Single Family Residential Prime Jumbo Mortgage Program

Underwriting Guidelines

Effective Date: November 01, 2024

Prime Jumbo Mortgage Program

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1 GENERAL POLICY

1.1 Introduction

These Underwriting Guidelines apply exclusively to loans under the Axos Bank Prime Jumbo Mortgage Program (the “Program”), and to no other loan programs from time to time marketed by Axos Bank (the “Purchaser”).

If these guidelines are silent on a given subject, please refer to the Fannie Mae selling guide for guidance.

PURCHASER RESERVES THE RIGHT TO ALTER, MODIFY, SUPPLEMENT AND/OR WITHDRAW ANY PORTION OF THESE GUIDELINES AT ANY TIME OR FROM TIME TO TIME. PURCHASER MAY FROM TIME TO TIME IMPOSE CREDIT AND/OR PROGRAMATIC OVERLAYS WITH RESPECT TO ANY LOANS TO BE SUBMITTED FOR PURCHASE UNDER THE PROGRAM. PURCHASER SHALL IN NO EVENT BE REQUIRED TO PURCHASE, OR BE DEEMED TO HAVE AGREED TO PURCHASE, ANY PARTICULAR LOAN IRRESPECTIVE OF WHETHER SUCH LOAN CONFORMS TO THE REQUIREMENTS SET FORTH HEREIN.

1.2 Fair Lending Statement

The Purchaser operates in strict compliance with the provisions of the Fair Housing Act and the Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, marital status, age (provided that the borrower has legal capacity to enter a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. The Purchaser fully supports the letter and spirit of both laws and will not condone discrimination when it determines whether to purchase any loan.

1.3 Responsible Lending Statement

The Purchaser will not purchase loans that are: (a) Mortgage Loans subject to **12 CFR Part 226.32 of Regulation Z, the regulation implementing** the Home Ownership and Equity Protection Act of 1994, as amended, or (b) classified and/or defined, as a “high cost,” “threshold,” “predatory high risk home loan” or “covered” loan (or a similarly-classified loan using different terminology under a law imposing additional legal liability for mortgage loans having high interest rates, points and/or fees) under any other applicable federal, state or local law.

1.4 Benefit to Borrower

In keeping with the commitment of responsible lending, all loans that are refinance loans must have a measurable benefit to the Borrower. When determining the benefit on a refinance transaction, several of the following items must exist to support the benefit to the Borrower:

- Lower housing payment
- Lower total monthly payments
- Lower interest rate
- Conversion from adjustable rate to fixed rate
- Payoff of a balloon payment
- Conversion from negative amortization to fully amortizing
- Reduction of loan term
- Reduction of total interest payments
- Consolidation of debt
- Payoff of a tax lien
- Proceeds (cash-out) to Borrower
- Payoff of a construction loan
- Payoff of property taxes
- Title transfer
- Court order

Acceptable secondary benefits to be used in conjunction with other benefits are:

- Cash-out for medical needs
- Cash-out for education needs
- Payoff of a privately held mortgage

2 PRODUCT TYPES & ELIGIBILITY

2.1 Fixed Rate Products

A fixed rate mortgage is a mortgage transaction in which the interest rate remains fixed throughout the amortized term.

Fixed Rate Term: 30 years
Assumable: Not allowed
Convertible: Not allowed
Interest-only option: 30 Year Fixed only, Max LTV 80%
Prepayment Penalty: Not allowed

2.2 Interest-Only Option

Available subject to the following restrictions:

- Fixed Rate: 30 Year Only
- Purchase and Rate & Term Refinance
- Primary Residence and Second Home
- Non-occupant co-borrowers not permitted
- 1-4 unit(s)
- Max LTV 80% (2-4 unit properties deduct 5% - see Quick Reference Guide for full details)
- Minimum FICO: See Quick Reference Guide for full details
- 10-year interest-only term, 20 Year Amortization Period
- 12- or 24-months reserves – see Quick Reference Guide for full details

2.3 Maximum LTV

As shown in the Quick Reference Guide. A 5% reduction applies to properties in declining markets. A 5% LTV reduction applies to 2-4 unit properties.

2.4 Maximum Loan Amount

As shown in the Quick Reference Guide.

2.5 Documentation Type

Full Documentation only.

2.6 Geography

All fifty (50) US states including the District of Columbia (DC) are eligible for purchase.

The following US commonwealth and territories are not eligible for purchase:

- Puerto Rico, Guam, American Samoa, Northern Mariana Islands, and the U.S. Virgin Islands

2.7 Temporary Rate Buydowns

Not allowed.

3 BORROWER ELIGIBILITY

The Purchaser requires that each Borrower be a natural person and that title to the property be in the name of one or more natural persons, including the Borrower. A loan is not eligible if the Borrower is another type of legal entity, such as a corporation, general partnership, limited partnership, real estate syndication or irrevocable trust.

3.1 U.S. Citizenship

U.S. citizens are eligible for financing.

3.2 Permanent Resident Aliens

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Conditional Permanent Resident Card (Green Card) issued for two (2) years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an unexpired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

3.3 Non-Permanent Resident Aliens

The following Visa classifications are allowed as Non-Permanent Resident Aliens:

VISA CLASSIFICATIONS		
• L-1	• H-1B	• O-1

Copies of the Borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the Borrower's current employer. If the visa will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the Borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-Borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website:

https://www.dhs.gov/visa-waiver-program-requirements

3.4 Foreign Nationals

Not allowed.

3.5 Inter-Vivos Revocable Trusts

Trust must be established by one or more natural persons, individually or jointly.

The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.

The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.

The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

3.6 Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors

Generally, co-borrowers/co-mortgagors are Borrowers who will occupy the subject property (if it is a primary residence or a second home), be obligated for the debt and take title to the subject property. The occupying Borrower must demonstrate an ability and willingness to make the mortgage payments and maintain homeownership.

Non-occupying Borrowers for owner occupied primary residence loans are permitted provided that:

- Occupying Borrower must demonstrate sole financial capacity for loan payments by not exceeding a total DTI of 40% based solely on their income.
- Occupying Borrower must have a minimum 20% of their own personal funds into the subject transaction.
- Subject property must meet the requirements of primary residence for the occupant Borrower.
- Property is 1-unit.
- Property type is a Single-Family Residence, PUD, or Condo.
- The non-occupying Borrower:
  - Must sign the note.
  - Must be on the title at closing for refinances or must take title to the subject at closing for purchase transactions.
- A non-occupant Borrower cannot be an interested party to the transaction (i.e. seller, builder, realtor, etc.) and must have either a family or long-standing relationship with the Borrower.
- A non-occupant Borrower must meet the minimum credit score requirement.
- Interest only is not allowed.

3.7 Power of Attorney ("POA")

A Limited Power of Attorney, under no circumstances a General Power of Attorney, subject to legal approval, may be acceptable with the Purchaser's prior written approval, to be granted or withheld in Purchaser's sole discretion on a case-by-case basis, when the POA, at minimum, meets all the following criteria:

- It is specific to the transaction.
- It is recorded.
- It is dated such that it was valid at the time the relevant loan documentation was executed.
- The Borrower who executed the POA signed the initial URLA, and
- No interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) serves as the attorney in connection with, or the attorney-in-fact under, such POA.

3.8 Interested Parties

All parties involved in each transaction are screened for inclusion on various lists, including without limitation:

- Freddie Mac's Exclusionary List,
- Office of Foreign Asset Control (OFAC),
- The Purchaser's internal exclusionary list.

If a match is determined, the loan will be ineligible.

3.9 First Time Home Buyer

A First Time Home Buyer is permitted, subject to certain restrictions. A First Time Home Buyer is defined as a Borrower who had no ownership interest in a residential property during the preceding three-year period.

The Borrower's previous 24-month rental housing payment history is required. Payments must be documented via an institutional VOR or cancelled checks/bank records.

- No rental payment may be more than 0x30 late during this time.
- Borrowers who have lived in a rent-free situation are ineligible.

Payment shock cannot exceed 200% (calculated based upon current monthly rent and anticipated PITIA payment following loan closing).

All other eligibility requirements as defined by the Quick Reference Guide are applicable.

3.10 Ineligible Borrowers

Due to the inability to compel payment or obtain judgment, the following Borrowers are not eligible for financing:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Limited partnerships, general partnerships, corporations, and other non-natural persons
- Borrowers whose income is not likely to continue for at least 3 years (e.g., a bonus or an inheritance).

4 OCCUPANCY ELIGIBILITY

4.1 Primary Occupancy

Primary occupancy refers to a property that is occupied as the Borrower's primary residence for a major portion of the year. Primary occupancy is allowed on a 1-4 family property. A primary residence typically meets the following criteria:

- Located within a reasonable commuting distance of the Borrower's place of employment,
- The subject property is declared as the Borrower's primary residence for purposes of tax reporting, voter registration, etc, and

- Borrower(s) declares their intention to occupy the subject property as a primary residence.

Transactions where occupancy is questionable are treated as Non-Owner Occupied.

4.2 Second Home Occupancy

Second Home occupancy refers to a single-family dwelling that the Borrower occupies in addition to their primary residence and may also be referred to as a Vacation Home. A Second Home typically meets the following criteria:

- Located in a resort or vacation area, or where the Borrower regularly conducts business,
- Located 50 or more miles from the Borrower's primary residence,
- Suitable for year-round occupancy,
- Must be available for Borrower's exclusive use.
  - It may not be subject to any timesharing arrangements, rental pools or other agreements that require the Borrower to rent the subject property or otherwise give control of the subject property to a management firm
- In certain instances, short-term rental arrangements may be acceptable, but any rental income received will not be considered; and
- Typically, a Borrower may have only one second home.

Transactions where occupancy is questionable are treated as Non-Owner Occupied.

4.2.1 Ineligible Second Homes

The following are NOT allowed on a Second Home:

- Subject property occupied by someone other than the Borrower.
- Non-arm's length transactions.
- 2-4 unit properties.
- Rental income from subject property.

4.3 Investment Property (Non-Owner Occupied Property)

See Quick Reference Guide for eligibility.

5 TRANSACTION ELIGIBILITY

5.1 Purchase Transactions

A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the LTV/CLTV/HCLTV.

The maximum interested part contribution is 6%.

"Purchase / Keep" scenarios where the borrower is purchasing a new primary residence and retaining their current residence are subject to the following:

- If the current property residence is pending sale but the transaction will not be closed prior to the new transaction, both the current and proposed mortgage payments must be used to qualify the borrower for the new loan.
- If the current primary residence is being converted to a second home, both the current and proposed mortgage payments must be used to qualify for the new loan.
- If the current primary residence is being converted to an investment property, the following applies:
  - The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
    - A current residential appraisal (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
    - An Exterior Only appraisal (2055) (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference
  - A 25% expense /vacancy deduction must be applied to all rental income. Copies of the signed lease are required.
  - Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence.

5.2 Rate / Term Refinance

A refinance is a loan transaction on a property already owned by the Borrower. The loan proceeds are used for repayment of an existing mortgage loan debt that has the same Borrower and the same security property.

In connection with a Rate / Term, the loan amount is limited to the sum of the present first mortgage loan payoff, the payoff of any subordinate financing that was used to acquire the subject property and closing costs (including prepaid costs). Cash to the Borrower is limited to $2,000.

5.2.1 Seasoning Requirements

For all rate and term refinance transactions, a minimum of six (6) months must have elapsed since the original purchase transaction and the last refinance transaction on the subject property. Value increases on recently purchased properties will have to be properly explained and documented in the appraisal report to the satisfaction of the Purchaser.

5.2.2 Properties Lised for Sale

Properties listed for sale are not eligible for a rate and term refinance transaction unless the listing was withdrawn (or expired) prior to the date of the application. If the property was listed within the previous 6 – 12 months from application date, a letter from the borrower explaining the reason for retaining the property is required.

5.2.3 Construction Loans

Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:

- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.
- The LTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- Cash out is limited to the maximum amounts stated on the Quick Reference Guide.

5.2.3.1 Ineligible Construction Loans

- Construction loan refinances in which the borrower has acted as builder are not eligible.
- Single closing construction permanent loan refinances that include a modification are ineligible.

5.3 Cash-Out Refinance

The amount of a Cash-Out Refinance may include the present first mortgage loan payoff, subordinate liens (if applicable), closing costs and additional cash in hand to the Borrower. The payoff of the present lien and the subordinate liens must be indicated on the Closing Disclosure. The payoff demand statement(s) must be in the file.

The payoff or payment to any of the following results in a Cash Out Refinance:

- Cash proceeds to the Borrower more than $2,000.
- Liens on the subject property that were not placed on the property in connection with the acquisition of the property or that provided cash proceeds (of more $2,000) to the Borrower, and which are less than 12 months seasoned, including HELOC draws greater than $2,000.

- Any other debt, obligations or payments to any third party (other than for customary closing costs of the subject loan).

A Debt Consolidation loan is classified as a Cash-Out Refinance for pricing and loan eligibility purposes.

5.3.1 Maximum Cash-Out

Cash-out is limited to $500,000.

5.3.2 Seasoning Requirements

For all cash-out refinance transactions, a minimum of 12 (twelve) months must have elapsed since the original purchase transaction or since the last refinance transaction on the subject property. Value increases on recently purchased properties will have to be properly explained and documented in the appraisal report to the satisfaction of the Purchaser.

5.3.3 Properties Listed for Sale

Properties that have been listed for sale within the past 6 months of application date are not eligible for a cash-out refinance. If the property was listed within the previous 6 – 12 months from application date, a letter from the borrower explaining the reason for retaining the property is required.

5.3.4 Delayed Financing

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible. The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property.

Delayed financing refinances are underwritten as cash out refinances and are subject to cash-out refinancing program limitations.

5.3.4.1 Ineligible Delayed Financing

- Cash back to the borrower more than the original purchase price or appraised value (whichever is less) is not allowed.
- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- Property may not be located in Texas.

5.4 Subordinate Financing

The borrower is not required to satisfy outstanding junior liens secured by the mortgaged premises to obtain a cash-out refinance loan, provided that:

- The junior lien remains subordinate to the lien of the new refinance mortgage loan.
- A copy of the subordination agreement is maintained in the mortgage loan file.
- The subordinate financing was provided by a financial institution.

5.5 Inherited Properties

If the subject property was inherited less than 12 months prior to loan application, the transaction is subject to the following requirements:

- The proceeds must be used to buy out the documented equity interest of others if applicable.
- The subject property must have cleared probate, and the property must be owned in the Borrower's name.
- The current appraised value is used for LTV/CLTV/HCLTV determination.

5.6 Ineligible Transactions

- Texas Refinance 50(a)(6) or 50(f)(2) Transactions
- CEMA
- Construction Loans / Properties under Construction
- Land Contracts (Installment Land Contract, or Contract or Bond for Deed)
- Lease-Purchase Option
- Non-Arms-Length
- Model Home Lease-Back
- Section 32 and/or high-cost loans
- Blanket loans, covering multiple properties
- Bridge loans
- Loans to fund escrows for work completion
- Loans to Purchaser's employees
- Loans to officers/owners of the originator or their employees
- Borrowers less than 18 years old or otherwise legally incapable of entering a contract
- Cash-out refinance transactions less than 12 months after the date of a purchase transaction
- Properties in title to an entity that is not a natural person such as a corporation, general partnership, limited partnership, or real estate syndication, or irrevocable trust. Title must reflect a natural person(s) at closing or Inter-Vivos Revocable Trust.

6 CREDIT ELIGIBILITY

6.1 Evaluation of Credit

Generally, an acceptable credit history will include at least two or three years of credit use. The number of recently opened accounts should also be considered. If there are a significant number of new accounts, the reasons should be investigated.

There are several different credit usage factors considered in evaluating credit history:

- Number of accounts

- Outstanding debt
- Delinquencies
- Derogatory credit information
- Inquiries

It is generally not one credit usage factor, but the combination of factors that establish whether the overall pattern of credit use is acceptable. All evaluations of a Borrower's credit must strictly comply with the Federal Fair Credit Reporting Act.

6.2 Credit Report

A Credit Report is required for every Borrower who executes the note. The Credit Report must provide merged credit information from at least three national credit bureaus.

6.3 Credit Scoring

Each loan must have a Representative Credit Score, which is the only Credit Score used for loan eligibility, qualification and pricing. Each Borrower must have a valid and usable score from at least two of the following three agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these three agencies are acceptable. Alternative credit history is not allowed.

6.3.1 Determining the Borrower's Credit Score

To determine the Representative Credit Score for the loan:

- Determine the score for each Borrower on the loan. Select the middle score when three agency scores are provided and the lower score when only two agency scores are provided.
- To determine the representative Credit Score for the loan (each loan has only one representative Credit Score), the lowest representative Credit Score of all borrowers is used.

6.4 Minimum Credit History

A valid and usable score is one that is generated based upon credit history and credit patterns that accurately reflect the Borrower's history. It should be generated based upon at least the following:

- Three (3) tradelines from traditional credit sources (such as a bank or other financial institution) that reported for 24 months or more prior to the date of loan application, and
- One (1) open mortgage tradeline during the last 36 months or must comply with the VOR requirements in section 3.9 for First Time Home Buyers.
    - The mortgage tradeline requirement is considered met if all owned properties are free and clear for the last 36 months.

Loans on which the Borrower is not obligated to make payments (such as loans in a deferment period), collection or charged off accounts, and "authorized user" accounts are not acceptable trade lines for establishing the minimum history.

6.5 Inquiries

If the credit report indicated that a Borrower has made multiple inquiries within the previous 90-day period, the underwriter must determine whether additional credit was granted because of the borrower's request. A letter from the creditor or, if such a letter is unobtainable, a signed statement from the borrower may be used to determine whether additional credit was obtained.

6.6 Payment Histories

Payment histories may be requested and reviewed when the Credit Report indicates that delinquencies have been removed or when most credit is from a non-institutional lender.

6.7 Delinquency and Derogatory Credit

There are several factors to consider in the analysis of delinquencies or derogatory credit information:

- The type of accounts on which the delinquency occurred,
- The reason for delinquency,
- The severity of the delinquency,
- The frequency of delinquent accounts, and
- How recently the delinquency occurred.

More weight is placed on installment loan delinquency than on revolving debt delinquency. The most weight is placed on mortgage loan payment history. The most serious types of delinquencies include foreclosures, bankruptcy, judgments, collection accounts and tax liens require 7-year seasoning. Explanations and supporting documentation should generally be in the file to show that these events were an isolated occurrence and are unlikely to happen again. Accounts which are currently delinquent must be closely scrutinized.

All past-due accounts must be brought current prior to closing. All liens that affect title to the security property must be paid at closing.

6.7.1 Derogatory Credit

6.7.1.2 Public Records

A Borrower with any previous severe derogatory credit history, including derogatory public records, must have a re-established credit history of 24 months with no derogatory credit, and at least 3 satisfactorily paid accounts.

- **Foreclosure/Deed-in-lieu/Notice of Default (NOD)/"Short" Sale or Refinance/Loss Mitigation Modifications** – must be seasoned at least 7 years from time of application.
    - Previous Pre-Foreclosure or "Short" Sales / Refinances – the 7-year timeline is measured from the completion of the action is required for a short sale or short refinance.

    - If a Borrower who is a party to the loan has had a mortgage loan with any of the following issues, the Borrower's credit will be considered as having had a foreclosure that must be seasoned as indicated in the Derogatory Credit section of Credit Analysis:
        - Property taxes delinquent more than 30 days
        - Foreclosure filed
        - Foreclosure consummated
        - Notice of default filed
        - Foreclosed property redeemed
        - Delinquency of 120 days (or more)
        - Workout agreement in place to alter the terms of the original loan
    - Loss Mitigation Modifications – the 7-year timeline is measured from the completion of such a modification.
- **Chapter 7, 11, 12 or 13 bankruptcy** - must be seasoned at least 7 years from time of application.
    - Duration since bankruptcy is calculated from the discharged or completed date.
    - Borrowers with a prior bankruptcy must exhibit a re-established credit history, with no derogatory credit since the problem occurred.
    - A borrower may not have more than 1 bankruptcy filing regardless of the applicable chapter filing.
- **Consumer Credit Counseling Service (CCCS)** - are considered the same as Chapter 13 bankruptcy for loan underwriting purposes.
    - Note: Credit bureaus generally do not actively track credit counseling history in the Borrower's credit file. If a completion date is not shown on the Credit Report, then verification is required from the counseling agency to establish the date of completion.
- **Lawsuits/Pending Litigation** - Borrowers party to a lawsuit or pending litigation are ineligible.

6.7.1.3 Forbearance

For a borrower that previously had a loan in forbearance, 6 months of satisfactory payments after the applicable loan is out of forbearance need to be completed for the borrower to be eligible.

6.7.1.4 Collections, Charge-offs, Judgments, Liens

All delinquent credit that will impact title to the security property, including but not limited to delinquent taxes, judgments, charged-off accounts, tax liens and mechanics' liens, must be paid off prior to or at closing. Title insurance must insure the Purchaser's first lien position without exception. Any item secured by the subject property must be paid for in full at or prior to closing. However, charge-offs or collection accounts that do not affect title are not required to be paid off if the combined balance of all derogatory accounts is $5,000 or less. Total collections exceeding $5,000 must be paid in their entirety at or prior to closing.

6.7.1.5 Delinquent Credit Belonging to Ex-Spouse

Delinquent credit that belongs to an ex-spouse may be excluded from the credit evaluation of the Borrower in the following circumstances:

- The file contains a copy of the divorce decree or separation agreement which shows that the derogatory accounts belong solely to the ex-spouse, and
- The late payments occurred after the date of the divorce or separation, and
- If the delinquent payments in question relate to mortgage debt, evidence of transfer of title to the mortgaged property prior to the delinquency must be provided, and evidence of "buyout" as part of court proceedings must be provided.

6.7.1.6 Delinquent Credit Belonging to Co-signer

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

6.7.1.7 Written Explanations

A satisfactory written explanation signed by the Borrower(s) explaining the reason(s) for adverse credit is required if determination is made that the adverse credit has a significant negative impact on the creditworthiness of the Borrower(s). The explanation must satisfactorily identify the reason(s) for the adverse credit and the timing of the event(s) must be consistent with other application information. Documentation supporting the Borrower's explanation(s) is required. A Borrower with an unfavorable credit history may be deemed acceptable if the occurrences of adverse credit use do not appear to be typical for the Borrower and are due to circumstances beyond the Borrower's control. Additionally, the instances should not be indicative of the Borrower's negligence or unwillingness to repay.

6.7.2 Re-established Credit

A Borrower with a prior bankruptcy, foreclosure, CCCS or other similar serious credit default in their credit history must prove that they has re-established their credit history. Credit must be re-established for the most recent 24-month period (48 months in the case of a foreclosure), meeting the following minimum requirements:

The Minimum Credit History requirements must be met (see Section 6.7.1).

One reference must be the Borrower's prior 24-month housing payment history, verified by the Borrower's:

- mortgage loan payments disclosed on the Borrower's credit report, or
- canceled checks or money orders for mortgage loan or rental payment, or
- bank statements clearly indicating the mortgage loan or rental payment, or
- a standard mortgage loan verification or loan payment history from the mortgage servicer, or

- Borrower's year-end mortgage loan account statement (if it includes a payment receipt history), supplemented by the Borrower's canceled checks for the months that have elapsed since the statement was issued.

In addition to a housing payment history, at least one other active trade line must have been established for at least the previous 12 months.

No late payments or credit derogatory information with respect to credit card accounts in the previous 24 months.

No new public records, judgments, collections, etc., since the problem occurred.

6.8 Mortgage/Rental Payment History

The Borrower's previous 24-month primary housing payment history is required. The file must also contain verification of the Borrower's 24-month (or since origination, whichever is less) payment history for all mortgage loans (including loans secured by subordinate liens) appearing on the Credit Report and on the initial application. Prior housing payment history should include mortgage loan payments, rental payments, or a combination of to cover 24 months. Mortgage loan history must be verified from the credit report or other supplemental documentation such as a VOM and bank debits or cancelled checks.

6.8.1 Mortgage/Rental History Requirements

No mortgage loan payments (including payments on loans secured by subordinate liens) or rental payment may have been more than 0x30 late in the previous 24 months. This includes the period up to and including the closing of the subject loan, as may be evidenced by the demand letter submitted at the time of closing. When disclosed, as may be on the credit report, no mortgage loan may have been more than 30 days late in the previous 24 months. A delinquency must be explained and documented in a Letter of Explanation. Each month of contractual delinquency is considered separately, "rolling" late payments are not permitted.

6.8.1.1 Timeshare

For credit review purposes, timeshare obligations are usually considered installment loans. If the Borrower has a deed to the timeshare property, then the timeshare obligation must be considered a mortgage loan for review purposes.

6.9 Liabilities

Monthly payments on all existing debts are included in the Borrower's total liabilities or obligations. Debt that is paid off at closing may be excluded from the DTI provided the final Closing Disclosure reflects the payoff.

6.9.1 Installment Debt

Installment debt is the monthly obligation on accounts with fixed payments and terms (e.g., car loans, student loans, etc.). The monthly payments may be excluded from the DTI calculation if there are fewer than ten (10) monthly payments remaining to repay the debt in full. Installment debts may not be "paid down" to 10 payments to eliminate such debts from DTI calculation, but they may be paid in full.

However, if the monthly payment is substantial and inclusion would result in an excessive DTI, underwriting discretion will be used to ensure that exclusion of that debt is reasonable under the circumstances.

6.9.2 Lease Obligations

Lease obligations, regardless of the remaining lease term, are included in the DTI calculation.

6.9.3 Revolving Debt

Revolving debt is open-ended debt of which the principal balance on an account may vary from month to month (e.g., department store credit cards). The minimum required payment as stated on the Credit Report or current statement should be used in calculating the DTI unless as noted below. The following debts must be considered as a recurring monthly debt obligation:

- The credit report balances suggest that more than ten payments remain to be paid regardless of whether the loan application indicates that the debts will be paid off at or prior to closing,
- The credit report indicates less than 10 months remaining to be paid, but the payments have a significant impact on the Borrower's ability to repay the mortgage loan or meet other credit obligations.
- The credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%. In this situation, an amount equal to 5% of the outstanding balance must be used as the Borrower's recurring monthly debt obligation.

6.9.4 Alimony/Child Support/Separate Maintenance

Monthly alimony, child support or separate maintenance obligations with ten or more payments remaining are included in the DTI. If there are fewer than ten payments remaining, the file must contain evidence of the duration of support payments, and payments may not be included in DTI.

6.9.5 Negative Cash Flow from Rental Property

See Section 7.5.11 "Rental Income".

6.9.6 Business Debt

Business debts for which the Borrower is personally liable are included in the debt calculation up to the amount of the personal recourse. These debts include business paid personal debt, unless proof of payment by the business is established.

If the account is new, it must be included in the DTI calculation.

Business debts may be excluded from the DTI calculation if a minimum of twelve (12) months of consecutive canceled checks from the business are provided.

6.9.7 Co-signed Obligations/ Contingent Liabilities

Proof of payments made by other parties must be documented with twelve (12) months canceled checks.

If the Credit Report does not reflect the Borrower as a co-signer, obtain a copy of the note or security instrument to verify that the Borrower is not the primary obligor.

The following may be excluded from the DTI:

- A debt secured by property that has been bought out by the former co-owner (for example, in connection with a divorce). The file must include evidence of transfer of title to the former co-owner.
- A mortgage loan that has been assumed by a third party without a release of the Borrower's liability. A copy of the formal assumption agreement and evidence of transfer of ownership of the property should be in the file. Do not include payment history, and the assumption does not need to include a release of the Borrower from liability.
- Debts required to be paid by someone other than the Borrower pursuant to a court order. A copy of the court order transferring liability for payments to another party is required to be in the file.

If none of these requirements can be satisfied, then the liability must be indicated on the application and considered as a monthly debt payment for mortgage loan eligibility purposes.

The debt must not have been delinquent at any time.

6.9.8 Retirement/Savings Plan Loans (i.e. 401K, Insurance Policy)

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) may be excluded from the total debt ratio provided that the Borrower can repay the debt by liquidating the asset.

6.9.9 Student Loans

Deferred student loans are included in the DTI calculation as a long-term obligation. Student loans can be counted as credit debt if they are in repayment and are not being deferred.

Student loans listed as delinquent must be brought current.

If no payment is shown on the credit report for a student loan payment, then the payment information should be provided by the student loan lender.

- If the monthly payment amount cannot be determined, use 1.0% of the current balance.
- If a student loan is charged off, the total of the amount charged off will be included in the cumulative charge off balance in the last 24 months.
- If a student loan is placed for collection, get a copy of the repayment agreement and a copy of a canceled check and include the payment in the DTI.

6.9.10 Bridge/Swing Loan

If the Borrower obtains a bridge loan, the monthly payment for the bridge loan must be included in the debt unless the Borrower can provide a copy of the executed sales contract for the property that is secured by the bridge loan. In addition, the Borrower must have six (6) month's PITIA reserves on any outstanding liens against the property secured by the bridge loan. These reserves are in addition to any reserve requirements for the subject transaction.

7 INCOME DOCUMENTATION

7.1 General

The documentation that is required for the non-conforming jumbo programs is used to determine whether the Borrower reasonably can be expected to be able to repay the loan. Such a determination is based on the Borrower's employment history, income sources and past credit experience, which must be commensurate with the loan request.

7.1.1 Full Documentation (FULL DOC)

Full Doc requires 24 months of verified income and employment history that can reasonably be expected to continue for at least the next 3 years. All loans require that each Borrower with income disclosed on the application sign an IRS form 4506-C, which will be used to validate income and employment history.

7.1.1.1 Pay stubs and W-2s

When the pay stubs and W-2s are provided for income and employment verification, the documentation must meet the following criteria:

- Pay stubs and W-2s must be typed or computer generated.
- Pay stubs and W-2s must verify:
  - Borrower's full name and address
  - Borrower's Social Security number
  - Employer's name and address
  - Year to date earnings and Borrower's rate of pay

Also confirm if the pay stubs reflect garnishments (child support, IRS, etc.) or if there are any loan deductions.

7.1.1.2 Tax Returns

Tax returns, when required, must be signed by the Borrower and contain all schedules and attachments. Whenever tax returns are used to support income, an IRS 4506-C must be signed by the Borrower(s) and executed by the originator.

7.1.1.3 Written Verification of Employment

Income and employment for non-self-employed Borrowers may be obtained via direct written verification from the Borrower's employer or eligible 3rd party vendor that is approved with Fannie Mae as an authorized report provider. A list of the approved providers can be found at www.duvalidationcenter.com. The verification must be signed by a member of the company's human resource department or one of the business owners/officers. At a minimum, the verification must include:

- Borrower's name
- Position
- Dates of employment
- Base salary

7.1.1.4 Declining Income

If income has been declining or is inconsistent, further documentation is required based on underwriting review. If the decline or inconsistency cannot be shown to be isolated or nonrecurring in nature, then the lowest annual compensation over the 2-year period prior to the date of loan application must be used to qualify the Borrower.

7.1.1.5 Hourly Wages

If the Borrower is paid on an hourly basis or may not work a regular 40-hour work week throughout the year, their income generally must be averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

7.1.1.6 Bank Statements as Income Verification

Not allowed.

7.1.1.7 Verbal Verification of Employment (VVOE)

Verbal VOEs are required for all loans. VVOEs must meet the following criteria:

- Completed within 10 business days from the note date.
- Confirm that the Borrower is employed at the time of verification.
- Include the name and phone number of the person processing the VVOE.
- Include the name, position and phone number of the person providing the verification (employer).

- The telephone number for the Borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

7.1.1.8 IRS 4506-C

An IRS 4506-C document must be completed and signed by the Borrower(s) on the loan application. The 4506-C must be executed by the originator prior to closing.

W2 income retrieved pursuant to the 4506-C prior to closing should be compared to income disclosed on the application for consistency. Tax Transcripts shall also be requested by the originator from the IRS at the underwriter's discretion.

7.1.2 Employment History

Generally, employment must be stable with at least a two -year history in the same job or jobs in the same or related field. Self-employed Borrowers must have been in business for at least two years. Other circumstances may also be acceptable as outlined in this section.

7.1.3 Source of Income

Borrowers are qualified based on calculated stable monthly income. Stable monthly income consists of those amounts and sources that are reasonably expected to continue. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc. Typically, if the income can be verified as received for a reasonable time (i.e., two or more years) and is likely to continue for at least three more years based upon the totality of the circumstances, the income may be used as qualifying income. Each source of income must be reviewed regarding the Borrower's ability to meet their total debt obligation. Varying types and levels of income documentation may be necessary for different types of income and loan programs.

7.2 Salaried Income/Wage Earner Income

A Borrower whose income is derived from a consistent hourly, weekly or monthly wage, must be verified by:

1. W-2s for the prior two years, and
2. most recent pay stubs covering a 30-day period with YTD earnings, and
3. a Verbal Verification of Employment (VVOE) within 10 business days from the date of the note.

Direct written verification (WVOE) from Borrower's employer is acceptable in lieu of items 1 and 2 above.

7.3 Self-Employment Income

A Borrower is considered self-employed when their income is derived from a business in which they maintain a substantial ownership interest or can otherwise exercise control over the business's activities. Generally, a 25% or more ownership interest in the business is considered "substantial" for underwriting purposes.

All self-employed borrowers' files must include:

1. Signed and dated tax returns (both personal and business) with all schedules, and
2. a third-party verification of the existence of business, and
3. a Verbal Verification of Employment (VVOE) within 10 business days from the date of the note.

Transcripts are not acceptable in lieu of signed and dated federal tax returns with all schedules.

Identifying Self-Employed Income:

7.3.1 Sole Proprietorship

In a sole proprietorship, the Borrower is the "sole" or individual owner of the business. The business income is most likely reported on the Borrower's individual federal tax returns and is reflected as Schedule C earnings.

7.3.1.1 1099 – Miscellaneous Income

Payments to sole proprietors or contract employees will also be reported on a 1099 form and included in the Borrowers Schedule C. If a Borrower receives 1099 income, the prior two years' complete, signed federal tax returns (Form 1040) are needed to verify the amount of income which is calculated based on how the income was filed.

7.3.2 Partnerships

A partnership is formed when two or more people start a business together. The partners share profits (or losses) and control of the business. Partnerships generally fall into two main categories, General and Limited:

1. **General Partnerships**

Each partner is personally liable for all debts of the business.

Personal liability to the partnership creditors will continue even after the partnership is dissolved.

2. **Limited Partnerships**

Generally, a limited partnership exists for investment and tax purposes.

Limited partners generally take a loss on the investment, which will show as a loss under Schedule E on their personal tax returns. Determine if the limited partnership income is real or a tax shelter.

7.3.2.1 Partnership Income Documentation

Documentation required to calculate partnership income is:

1. Most recent 2 years signed, personal federal tax returns, complete with all schedules including Schedule E, and W-2s (if applicable), and
2. K1s, and
3. Most recent 2 years 1065 returns (if Borrower is a limited partner with <25% ownership, Form 1065 is not required).

For partnerships, the qualifying income should be taken from 2 years Schedule K1 (Form 1065).

7.3.3 Corporations

A Corporation is a business owned by stockholders instead of individually. If the Borrower has more than 25% ownership in a corporation, they are considered self-employed. A Borrower who is self-employed as a corporate officer will receive a W-2 and will report income on their personal tax returns. All corporate income or losses are reported on the corporate tax returns (Form 1120 or 1120S with Schedule K-1).

7.3.3.1 Corporate Income Documentation

Documentation required to calculate corporate income is:

1. Most recent 2 years signed, personal federal tax returns, complete with all schedules, and
2. W-2s (if applicable), and
3. 2 years 1120 returns

7.3.4 "S" Corporations

"S" Corporations are generally small corporations that are taxed in the same manner as partnerships. They pass gains and losses through to their shareholders, which are then taxed at the tax rates for individuals. "S" Corporation income is reported on either W-2 and Schedule E, or just on Schedule E (section 27). The profit of the corporation is distributed to each owner according to their share of ownership. The adjusted profit (i.e., the net income) is then divided by the Borrower's share of ownership and combined with W-2 income used for qualifying.

7.3.4.1 S Corp Income Documentation

Documentation required to calculate S Corp income is:

1. The most recent 2 years signed, personal federal tax return, complete with all schedules including Schedule E, and W-2s (if applicable),
2. K1s, and
3. 2 years 1120S returns

7.4 Fixed Income/Non-Taxable Income

Documentation required for Borrowers who receive fixed/non-taxable income varies considerably. Examples of fixed/ nontaxable income are Social Security income, retirement or pension income, alimony, child support, welfare, etc. The income must be likely to continue for three years following loan application. The following support documentation is considered, but consideration is not limited to:

An award letter or most recent three months' bank statements evidencing automatic deposit of the benefit, three months' benefit checks or a copy of the previous two years' tax returns/1099(s).

Twelve months checks are required for child support, alimony or maintenance income. Check specific section in income for determination of exact requirement.

Copies of the divorce decree and copies of canceled checks or copies of bank statements verifying receipt of funds relating to alimony and/or child support.

Non-taxable income may be "grossed up" by 25%. Non-taxable income includes but is not limited to:

- Child support
- Disability income
- Social Security
- Worker's Compensation
- Aid to dependent children (ADC)/foster care
- Public assistance
- Federal Employees Compensation Act Benefits
- VA benefits (VA education benefits may not be used as qualifying income)
- Military allotment (food and housing)
- Municipal bond interest

7.4.1 Annuity and Pension Income

Annuity income may be used as qualifying income if it is properly documented and is expected to continue for at least three years.

Acceptable documentation includes:

1. A copy of the award letter,
2. and a copy of the bank statement showing automatic deposit of said income.

Nontaxable pension and annuity income may be grossed up by 25% based upon the 1040s to confirm the income is non-taxable.

7.4.2 Child Support, Alimony or Maintenance Income

Child support, alimony or maintenance payments may be used as income only if this information is volunteered by the Borrower and if the file substantiates the receipt of funds on an ongoing basis.

Acceptable documentation includes:

1. Copies of the divorce decree/separation agreement along with copies of court records, and

2. bank statements or canceled checks showing payments for a minimum of twelve months are required.

To be used as income, these payments must reasonably be expected to continue for three years.

7.4.3 Disability Income

Long-term disability benefits may be used as qualifying income if a two-year history of receipt has been documented.

Acceptable documentation includes:

1. A copy of the award letter, and
2. two years W-2s or 1099s, and
3. current evidence of receipt (current pay stub or evidence of direct deposit into the Borrower's bank account).

The award letter must indicate the benefit amount, length of time that the benefits are received and the conditions for receipt of benefits.

Short-term disability income cannot be considered.

7.4.4 Foster Care Income

Income derived from foster care payments may be considered if it is regular, recurring and likely to continue for three years. A two-year history of past receipt is required. The income used to qualify must be averaged over a two-year period. Projected income may not be used in the calculation.

7.4.5 Public Assistance

Public assistance payments may be used as income, with verification of receipt and verification from the paying entity. Benefits should have been received for the past two years and benefits must be likely to continue for three years. Non-taxable public assistance may be grossed up by 25% with complete tax returns to demonstrate that the income is non-taxable.

7.4.6 Social Security and Retirement Income

These types of income can be verified with an award letter plus tax returns or bank statements evidencing regular monthly deposits in the Borrower's account. Social Security survivor benefits must be expected to continue for at least three years to be considered as income.

Social Security Disability Income, Child's Benefit, or other income paid by Social Security must be evidenced by:

1. A copy of the Social Security award letter, and
2. A copy of the Borrower's most recent three (3) months' bank statements showing the direct deposit of the income into the Borrower's account.

Benefits payable to/for minors:

- The minor must be under the age of 18.
- This income may be used for qualifying purposes only if it is expected to continue for a minimum of three (3) years.

7.4.7 VA Survivors' Benefits/Dependent Care

This income may be considered if received for at least 12 months and is expected to continue for at least three years. A copy of the award letter outlining the duration and amount of payments must be provided by the Borrower.

7.4.8 Public Assistance Benefits

Public assistance benefits may be considered as stable monthly income if the file contains direct written verification from the welfare agency addressing the amount, duration and frequency of the payment of benefits. Benefits must have been received for the past two years prior to the date of loan application and benefits must be likely to continue for three years.

7.5 Additional Sources of Income

7.5.1 Automobile Allowance

Automobile allowances are considered acceptable income provided receipt of such income has been documented for the previous two years and the income is likely to continue.

7.5.2 Commission, Bonus, and Incentive Income

Bonus income can be considered if it is consistent for a period of more than 2 years. To establish bonus earnings, bonus and incentive income are calculated as an average over 24 months provided that the income is expected to continue. If the trend is declining, then average the bonus or incentive income for the most recent 12-month period may be used. If bonus and/or incentive income is stable and or increasing, a 24-month average is required.

Commission income is considered stable monthly income if it has been received for two years and is likely to continue. Additionally:

- Commission and bonus income can be established with recent pay stubs with year-to-date commission earnings broken out, and either
- A verification of employment showing year to date commission earnings, or
- The prior years' W-2s or 1099s

7.5.3 Capital Gains

Capital gains earned from the sale of assets (including mutual funds but excluding sales of real estate) are considered stable monthly income if the Borrower has a three-year history of earning capital gains and sufficient assets to continue generating similar earnings. Federal tax returns for the past three years should be provided. Income is averaged over the past 36 months, provided that the income is expected to continue.

7.5.4 Dividend/Interest Income

Investment income may be used as stable monthly income if the file contains the following documentation:

- The income has been received for at least 24 months, and
- Year to date income is in line with previous earnings, and
- The investment is from a publicly traded company(s), and
- The Borrower has a diversified portfolio, and
- Verification of stock asset values no older than 30 days at closing, and
- Sufficient assets remain after closing to continue to generate an acceptable level of earnings in view of the totality of the circumstances.

When historical and current earnings appear to be reasonable under the circumstances, the earnings are averaged over the period verified. Income may be documented with signed federal tax returns or 1099s for the previous two years.

The cash/stocks/bonds producing this dividend/interest income may not be used as a source for down payment and should not have been previously pledged as security.

7.5.5 Employment by a Relative

Income for a Borrower who is employed by a relative must be verified using federal tax returns for the past two years and current pay stubs covering a 30-day period. In the event the Borrower owns more than 25% of the company, full self-employed documentation must be provided.

7.5.6 Foreign Income

Income from a non-US source may be considered only if such income is paid by a corporate entity and is not subject to tax in any jurisdiction outside of the U.S.

7.5.7 Installment Sales and Land Contracts

Not allowed.

7.5.8 Military Income

Borrowers employed in military services typically receive compensation in addition to base pay, which may be used as qualifying income. Rations, base housing pay, and flight pay may be considered, provided that the income is typical for the position held and can be documented with one year's proof of continuance.

7.5.9 Note Receivable Income

Note receivable income may be used as qualifying income if received for at least 12 months and expected to continue for at least three more years. Acceptable evidence includes a copy of the note and the previous year's federal tax returns to evidence receipt of income or copies of bank statements to evidence deposit of note income received.

7.5.10 Part-Time/Second Job and Overtime Income

Part-time and overtime income is considered stable income if it has been received for the previous 24 months and has a strong probability for continued receipt at current or increasing levels.

7.5.11 Rental Income

The subject property rental income must be included on a Fannie Mae 1007 or 216. Discrepancies between market rents and verified rents must be satisfactorily explained or the lower amount may be used to qualify the Borrower.

Rental income used to qualify must be disclosed on the loan application. Full Doc requires verification of rental income as follows (including non-subject property rental income):

- A fully executed lease agreement of 12 months (or longer). Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 12 months or the period after the lease expired.
- Personal income tax return(s), Form 1040 including Schedule E. Include executed IRS form 4506-C. Subtract actual operating expenses (excluding depreciation) from actual rents received for Usable Rental Income. Aggregate net rental loss must be considered a liability for qualification purposes.
- Proposed rental income from the comparable rent schedule may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property.
- Commercial properties owned on Schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial.

Rental income from a 1-4 unit primary residence:

- If the subject property has been owned less than 12 months prior to the date of the loan application and is not reflected in the Borrower's most recent tax returns, the following must be used to document rental income:
    - Copies of the present lease and income approach on the appraisal. If the subject property was owned 12 months or more prior to the date of the loan application, the same requirements apply in addition to the most recent tax return/s.

2-4 Unit Owner Occupied Properties – The full Housing Expense (PITIA) of the subject property is treated as debt. Usable Rental Income is treated as income.

Short Term / Variable Rental Income (if STR is reported on tax returns, rental income will be calculated using Sch E):

- Permitted for both purchase and refinance transactions. All Short-Term Rental (STR) must be deemed common and typical for the area per the appraisal and/or property location, and permitted in accordance with local ordinances
    - On refinances, gross rent to be determined by the lower of the market rent disclosed on the appraisal or twelve (12) month short term history via AirBnB, AirDNA, VRBO, or HomeAway
    - On purchase transactions, 75% of market rent will be used as income if it is supported by the twelve (12) month average
- Short term rental history to be verified from a third-party property management provider. Information must contain property address / ID specific to subject property
- Long term tenancy income limited to 125% of 1007 market rents schedule
- Not permitted on primary residence SFRs and second homes

Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:

- Appraisal reflects zoning compliance is legal (permits are not required to establish zoning compliance)
- Appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least one rental comparable with an accessory unit in which the ADU receives rental income
- Multiple ADUs are not permitted
- Refinance –
    - Market rent for the ADU must be documented on FNMA 1007, and
    - Copy of the current lease, and
    - 2 months proof of current rental receipt
- Purchase (Owner Occupied and 2nd Home) –
    - Income from the ADU may not be used as qualifying income
- Purchase (Non-Owner Occupied)
    - The lesser of the market rent on FNMA Form 1007 or actual rent is used for qualifying

7.5.12 Retirement Income – 401K/IRA Distribution

The Borrower must provide verification of the assets of the plan and verification of receipt of monthly income. Assets in the plan must be sufficient to sustain income continuance for a minimum of three (3) years, determined based upon 1) with respect to fixed income investments, the tenor of the instrument and the coupons, and 2) with respect to equities, dividend income times .50.

To be eligible for asset annuitization, the borrower must be of retirement age, the assets must be liquid, owned solely by the borrower(s), with unrestricted access and 100% of the balance available without restriction. Eligible assets include qualified retirement plans recognized by the IRS, including but not limited to a) 401K, b) IRA, or c) KEOGH.

7.5.13 Seasonal Income

Some Borrowers may regularly work part-time jobs during certain times of the year (e.g., every Christmas or summer). Income from seasonal employment may be considered as stable monthly income if the Borrower has worked the same job “in season” for the past two years and, based upon a written statement from the employer, expects to be rehired for the next season. Verifications should include 1) Most recent pay stub or salary voucher documenting at least three months of income and 2) W-2 forms for the previous two years and a written verification of employment (VOE). If the Borrower is employed by a party involved in the transaction (i.e., employed by the seller or the real estate agent), two years personal federal tax returns are required.

7.5.14 Strike Income

When a Borrower is on strike or has had other interruption or curtailment of their regular monthly income, the income that is currently being received, such as strike benefits, must be considered when qualifying the Borrower.

7.5.15 Tips and Gratuities

Tips and gratuity income may be considered if receipt of such income is typical for the Borrower’s occupation (e.g., waitperson, taxi driver, etc.). Such income generally should have been received for at least 24 months prior to the date of loan application, and be expected, in the originator’s reasonable judgment. Income is averaged over the period verified.

If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used (most recent 12 months average).

7.5.16 Trust Income

Trust income may be considered if the trust is non-revocable and the income will continue for at least three years from the date of loan application. A copy of the trust agreement or the trustee’s statement confirming the amount, frequency and duration of the payments must be obtained to verify the income and continuance of the income.

7.5.17 Unemployment Compensation

Income derived from unemployment compensation is generally not to be considered stable due to the limited duration of its receipt. An exception to this would be a Borrower employed in a field where weather affects the ability to work and where unemployment compensation is often received (e.g., construction). The income may be used to qualify the Borrower on an exception basis when a two-year employment history in the same field of work is verified along with a two-year history of receipt of unemployment compensation. Verified income is averaged over the period verified. Tax returns must be used to establish a history of the receipt of these benefits.

7.6 Ineligible Income

The following types of income may not be considered:

- Gambling winnings (except lottery payments continuing for 5 years)
- Educational benefits (such as grants and scholarships)
- Refunds of federal, state or local taxes
- Illegal income or income not reported to the IRS
- Expense account reimbursement
- Restricted stock units

8 ASSETS

When the documentation type or program requires asset verification, the file must evidence sufficient funds for the down payment, closing costs and reserves, when applicable.

8.1 General Asset Documentation Requirements

Assets must be sourced/seasoned for 60 days and may be verified using:

- Direct written verification completed by the depository; or eligible 3rd party vendor that maintains approval with Fannie Mae validation services. A list of approved VOA vendors may be found at www.duvalidationcenter.com
- Recent and consecutive account statements covering a period of two months for each bank, brokerage, mutual fund account or investment portfolio. Account statements or 3rd party asset verification report must at a minimum provide all the following information:
  - Borrower as the account holder, and
  - Account number, and
  - Time period covered, and
  - Current balance in U.S. Dollars, and
  - Statement date

8.2 Down Payment

On purchase transactions, the Borrower must make a minimum down payment with funds from their own resources. The amount of the minimum required down payment depends upon the occupancy of the subject property. Funds to close must be fully documented, including sourcing and seasoning.

8.2.1 Minimum Contribution

8.2.1.1 1-2 Unit Primary Residence / Second Home

The borrower must make a 5% minimum borrower contribution from their own funds.

8.2.1.2 1-4 Unit Investment

100% of the down payment must be from the borrower's own funds.

Gift Funds are not allowed on investment purchases.

8.2.1.3 Non-Occupying Co-Borrower

Occupying Borrower must have a minimum 20% of their own personal funds into the subject transaction.

8.2.2 Interested Party Contribution

The maximum interested party contribution is 6%.

8.2.3 Documentation Requirements

Acceptable documentation to source the funds includes any of the following:

- Copy of canceled check, or
- Copy of check not canceled with bank statement to evidence check cleared, or
- Evidence from the real estate broker (not the agent) that the funds were deposited into the broker's trust account (i.e., copy of broker's trust account statement), or
- Escrow agent/attorney's letter acknowledging receipt of funds.

Acceptable documentation to season the funds (to verify that they are from the Borrower's own resources include any of the following):

- Closing Disclosure from the sale of another property.
- Verification of Deposit (such as Fannie Mae Form 1006) executed by the financial institution, to include the current balance and the average balances for the preceding two months.
- Two months checking and/or savings account statements (indicating opening and closing balances to indicate a full 60 days of asset verification) with explanations for large deposits, if any.
- One quarterly account statement.
- Two months statements from brokerage, retirement savings or pension account (including IRA and 401k). Balances for tax-deferred accounts must be reduced by 30% to reflect income taxes and penalties when withdrawn. Taxable accounts with stocks, bonds and mutual funds must be reduced by 30% to reflect income taxes. Statements from the investment management company or bank are required to verify the ownership of the account/asset, the value of the asset at the time of sale or liquidation, and the borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction.
- Other forms of verification may be acceptable, so long as the verification clearly indicates that the funds were in the Borrower's possession for at least 60 days prior to transfer.

8.3 Cash Reserves

In addition to the down payment and closing costs, the Borrower must have adequate cash reserves available that are appropriate to the transaction. In some instances, substantial liquid assets are considered to offset other risk factors. Cash-Out proceeds may be used in reserve calculation.

See Quick Reference Guide for individual reserve requirements.

8.3.1 Documentation Requirements

- Assets and Cash Reserves must be sourced and seasoned for at least 60 days.
- Large disparities between the current balance and the opening balances may require additional verification or documentation.
- Large or irregular deposits must be explained and may require further documentation.
- Gift funds may not be used to meet the reserve requirements.
- Proceeds from a Cash Out Refinance on the subject property may not be used to meet reserve requirements.

Funds for the needed Cash Reserves may be verified by any of the following:

- Verification of Deposit (such as Fannie Mae Form 1006) executed by the financial institution, to include the current balance and the average balances for the preceding two months.
- Two months checking and/or savings account statements (indicating opening and closing balances to indicate a full 60 days of asset verification).
- One quarterly account statement.
- For Cash Reserves generated from asset sales from taxable or tax-deferred accounts, two months statements from the brokerage, retirement savings or pension account (including IRA and 401k) are required. Balances for tax-deferred accounts must be reduced by 30% to reflect income taxes and penalties when funds are withdrawn. Taxable accounts with stocks, bonds and mutual funds must be reduced by 30% to reflect income taxes. Statements from the investment management company or bank are required to verify the ownership of the account/asset, the value of the asset at the time of sale or liquidation, and the Borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction.
- Two months brokerage statements on publicly traded stocks and bonds, mutual funds, money market accounts, and CDs, (indicating opening and closing balances to indicate a full 60 days of asset verification) are required. Balances must be reduced by 30% for stocks, bonds, and mutual funds.

8.4 Acceptable Funds

The following items are acceptable for down payment and closing funds, including prepaids:

- Funds from the Borrower's checking or savings account.
- A gift or grant that does not have to be repaid may be permitted.

- Proceeds from the sale of the Borrower's personal asset(s). The value of the assets must be verified; evidence of sale must be provided (e.g., bill of sale, copy of check, etc.).
- Proceeds from a loan that is secured by the Borrower's personal asset, for example, the proceeds of loans secured by other real estate are acceptable funds. The terms of the loan must be verified. Repayment of the loan must be included in the total expense ratio.
- Proceeds from a loan secured by a financial asset (401K, stock, life insurance, etc.) may be used. The net vested amount, multiplied by 70 percent, may be used for reserves.
- Proceeds from liquidated stock, retirement accounts, certificates of deposit, pension or other savings plan. 70 percent of the value may be used as reserves for stocks, bonds, and mutual funds in a non-retirement account and 70 percent for a retirement account. Ownership of the account must be verified along with borrower's actual receipt of funds.
- Proceeds from sale of other real estate. If part of the down payment is expected to be paid from the sale of the Borrower's current home, an executed closing statement verifying sufficient net proceeds must be received with the closing package.
- Funds from a business account may be used for down payment and reserves.
    - The Borrower must be 100% owner of the company, and
    - the company's CPA must provide a statement indicating withdrawal of the funds will not negatively impact the business)
- Proceeds from cryptocurrency that have been liquidated and deposited into an eligible asset account. Ownership of the asset must be verified along with the borrower's actual receipt of funds.

8.4.1 Gift Funds

Gift funds are not allowed from any donor that is a real estate builder, developer or in the business of owning, financing, or selling real estate.

A borrower of a mortgage loan secured by a principal residence, or second home, may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements. Gifts are not allowed on an investment property.

Gifts of equity are not eligible.

8.4.2 Joint Accounts

For funds held jointly, an acknowledgement must be received from the joint account holder affirming that the borrower has full and complete access to the funds.

8.4.3 Bridge Loan

A bridge loan is typically a short-term secured loan (one year or less), often interest-only, that is based on the Borrower's equity in their current home. The bridge loan is paid off when the current home is sold, and the sale is closed. A copy of the listing agreement is required. Payments on existing mortgage loans must be included when qualifying the Borrower. See Section 6.9.10 for instances when payment can be excluded when qualifying the Borrower.

8.4.4 Secondary/Subordinate Financing

Secondary financing is permitted and subject to the Quick Reference Guide when it meets the following requirements:

- Made subordinate to the first lien
- Title indicates it is in second lien position
- Maximum CLTV/HCLTV does not exceed the maximum LTV allowed on the Quick Reference Guide.
- The terms of the subordinate lien loan must be less than or equal to the term of the first lien loan. Secondary financing must be reviewed to ensure that there are no terms that restrict prepayment. Terms that restrict prepayment are not permitted as acceptable secondary financing. Terms that require payment of certain closing costs that were waived upon origination of the subordinate lien loan are not considered a restriction of prepayment.
- The source of the secondary financing is not a natural person except when the natural person is the seller of the subject property.

If the secondary financing is closed simultaneously with the first lien loan, then the following items are required:

- A copy of the loan approval from the institution providing the secondary financing prior to closing.
- A copy of the executed note at closing.

In all instances, the following items are required:

- The terms of the current second lien.
- A copy of the unsigned subordination agreement prior to closing.
- A copy of the executed subordination agreement at closing.

Nothing set forth in this Section 108.11 shall be deemed to restrict secondary financing to the extent that such restriction would violate the terms of the Borrower's loan documents or applicable federal or state law.

8.5 Ineligible Assets

- Gift funds which must be repaid in full or in part.
- Cash-on-hand.
- Labor performed by the Borrower or goods or materials provided by the Borrower (sweat equity).
- Gifts from seller-funded programs.
- Net proceeds from an IRC 1031 exchange.

- Any payment received because of being a party to the sales transaction (i.e., real estate sales commission) after the Borrower has met the minimum down payment requirement.
- Cryptocurrency that has not been liquidated and deposited into an eligible asset account.
- Unsecured loans.

9 RATIOS AND QUALIFYING

9.1 Ratios

Sound judgment should be exercised when considering any ratio calculations. Ratios are general benchmarks, not definitive guidelines. The overall merits of the file are considered when applying ratio guidelines.

9.2 Housing Payment to Income Ratio

The maximum housing expense to income ratio allowed for all loans is 43% (requires Rate Spread Safe Harbor as well as Verification Safe Harbor standards fully satisfied). The monthly housing expense is the sum of the following charges as they apply to the loan, divided by the Borrower's stable monthly income:

- Monthly principal and interest payment.
- Fixed interest rate loans, qualify at the principal and interest calculated at the note rate.
- 1/12th of the annual hazard insurance premium.
- 1/12th of the annual real estate taxes. (CoreLogic Property Tax Estimator will be used to determine estimated tax amount)
- 1/12th of the annual flood insurance premium, when applicable.
- Monthly leasehold payments, when applicable.
- Monthly homeowner association dues, condominium maintenance fees and monthly assessments (when applicable).
- Monthly payment for other secured financing (when applicable).
- With respect to payments on home equity lines of credit, the payment used for qualification should be based on:
    - Higher of either the initial interest rate and the fully indexed rate (sum of current index plus margin), and
    - Fully amortizing payment (principal and interest), and
    - Term to maturity of the note, and
    - The maximum available credit.

9.3 Debt-to-Income Ratio and Qualifying Debt-to-Income Ratio

The maximum DTI ratio allowed for all loans is 43% (requires Rate Spread Safe Harbor as well as Verification Safe Harbor standards fully satisfied). The qualifying debt-to-income ratio compares the Borrower's total monthly obligations with their qualified monthly gross earnings based on the rate of the loan for which the Borrower is applying. The Debt-to-Income ratio (DTI) is calculated based upon the sum of the following obligations, divided by the Borrower's stable monthly income:

- Monthly housing expense as per qualifying rate.
- Fixed rate mortgages qualified using the fully amortized payment.
- Interest only loans qualified using the fully amortized payment for the term of the loan.
- Outstanding monthly obligations such as:
  - All installment debt with more than ten (10) payments remaining. (Installment debts may not be "paid down" to 10 payments in order to eliminate such debts from DTI calculation, but they may be paid in full).
  - All revolving debt payments
  - Alimony, child support or maintenance payments with more than ten (10) payments remaining.
  - Losses associated with rental properties from all investment properties owned by the Borrower and with respect to which rental income was used in the income calculation.
  - Other obligations where a monthly payment is legally required.

10 PROPERTY

10.1 Appraisal

All appraisals must comply with applicable regulations and standards including but not limited to USPAP, FIRREA, AIR and HVCC compliance. Real estate appraisers are to be state-certified or state-licensed according to the **Code of Federal Regulations,** and to comply with Fannie Mae's or Freddie Mac's requirements for appraisers.

One appraisal is acceptable for loan amounts less than or equal to $1,500,000. Two appraisals are required for loan amounts greater than $1,500,000 loan amount or HPML flip transactions as defined by the CFPB.

The lower of the 2 appraised values will be used to determine LTV, unless the Sales Price is lower than both appraisals (in which case the sales price will be used to determine LTV). Appraisals will be completed by different independent appraisers from Purchaser approved AMCs.

The value of the subject property should be in line with the home prices in the subject's market area. The appraiser must report on the primary indicators of market condition for properties in the subject neighborhood. The appraisal must be closely reviewed to insure that the appraiser is specific regarding the impact a market decline has upon the transaction being evaluated. Appraisals should not contain comparables greater than six months prior to the report date.

Maximum lot size 20 acres. Properties with greater than 10 acres must have at least three comparables with similar acreage.

10.2 Third Party Appraisal Review

All appraisals are subject to review by internal resource and/or a 3rd party. A collateral desktop analysis with MLS performed by a Purchaser approved AMC is required. If the CDA returns a value that is "Indeterminate", a field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. The Seller is responsible for providing the field review or 2nd full appraisal. Appraisal review is completed prior to final determination or validation of original appraisers' opinion of value.

10.3 Market Restrictions

Loans identified in declining markets are subject to a 5% LTV reduction.

10.4 Property Overview

All properties must:

- Be improved real property.
- Be designed and available for year-round residential use.
- Be complete with kitchen and bathroom facilities.
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Be in average or better than average condition.
- Represent the "highest and best" use of the subject property.
- Be free of all health and safety violations.
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability or marketability of the subject property.

10.5 Disaster Areas

For loans secured by properties appraised prior to the Presidential/State declaration, the following post-disaster guidelines apply:

- An interior and exterior inspection of the subject property is required.
- The original appraiser should perform the inspection and provide a certification stating:
    - Subject property is free from damage and is in the same condition as previously appraised, and
    - Marketability and value remain the same.
- For loans secured by properties appraised after the Presidential/State declaration, the following post-disaster guidelines apply:
    - The appraiser must note any damage and its effect on marketability and value.
    - Electronic evaluations are not acceptable.

10.6 Eligible Property Types

- Single-Family Residence Attached or Detached (maximum 1 ADU)
- 2–4-unit Family Dwelling
- Warrantable Low-Rise Condominium (1-4 Stories) and High-Rise Condominium (5+ Stories)
    - Refer to the Fannie Mae Selling Guide for condominium project eligibility and appropriate review type. Limited reviews are acceptable if the AUS response indicates such as review type being eligible for the project.
    - Site Condos meeting the FNMA definition are eligible for single-family dwelling LTV/CLTV/HCLTV
    - Results from FNMA's CPM (Condo Project Management) website is required. If an approved Fannie Mae's CPM report is provided, a lender HOA questionnaire is not required
- Planned Unit Development (PUD) Attached or Detached
    - If the subject property is a detached unit, no analysis is required. If the subject is an attached PUD, the following review is required:
        - Type E Warranty applies to established PUD projects in which the owners' association has been turned over to the unit purchasers. This is the sole eligibility criterion for qualifying as a Type E project (manufactured homes not allowed).
        - Type F Warranty applies to new PUD projects that are still under the control of the developer. The project must meet the following eligibility criteria:
        - The project cannot have been created by the conversion of existing buildings into a PUD.
        - The project may not include any multi-dwelling units that represent the security for a single mortgage loan.
        - The project must not be composed of manufactured homes.
        - A sufficient number of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order for the lender to determine whether the presales will support the responsibilities of the homeowner's association for at least two years.
        - The units must be owned in fee simple, and the unit purchasers must have the sole ownership interest in, and right to the use of, the project's facilities once control of the homeowner's association has been turned over to them.
        - The homeowner's association should complete a questionnaire so that the originator can make the appropriate determination if the Type F requirements have been met.
- Rural Properties Greater than 10 acres but less than 20 acres:
    - A property indicated by the appraisal as rural, or containing any of the following characteristics must comply with the following criteria:
        - Must have at least three comparables with similar acreage.
        - May not be listed as an ineligible property type.

- The primary use must be residential.
- The property must not be agricultural, or otherwise provide a source of income to the Borrower or a source of payment for the subject loan.
- The lot size and acreage must be typical for the area and similar to the surrounding properties.
- The subject property must be within reasonable commuting distance of a metropolitan area.
- The subject property must be accessible by public roads and highways.
- The present use must be the "highest and best use" for the subject property.
- The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.
- Property cannot be subject to any idle acreage tax benefit or other tax incentive program.

10.7 Ineligible Property Types

- Non-Warrantable Condominiums
  - 2-4 Unit Condos without an established and recorded common maintenance agreement are considered non-warrantable
  - Florida condo projects subject to Florida SB-4D are ineligible Florida Senate Bill SB 4-D
- Manufactured Home
- Co-operative Units (Co-op)
- Live/Work Condos
- Condotels or Condo Hotels
- Barndominiums
- Mandatory Country Club Memberships
- Modular
- Commercial Properties
- Log Homes
- Raw Land
- Mixed Use Property
- Farms / Working Farms / Hobby Farms
- Land Trusts
- Corporate Properties that are titled to corporations
- Escrow Holdbacks
- Earth Homes, Home Half in Mountain (Burm) Homes, or Basement Homes (Properties which are generally built underground)
- Environmental Conditions (Properties with health and/or safety hazards, etc.)
- Ground Lease / Leasehold Property
- Deed-Restricted / Resale-Restricted

- Timeshares
- Rooming/Boarding Houses
- Assisted Living
- Unique Properties
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana
- Properties Greater than 20 acres
- Properties Listed for Sale (not eligible for refinance transactions)

11 TITLE INSURANCE

Loans must be covered by a title insurance policy that has been paid in full, and is valid, binding and remains in full force and effect. The title insurer must be acceptable to Fannie Mae and Freddie Mac and be qualified to do business in the state where the subject property is located.

12 INSURANCE

12.1 Homeowners Insurance

The subject property must be protected (including when vacant) against loss or damage from fire and other perils within the standard extended coverage. Refer to the Fannie Mae selling guide for appropriate homeowners insurance coverage requirements.

12.2 Master HOA Hazard Insurance Requirements

Please refer to the Fannie Mae selling guide for appropriate master HOA hazard insurance requirements.

12.3 Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. Such areas are typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing. Life of the loan coverage monitoring is required.

12.3.1 Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). In addition, the appraisal report should accurately reflect the flood zone.

12.3.2 Coverage and Deductibles

If the subject property is in a Special Flood Hazard Area, flood insurance is required. The amount of flood insurance must be at least equal to the lesser of 100% of the insurable value of the facilities and the maximum coverage available under the appropriate National Flood Insurance Administration program. For condominium projects, the homeowner's association should provide a project blanket policy with coverage for the building in which the unit is located. Coverage must be the lesser of 100% of the replacement cost of the building in which the unit is located, including all the common elements and property, and the maximum coverage available under the National Flood Insurance Administration Program times the number of units in the building.

Other requirements:

- Deductibles permitted up to the maximum deductible available under the National Flood Insurance Program (NFIP), and
- The Borrower name and the subject property must be on the flood insurance application or binder, and
- The flood insurance policy must contain a mortgagee clause, naming the Purchaser as the loss payee and mortgagee, and
- Evidence of coverage must be provided at closing, and
- The insurance must be maintained throughout the duration of the loan. The flood insurance requirement may be waived if:
    - The subject property improvements are not in Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
    - The Borrower obtains a letter from FEMA stating that its maps have been amended such that the subject property is no longer in an area of Special Flood Hazard. The appraisal report should accurately reflect the flood zone. An updated flood certification reflecting the updated zone must also be obtained for the loan file.

13 ADDITIONAL REQUIREMENTS

13.1 Documentation Age

Documentation may not be more than 90 days old at the time of the Note date. Documentation includes the Credit Report and credit verifications, income documentation, asset documentation, and appraisal(s).

To the extent the appraisal is greater than 75 days old, the Purchaser will have the option of ordering an appraisal update completed on form 1004d or a new appraisal.

13.2 Escrow Waivers

Escrows are not required unless otherwise specified by applicable state law. One twelfth (1/12) of the annual taxes and one twelfth (1/12) of the annual hazard insurance premium are to be paid with the P & I payments. If property requires Flood Insurance, it is required to be impounded regardless of if the LTV is 80% LTV or less (exception would be if it is paid through a Master Association).

13.3 Prepayment Penalty

Not allowed.

13.4 Requirements not Specifically Referenced

The Program is intended to reference and supplement Fannie Mae's Seller Guide. Fannie Mae Seller Guide may be referenced for specific information concerning qualification requirements that are not specifically referenced herein. To the extent there is a difference in standards between the Program Overlays and the Fannie Mae Guides; the Program Overlays may be relied upon.

Prime Jumbo Mortgage Program

14 QUICK REFERENCE GUIDE

PURCHASE / RATE & TERM REFINANCE					
Occupancy	**Max Loan Amount**	**Max LTV / CLTV/HCLTV**	**Minimum Credit Score**	**Minimum Reserves**	**Maximum DTI**
Primary / Second Home	$2,000,000	80%	680	6 months	43%
	$2,500,000	80%	720	12 months	43%
	$3,000,000	80%	740	18 months	43%
Investment	$2,000,000	75%	700	12 months	43%
	$2,500,000	75%	720	12 months	43%

CASH OUT REFINANCE					
Occupancy	**Max Loan Amount**	**Max LTV / CLTV/HCLTV**	**Minimum Credit Score**	**Minimum Reserves**	**Maximum DTI**
Primary	$2,000,000	80%	680	6 months	43%
	$3,000,000	80%	740	18 months	43%
Second Home	$2,000,000	75%	700	12 months	43%
	$3,000,000	75%	740	18 months	43%
Investment	$2,000,000	60%	700	12 months	43%

30 YEAR FIXED INTEREST ONLY – PURCHASE / RATE & TERM REFINANCE (Cash Out Not Eligible)					
Occupancy	**Max Loan Amount**	**Max LTV / CLTV/HCLTV**	**Minimum Credit Score**	**Minimum Reserves**	**Maximum DTI**
Primary / Second Home	$1,000,000	80%	740	12 months	43%
	$1,000,000	75%	700	12 months	43%
	$2,000,000	75%	720	24 months	43%
	$3,000,000	75%	760	24 months	43%

GENERAL REQUIREMENTS				
Seasoning Requirements			**Interest Only**	
Rate / Term Refinance 6 months since purchase or most recent refinance	**Cash Out Refinance** 12 months since purchase or most recent refinance		**Occupancy** Primary Residence and Second Home only	**Amortization** 10 Years Interest Only (20 Year Amortization Period)
Min Loan Amount	**Doc Type**	**Max DTI**	**Cash-Out**	
$1.00 over the maximum county limit for Agency High Balance	Full Doc	43%	**Used as Reserves** Allowable	**Maximum Cash-Out** $500,000
Declining Markets			**2-4 Unit Properties**	
Maximum LTV is lowered by 5% in all cases[1]			Maximum LTV is lowered by 5% in all cases[1]	

[1] ex. if 70% LTV is the maximum based on matrix, then 65% LTV is the maximum for a 2-4 unit property or a property in a declining market with the same loan attributes. LTV reductions are not stacked.