from employment using:
◦ Traditional employment verifications; and/or
◦ Copies of IRS Form W-2s or pay stubs
Note: Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six months</td></tr>
<tr><td>Tax Transcript Policy</td><td>The following outlines NMSI’s Tax Transcript Policy as it relates to both wage earners and self-employed borrowers (Appendix Q).
Tax Transcript: Wage Earners and Self-Employed borrowers (Appendix Q) should provide the following Tax Transcript documentation.
<u>Wage Earners:</u> IRS Form 4506T is required to be signed and executed during the origination process and transcript documentation must be provided in the closed file.
W-2 tax transcripts may be used in lieu of 1040 tax transcripts for wage earners.
<u>Self-Employed Borrowers:</u> Applies to both personal returns and business returns (if applicable business structure).
Full 1040 tax transcripts for all years of income received must be substantially similar to W-2s and signed tax returns provided by borrower with a reasonable explanation from underwriter if there is a variance. If transcript documentation for the most recent year is unavailable due to the timing of filing, the underwriter must utilize reasonably reliable documentation to establish accuracy of provided transcripts (i.e., bank statement showing refund check).
Income from a borrower or co-borrower that is not used in the Qualifying Income (either as income or liability) should not require IRS transcripts.</td></tr>
</table>

Residual Income	All loans are required to be validated thru the NMSI Residual Income Calculator and verified with the Residual Income Table. The residual income must be equal to or more than the minimum requirement per the Residual Income Table. Loans that fail to meet the minimum requirements are not eligible for loan approval. **Calculation:** Residual income is equal to (A) the sum of each borrower's monthly gross income, (B) less the borrower's total monthly housing payment, (C) less the borrower's monthly reoccurring obligations, (D) less estimated monthly utility charges such as electricity, water, oil/gas calculated by multiplying the square feet living area of the to be occupied property by $0.14). For PORTFOLIO 101, PORTFOLIO 102, and PORTFOLIO 103, a minimum of 80% of the required Residual Income amount may be considered with compensating factors. Refer to the Program Summary for details.
Payment Shock	Payment Shock Ratio is analyzed to assist in determining a borrower's ability to repay the loan and to ensure that an increase in borrower's total monthly housing payments can be managed property by the borrower. **Calculation:** Calculated as the percentage ratio of the borrower's new Total Monthly Housing Payment over the borrower's prior Total Monthly Housing Payment. • Note: If a borrower has been living rent free or owns their current home free and clear, no payment shock calculation is required • Example: For a borrower with a proposed Total Monthly Housing Payment of $5,000 and an existing Total Monthly Housing Payment of $3,000, such borrower's Payment Shock Ratio is 166.7% ($5,000 divided by $3,000). **Restrictions:** The following borrower types are subject to below Payment Shock restrictions: • First-time homebuyers may not exceed a 250% Payment Shock ratio
Ineligible Income	• Asset Dissipation • Educational benefits, such as VA benefits or scholarships • Lump sum payments such as inheritances or lawsuit settlements (may be verified as assets to close) • Payments that are received for purchase or reimbursement of specified items • Retained earnings • Reverse Mortgage Loan proceeds • Secondary income that will continue for less than three years • Taxable forms of income that the borrower does not declare on federal income tax returns • Unverifiable income • Value of a company furnished automobile • Value of employment benefit packages that are not received as cash wages • Lump sum payments of lottery earnings that are not ongoing • Non-borrower spouse income • Student loans/grants

Ineligible Income	• Allowance income (for example, an allowance received from a family member) • Stock options • Severance Pay • Trailing wage earner income • Marijuana-Related Business (MRB) employment and income
Debt-to-Income Ratio	Where applicable, the Debt-to-Income ratio ("DTI") of the borrower is to be calculated in accordance with Appendix Q to Part 1026 – Standards for Determining Monthly Debt and Income. **Definition of Total Monthly Housing Payment:** Total monthly housing payment is determined as follows: • if borrower rents the property, the sum of the total rental payments and any other expenses related to the property that borrower is obligated for under the current lease, if any and • if borrower owns the property, is equal to the sum of borrower's current principal and interest payments for the related mortgage as set forth on the credit report and the monthly payments for mortgage related obligations (as defined under the Ability-to-Repay rule 1026.43(b)(8) the "Total Monthly Housing Payment"). **Definition of Reoccurring Obligations:** The following must be included when computing the debt-to-income ratios for reoccurring obligations: • Total Monthly Housing Payment • Payments on installment accounts • Child support or separate maintenance payments; • Alimony - Creditor should treat the monthly alimony obligation as a reduction from the borrower's gross income when calculating the ratio, rather than treating it as a monthly obligation. • Revolving charge accounts - Note: If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of: 5 percent of the balance or $10 • 30 day open-ended accounts - A 30-day charge account is defined as an account where the borrower must pay off the total outstanding balance each month. Open 30-day charge accounts either do not reflect a monthly payment on the credit report, or reflect a monthly payment that is identical to the account balance. There are no alternative monthly payment options. - For open 30-day charge accounts (for example, AmEx), the borrower must have sufficient verified liquid assets to pay off the balance and meet the reserve requirements for the loan program to exclude the payment from the qualifying DTI.

Debt-to-Income Ratio

If sufficient liquid assets are **verified**	• exclude the reported monthly payment from the DTI. • obtain a letter of explanation from the borrower stating that the balance will be paid in full.
If sufficient liquid assets are **NOT verified**	obtain evidence that the account has been paid in full and exclude the reported monthly payment from the DTI, or include the monthly payment (equal to the outstanding account balance) in the calculation of the qualifying DTI.

Note: If the account provides for a monthly payment amount other than the total outstanding balance, the account is not considered a 30-day charge account and therefore, revolving charge account guidelines would apply instead.

- Any other reoccurring obligations
- Debts lasting less than ten months
  - Note: Debts lasting less than ten months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.

Calculation: The borrower’s DTI must be calculated by taking the ratio of (A) sum of Total Monthly Housing Payment and other monthly reoccurring obligations (as defined above) divided by (B) total monthly income documented and calculated in accordance with these guidelines.

Refer to the Program Summaries for DTI ratio limits for each particular program.

Contingent Liabilities / Projected Obligations

Contingent Liabilities and Projected Obligations must be considered when calculating a borrower’s monthly obligations.

Application of Contingent Liability Policies: The contingent liability policies described apply unless the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

- **Definition:** Contingent Liability: A contingent liability exists when a person is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. Underwriters should use the following guidelines when evaluating possible Contingent Liabilities:
  - <u>Contingent Liability on Mortgage Assumptions:</u> Contingent liability must be considered when the borrower remains obligated on an outstanding FHA- insured, VA-guaranteed, or conventional mortgage 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
  - <u>Exemption from Contingent Liability Policy on Mortgage Assumptions:</u> When a mortgage is assumed, contingent liabilities need not be considered if the:

Contingent Liabilities / Projected Obligations	◦ Originating creditor of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history 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 from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less. - Contingent Liability on Cosigned Obligations: If the borrower is a cosigner or co-obligor on any of the below obligations, then Contingent Liability applies, and the debt must be included in the underwriting analysis: ◦ A car loan; ◦ A student loan; ◦ A mortgage; or ◦ Any other obligation ◦ Note: If the creditor obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations. **Projected Obligations:** Future obligations of the borrower must be considered: · **Definition:** Projected Obligations: Debt payments, such as a student loan or balloon- payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the creditor as anticipated monthly obligations during the underwriting analysis. · Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe. · Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis. · **Exclusions:** Student loan payments may be excluded with written evidence that the debt will be deferred for a period outside the 12 month timeframe. · **Calculations:** Student Loan Obligations: The Underwriter should determine the repayment amount based on the actual documented payment (from the credit report, obtained from the student loan lender, or supplied by the borrower). I the borrower is following an income-driven repayment plan (“IDR”), the Lender must use the IDR plan monthly payment amount.

ASSET REQUIREMENTS	
Eligible Assets	Assets used by a borrower for the mortgage loan down payment, closing costs and reserves must be verified. **Full Documentation:** · For all asset types, full documentation of all assets utilized would include: - all pages of the most recent two months statements or the most recent quarterly statement or - a Verification of Deposit (Form 1006 or 1006(s)) and a current bank statement for the account (s) shown on the form. · All assets disclosed by the borrower on the residential loan application must be verified. · Digital Verification: Assets, reserves, and down payments can be verified via 3rd Party Providers with asset verification ID per FNMA guidelines. Documentation must be in the file. · Down Payment/Funds Necessary to Close must be sourced and seasoned at least 60 days before the application date and must have evidence of liquidation. · In the event two months or the most recently quarterly statement cannot be provided, borrower is permitted to provide an alternative paper trail to source the funds. - Examples include, but are not limited to, inheritance, insurance settlement, lottery winnings, legal settlement, etc. · <u>Large Deposits:</u> Any single deposit in excess of 50% of monthly qualifying income or any large deposit that is out of the ordinary are required to be explained and source documented in the file. **Business Accounts:** May be used for down payment, closing costs, and reserves if the borrower is either: · 100% owner of the business or · at least a 50% owner of the business provided that there is a letter of explanation in the file which includes an attestation from all other owners of the business that the borrower is entitled to the funds. If amounts in the business account will be used for down payment, a cash flow analysis or a letter from the business accountant is required to confirm that the withdrawal will not negatively impact the business. If amounts in the business account are used for reserves and borrower is less than 100% owner of the business, the percentage of ownership in the business should be multiplied by the account balance to determine the amount of funds attributable to the borrower. All funds must be seasoned with the source of funds for any large deposits fully documented and explained. Review the most recent bank statements provided to ascertain what is normal and typical for the business <u>Large Deposits:</u> If funds from a large deposit are needed to complete the transaction (that is used for the down payment, closing costs, or financial reserves), document that those funds are from an acceptable source. Occasionally, a borrower may not have all the documentation required to confirm the source of a deposit. In those instances, use reasonable judgment based on the available documentation as well as the borrower's DTI and overall income and credit profile.

Eligible Assets	Examples of acceptable documentation include: - borrower's written explanation - proof of ownership of an asset that was sold, or a copy The Underwriter must place in the loan file written documentation or the rationale for using the funds. **Stocks/Bonds/Mutual Funds** (Excluding Retirement Funds): 100% may be used for reserves. **Vested Retirement Account funds:** 85% may be considered for reserves, unless borrower is of retirement age (59.5) at time of application (100% can be used for reserves). The terms of withdrawal must show the borrower has access to the funds. If needed to close, verification that funds have been liquidated (if applicable) is required.
Reserve Requirements	Each program requires a minimum number of assets in reserve to ensure the borrower's ability to repay the loan according to its terms. Months in reserve will be measured based on the Total Monthly Housing Payment (as defined herein). Refer to the Program Summaries for Reserve Requirements.
Interested Party Contributions	Amounts in excess of the below limits or additional cash back to the borrower for any contributions that exceed the actual amount of closing costs are considered to be sales concessions and must be treated accordingly (deducted from sales price when calculating LTV). - Principal residence or second home (All LTV): Max. 6%
Gift Policy	Purchase transactions allow borrowers to use gift funds for down payment, closing costs and reserves, with the following restrictions, outlined below **Description:** Gifts and gifts of equity are subject to restrictions based on whether the gift originates from a Relative or Non-Relative: • <u>Relative:</u> If the gift/gift of equity is coming from a Relative (as defined herein), a minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift, if from a Relative. • <u>Non-Relative:</u> If the gift/gift of equity is not coming from a Relative, a 5% minimum borrower contribution is required regardless of LTV. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves. **Additional Requirements:** The following restrictions apply when using gift funds: • Primary residence only • Gifts of cash are only allowed on arms- length transactions, if the cash is coming from a disinterested relative (i.e., not involved in the transaction), however gifts of equity will be permitted on non-arm's length transactions so long as all other requirements are met. • Gifts/gift of equity is not required to meet seasoning requirement. • Executed gift letter required • Evidence that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account is required

Ineligible Assets	• Grant Funds • Builder Profits • Employer Assistance Assets • Cash advance on credit card • Cash for which the source cannot be verified (cash on hand) • Commission from sale of subject property • Proceeds from an unsecured loan • Salary advance • Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash) • Unverifiable source of funds • Margined Assets listed within client accounts are not eligible as a source of funds or reserves. • Stock options and non-vested restricted stock • Non-vested stock • Reverse mortgage • Pension fund • Seller Real Estate Tax Credit • Foreign Assets • IRS 1031 Tax exchange

APPRAISAL REQUIREMENTS	
Appraisal Requirements	In order to ensure a reliable valuation of underlying property, a thorough appraisal framework is required which includes at minimum at least one Appraisal and one additional valuation tool.

- Appraisal Requirements: The appraisal report must not be more than 180 days old on the date of the note. An appraisal update is allowed on appraisals older than 120 days, but not older than 180 days. All appraisals must meet the Uniform Appraisal Dataset requirements determined by Fannie Mae (as modified by Fannie Mae from time to time).
- Appraisal Overview:
  - Purchases:
    - One appraisal required for all loans < $1,500,000.
    - Two appraisals required for all loans > $1,500,000
  - Refinances:
    - One appraisal required for all loans < $1,000,000.
    - Two appraisals required for all loans > $1,000,000.
- Loan Amount Limit Table:
  The below loan amount limits should be used in determining the Comparable Sales Requirement, regardless of the county loan limit. Refer to the below Comparable Sales Requirement for details.

Units	Loan Amount Limits
1	$625,000
2	$800,775
3	$967,960
4	$1,202,925

- Comparable Sale Requirements:
  - Loan Amounts < the above Loan Amount Limit Table: Appraiser must provide at least 3 closed comparable sales.
  - Loan Amounts > the above Loan Amount Limit Table: Appraiser must provide at least 6 comparable sales. Preferably all comparable sales should be closed sales. If the appraiser is unable to provide 6 comparable closed sales, the appraiser may use comparable listings or pending sales, but at a minimum 4 of the comparable sales must be closed sales.
- Collateral Review Requirements:
  - All appraisals, regardless of loan amount, must be submitted through the FNMA Uniform Collateral Data Portal and obtain a successful finding on the Submission Summary Report (SSR). The SSR must be included in the file.
    - If the SSR score is < 3.99, then a CDA is not required and the appraised value may be used.
    - If the SSR score is > 3.99, or the SSR cannot be obtained, a CDA is required and should be ordered through Clear Capital.
    - If the CDA variance < 10% then the original appraised value may be used.
    - If the CDA variance is > 10% then order a second appraisal. The lesser value of the 2 appraisals may be used.

Appraisal Requirements	◦ An additional appraisal, charged to the borrower, may be ordered instead of a CDA. The lesser value of the 2 appraisals may be used. ◦ When 2 appraisals are ordered due to the loan amount and transaction type, a CDA is not required. The lesser value of the 2 appraisals may be used. • General Documentation Requirements: - The appraisal must be Appraisal Independence Requirements (AIR) compliant. - Appraisals may be transmitted electronically as a PDF or XML file. The appraisal report must adequately identify the appraiser, include a reproduced signature of the appraiser whose name appears on the report, and the appraisal was created by the identified appraiser and is complete and unaltered. - An appraiser may use computer software programs that are designed to reproduce the appraisal report forms. However, the sequence of the information - as well as all of the specific information (including the instructions, entries, directions, etc.) - must be exactly as it appears on the March 2005 hard-copy version of the form(s).
Transferred Appraisals	Transferred Appraisals are allowed per the following guidelines: • Appraisal Report PDF 1st generation • Appraisal Independence Requirements (AIR) Certification • Paid Invoice • Successful Uniform Collateral Data Portal (UCDP) Fannie & Freddie Submission Summary Report (SSR) • Appraiser License if not within appraisal report • Transfer letter authorizing originating Lender • Note: Corrections/Addendums are not allowed to the original appraisal. If supplemental reports require corrections/addendums to the original appraisal, then a new full appraisal report must be ordered.
Borrower Owns Property Less than 1 year	If a borrower owns the property for less than 1 year (measured from the HUD-1/Closing Disclosure closing date to the application date of the new loan), the valuation utilized to calculate the loan- to-value ratio will be the lesser of • the purchase price paid by the borrower for such property and • the then current appraised value of the property unless both the Appraisal and the underwriter provide substantial evidence of either - a rehabilitation of the property that demonstrates sound reasoning behind using the then current appraised value or - other evidence to support the increase over the purchase price.
Declining Market Adjustment	If appraiser denotes declining market, reduce LTV by 5% from maximum financing limits.

APPENDIX Q: IRS FORM CALCULATIONS	
IRS Form 1040 Heading	**Description**
Wages, Salaries and Tips	An amount shown under this heading may indicate that the person: • Is a salaried employee of a corporation, or • Has other sources of income This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's adjusted gross income.
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income Depreciation or depletion may be added back to the adjusted gross income.
Rents, Royalties, Partnerships (from Schedule E)	Any income received form rental properties or royalties may be used as income, after adding back any depreciation shown in Schedule E.
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time, and should not be considered when determining effective income. However, if the person has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining income. Three years' tax returns are required to evaluate an earnings trend. If the trend: • Results in a gain, it may be added as effective income, or • Consistently shows a loss, it must be deducted from total income Creditor must document anticipated continuation of income through verified assets. Example: A creditor can consider the capital gains for a person who purchases old houses, remodels them, and sells them for profit.
Interest and Dividend Income (from Schedule B)	This taxable / tax-exempt income may be added back to the adjusted gross income only if it: • Has been received for the past two years, and • Is expected to continue If the interest-bearing asset will be liquidated as a source of the cash investment, the creditor must appropriately adjust the amount.
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-Taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are: • IRA and Keogh retirement deductions • Penalties and early withdraw of savings • Health insurance deductions • Alimony payments
Employee Business Expenses	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.