



# NON-QM LOAN ELIGIBILITY GUIDELINES

Applicable Programs: Bundt Cake, Cheese Cake,  
Coffee Cake, Funnel Cake 1<sup>st</sup> Lien Programs.

Version 1.0

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## Table of Content

|        |  |    |
|--------|--|----|
| 1      | Introduction .....   | 7  |
| 2      | Eligibility.....   | 8  |
| 2.1    | Eligible Borrowers.....  | 8  |
| 2.2    | Visa Eligibility Matrix .....                                      | 9  |
| 2.2.1  | Visa classifications allowed as Non-Permanent Resident Aliens..... | 9  |
| 2.2.2  | Visa types considered as Foreign Nationals .....                   | 12 |
| 2.2.3  | <b>Funnel Cake Overlay</b> .....                                   | 13 |
| 2.3    | Foreign National .....   | 13 |
| 2.4    | Foreign Residency .....  | 13 |
| 2.5    | Foreign National Documentation Requirements .....                  | 13 |
| 2.6    | Qualifying U.S. Credit for Foreign National Borrowers.....         | 14 |
| 2.7    | Qualifying Foreign Credit for Foreign National Borrowers.....      | 14 |
| 2.8    | Foreign National Income.....                                       | 14 |
| 2.9    | Foreign National Housing History .....                             | 14 |
| 2.10   | Automatic Payment Authorization (ACH) .....                        | 15 |
| 2.11   | Reserves for Foreign National .....                                | 15 |
| 2.12   | Assets Held in a Foreign Account .....                             | 15 |
| 2.13   | Eligible Title Vesting and Ownership .....                         | 15 |
| 2.14   | Power of Attorney .....  | 16 |
| 2.15   | Private Mortgage Insurance (PMI) .....                             | 17 |
| 2.16   | Guarantor(s) Documentation .....                                   | 17 |
| 2.17   | Ineligible Borrowers.....  | 17 |
| 2.18   | Borrower Types.....  | 17 |
| 2.18.1 | Primary .....  | 17 |
| 2.18.2 | Co-Borrower.....   | 18 |
| 2.18.3 | First Time Homebuyer (FTHB).....                                   | 18 |
| 2.18.4 | Non-Borrowing Occupant .....                                       | 18 |
| 2.18.5 | Non-Occupant Co-Borrower .....                                     | 18 |
| 2.18.6 | Eligible Occupancy .....   | 18 |



|               |  |    |
|---------------|--|----|
| <b>2.18.7</b> | Borrower Statement of Occupancy .....                    | 19 |
| 3             | Eligible Transactions .....                              | 19 |
| 3.1           | Purchase.....  | 19 |
| <b>3.1.1</b>  | <b>Coffee Cake Overlay</b> .....                         | 19 |
| 3.2           | Rate/Term Refinance .....                                | 19 |
| <b>3.2.1</b>  | <b>Cheese Cake Overlay</b> .....                         | 20 |
| <b>3.2.2</b>  | <b>Funnel Cake Overlay</b> .....                         | 20 |
| 3.3           | Cash-Out.....  | 20 |
| <b>3.3.1</b>  | <b>Cheese Cake Overlay</b> .....                         | 21 |
| <b>3.3.2</b>  | <b>Coffee Cake Overlay</b> .....                         | 21 |
| <b>3.3.3</b>  | <b>Funnel Cake Overlay</b> .....                         | 21 |
| 3.4           | Delayed Financing .....                                  | 21 |
| 3.5           | Non-Arm’s Length Transaction .....                       | 22 |
| 3.6           | CEMA Loans.....  | 22 |
| 3.7           | Texas Home Equity Loans 50(a)(6) .....                   | 22 |
| 3.8           | Ineligible Transactions .....                            | 22 |
| 3.9           | Secondary Financing .....                                | 23 |
| 3.10          | Prepayment Penalty (Investment Property) .....           | 23 |
| 4             | Credit.....  | 24 |
| 4.1           | General Requirements.....                                | 24 |
| 4.2           | Credit Scores .....                                      | 24 |
| 4.3           | Tradeline Requirements .....                             | 24 |
| <b>4.3.1</b>  | <b>Coffee Cake Overlay</b> .....                         | 25 |
| <b>4.3.2</b>  | <b>Funnel Cake Overlay</b> .....                         | 25 |
| 4.4           | Disputed Tradelines.....                                 | 26 |
| 4.5           | Credit Inquiries.....                                    | 26 |
| 4.6           | Housing History.....                                     | 26 |
| 4.7           | No Housing History or Less Than 12 Months Verified ..... | 27 |
| <b>4.7.1</b>  | <b>Coffee Cake Overlay</b> .....                         | 27 |
| <b>4.7.2</b>  | <b>Funnel Cake Overlay</b> .....                         | 27 |
| 4.8           | Rent Free .....  | 27 |
| 4.9           | Other Credit Requirements .....                          | 27 |



|               |   |    |
|---------------|---|----|
| <b>4.9.1</b>  | Forbearance, Deferred Payments, Modifications.....              | 27 |
| <b>4.9.2</b>  | Significant Adverse Credit Event.....                           | 28 |
| <b>4.9.3</b>  | Consumer Credit Counseling Services .....                       | 28 |
| <b>4.9.4</b>  | Collections, Charge-Offs, Judgements, Liens, Garnishments ..... | 28 |
| <b>5</b>      | Income Documentation .....                                      | 28 |
| <b>5.1</b>    | Employment Status .....   | 29 |
| <b>5.1.1</b>  | Teacher Income.....   | 29 |
| <b>5.1.2</b>  | Variable Income – Overtime/Bonus/Commission.....                | 30 |
| <b>5.1.3</b>  | Alimony or Child Support .....                                  | 30 |
| <b>5.1.4</b>  | Auto Allowance .....  | 30 |
| <b>5.1.5</b>  | Capital gains .....   | 30 |
| <b>5.1.6</b>  | Disability Income – Long Term .....                             | 31 |
| <b>5.1.7</b>  | Employed by a Relative (Full Doc only).....                     | 31 |
| <b>5.1.8</b>  | Employment Offers or Contracts.....                             | 31 |
| <b>5.1.9</b>  | Foreign Income.....   | 31 |
| <b>5.1.10</b> | Foster Care Income .....  | 32 |
| <b>5.1.11</b> | Interest/Dividends .....  | 32 |
| <b>5.1.12</b> | Non-Taxable Income .....  | 32 |
| <b>5.1.13</b> | Notes Receivable Income .....                                   | 32 |
| <b>5.1.14</b> | Pension, Retirement, Annuity.....                               | 33 |
| <b>5.1.15</b> | Royalty Income.....   | 33 |
| <b>5.1.16</b> | Tip Income .....  | 33 |
| <b>5.1.17</b> | Trust Income .....  | 34 |
| <b>5.1.18</b> | Unemployment Benefit Income.....                                | 34 |
| <b>5.1.19</b> | VA Benefits .....   | 34 |
| <b>5.1.20</b> | IRA Form 4506-C .....   | 35 |
| <b>5.1.21</b> | Borrower ATR Certification .....                                | 35 |
| <b>5.1.22</b> | Residual Income.....  | 35 |
| <b>5.1.23</b> | Employment/Income verification .....                            | 35 |
| <b>5.1.24</b> | Income Earning Trends.....                                      | 36 |
| <b>5.1.25</b> | Verification for Employed Borrowers:.....                       | 36 |
| <b>5.1.26</b> | Verification for Self-Employed Borrowers: .....                 | 36 |



|       |  |    |
|-------|--|----|
| 6     | Standard Income Documentation/Full Doc.....                          | 37 |
| 6.1   | Wage/Salary Income.....  | 37 |
| 6.2   | Self-Employment Income .....   | 38 |
| 7     | Alternative Income Documentation .....                               | 39 |
| 7.1   | Alt Doc – Bank Statements.....                                       | 39 |
| 7.1.1 | <b>Cheese Cake Overlay</b> .....                                     | 41 |
| 7.1.2 | Non-Sufficient Funds or Negative Balances/Overdraft Protection ..... | 41 |
| 7.2   | Alt Doc – Rental Income.....   | 42 |
| 7.2.1 | <b>Coffee Cake Overlay</b> .....                                     | 43 |
| 7.3   | Alt Doc – P&L Only .....   | 43 |
| 7.3.1 | <b>Cheese Cake Overlay</b> .....                                     | 44 |
| 7.3.2 | <b>Coffee Cake Overlay</b> .....                                     | 44 |
| 7.3.3 | <b>Funnel Cake Overlay</b> .....                                     | 44 |
| 7.4   | Alt Doc – IRS Form 1099.....   | 44 |
| 7.5   | Alt Doc – Written Verification of Employment (WVOE) .....            | 45 |
| 7.6   | Alt Doc – Asset Utilization .....                                    | 45 |
| 7.6.1 | Assets Eligible for Utilization .....                                | 46 |
| 7.6.2 | Assets Ineligible for Utilization .....                              | 46 |
| 7.7   | Departing Residence .....  | 46 |
| 7.7.1 | <b>Coffee Cake Overlay</b> .....                                     | 47 |
| 8     | Debts .....  | 47 |
| 8.1   | Debts included in DTI Ratios .....                                   | 47 |
| 8.2   | Monthly Debt .....   | 48 |
| 8.3   | Revolving Debt .....   | 48 |
| 8.4   | Installment Debt .....   | 48 |
| 8.5   | Lease Payments.....  | 48 |
| 8.6   | Student Loans.....   | 49 |
| 8.7   | Business Debt.....   | 49 |
| 8.8   | Deferred Installment Debt .....                                      | 49 |
| 8.9   | Open 30-Day Charge Accounts .....                                    | 50 |
| 8.10  | Solar Panels.....  | 50 |
| 8.11  | Timeshares .....   | 50 |



|               |   |           |
|---------------|---|-----------|
| 8.12          | Past Due Accounts .....   | 50        |
| 8.13          | Charge-offs and Collections .....                                 | 50        |
| 8.14          | Income Tax Liens .....  | 51        |
| 8.15          | Subordinate Financing .....                                       | 51        |
| <b>8.15.1</b> | <b>Funnel Cake Overlay .....</b>                                  | <b>51</b> |
| 8.16          | Adjustable Rate and Interest Only Qualifying .....                | 51        |
| 9             | Assets .....  | 52        |
| 9.1           | Asset Documentation .....   | 52        |
| 9.2           | Restricted Stock Units (RSU) .....                                | 53        |
| 9.3           | Other Requirements .....  | 54        |
| 9.4           | Gift Funds .....  | 54        |
| <b>9.4.1</b>  | <b>Coffee Cake Overlay .....</b>                                  | <b>55</b> |
| <b>9.4.2</b>  | <b>Funnel Cake Overlay .....</b>                                  | <b>55</b> |
| 9.5           | Eligible Donors .....   | 55        |
| 9.6           | Documentation for Gift .....                                      | 55        |
| 9.7           | Reserves .....  | 56        |
| 9.8           | Interested Party Contributions (Seller Concessions) .....         | 56        |
| 10            | Collateral .....  | 57        |
| 10.1          | Appraisals .....  | 57        |
| <b>10.1.1</b> | <b>Appraiser Independence .....</b>                               | <b>57</b> |
| <b>10.1.2</b> | <b>Second Appraisals .....</b>                                    | <b>57</b> |
| <b>10.1.3</b> | <b>Accessory Dwelling Units (ADU) .....</b>                       | <b>57</b> |
| <b>10.1.4</b> | <b>Cheese Cake Overlay .....</b>                                  | <b>58</b> |
| <b>10.1.5</b> | <b>Appraisal Age .....</b>  | <b>58</b> |
| <b>10.1.6</b> | <b>Appraisal Review Product 1-4 Residential Property .....</b>    | <b>58</b> |
| 11            | Escrow Holdbacks .....  | 59        |
| 12            | Solar Panels .....  | 59        |
| 12.1          | Solar Panels Financed and Collateralized (UCC on title) .....     | 59        |
| 12.2          | Solar Panels Financed and Collateralized (UCC not on title) ..... | 60        |
| 12.3          | PACE (Property Assessed Clean Energy) .....                       | 60        |
| 12.4          | Eligible Property Types .....                                     | 61        |
| 12.5          | Ineligible Property Types .....                                   | 61        |



|                |   |    |
|----------------|---|----|
| 12.6           | Leasehold Properties.....               | 62 |
| 12.7           | Texas Home Equity Loans 50(a)(6).....   | 62 |
| 12.8           | Declining Markets.....                  | 62 |
| <b>12.8.1</b>  | <b>Cheese Cake Overlay</b> .....        | 62 |
| <b>12.8.2</b>  | <b>Funnel Cake Overlay</b> .....        | 62 |
| 12.9           | Flip Transactions.....                  | 62 |
| <b>12.9.1</b>  | <b>Cheese Cake Overlay</b> .....        | 63 |
| 12.10          | Transferred Appraisals.....             | 63 |
| 12.11          | Disaster Areas.....                     | 64 |
| 12.12          | Condominium Projects.....               | 64 |
| <b>12.12.1</b> | <b>Coffee Cake Overlay</b> .....        | 66 |
| 12.13          | Non-Warrantable Condos.....             | 66 |
| 12.14          | Established Projects.....               | 66 |
| 12.15          | New or Newly Projects.....              | 66 |
| 12.16          | Condotels.....                          | 67 |
| 12.17          | Condominium Insurance Requirements..... | 68 |
| 12.18          | Hazard Insurance.....                   | 69 |
| 12.19          | HO-6.....                               | 70 |
| 12.20          | Title Insurance Requirements.....       | 70 |
| 13             | Miscellaneous.....                      | 71 |
| 13.1           | Age of Documents Requirements.....      | 71 |
| 13.2           | Fraud Report.....                       | 72 |
| 13.3           | OFAC and Watchlist Search.....          | 72 |
| 13.4           | Escrows.....                            | 72 |



# 1 Introduction

Cake Mortgage Corp. (hereafter referred to as Cake) is dedicated to serving mortgage brokers and loan officers by providing them with a wide range of wholesale mortgage lending solutions. As a wholesale lender, Cake offers a diverse selection of loan products, competitive pricing, and efficient processing, empowering mortgage professionals to better serve their clients.

With a focus on building strong relationships and providing exceptional service, Cake works closely with brokers and loan officers to streamline the lending process and ensure timely closings. By leveraging technology and expertise, Cake aims to be a trusted partner for mortgage professionals, offering the support and resources needed to succeed in today's dynamic housing market.

The Underwriting Guidelines provide eligibility requirements Cake is not obligated to fund a loan even if it satisfies these requirements. Compliance with these guidelines does not create a commitment by Cake to fund/close. Cake has sole discretion to fund any loans.

**If a topic is not addressed within these guidelines, Cake will align with Fannie Mae (FNMA), Chapter B3-1, Manual Underwriting guidelines.**

## **Fair Lending Policy**

Cake complies with all applicable provisions of the Fair Housing Act and Equal Credit Opportunity Act including applicable federal, state, and local requirements. 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, receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. Cake will not condone discrimination in any mortgage transaction.

## **High-Cost Loans**

Federal, State and Local High-Cost Loans are not permitted. Loans that meet the definition of "high cost", "high risk", "covered", "subprime" or any similar designation are not eligible.

## **Ability to Repay (ATR)**

All loans are subject to ATR Rules. Cake is required to make a reasonable, good-faith determination that a borrower has a reasonable ability to repay the loan. The ATR evaluation must consider the following eight underwriting factors.

1. Current or reasonable expected income or assets to repay the loan.
2. Employment status
3. Monthly mortgage payments on the loan (fully indexed, fully amortized).





4. Monthly payments on any simultaneous loans secured by the subject property.
5. Monthly payments for property taxes, hazard insurance, HOA fees, or ground lease.
6. Debts, alimony, and child support obligations.
7. Monthly debt-to-income ratio or residual income.
8. Credit history.

## 2 Eligibility

### 2.1 Eligible Borrowers

- US Citizen(s)
- Permanent Resident Alien
  - An individual admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States. The Green Card (Form I-551) is evidence of employment authorization.
    - Acceptable evidence of permanent residency includes the following:
      - Alien Registration Receipt Card I-551 (Resident Alien Card).
      - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
      - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
      - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized.”
    - Eligible without guideline restrictions.
- Non-Permanent Resident Alien
  - An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. Must validate the borrower has employment authorization. This may be documented with either an EAD or a VISA permitting employment.
  - All nonpermanent resident alien borrower(s) must verify they are legally present in the United States with a copy of one of the following:
    - VISA
      - If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer’s letter of sponsorship for visa renewal must be provided.



- If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
  - EAD Card
    - If expiration is within six months of the application the borrower must show evidence they have applied for an extension or provide a letter from the employer indicating they will continue to sponsor their employment.
- ITIN (Individual Tax Identification Number)
  - A Non-Permanent Resident Alien without an SSN can qualify using ITIN (Individual Taxpayer Identification Number)
  - The borrower(s) must possess a valid ITIN card or IRS ITIN letter, and an Unexpired Government Photo ID (i.e. Driver’s license, International Passport, etc.)
- Foreign National
  - See Section for Foreign National for detail

All Non-U.S. Citizen Borrower(s) must evidence their residency status by providing applicable USCIS documentation.

## 2.2 Visa Eligibility Matrix

### 2.2.1 Visa classifications allowed as Non-Permanent Resident Aliens

| Visa   | Valid EAD Card | Description  |
|--|----------------|--|
| B1/A3/G5   | C17            | Non-immigrant domestic servant (VISA and Valid EAD Card must be combined)                                      |
| BC-1   | N              | Broadcaster in the US employed by the International Broadcasting Bureau of the Broadcasting Board of Governors |
| BC-2,3   | Y              | Spouse, child of BC-1  |
| C-5; C-51  | N              | Employment creation  |
| C-52-53  |                |  |
| C-52-53  | C09            | Spouse or child of C-5 or C-51   |
| DV- 1,2,3  | N              | Diversity immigrant, spouse, child   |
| E-1, 2, or spouse of E-1, 2 (the spouse does not get a different number for this category) | A17            | Treaty/Trade investor or spouse  |
| E-11/EB-1  | N              | Person with extraordinary ability in the sciences, arts, education, business or athletics                      |
| E-12   | N              | Outstanding professor or researcher  |
| E-13   | N              | Multinational executive or manager   |
| E-14 /15   | C09            | Spouse or child of E11, 12, or 13  |



|                  |                                      |  |
|------------------|--------------------------------------|--|
| E-21             | N                                    | Professional holding advanced degree or alien of exceptional ability   |
| E22,23           | C09                                  | Spouse, child of E-21  |
| E-3              | N                                    | Specialty occupation- Australia  |
| E-31             | N                                    | Skilled worker   |
| E-32             | N                                    | Professional holding baccalaureate degree  |
| E-34,35          | C09                                  | Spouse or child of E31 or 32   |
| EW-3             | N                                    | Other worker   |
| EW-4,4           | C09                                  | Spouse or child of EW-3  |
| G-1, 2, 3, 4, 5  |                                      |  |
| G-1, 2, 3, 4, 5  | N / C04 spouses and children:<br>C04 | Employees of international organizations and NATO; spouses and children  |
| H1-B             | N                                    | Foreign nationals working in the US in a specialty occupation  |
| H-4              | N/A                                  | Spouse or child of H type  |
| I- 5, 51         | N                                    | Investor in employment   |
| I-52, 53         | C09                                  | Spouse or child of 1-51  |
| IH-3, 4          | C09                                  | Child adopted or to be adopted by US citizen   |
| L, L-1a and L-1b | N                                    | Intracompany transferees   |
| N/A              | A02                                  | Lawful temporary resident pursuant to sections 245a or 210 of the INA (temp. agricultural worker)                |
| N/A              | A03                                  | Refugee  |
| N/A              | A05 (or Valid SSN Card)              | Asylum granted   |
| N/A              | A12                                  | Temporary protected status   |
| N/A              | A13                                  | IMMACT Family Unity beneficiary  |
| N/A              | A14                                  | LIFE Act Family Unity beneficiary  |
| N/A              | All                                  | Deferred Enforced departure  |
| N/A              | A10                                  | Granted withholding of Deportation or Removal  |
| N/A              | C12                                  | Spouse of an E2 commonwealth of the Northern Mariana Islands investor, eligible for employment. In the CNMI only |
| N/A              | C14                                  | Alien granted deferred action  |
| N/A              | C16                                  | Registry applicant   |
| N/A              | C19                                  | Temporary Protected status   |
| N/A              | C31                                  | Principal beneficiary or qualified child of approved VAWA self-petition  |
| N/A              | C33                                  | DACA   |



|          |     |  |
|----------|-----|--|
| N/A      | C10 | Nicaraguan Adjustment & Central American Relief act                                |
| N/A      | C08 | Asylum applicant, status pending   |
| N-8 OR 9 | A07 | Parent or child of international organization employee granted permanent residence |
| NATO-1-6 | C07 | NATO members, staffs, and families for temporary stay                              |
| O        | N   | Extraordinary ability in science, education, the arts, business or athletics       |
| R-1      |     | Religious workers  |
| R-5, 51  | N   | Investor in pilot program  |
| R-52, 53 | C09 | Spouse or child of R-51  |
| SD-1     | N   | Religious workers  |
| SD-2, 3  | C09 | Spouse or child of SD-1  |
| SE-1     | N   | Employees or former employees of the US Gov't abroad                               |
| SE-2, 3  | C09 | Spouse or child of SE-1  |
| SF-1     | N   | Former employees of the Panama Canal Company or Canal Zone Gov't                   |
| SF-2     | C09 | Spouse or child of SF-1  |
| SG-1     | N   | Former employees of the US gov't in the Panama Canal Zone                          |
| SG-2     | Y   | Spouse or child of SG-1  |
| SH-1     | N/A | Certain former employees of the Panama Canal Company or Canal Zone gov't on 4/1/79 |
| SH-2     | C09 | Spouse or child of SH-1  |
| SI       | N   | Interpreters   |
| SJ-1     | N   | Foreign medical graduate   |
| SJ-2     | C09 | Spouse or child of SJ-1  |
| SK-1     | N   | Retired international organization employee  |
| SK-2     | C09 | Spouse of SK-1   |
| SK-3     | C09 | Unmarried child of an international organization employee                          |
| SK-4     | C09 | Surviving spouse of deceased international organization employee                   |
| SN-1     | N   | Retired NATO6 civilian   |
| SN-2, 3  | C09 | Spouse of child of NATO6 civilian employee   |



|                  |            |   |
|------------------|------------|---|
| SN-4             | C09        | Surviving spouse of deceased NATO6 civilian employee                |
| SQ               | N          | Iraqi/Afghans who work on behalf of the US government               |
| SR-2, 3          | C09        | Spouse or child of SR-1   |
| SR-1             | N          | Religious workers   |
| T-1-4            | A16 OR C25 | Victim or spouse or child or parents of victim of human trafficking |
| T-5, 51          | N          | Employment creation   |
| T-52, 53         | C09        | Spouse or child of T-51   |
| TC NAFTA, TN, TD | N          | Canadian or Mexican citizens working in the US                      |
| U-1-4            | A19 OR A20 | Victim or family member of victim of criminal activity              |

### 2.2.2 Visa types considered as Foreign Nationals

| Visa                                     | Valid EAD Card | Description  |
|--|----------------|--|
| B-1,2                                    | N/A            | Business visitor   |
| B-11, B-16                               | C09            | Unmarried son or daughter of US citizen                                      |
| B-12, B-17                               | C09            | Child of B-11 or B-16  |
| B31-33                                   | C09            | Married son or daughter of US citizen (B-31), spouse of B31 or child of B-31 |
| C-21-25                                  | C09            | Spouse or child of permanent resident or FX 1                                |
| C-31-33                                  | C09            | Spouse of child of US citizen  |
| CR-1-2, 5                                | C09            | Spouse of child of US citizen  |
| CX-1-3                                   | C09            | Spouse, child, or stepchild of lawful permanent resident                     |
| F-3, 4, 11, 12-25, 31-33, 41-43, F-2 A&B | C09            | Family members of permanent residents or US citizens                         |
| F-1                                      | C03            | Student  |
| FX-1-3                                   | A09            | Spouse or child of permanent resident or FX 1                                |
| H-2 A&B                                  | N/A            | Temporary workers  |
| H-3                                      | N/A            | Temporary training   |
| IR-1-5                                   | C09            | Spouse, child, or child to be adopted of US citizen                          |
| J-1, J-2                                 | N              | Cultural exchange visitor  |



|           |     |   |
|-----------|-----|---|
| K-1 or 3  | A06 | Fiancée of US citizen   |
| L-2, 3    | A18 | Spouse or child of L-1  |
| M-1       | C06 | Student seeking practical training after completing studies   |
| P-1, P-2  |     | Non-immigrants coming to the U.S. to perform in athletics or entertainment  |
| Q         | N/A | Cultural exchange program   |
| V-1, 2, 3 | A15 | Married to or a child of a legal permanent resident and you have been waiting at least 3 yrs. for the approval of a petition for lawful permanent resident status |

### 2.2.3 Funnel Cake Overlay

- DACA borrowers are not allowed.
- C08, C09, C10 visas not allowed.

## 2.3 Foreign National

- A Foreign National is a non-resident alien who is not authorized to live or work in the U.S. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business.
- To be eligible, the borrower must live and work in another country and be a legal resident of that same country.
- They may not purchase property intended for use as a primary residence or second home.
- Foreign Nationals are eligible for DSCR loans only.
- Any borrower(s)/guarantor(s) identified on OFAC sanction list are ineligible.

## 2.4 Foreign Residency

- A foreign national borrower must evidence their primary residence for the country issuing their Passport.
- Foreign National borrowers may not occupy the subject property as a primary residence.
- A complete loan application (FNMA Form 1003 or similar application) is required on all loan files reflecting the borrower’s address for their primary residence in their country of origin.
- The application must include the borrower’s full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.

## 2.5 Foreign National Documentation Requirements

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport
  - Copy of valid Visa. (See Visa Matrix for eligibility)



- For DSCR transactions, if a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements do not apply.
- OFAC screening for individuals
- OFAC Sanctioned Countries
- Individuals with Diplomatic immunity are not eligible.
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official.
  - The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal.
  - If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille
- Power of Attorney (POA) is not allowed

## 2.6 Qualifying U.S. Credit for Foreign National Borrowers

- For foreign national borrowers with a valid Social Security number, a credit report should be obtained
- Must have a minimum of one active tradeline opened for 24 months with no derogatory history or 2
- See matrix for minimum credit score requirement

## 2.7 Qualifying Foreign Credit for Foreign National Borrowers

- Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements
- A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or an invalid credit score (insufficient tradelines to have 3 scores)
- Qualifying Foreign Credit borrowers must establish an acceptable credit history. Must provide two (2) of the following with at least 24 months history:
  - Bank reference letter
  - Credit reference letter
  - Mortgage/Rent verification

## 2.8 Foreign National Income

- DSCR only

## 2.9 Foreign National Housing History

- A housing history for the borrower's primary residence is not required



## 2.10 Automatic Payment Authorization (ACH)

- Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers
- Funds must be from a U.S. Bank

## 2.11 Reserves for Foreign National

- See Matrix for program specific

## 2.12 Assets Held in a Foreign Account

- Must be verified in U.S. Dollar equivalency at the current exchange rate via either [www.xe.com](http://www.xe.com) or the Wall Street Journal conversion table
- Sufficient funds to close must be transferred to an U.S. account or Escrow / Closing Agent at least ten (10) days prior to any closing date
- A copy of the two (2) most recent statements are required
  - If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds
- Bank statements in any language other than English must be translated into English

## 2.13 Eligible Title Vesting and Ownership

Acceptable forms of vesting are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter-Vivos Revocable Trust
- Limited Liability Company (LLC)
- Limited and General Partnerships
- Corporations

Vesting in an Entity for a Business Purpose Loan is permitted on an INVESTMENT property only with the following requirements:

- Entity must be domiciled in a U.S. state.
- Business structure is limited to a maximum of four (4) owners/ members.
- Personal Guarantees must be provided by all owners/members of the Entity who holds more than 25% ownership of the entity. Members who hold less than 25% ownership may be excluded from the loan.
- Personal Guarantors on the loan must sign the security instruments.





- Each Entity owner / member providing a Personal Guaranty must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member/owner providing a Personal Guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

The following documentation must be provided for each business type.

- Limited Liability Company (LLC)
  - Entity Articles of Organization, Partnership, and Operating Agreements as required.
  - Tax Identification Number (Employer Identification Number – EIN).
  - Certificate of Good Standing.
  - Certificate of Authorization for the person executing all documents on behalf of the Entity.
  - LLC Borrowing Certificate required when all owners/members are not on the loan.
- Limited and General Partnerships
  - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required).
  - Partnership Agreement (and all Amendments).
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the Partnership is registered).
  - Tax Identification Number (EIN).
  - Limited partner consents (where required by partnership agreement).
- Corporations
  - Filed Certificate/Articles of Incorporation (including all Amendments).
  - By-Laws (including all Amendments).
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the business is incorporated).
  - Tax Identification Number (EIN).
  - Borrowing Resolution/Corporate Resolution granting authority of signor to enter loan obligation.

## 2.14 Power of Attorney

- A Power of Attorney allowed under following terms:
  - US Citizen or Permanent Residents
  - Primary Residence, Second Home or Investment
  - Not allowed if vesting into LLC, General Partnership or Corporation
  - Power of Attorney must be transaction specific and has subject property address
  - Purchase or Rate/term Refinance transactions
  - Not eligible for cash-out transactions or with Foreign National borrowers
  - Must be recorded with the Mortgage/Deed of Trust
  - Must contains an expiration date



- May be used to execute the final loan documents only
- Borrower who executed the POA signed the initial FNMA Form 1003
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney

## 2.15 Private Mortgage Insurance (PMI)

- Private Mortgage Insurance (PMI) is not required on any Alt Doc loans

## 2.16 Guarantor(s) Documentation

- Loan Application (e.g., FNMA Form 1003 or other application)
  - Completed for each member of the Entity providing a guaranty. **Must be signed by the individual.**
  - "Title will be held in what Name(s)" should be completed with only the entity name.
- Credit report from all guarantors.
- Note, Deed of Trust/Mortgage and all applicable Riders must be executed by the guarantor in their capacity as an authorized signer for the entity.
- Personal Guaranty
  - The guaranty must be full recourse.
  - The guaranty must reference the Note and loan amount

## 2.17 Ineligible Borrowers

- Borrowers with diplomatic immunity as defined by US Citizenship and Immigration Services (USCIS)
- Persons from OFAC sanctioned countries: <https://sanctionssearch.ofac.treas.gov/>
- 501(c)(3) Organizations
- Trusts
- Persons sanctioned by OFAC
- Businesses or Persons whose income derives from a business that is federally illegal
- Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts
- Guardianships

## 2.18 Borrower Types

### 2.18.1 Primary

- The occupying borrower who earns the greater of the qualifying income



### 2.18.2 Co-Borrower

- Any borrower (other than the Primary) who is jointly responsible for repayment of the loan with the Primary Borrower. All Co-Borrowers must be on title

### 2.18.3 First Time Homebuyer (FTHB)

- An individual is considered a first-time homebuyer who:
  - Is purchasing the security property
  - Will reside in the security property as a principal residence
  - Had no ownership interest (sole or joint) in a residential property during the five-year period preceding the date of the purchase of the security property

### 2.18.4 Non-Borrowing Occupant

- Any individual residing in the security property who is not considered during the loan qualifying process. A Non-Borrowing Occupant on title will be required to execute applicable documents to create a valid lien

### 2.18.5 Non-Occupant Co-Borrower

- The original vested borrower(s) must occupy the subject property as his / her principal residence
- The new co-borrower's credit and income must be relied on in part for qualifying purposes
- The new co-borrower(s) must execute all loan documents required for the loan program
- The new co-borrower(s) must be concurrently added to title through closing
- Cannot have a vested interest in the subject property (Purchase transaction)
  - NOTE (1): A family relationship is not required provided the transaction is considered an arm's length transaction

### 2.18.6 Eligible Occupancy

- Primary Residence
- Second Home
  - A Second Home is a property that is located a reasonable distance from the borrower's primary residence and is occupied by the borrower for some portion of the year. The property must be suitable for year-round occupancy and cannot be used as a rental property. Second Homes are limited to the following:
    - Single Family Residence
    - Condominium
    - PUD
    - Townhouse



- Multi-units are NOT allowed as a second home
- Investment Property
  - An Investment Property is defined as a 1-to-4-unit property that the borrower does not occupy.

### 2.18.7 Borrower Statement of Occupancy

- The borrower must acknowledge the intended occupancy of the subject property (“Primary Residence”, “Second Home”, or “Investment”) by completing and signing the appropriate sections of the “Occupancy Certification”

## 3 Eligible Transactions

### 3.1 Purchase

- A purchase money transaction is a transaction in which the proceeds from the loan are used to finance the acquisition of the property
- LTV/CLTV is based upon the lesser of the sales price or appraised value
- Assignment of contract or finder’s fees reflected on the purchase contract are limited to no greater than \$30,000 and to be included in the sales contract price and associated with the LTV/CLTV calculation
- Non-arm’s length transaction for all transaction types (e.g., Owner Occupied, Second Home, Investment Property). See Non-arm’s length transaction section
- 1031 Exchange

#### 3.1.1 Coffee Cake Overlay

Assignment of Contract or Finder’s Fee not eligible for financing. Any amount must be removed from the contract price and excluded from the LTV/CLTV calculation.

### 3.2 Rate/Term Refinance

- A Rate/Term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan
- Closing costs and prepaid items (interest, taxes, insurance) including prepayment fees may be added to new loan amount
- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if:
  - the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or



- the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust
- Payoff of purchase money 2<sup>nd</sup> TD allowed without seasoning requirement
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
  - Closed-end loan, at least 12-months of seasoning has occurred
  - HELOC, at least 12-months of seasoning has occurred, and total draws over the past 12-months are less than \$2,000
- Incidental Cash-Out on a Rate/Term and Debt Consolidation Refinance
  - Cash back in an amount not to exceed the lesser of 2% of the new loan amount or \$5,000
    - For Cheese Cake, Max cash back of the greater of 1% of the new loan amount or \$2,000
- Current appraisal market value to be used regardless of acquisition date
- If property was listed for sale within the past 3 months, the lower of the appraised value or listing price to be used
- If the most recent refinance transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a Rate/Term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months

### **3.2.1 Cheese Cake Overlay**

Max cash back of the greater of 1% of the new loan amount or \$2,000

### **3.2.2 Funnel Cake Overlay**

Properties listed for sale must be taken off the market prior to application date.

## **3.3 Cash-Out**

- A cash-out refinance is a refinance that does not meet the Rate/Term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction
- A mortgage secured by a property currently owned free and clear is considered cash-out refinance
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out
- At least one of the borrowers must be on title
- Net proceeds from a cash-out transaction may be used to meet reserve requirements
- Current appraised market value to be used regardless of acquisition date
- If property was listed for sale within the past 3 months, the lower of the appraised value or listing price to be used
- Must have at least three (3) months title seasoning (note to note)
- Cash-out seasoning of three (3) months or less is allowed with the following restriction:



- Document that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership
- Appraised market value may be used

### **3.3.1 Cheese Cake Overlay**

Properties listed for sale or purchased within the last 6 months (Note to Note), require a 5% reduction in LTV. For properties that have been listed by the current owner within the last six months, the LTV will be based on the lesser of the list price or appraised value.

### **3.3.2 Coffee Cake Overlay**

If the subject property has been owned for 6 months or less, value for determining the LTV must be based on the lesser of the acquisition value plus documented improvements (if any), or the current appraised value.

### **3.3.3 Funnel Cake Overlay**

- Properties listed for sale must be taken off the market prior to application date
- For cash out transactions, if the property was listed in the (6) months prior to the application date, a 10% LTV reduction is required. The property value is the lessor of the previous listing price or the appraised value.

## **3.4 Delayed Financing**

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application
  - The transaction is considered cash out refinance for pricing and eligibility. Cash-in-hand limits do not apply
  - The original purchase transaction was an arms-length transaction
  - The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property)
  - The maximum LTV/CLTV ratio for the transaction is based upon the lesser of the current appraisal value or previous purchase price plus documented improvements
  - The preliminary title search or report must confirm that there are no existing liens on the subject property
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions
  - NOTE: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan



### 3.5 Non-Arm's Length Transaction

- Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property
- A non-exclusive list of examples of non-arm's length transactions are:
  - Relatives: defined by blood, marriage, stepchild, adoption, or legal guardianship
  - Buyer and seller are related or associated in business
  - Developer and buyer are related or associated in business
  - Real Estate Brokers/Agents
  - Employee/Employer
- Proof of non-default on any existing mortgage(s) is required
- For-Sale-By-Owner (FSBO) transactions must be arm's-length
- A Letter of Explanation regarding the relationship between the parties is required
- Eligible on all transaction types (Owner Occupied, Investment Properties, Second Home)

### 3.6 CEMA Loans

- Consolidation, Extension, and Modification Agreement (CEMA) loans are available for New York refinance loans only.
- CEMA transactions are required to close with a licensed attorney firm and subject to their review and costs

### 3.7 Texas Home Equity Loans 50(a)(6)

- Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All loans must comply with the requirements listed in the Texas Constitution

### 3.8 Ineligible Transactions

- Assumable
- Construction to Permanent
- Builder Bailout
- Conversion Loans
- Lease Options/Rent-to-Own



- Land Contracts
- Assignments of the contract to another buyer greater than \$30,000
- No Graduated Payment Mortgage Loan
- Periodic Payment - Loans must have periodic payments due and loans can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan

### 3.9 Secondary Financing

- Secondary financing must be subordinated and included in CLTV
- Private-party secondary financing not allowed
- HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation showing the line of credit is past its draw period

### 3.10 Prepayment Penalty (Investment Property)

- Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note
- The following prepayment structures may be used:
  - Six (6) months of interest – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period. (Not eligible under 5-8 unit)
  - A fixed percentage of no less than 3% - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance
  - Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) – The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance
- The following state restrictions apply:
  - Prepayment penalties are not allowed in AK, KS, MI, MN, NM, OH and RI
    - Restrictions do not apply to DSCR 5-8 Unit
  - Prepayment penalties are not allowed on loans vested to individuals in IL and NJ
  - Pennsylvania – Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2024 the base figure amount is \$312,159
  - Only declining prepayment penalty structures are allowed in MS





## 4 Credit

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report (RMCR) is required.

### 4.1 General Requirements

Each report should comply with the following:

- The credit bureaus utilized in generating borrowers' credit reports comply with the Fair Credit Reporting Act
- Appropriate authorization from the Borrower(s) is required prior to obtaining credit
- Credit supplements must be included in and made a part of the report
- Credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories
- The credit report should be dated within 120 days of the Note and Mortgage
- Gap credit report or an Undisclosed Debt Notification (UDN) is required within 10 days of closing date. Any New debt must be included in determining the DTI ratio

### 4.2 Credit Scores

- In general, a minimum of 2 credit scores are required to be provided and used to determine the qualifying credit score for loan approval unless stated otherwise on matrix. No FICO / 1 FICO available on a limited program basis
  - Lower of 2 or Middle of 3 scores
  - Use credit score of the borrower with the highest qualifying income

### 4.3 Tradeline Requirements

- Only the Primary Wage Earner is required to meet the minimum tradeline requirements below and if the Primary Wage Earner has 3 credit scores reporting on credit, then the minimum credit tradeline requirements are considered met
- Minimum tradeline requirements:
  - At least three (3) tradelines reporting for a minimum of 12-months, with activity in the last 12-months, or
  - At least two (2) tradelines reporting for a minimum of 24-months, with activity in the last 12-months



- Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the requirements below:
  - No fewer than eight (8) tradelines are reported, one (1) of which must be a mortgage or rental history
  - At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months
  - The borrower has an established credit history of at least four (4) years
  - **Funnel Cake Overlay - Limited tradeline acceptable on an exception basis- must be preapproved by Cake**
- If the borrower does not meet the tradeline requirement but has a valid credit score, alternative trade lines may be used to qualify by providing the following:
  - If the borrower has one standard tradeline for 12 months, then two alternative tradelines for 12 months are required
  - If the borrower has one standard tradeline for 24 months, then one alternative tradeline for 24 is required
  - Acceptable alternative tradelines:
    - 12- or 24-months' rent verification (Professional Management Company VOR for 12 or 24 months, or Private VOR for 12 or 24 months + 12 months of canceled checks)
    - 12- or 24-months' utility bill verification
    - 12- or 24-months' phone bill verification
    - 12- or 24-months' HOA bill verification
- Unacceptable tradelines to be counted as tradelines:
  - Any liabilities in deferment status
  - Accounts discharged through bankruptcy
  - Authorized user accounts
  - Charge-offs
  - Collection accounts
  - Foreclosures
  - Pre-foreclosure sales
  - Short sales

#### **4.3.1 Coffee Cake Overlay**

The borrower is required to meet the minimum tradeline requirement of 2 tradelines for 24-months, or 3 tradelines for 12-months reporting on the credit report. The use of alternative tradelines is not permitted.

#### **4.3.2 Funnel Cake Overlay**

Limited tradelines acceptable on an exception basis. Must be prior approved by CAKE.



## 4.4 Disputed Tradelines

- All disputed trade lines must be included in the DTI

## 4.5 Credit Inquiries

- Credit inquiries listed on the report within 90 days of the report date must be addressed by the borrower with a letter of explanation
- If no credit was extended, borrower must state the purpose of the inquiry
- If new credit was extended, borrowers must provide documentation on the current balance and payment
- New payment terms are to be included in the DTI ratio

## 4.6 Housing History

- Verification of Mortgage/Verification of Rent (VOM/VOR) must be provided to support the most recent 12 months mortgage and/or rent pay history. A VOM must be obtained for all outstanding mortgages the borrowers have if not evidenced by their credit report, including private mortgages. The VOM/VOR is reviewed for delinquencies on the last twelve (12) months. Refer to program restrictions for housing delinquencies.

If a complete 12-month mortgage history is not reported on the credit report, one of the following must be used to complete the borrower's payment history:

- Mortgage Payments
  - VOM (Verification of Mortgage)
  - Loan payment history from the loan servicer
  - Credit supplement
  - Proof of mortgage payment (e.g., canceled check, ACH payment, bank transfer, etc.)
  - For Private Mortgages, provide a fully executed VOM along with 12 months bank statements showing account ownership and timely payments debited by Mortgage Servicer OR copies of canceled checks (front and back) along with the most recent mortgage statement
- Rental Payments
  - VOR (Verification of Rent)
  - Any VOR completed by a private party, or any non-institutional landlord must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, rental statements including payment history, etc.)



## 4.7 No Housing History or Less Than 12 Months Verified

- Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:
  - DTI may not exceed 50%
  - LTV may not exceed 90%
- Borrower(s) who sold a primary residence within the past six (6) months, currently residing rent-free, and purchasing a new primary residence are allowed
  - 12-month mortgage history required on previous primary residence
  - Properties owned free and clear are considered 0x30

### 4.7.1 Coffee Cake Overlay

Minimum 5% contribution is required for the following transactions:

- Owner-occupied properties with an LTV > 80%, and
- Investment properties with an LTV > 75%

### 4.7.2 Funnel Cake Overlay

A minimum of 10% borrower contribution is required.

## 4.8 Rent Free

- Allowed for Primary Residence and Second Homes only.
- Must have 6 Months reserves.
- DTI may not exceed 50%.
- LTV may not exceed 90%.
- Must provide a rent-free letter. The signor must be the owner of the property or lessee of the property. Must provide evidence of ownership or lease.

## 4.9 Other Credit Requirements

### 4.9.1 Forbearance, Deferred Payments, Modifications

- COVID Forbearance must be released and fully current
- COVID Forbearance released within 12 months of Note Date will be subject to 0x90x12. See program matrix for eligibility.
- Non-COVID deferred payments are unacceptable credit events and disqualifies borrower(s) from financing.
- Mortgage Loan Modifications are acceptable with 36 months seasoning, minimum 720 FICO and no additional credit events after modification. Examples of mortgage loan modifications are:
  - Principal and/or Interest Forgiveness on either the first or second mortgage



- Principal Curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any part of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any part of the original mortgage debt from secured to an unsecured debt.

#### 4.9.2 Significant Adverse Credit Event

- Refer to Matrix for eligibility for credit events (Bankruptcy, Foreclosure, Short sale/Deed-in-Lieu)

#### 4.9.3 Consumer Credit Counseling Services

- Borrower enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan
- Monthly CCCS plan payment must be included in the DTI ratio
- Completion date must appear on the credit report. If not on credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion

#### 4.9.4 Collections, Charge-Offs, Judgements, Liens, Garnishments

- Judgements, Garnishments and Liens: The borrower must pay-off all open judgements, garnishments, and liens (including mechanics liens or material men’s liens) prior to the loan closing
- Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
  - Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
  - Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
  - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
  - All medical collections
  - IRS repayment plans with 1 month history of payments may remain unpaid
- Past Due Accounts must be brought current

## 5 Income Documentation

Stable monthly income is to be verified from all acceptable and verifiable sources with a reasonable expected continuance. While sources of income may vary, the borrower is required to have a consistent level of income.

Employment gaps of more than 30 days within the most recent two (2) year period require a satisfactory letter of explanation and the borrower must be employed with current employer for a minimum of six (6) months.



Second/Part-time jobs may be used with no minimum employment history

## 5.1 Employment Status

- The borrower’s current employment status is required. Employment status can be established as follows:
  - Wage/salary borrowers:
    - A YTD paystub dated within 30 days of Note date (Full Doc); or
    - A verbal VOE dated no more than 10 calendar days prior to Note date. The VOE should include the following data:
      - Borrower name
      - Verification that borrower’s employment is currently active
      - Employer name/company name
      - Employer contact name and title
      - Name of individual who completed the VOE
      - Business phone number must be independently verified; or
    - A verification via e-mail exchange with the borrower’s current employer dated no more than 10 calendar days prior to Note date
    - Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:
      - Work e-mail address of the individual contacted at the employer
      - Borrower name
      - Current position
      - Current employment status
  - Self-Employed Borrowers (Full Doc):
    - If the most recent tax return in the file is dated within 90 days of the note date, no additional verification required
    - If the tax return exceeds 90 days of the note date, a YTD Profit & Loss Statement (P&L) dated within 90 days of note date is required, along with the two most recent months of bank statements

### 5.1.1 Teacher Income

- Teachers are paid on a 9-month, 10-month, 11-month or 12-month basis. The pay structure should be determined before calculating the monthly income. If unable to determine the pay frequency,



documentation such as a copy of their contract or documents from the school district’s personnel office may be required

### 5.1.2 Variable Income – Overtime/Bonus/Commission

- Variable income sources are eligible provided the borrower has a minimum 2-year history of receiving such income in the same line of work
- Variable income earned for less than one (1) year may not be used for qualifying income
- Variable earnings must be averaged over the most recent one (1) or two (2) years based upon the documentation type, and include one of the following:
  - Most recent year-to-date pay stub reflecting the variable earnings or;
  - A completed Written Verification of Employment – FNMA Form 1005 detailing base, overtime, commission, or bonus earnings

### 5.1.3 Alimony or Child Support

- Alimony or child support income is allowed with third-party documentation evidencing receipt of at least six (6) months
- Document the support will continue for at least three (3) years by one of the following:
  - Alimony:
    - Copy of final divorce decree or final separation agreement describing the payment terms
    - Any other type of written legal agreement or court decree describing the payment terms
  - Child support:
    - Copy of final divorce decree or final separation agreement describing the payment terms
    - Any other type of written legal agreement or court decree describing the payment terms
    - The full amount of qualifying child support income may be treated as nontaxable and grossed up at 25% without supporting documentation verifying the nontaxable status

### 5.1.4 Auto Allowance

- The borrower must have received payments for at least two (2) years
- Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations

### 5.1.5 Capital gains

- Capital Gains income must be averaged over two (2) years and documented with the following:



- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D
- Third-party documentation to evidence that additional assets may be sold to support the qualifying income
- The third-party documentation must evidence the capital gain income will continue for a minimum of three (3) years
- Capital losses do not have to be considered

### 5.1.6 Disability Income – Long Term

- Long-term disability will not have a defined expiration date and should be expected to continue
- Obtain a copy of the borrower’s disability policy or benefits statement to verify the following:
  - Eligibility for the benefits,
  - Amount and frequency of payments, current proof of receipt, and
  - If there is a contractually established termination or modification date

### 5.1.7 Employed by a Relative (Full Doc only)

- Income for borrowers who are employed by a relative must be verified using Standard Documentation for two (2) years, including the following:
  - Federal income tax returns for the most recent two (2) years
  - W-2s for the most recent two (2) years
  - Paystub(s) covering the most recent 30-day period
- Clarification of the potential ownership of family-owned businesses by the borrowers may also be required
- A borrower may be an officer of a family-operated business, but not an owner
- Verification of a borrower’s status should be provided by written confirmation obtained from a CPA or legal counsel

### 5.1.8 Employment Offers or Contracts

- For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date
  - The offer or contract cannot be for employment by a family member or interested party to the transaction

### 5.1.9 Foreign Income

- Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) who is employed by a foreign corporation or a foreign government and is paid in foreign currency
- Borrowers may use foreign income to qualify if they provide copies of the following:





- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income
- Standard documentation requirements based upon the source and type of income
- Any documents not in English or US currency must be translated

### 5.1.10 Foster Care Income

- Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:
  - Verify the foster-care income with letters of verification from the organizations providing the income
  - Documentation verifying that the borrower has received foster care income for a minimum one-year period
  - Qualifying income is based upon the current amount received

### 5.1.11 Interest/Dividends

- Document a two-year history of the income, as verified by copies of the borrower's federal income tax returns
- Develop an average of the income received for the most recent two (2) years
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income

### 5.1.12 Non-Taxable Income

- If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the UW may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income
  - Child support income: The full amount of qualifying child support income may be treated as nontaxable and grossed up at 25% without supporting documentation verifying the nontaxable status
  - Social Security income: Income may be grossed up at 15% without documentation verifying the nontaxable status

### 5.1.13 Notes Receivable Income

- Note receivable income may be used for qualifying income subject to the following:
  - Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application
  - Obtain a copy of the Note to establish the amount and length of payment



- Document regular receipt of income for the most recent 12-months using either cancelled checks, bank statements, or federal tax returns
- Payments on a Note executed within the past 12-months, regardless of the duration, may not be used as stable income

### 5.1.14 Pension, Retirement, Annuity

- If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage Note
- In addition, the borrower must have unrestricted access to the accounts without penalty
- regular and continued receipt of the income with the following:
  - Pension/Social Security/VA:
    - Provide one of the following:
      - Award letter(s) from the organizations providing the income; or
      - Two prior years 1099-R and 30-days current proof of receipt
    - To gross up, see “Non-Taxable Income” section
  - 401K/Keogh/IRA:
    - Provide all the following:
      - Account Statement(s) reflecting available balance for withdrawals
      - One-year 1099-R forms
      - One month’s proof of current receipt
      - Minimum history of withdrawals for 12-months required

### 5.1.15 Royalty Income

- Obtain copies of the following:
  - Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income
  - The borrower’s most recently signed federal income tax return, including IRS Form 1040 and Schedule E
- Confirm that the borrower has received royalty payments for at least 12-months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note

### 5.1.16 Tip Income

- Tips and gratuity income may be considered if the receipt of such income is typical for the borrower’s occupation
- Tip income should be received for at least two (2) years



- Documentation will be based upon the documentation type selected (12- or 24- months)
- Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub
- Income should be averaged over the time-period verified
- If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income
- WVOE program only requires FNMA 1005

### 5.1.17 Trust Income

- Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments:
  - Trustee statement evidencing borrower is a beneficiary and income will continue for three (3) years
  - Variable trust income: Use an average over the length of time per the doc type selected
  - Fixed trust income: Use the fixed payment as documented
  - If the borrower creates the trust as trustee, the assets within the trust must be verified with 3rd party documentation (i.e., bank statements). Income will be calculated using asset utilization methodology
  - Unless this income is received monthly, documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return

### 5.1.18 Unemployment Benefit Income

- Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt, however;
- Seasonal unemployment can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction)
- The income can be used to qualify with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation
- Income should be averaged over the time-period verified

### 5.1.19 VA Benefits

- Document the borrower's receipt of Veteran Administration (VA) benefits with a letter or distribution form from the VA, along with a one-month proof of receipt
- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note
- Education benefits are not acceptable income because they are offset by education expenses
- Verification is not required for VA retirement or long-term disability benefits



### 5.1.20 IRA Form 4506-C

- Only required on Full Doc and 1099 loans
  - Must be executed with tax transcripts in file
- If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:
  - A copy of the IRS rejection with a code of “Unable to Process” or “Limitation”
  - Proof of identification theft, as evidenced by one (1) of the following:
    - Proof that the identification theft was reported to and received by the IRS (IRS Form 14039)
    - A copy of the notification from the IRS alerting the taxpayer to possible identification theft
  - In addition to one (1) of the documents above, if applicable, a Tax Transcript showing fraudulent information
  - Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower’s personal tax return (Form 1040). Validation of prior tax year’s income (The income for the current year must be in line with prior years)

### 5.1.21 Borrower ATR Certification

- Loans subject to Reg Z. Ability to Repay must include a borrower(s) certification attesting to the following:
  - Borrower(s) have fully disclosed their financial obligations,
  - Borrower(s) have reviewed and understand the loan terms; and
  - Borrower(s) have the ability to repay the loan

### 5.1.22 Residual Income

- All loans must meet the residual income requirements
- Residual income calculation must be calculated on each loan, except on loans that fall under business purpose lending
- Residual income equals Gross Monthly Qualifying Income less the Monthly Debt obligation
  - Minimum residual income required: \$1500

### 5.1.23 Employment/Income verification

- A minimum of two (2) years of employment history for both wage/salary or self-employment, is required to be documented
- Any gaps in employment that span one or more months must be explained
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime



- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed
- The following are common business structures:
  - Sole proprietorship
  - Limited Liability Company
  - Partnerships
  - S-Corporation
  - Corporation

### 5.1.24 Income Earning Trends

- When 24-months of income are analyzed for qualification, year over year income amounts must be compared using the borrower's W-2 forms, signed federal income tax returns, or bank statements
- The earnings trends are addressed as follows:
  - Stable or increasing: Defined as annual income that is equal to, greater than, or less than 20% below the prior year's income. The income amounts will be averaged
  - Declining but stable: If the 24-month earnings trend shows a decline in borrower income of 20% or more on a year over year basis, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used

### 5.1.25 Verification for Employed Borrowers:

In addition to verifying income, a Verbal Verification of Employment is required on all loans. In the event a Verbal Verification of Employment is not obtainable, the following methods may be used:

- Written VOE: An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name and current employment status may be used in lieu of a verbal VOE. This is required within 10 business days of the note date
- Paystub: The underwriter may obtain a year-to-date paystub from the pay period that immediately precedes the note date
- Bank statements: Obtain bank statements evidencing the payroll deposit from the pay period that immediately precedes the note date

### 5.1.26 Verification for Self-Employed Borrowers:

In addition to verifying income, Underwriter must verify the current existence of the business. Acceptable methods of business verification include:

- CPA Verification



- Attestation that the Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney. has filed or reviewed at least previous year of tax returns
- The letter must be signed by Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney. and include the preparation date of the document
- The license number must be provided
- CPA cannot be an employee or a relative of the borrower
- LLC/Corporation Verification
  - If the borrower's business is registered as single-member LLC/Corporation then the borrower must provide Articles of Incorporation and most recent filing with secretary of state. If articles of Incorporation do not list its owners, then CPA Letter with Ownership Breakdown or Addendum will be required. Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney must have either filed or reviewed previous year returns or financial audit
  - If the borrower's business is registered as a multi-member LLC/Corporation/Partnership then the borrower must provide Articles of Incorporation and most recent filing with Secretary of State and CPA Letter/Operating Agreement/Corporate Bylaws with Ownership Breakdown or Addendum
- Schedule C/Sole Proprietor
  - Borrower must provide a CPA Letter. It must indicate self-employed history and that the borrower is a Schedule C/Sole Proprietor
- Bank Statements with recent transactions
- Third Party verification that the business in in existence and in good standing is required
- Minimum of 25% ownership is required for Self-Employed Borrowers

#### **5.1.26.1 Cheese Cake Overlay**

Cheese Cake does NOT allow for PTIN tax preparers.

## 6 Standard Income Documentation/Full Doc

Standard income documentation is available for 12 or 24 month income documentation

### 6.1 Wage/Salary Income

- The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or
- Income verification provided by a FNMA approved 3rd party Vendor (e.g., The Work Number®) evidencing income from the most recent 1 or 2 years (as applicable) along with year-to-date earnings



- FNMA WVOE Form 1005 is not eligible for standard income documentation unless used in conjunction with documents verifying variable income
- When tax returns are required, as in the case of income earned from subject or non-subject investment property REO, the most recent one (1) or two (2) years of tax returns should be provided
- Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected
- 4506-C required for all Standard income documentation/Full Doc loans

## 6.2 Self-Employment Income

- The most recent one (1) or two (2) years of tax returns (including evidence of filing)
- If applicable, both personal and business (including all K-1s and schedules), signed and dated by each borrower
  - Evidence of filing may include one of the following:
    - IRS Form 8879 e-File Signature Authorization for the provider that prepared the return, or
    - E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS
    - If evidence of filing is not provided, tax transcripts for personal and corporate (IRS Form 1120) returns are required
  - In lieu of tax returns, tax transcripts for the most recent one (1) or two (2) years may be provided as applicable. In certain cases, tax returns will be required as transcripts will not provide the details required to establish eligible qualifying income for the borrower
- If the borrower pays themselves wage income, a YTD paystub must be included in the file
  - Wages must be averaged by previous 12 or 24 months and YTD gross income
- When analyzing tax returns, the following may be added back to the applicant's income calculation:
  - Depreciation
  - Depletion
  - Business use of home
  - Amortization/casualty loss
  - Ordinary income (loss) from other partnership
  - Nonrecurring other income (loss)
  - Any expense(s) that can reasonably be documented to be one-time and non-recurring
  - Net operating loss carryforwards from years prior to the tax returns provided
- If the tax return date exceeds 90 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date and two (2) business checking account statements for the two (2) most recent months reflected on the P&L
  - The P&L may be either: prepared by a 3rd party or prepared by the borrower



- If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required
- The qualifying income is determined from the tax returns; the P&L is used to determine the stability of that income
- The bank statements for the two (2) most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the prior year(s) tax returns

## 7 Alternative Income Documentation

Alternative income documentation may be used to determine income. Income documentation may be used alone and in conjunction with other income types

### 7.1 Alt Doc – Bank Statements

Personal or Business Bank Statements may be used to document self-employment income.

12 or 24 months of complete business bank statements from the same account. (If an account has been moved to a different Bank and is shown to be one and the same, that will be acceptable)

To understand the nature of business and its operations, underwriter may request the borrower or tax preparer to provide a written, signed statement to include the following information about the business:

- The nature of the business
- How income is generated
- How long the business has been in existence
- Business Bank Statements
  - 12 or 24 months of complete business bank statements from the same account. (If an account has been moved to a different Bank and is shown to be one and the same, that will be acceptable). Co-mingling of multiple accounts to generate a full 12 or 24 months is not permitted.
  - Borrowers must be self-employed for at least one (1) year in the same business
  - Must have at least two (2) years in the same line of business
  - If nature of borrower’s business cannot be determined from the URLA, a business narrative may be provided by the borrower
  - The business being used to source income must be in existence for a minimum of two (2) years as evidenced by one of the following:
    - CPA Letter
    - Business License
    - Other reasonable evidence of business activity





- Borrower must be at least 25% owner of the business. If multiple owners, then the income used will be based on ownership percentage(s)
- Business Bank Statements must be consecutive and from the most recent period
- Nonprofit Entity not eligible
- Funds/Deposits in a IOLTA (Trust) ineligible source
- Tax returns and 4506-C are not required for the bank statement program
- Cash is not an acceptable deposit source
  - Cash may be acceptable based on type of business or employment (i.e., cash tips, retail businesses where cash is common, etc.)
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 50% of the average monthly sales of the business
- Changes in deposit pattern must be explained
- Qualifying Income will be determined based on one of the following calculations below:
  - Standard fixed expense ratio factor of 50% or;
  - Fixed expense ratio factor as provided by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney. The Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business.  
MINIMUM 10% EXPENSE RATIO/FACTOR
  - If the underwriter believes the related industry has an expense ratio that is materially higher than 50%, the underwriter may require additional documentation at their discretion to support such-expense ratio
  - Ratios less than 50% would require a third-party prepared Business Expense Letter or P&L Statement
    - Business Expense Letter: An expense letter specifying business industry and expenses as a percent of the gross annual sales/revenue, prepared and signed by either a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney.
- Personal Bank Statements
  - 12 or 24 months complete personal bank statements (multiple bank accounts may be used but must cover 12 or 24 month from each account). Dated within 30 days of application: and
  - No business bank statements required
  - The business being used to source income must be in existence for a minimum of one (1) year as evidenced by one of the following:
    - CPA Letter
    - Business License
    - Other reasonable evidence of business activity



- Transaction histories are not acceptable
- Bank statements reflecting other individuals except non-borrowing spouses who are not applicants on the loan are not eligible
- When spousal joint accounts are used, the borrower must be 100% owner of the business, all
- income/deposits from the non-borrowing spouse must be removed and all parties must attest in writing to the income belonging to the applicant
- The following applies when analyzing personal bank statements:
  - 100% of personal bank account deposits
  - Large deposits and any unidentified deposits as determined by the underwriter must be sourced
  - Transfers will be excluded unless they are from a documented business account
  - Cash is not an acceptable deposit source
- Co-Mingled Bank Statement
  - A co-mingled bank statement is a personal account used by a borrower for both business and personal use. This is allowed only for Sole Proprietor structure
  - Verify that the borrower has 100% ownership of the business by providing one of the following:
    - Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage
  - The borrower must be the sole owner of the business listed on the URLA or loan application
  - Borrower and spouse with combined 100% ownership of the account are eligible

### 7.1.1 Cheese Cake Overlay

Cheese Cake does NOT allow for PTIN tax preparers.

### 7.1.2 Non-Sufficient Funds or Negative Balances/Overdraft Protection

- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered.
- Occurrences included in the analysis are subject to the following tolerances:
  - 1 NSF occurrence is defined as one or more checks returned the same day
  - If  $\geq 70\%$  LTV
    - Maximum of 12 NSF in the most recent 12 month time period are acceptable
    - No more than 3 in the past 3 months
  - If  $< 70\%$  LTV
    - No NSF restrictions
  - Exception requests for tolerance deviations must include:
    - A letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified, and
    - Additional compensating factors outlined by the underwriter supporting the viability of income
  - The underwriter must consider the financial strength of a self-employed borrower's business
- Non-sufficient funds on deposits will not be considered an occurrence unless a negative balance is reflected due to the returned item



- Overdraft protection (Fees) associated with a pre-arranged link to a savings account or line of credit must also be considered as NSF unless one of the following conditions exist:
  - Overdraft protection from a depository account: Occurrences may be excluded if statements for the linked account confirm that:
    - (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer
    - (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and
    - (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer
  - Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer, and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date

## 7.2 Alt Doc – Rental Income

- Rental income can be utilized on the following loan programs:
  - 12-24 Bank Statement
  - P&L Only
  - 1099
  - Asset Depletion
  - WVOE
- In order to use rental income in conjunction with an Alt Doc income program, the following documentation must be provided:
  - Long Term Rental:
    - A copy of the lease(s) for the rental property
    - Must provide two (2) months of proof of the receipt of rental income
      - The deposits must be to a separate bank account. Any deposits in the business bank statements used in the business income analysis are not eligible
    - If newly executed lease for new tenants, provide proof of receipt for deposit and 1st months' rent
      - 100% of the verified monthly rental income can be used
        - May use market rent if no lease is in place
    - If the transaction type is a purchase of an investment property, and income from the subject property is considered in the underwriting, proposed rental income from the comparable rent schedule(FNMA 1007 or 1025), reflecting long term rental, may be used for qualifying if there is not a current lease or assignment of lease
    - If attempting to use rental income from a departing residence OR Investment property purchase with no rental income history (vacant), an appraisal 1007 or 1025 (as applicable) will be used to determine gross market rent
  - Short Term Rental



- If subject property leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period to account for seasonality
- Rents for the look back period must be documented with either 12-monthly statements or an annual statement provided by the on-line service
  - 100% of the verified monthly rental income can be used
    - May use market rent if no lease is in place
- A screen shot of the online listing must show the property(s) activity marketed as a short-term rental
- If attempting to use rental income from a departing residence OR Investment property purchase with no rental income history (vacant), an appraisal 1007 or 1025 (as applicable) will be used to determine gross market rent
- Accessory Dwelling Units (ADU)
  - Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
    - The property is defined as a one-unit property with an accessory unit
      - Up to two (2) accessory units are permitted
        - For Cheese Cake, maximum of (1) accessory units are permitted
    - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use
    - Appraisal to reflect zoning compliance is legal
      - Permit is not required to establish zoning compliance
    - Refinance: The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease agreement with two (2) months proof of current receipt
    - Purchase:
      - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income
      - Non Owner-Occupied: User the lower of the market rent on FNMA Form 1007 or actual

### **7.2.1 Coffee Cake Overlay**

For the existing debt to be offset using rental income, the departure residence must be leased as evidenced by a copy of an executed lease agreement, receipt of damage deposit, and FNMA Form 1007 Market Rents.

### **7.3 Alt Doc – P&L Only**

Permitted for self-employed borrowers with a minimum of 25% ownership of the business. The Profit & Loss Statement (P&L) must be prepared by an individual with knowledge of the business sufficient to review or prepare a P&L Statement. Examples are 3rd party Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney.



- Borrowers must be self-employed for at least one (1) year. The employment section of the URLA must be completed with a minimum of two (2) years self-employment history
  - Must be the same business for the most recent two (2) years
- Profit and loss covering the most recent previous 12 or 24 months
  - P&L needs to be strictly the 12 or 24 months most recent consecutive calendar month (fiscal year(s)) OR all separated out by years + YTD
- The Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney must sign and date the Profit and Loss documentation which indicates the accuracy of the profit and loss statement
- The Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer, PTIN, or a Tax Attorney must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated or associated with the borrower's business
- Provide current/active license or certification for the preparer
- Confirmation business has been in existence for a minimum of one (1) years
- Indicate borrower's ownership percentage of the business
- Qualifying income:
  - Gross receipt on P&L must be reasonable for the industry. Underwriter reserves the right to request additional information
  - Net income from the P&L Statement divided by the time period covered (12- or 24- months) multiplied by the borrower's ownership percentage
  - Expenses on the P&L must be reasonable for the industry
  - May add back Depreciation, Depletion and Amortization
- May use P&L from 2 separate companies/entities. Each company/entity must have their own P&L
- Must complete a business narrative form

### **7.3.1 Cheese Cake Overlay**

Cheese Cake does NOT allow for PTIN tax preparers.

### **7.3.2 Coffee Cake Overlay**

Coffee Cake does NOT allow for a Profit and Loss (P&L) statement prepared by an individual with only a PTIN.

### **7.3.3 Funnel Cake Overlay**

A minimum of 2 months of Business Bank Statement covering the most recent 2-month period must be provided. The total allowed income from the bank statements must be at least 65% of the average monthly gross annual P&L

## **7.4 Alt Doc – IRS Form 1099**

Borrowers who have a minimum of two-year history of receiving 1099 only or have recently converted from W2 to 1099 and have at least one year of receiving 1099 in the same line of work may utilize this program.



- Permitted for individual(s) earning 100% commission or for independent contractors
  - 1-year or 2-years of 1099s or 1099 transcript(s) permitted
    - 90% Net Margin (10% Expense Factor)
  - Qualifying income is the 12- or 24- monthly average from the total number of 1099's minus the expense factor
  - Most recent two (2) months bank statements to be provided to show gross deposits consistent with the 1099 or checks/check stub(s) with YTD totals if available
  - The YTD earnings must be within 10% or greater than the prior year earnings
- Note: Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation

## 7.5 Alt Doc – Written Verification of Employment (WVOE)

A written Verification of Employment may be utilized when documenting wages/salary income. The following criteria applies:

- Two year history with the same employer is required
- The employment information must be completed by Human Resources, Payroll Department or an Officer of the company. Borrowers employed by family members or related individuals are not eligible
- Completed FNMA Form 1005
- Primary Residence Only
- An internet search of the business is required to support the existence of the business
- Paystub, Tax Returns, 4506-C or W2s are not required
- First Time Homebuyer maximum LTV 70%
- 0x30x24 housing history
- Rent free borrowers eligible with rent free letter
- Minimum borrower contribution of 10% required
- Bonus, commission, and overtime are allowed but majority income must come from Base Pay.
- Declining bonus, commission or overtime will not be eligible to use
- Borrower(s) employed by family members or related individuals are not eligible
- No other active employment income may be utilized, passive income such as rental income can be included
- Verbal Verification of Employment (VVOE) within **3 days** of closing is required

## 7.6 Alt Doc – Asset Utilization

Asset Utilization may be used as the sole source of income for loan qualification or to supplement other income sources. When used to supplement other income sources, the minimum asset requirements under the qualification method is waived

- Income documentation program available to use with Asset Utilization as a supplemental income
  - Full Doc
  - Bank Statement
  - 1099



- P&L
- WVOE

Assets must be liquid and available with no penalty

### 7.6.1 Assets Eligible for Utilization

- The income calculation is as follows: Monthly Income = Net Qualified Assets / 60 Months
- The following assets are considered Qualified Assets and may be utilized to calculate income:
  - 100% of checking, savings, money market accounts, and Certificate of Deposit (CD)
  - 70% of the remaining value of public traded stocks, bonds, and mutual funds
  - 70% of Retirement Assets
  - 100% of the cash surrender value of life insurance less any loans may be considered for assets
  - Personal funds in the borrowers name only (business funds and joint accounts with individuals not on the loan are not eligible)
- Gift funds are allowed
  - Gift funds are not allowed for LTV/CLTV above 80%
- Assets considered for this program must be verified with most recent three (3) monthly account statements, or quarterly statement
- Assets must be seasoned 30 days

### 7.6.2 Assets Ineligible for Utilization

- Equity in Real Estate
- Privately traded or restricted/non-vested stocks
- Any asset which produces income already included in the income calculation
- Any assets held in the name of a business
- Assets held in a Trust

## 7.7 Departing Residence

- If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower
- The current PITIA may be excluded provided the credit file is documented with the following:
  - The executed sales contract for the current residence, and
  - Confirmation that any financing contingencies have been cleared
- If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower
- 100% of the verified monthly rental income can be used
  - May use market rent if no lease is in place
- The rental income must be documented with the following:
  - Copy of executed rental agreement
  - Proof of receipt of security deposit and 1<sup>st</sup> months' rent
  - Copy of a current lease



### 7.7.1 Coffee Cake Overlay

For the existing debt to be offset using rental income, the departure residence must be leased as evidenced by a copy of an executed lease agreement, receipt of damage deposit, and FNMA Form 1007 Market Rents.

## 8 Debts

### 8.1 Debts included in DTI Ratios

- All installment loans (monthly obligations with fixed payments and terms) must be included in the borrower debt-to-income ratio
  - **Excluded from DTI:** payments of 10 months or less (if the payment exceeds 5% of the borrower's qualifying income, then the remaining payments must be included in the DTI)
  - **Excluded from DTI:** any installment debt that is paid prior to or at closing can be excluded from the DTI. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full
  - **Excluded from DTI:** Authorized user accounts
- Revolving Debt is an open-ended debt obligation in which the principal balance may vary each month. The minimum required payment stated on the credit report or the current account statement must be used to calculate DTI
- Lease Obligations must be included in the DTI regardless of the time remaining on the lease
- Child Support, Alimony or Maintenance Obligations - Must be current at the time of application and must be included in the DTI. The loan file should contain supporting documentation (such as a final divorce decree, legal separation agreement or court order) evidencing the obligation. If payments are delinquent, then they must be brought current prior to the loan closing.
- Child Support, Alimony or Maintenance Obligations **may be excluded** if payments are less than 10 months. Must provide proof of when payments will end
- Contingent liability applies, and the debt must be included in the DTI, if an individual applying for a mortgage is a cosigner/co-obligor on:
  - Car Loan
  - Student Loan
  - Mortgage
  - Any other obligation
  - **Excluded from DTI:** If one borrower was obligated to buy-out the other borrower because of a divorce, then the loan file should include the Separation Agreement and/or the Divorce Decree/Court Order that shows transfer of ownership. In addition, the current obligation on the premise must be current
  - **Excluded from DTI:** Debts paid by others can be excluded from the DTI Ratio if the debt is being paid in a satisfactory manner by another party for the past 6 months. Acceptable





documentation would include cancelled checks or bank statements that consistently show another party making at least the past 6 payments

## 8.2 Monthly Debt

- $DTI = \text{total monthly debt} \div \text{total monthly gross income}$
- Monthly debt service used to calculate DTI must include the following:
  - Total monthly housing expenses
  - Monthly mortgage principal and interest, hazard and flood insurance, real estate taxes, special assessments, association dues and any subordinate financing payments on mortgages secured by the subject property (PITIA)
  - Recurring installment debts
  - Revolving and open-ended account payments
  - Child support or separate maintenance payments and alimony

## 8.3 Revolving Debt

- The minimum required payment, as stated on the credit report or current account statement, should be used to calculate the debt-to-income ratio
- The monthly payments reflected on the credit report are used for the calculation of debts
- If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the DTI ratio calculation
- Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio
  - Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full

## 8.4 Installment Debt

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments may be excluded from the DTI
- Installment debt paid in full or prior to closing can be excluded from the debt-to-income ratio.
  - Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full

## 8.5 Lease Payments

- Lease payments must be considered as recurring monthly debt obligations and included in DTI ratio calculation regardless of the number of months remaining on the lease
- Auto lease payments paid by a third party may be excluded from the DTI. Must provide 12 months canceled checks or bank statements



## 8.6 Student Loans

- If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes
- If the credit report does not reflect the correct monthly payment, the monthly payment that is on the student loan documentation may be used to qualify the borrower
- If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, then the qualifying monthly payment must be determined using one of the options below:
  - If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is \$0. The borrower may then qualify with a \$0 payment
- For deferred loans or loans in forbearance, the following must be calculated:
  - a payment equal to 0.5% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or
  - fully amortizing payment using the documented loan repayment terms

## 8.7 Business Debt

- Business debt is typically a financial obligation of a business. However, business owners can sometimes be personally responsible for that debt as well if business debt is reflected on a personal credit report. If the business debt facility is less than 6 months old, then the payments must be included in the DTI ratio. If the business debt is greater than or equal to 6-months old, the debt may be omitted from the DTI ratio if the borrower provides documentation that the borrower's business is making the payments on these debts. Any of the following supporting documentation can be included in the credit file to exclude business debt:
  - Most recent 6 months of canceled checks drawn from the business account, or
  - CPA letter to verify debt is a business expense

## 8.8 Deferred Installment Debt

- Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, documentation must be provided of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations



## 8.9 Open 30-Day Charge Accounts

- For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, borrower funds must be verified to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. The verified funds must be in addition to any funds required for closing cost and reserves

## 8.10 Solar Panels

- Installment debt from financed or leased payments associated with solar panels are to be included in the DTI ratio

## 8.11 Timeshares

- Timeshare obligations will be treated as a consumer installment loan

## 8.12 Past Due Accounts

- Must be brought current

## 8.13 Charge-offs and Collections

- Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
  - Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
  - Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
  - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
  - All medical collections
  - IRS repayment plans with 3 months history of payments may remain unpaid
  - Payment plans seasoned for a minimum of three (3) months with timely payments confirmed to have been made by creditor or credit supplement may be added to the DTI and will not be required to be paid off
  - Student loans in collection status longer than 3 years do not need to be paid off
  - Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented
- Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of the following:
  - Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). Payment calculated at 5% of the balance will be used as the payment



- Reserves are sufficient to cover the balance of the charge-offs or collections and meet loan reserve requirements

## 8.14 Income Tax Liens

- All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:
  - The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed)
  - A minimum of one (1) payment have been made under the plan with all payments made on time and the account is current
  - The maximum payment required under the plan is included in the DTI calculation
  - Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property

## 8.15 Subordinate Financing

- Subordinate financing is allowed provided the following conditions are met:
  - The subordinate financing doesn't have a negative amortization feature
  - Max LTV/CLTV cannot exceed Max LTV in Credit Matrix
  - Subordinate financing payment must be included in the DTI calculation
  - If the subordinate financing does not appear on the credit report, a Verification of Mortgage (VOM) with Canceled Checks (12 months) or Credit Supplement must be provided
- Required Documentation for subordinate financing:
  - Copy of the Note
  - Copy of the Subordination agreement

### 8.15.1 Funnel Cake Overlay

Subordinate Financing: Not allowed on investment properties.

## 8.16 Adjustable Rate and Interest Only Qualifying

- For all ARM loan transactions, the greater of the Note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index
- Interest-only loans are qualified using the greater of the Note rate or the fully indexed rate using the fully amortized payment over the fully amortized term of the loan
- Note: See latest rate sheet or matrix for Index and/or margin



## 9 Assets

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 90 days of the loan note date

### 9.1 Asset Documentation

- The following may be used as asset documentation for down payment, closing costs, and reserves. 100% of the value may be used unless noted otherwise
  - Checking, Savings, or Brokerage accounts
    - Statements must include the following:
      - Name of financial institution
      - Reflect borrower as the account holder (Fund held jointly with another individual may be considered 100% borrower funds if provided a 100% access letter)
      - Account number
      - Statement date
      - Time period covered by the statement
      - Available balance in U.S. dollar
  - Assets held in foreign accounts must be translated to English and verified in U.S. Dollar equivalency at the current exchange rate via either [www.xe.com](http://www.xe.com) or the Wall Street Journal conversion table – Refer to Assets Held in Foreign Accounts guide for more info
  - Assets held in in a Trust require the following:
    - Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
    - Document the conditions under which the borrower has access to the funds
  - Verification of Deposit completed by the verifying financial institution (FNMA Form 1006) or equivalent
  - Certificates of Deposit
  - U.S. Savings Bonds (May use 100% if fully matured, otherwise 80%)
  - Marketable Securities (100% of vested account value, margin not counted towards balance) - Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded
  - Restricted Stock Units (RSU) – Refer to RSU guide for more info
  - Annuities (70%) - Only amounts accessible within a 30-day window are allowed



- Pension Plans (70%) - Only amounts accessible within a 30-day window are allowed Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility
- IRA, Keogh, and 401(K) Retirement Accounts (70% of the vested balance may be considered for assets)
- Business accounts may be considered for assets
  - Borrower must own at least 50% of the business
  - CPA letter to verify ownership percentage
  - CPA letter to verify that the use of business funds will not have a negative impact on the business
  - Access letters from the remaining owners of the business granting the use of funds
  - Business Purpose Loans:
    - Assets held in the name of the vested entity:
      - 100% of the assets may be used
    - Assets not held in the name of the vested entity:
      - The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business
- Cash Value of Life Insurance
- Spousal accounts
  - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
- Non-regulated Financial Assets
  - Crypto Currency – Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion
    - Down payment and closing costs: currency must be liquidated and deposited into an established U.S. bank account
    - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30 days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds

## 9.2 Restricted Stock Units (RSU)

- Restricted stock options may be used as qualifying income when all the following requirements are met:



- Income has been consistently received for the prior two (2) years and is verified it will continue for three (3) years
- RSU income is calculated using the past two (2) year average
- If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying
- Borrowers must be employed at the same company that issued the RSUs
- Employer must be a publicly traded entity
- Non-vested restricted stock is not an acceptable source of income or reserves
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves
- The following documentation is required:
  - Evidence that stock is publicly traded
  - The most recent vesting schedule or issuance agreement showing continuance of RSU income
  - Evidence of the payouts of RSUs for the past two (2) years. Acceptable verification includes any of the following:
    - Tax returns for the last two (2) years, reflecting RSU income
    - Year-end paystubs reflecting the RSU payout
    - An employer-provided statement paired with a brokerage or bank statement, showing the transfer of shares or funds, that includes the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower

### 9.3 Other Requirements

- Assets must be seasoned 30 days
- Source of large deposit is not required to be documented
- Unsecured loans, sweat equity, and gifts that require repayment are not eligible for sources of down payment

### 9.4 Gift Funds

- The borrower must demonstrate they have 10% of their own funds for the down payment but does not have to be contributed to the transaction (Investment transaction only)
- Gift funds with the following restrictions:
  - Gifts may be from any 3<sup>rd</sup> party. Gifts can be used to pay off debt
  - 100% gift allowed
  - Gift may be used towards down payment, closing cost, reserves and pay off debt
  - Allowed on Purchase, Rate and Term, Cashout transactions
- Gift of Equity allowed for Primary Residence



### 9.4.1 Coffee Cake Overlay

Minimum Borrower Contribution of 5% is required in the following transactions:

- Owner-occupied properties with an LTV > 80%, and
- Investment properties with an LTV > 75%

### 9.4.2 Funnel Cake Overlay

Minimum Borrower Contributions:

- Minimum 5% of the sales price for purchase transaction on owner occupied
- Minimum 10% for:
  - Primary residence with unverifiable housing history
  - Second Home and Investment property

## 9.5 Eligible Donors

- Gifts can be provided by:
  - A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
  - A fiancé, fiancée, or domestic partner
  - For any gift provided by a non-US citizen, the donor must be screened against the OFAC Specially Designated Nationals (SDN) list
- The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction with the exception of:
  - Real estate agents who have disclosed a familial relationship to the buyer may act as a donor but may not use proceeds from the commission as gift

## 9.6 Documentation for Gift

- Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:
  - specify the dollar amount of the gift;
  - include the donor's statement that no repayment is expected; and
  - indicate the donor's name, address, telephone number, and relationship to the borrower
- Verification that sufficient funds have been transferred to the borrower's account and reflected on the most recent bank statement. Acceptable documentation includes the following:
  - a copy of the donor's check or cashier check with donor's name as the remitter and the borrower's deposit slip,
  - a copy of the donor's check to the closing agent, or
  - a settlement statement showing receipt of the donor's check





## 9.7 Reserves

- See matrix for minimum reserve requirements
- Net proceeds from a cash-out transaction may be used to meet reserve requirements
- Reserve requirements are waived for Rate-And-Term Refinance transactions when the transaction results in a reduction to the monthly principal and interest payment by 10% or greater
  - For an Interest Only loan, the reduction is based on the fully amortized payment used for loan qualification
- Reserve waiver not eligible for DTI greater than 50%
- Proceeds from a 1031 Exchange may not be used to meet reserve requirements
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment
- Gift funds may be used to meet reserve requirements

## 9.8 Interested Party Contributions (Seller Concessions)

- Maximum Contribution:
  - Owner Occupied
    - LTV ≤ 80%: 9%
    - LTV > 80%: 6%
  - Non-Owner Occupied
    - All LTVs: 6%
- All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state, and local law
- Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction
- A borrower participating in the transaction (i.e., borrower acting as their own agent) may contribute funds (i.e., commission) up to the maximum contribution limits
- Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements
- Contributions in excess of the above stated limits are allowable. However, the excess of the contribution(s) must be subtracted from the purchase price for the calculation of LTV / CLTV



## 10 Collateral

### 10.1 Appraisals

A Full appraisal involves a complete inspection of the home, including the interior and exterior of the subject property. A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report – Fannie Mae®/Freddie Mac Forms 1025/72
- Individual Condominium Unit Appraisal Report – Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report – Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule – Fannie Mae®/Freddie Mac Forms 1007/1000

#### 10.1.1 Appraiser Independence

- Appraisers must have no direct or indirect interest, financial or otherwise in the subject property or with the involved parties
- Associates are prohibited from asking appraisers to report a predetermined value or withhold disclosure of adverse features
- All appraisals must be ordered through an Appraisal Management Company (AMC)
- We will not accept an appraisal from an appraiser who works for the lender, borrower or any parties affiliated with the transaction

#### 10.1.2 Second Appraisals

- Refer to matrix for program specifics

#### 10.1.3 Accessory Dwelling Units (ADU)

- If the property contains an accessory unit, the property is eligible under the following conditions:
  - The property is defined as a one-unit property with an accessory unit
    - Up to two (2) accessory units are permitted
  - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use
  - Rental income may be used for the accessory unit subject to the following:
    - Appraisal to reflect zoning compliance is legal
      - Permit is not required to establish zoning compliance
    - Appraisal to include at least one comparable with an accessory unit
    - Refinance
      - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income
      - Non Owner-Occupied: The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease agreement with two (2) months proof of current receipt



- Purchase
  - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income
  - Non Owner-Occupied: User the higher of the market rent on FNMA Form 1007 or actual rent

#### **10.1.4 Cheese Cake Overlay**

Maximum of (1) accessory units are permitted.

#### **10.1.5 Appraisal Age**

- The appraisal should be dated no more than 120 days prior to the Note date
- If an appraisal report will be more than 120 days old on the date of the Note, regardless of whether the property was appraised as proposed or existing construction, the appraiser must perform a recertification of value per FNMA 1004 D or FHLMC Form 442. The appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and the results of the analysis must be reported on the Appraisal Update and/or Completion Report (FNMA Form 1004D)
  - If the appraiser indicates on FNMA Form 1004D that the property value has declined, then a new appraisal must be obtained for the property
  - If the appraiser indicates on FNMA Form 1004D that the property value has not declined, then the loan may proceed without requiring any additional fieldwork

#### **10.1.6 Appraisal Review Product 1-4 Residential Property**

- An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an “as is” value for the subject property (the “Appraisal Review Value”) as of the date of the subject loan transaction
- The following review products are eligible when the primary valuation is a full appraisal:
  - Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA)
    - An eligible score is 2.5 or less
    - The file must include a copy of the Submission Summary Report (SSR). (Only one score required, if both scores (CU & LCA) provided, both required to be 2.5 or less)
    - If the score exceeds 2.5, the file must include either an AVM, enhanced desk review, field review, or second appraisal (in this order)
    - An enhanced desk review product from one of the following choices:
      - CDA from Clear Capital
      - ARA from Computershare
  - If the AVM or enhanced desk review reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal
    - These may not be from the same appraiser or appraisal company as the original report but may be ordered from the same AMC (Appraisal Management Company)



- AVM must include an FSD score within 90% and be ordered from one of the following vendors: Clear Capital, Collateral Analytics, House Canary, or Red Bell Real Estate (Homegenius).
- Loan amounts > \$2MM require 2 appraisals.

## 11 Escrow Holdbacks

- Escrow holdbacks are not allowed
- Any repair or maintenance required by the appraiser must be completed prior to loan funding

## 12 Solar Panels

- Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property
- Property with solar panels are eligible for purchase. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title)
- Must determine the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage
- Must review title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless an UCC "personal property" search is obtained that confirms the solar panels are not claimed as collateral by any non-mortgage lender
  - A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC
- Any contributory value for owned or financed solar panels must be noted in the Improvements Section of the Appraisal Report

### 12.1 Solar Panels Financed and Collateralized (UCC on title)

The solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing\* has been filed for the panels in the real estate records (on title report)

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing\*

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing\*, related promissory note and related security agreement that reflect the terms of the secured loan
  - Include the debt obligation in the debt-to-income ratio



- Provided that the panels cannot be repossessed for default on the financing terms, may consider the solar panels in the value of the property (based on standard appraisal requirements)
- Include the solar panels financing balance in the LTV/CLTV ratio calculation (if unable to obtain, utilize original balance). The UCC fixture filing\* must be subordinated with one of the following
  - Subordination Agreement
  - UCC Termination
    - Debt obligation is to be included in debt-to-income ratio and LTV/CLTV unless proof is provided verifying the debt has been paid down to zero (UCC termination does not automatically verify the debt is paid off)
- CLTA Endorsement 150-06 is not eligible to be used in lieu of a Subordination agreement or UCC Termination

\*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

## 12.2 Solar Panels Financed and Collateralized (UCC not on title)

The solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing

- Obtain and review the credit report, title report, appraisal, related promissory note and related security agreement that reflect the terms of the secured loan
  - Include the debt obligation in the debt-to-income ratio
- Contributory value of the solar panels cannot be add towards the appraised value because the panels are collateral for another debt
- Do not include the panels in the LTV/CLTV ratio calculation
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC was paid in full otherwise the financed balance must be included in LTV/CLTV

## 12.3 PACE (Property Assessed Clean Energy)

- Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing
  - PACE loans, in some cases, are also referred to as HERO loans
  - Any property tax statement that reflects PACE, HERO, or equivalent will require proof of payoff
    - If loan proceeds are used to pay off the PACE loan, transaction will be considered cash out



## 12.4 Eligible Property Types

- Single Family Detached
- Single Family Attached
- Single Family with up to 2 Accessory Unit (ADU)
  - Cheese Cake Program allows maximum of 1 Accessory Unit (ADU)
- 2-4 Unit Residential Properties
- 5-10 Unit Residential Properties (DSCR only)
- Condominium
- Non-Warrantable Condos
- Condotels
- Manufactured homes\*
- Modular homes
- Properties up to 20 acres\*\*
- Leaseholds (in areas where leaseholds are common)

\* Manufactured homes are not permitted using the Coffee Cake program

\*\*Maximum 15 acres if using Funnel Cake program.

## 12.5 Ineligible Property Types

- Assisted Living/Elderly Care/Recover and Treatment
- Group Homes
- Agricultural Properties
- Barndominiums
- Boarding Houses
- C5 or C6 property condition grades
- Units in a Co-op development
- Properties with fractional ownership/Timeshares
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Properties with nonresidential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop)
- Log Homes
- Houseboats
- Geodesic Domes
- Commercial Properties
- Properties Under Construction
- Rural properties greater than 20 acres
- Properties with less than 500 square feet of living space



## 12.6 Leasehold Properties

- Must provide documentation and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease)
- The term of the leasehold must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower

## 12.7 Texas Home Equity Loans 50(a)(6)

- A Texas Section 50(a)(6) mortgage is a home equity (or cash-out) loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions
- All Texas Home Equity transactions must comply with the requirements listed in the Texas Constitution
- Loans in the state of Texas, that are not part of Texas Section 50(a)(6) transactions are required to have Non-Homestead Affidavit signed at closing
- The borrower must have ownership of a primary residence in Texas at the time of application

## 12.8 Declining Markets

- The maximum CLTV is limited to 80% for purchases and 75% for refinances

### 12.8.1 Cheese Cake Overlay

Declining Markets (applied when LTV > 65%); Reduce max LTV by 5%

### 12.8.2 Funnel Cake Overlay

If the property is in a declining market as indicated by the appraisal, the maximum LTV is reduced by 5%

## 12.9 Flip Transactions

When the subject property is being resold within 180 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 180-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) are required to be used

- Flip transactions are subject to the following requirements:
  - All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
  - No pattern of previous flipping activity may exist in the last 6 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
  - The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
  - If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained



- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at <https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/>
- A second full appraisal is required in the following circumstances:
  - Greater than 10% increase in sales price if seller acquired the property in the past 90 days
  - Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

### 12.9.1 Cheese Cake Overlay

Property Flipping Guidelines apply to properties being resold within 12 months.

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) are required to be used

- Flip transactions are subject to the following requirements:
  - All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
  - No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
  - The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
  - If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
  - Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at <https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/>
  - A second full appraisal is required in the following circumstances:
    - Greater than 10% increase in sales price if seller acquired the property in the past 90 days
    - Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

### 12.10 Transferred Appraisals

- Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed. Appraisal transfers are subject to the following requirements:
  - The appraisal must be less than 60-days old (less than 120-days at closing) and ordered through an Appraisal Management Company





- A letter must be obtained from the original lender on company letterhead stating they are transferring the appraisal
- Appraisal report must be AIR compliant
- An appraisal delivery form must be provided to the borrower to confirm the borrower's receipt of the appraisal within three (3) business days of the report's completion

## 12.11 Disaster Areas

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at [www.fema.gov/disasters](http://www.fema.gov/disasters). In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed

- Appraisals completed **prior** to disaster must obtain the following:
  - The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition as the previous inspection, and the marketability and value remain the same
  - An Inspection Report must include new photographs of the subject property and street view
  - Any damage must be repaired and re-inspected prior to funding
- Appraisals completed **after** disaster event must obtain the following:
  - The appraiser must comment on the adverse event and certify that there has been no change in the valuation
  - Any existing damage noted in the original report must be repaired and re-inspected prior to funding

## 12.12 Condominium Projects

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability

- LTV > 75% requires full condo review
- LTV ≤ 75%, limited condo review allowed
- Non-warrantable Condo requires full condo review regardless of LTV
- All Loans secured by condominium projects require a completed Homeowners Association (HOA) questionnaire and condominium review except for:
  - Site Condominium
  - 2-4 Unit project provided the following are met:
    - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss
- Special assessment information is to be provided to determine if there is a critical repair. Provide purpose, amount, term, balance, status, and cost per unit



- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
  - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
  - The project has deficiencies, defects, substantial damage, or deferred maintenance that:
    - Are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; or
    - Has improvements in need of substantial repairs and rehabilitation including many major components; or
    - Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing; or
    - Has critical repairs with one of the following characteristics:
      - Mold, water intrusions or potentially damaging leaks to the project's building(s); or
      - Unfunded repairs costing more than \$10,000 per unit undertaken within the next 12-months (does not include repairs made by the unit owner or repairs funded through special assessment)
- Maximum project exposure shall be \$10,000,000 or 20% of project whichever is lower
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV. Completion of the Homeowners Association (HOA) questionnaire is not required for site condominiums
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen
- Commercial space allowed up to 50% of the project
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees
- Single entity ownership is limited to the following:
  - Condos with 2 to 4 units – 1 unit
  - Condos with 5 to 20 units – 2 units
  - Condos with 21 or more units – 25%
- Investor concentration allowed up to 100%
  - Non-Warrantable - Higher percentages may be accepted when there is an established history of a high percentage of rental units in the project demonstrated
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense
- Borrower, if not included in the master insurance, must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit
- The project, or the subject's legal phase along with other phases, must be complete



- All common elements in the project or legal phase must be 100% completed
- Florida Condominiums:
  - Condominium units in the state of Florida, if the project is over 30 years old (or 25 years if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories
  - The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899
    - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements
    - Projects with an unacceptable or no inspection are ineligible
- NOTE: UW Attestation and/or documentation clearly stating whether the property is a warrantable or non-warrantable condo must be delivered with the file

### **12.12.1 Coffee Cake Overlay**

Requires a full review regardless of LTV.

## **12.13 Non-Warrantable Condos**

- Anything outside of the Condominium Project guidelines will be considered non-warrantable
- Will be determined based on HOA Questionnaire, budget, master insurance, etc.

## **12.14 Established Projects**

- All common areas and facilities must be complete
- 90% of the total units in the project must be sold and conveyed to the unit owners
- 40% of the total units in the project must be owner occupied
- All phases are complete
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed
- All comparable sales may be from within the subject’s project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report
  - If comparable sales from within the subject’s project are not available, appraiser must provide explanation

## **12.15 New or Newly Projects**

- 50% of the total units in the project or subject’s phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied
- Project or subject’s legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete
- Project may be subject to additional phasing
- FNMA PERS approval or copy of the HOA budget required
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame



- Appraisal Comparable sales must include at a minimum:
  - One (1) from inside the project; and
  - Two (2) from outside the project

## 12.16 Condotels

- Projects where the units are individually owned, and the project offers hotel amenities
  - Hotel amenities may include on-site registration, housekeeping services, and other hospitality services
  - A project that offers rentals of units on a daily, weekly, or monthly basis
- 50% of the total units in the project or subject's phase must be sold or under contract
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete
- Project may be subject to additional phasing
- Occupancy Type: Primary, Second Home, or Investment
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%
- Gross rents (for all income doc types) reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property
- Minimum square footage: 500
- Fully functioning kitchen – appliances to include a refrigerator and cooktop/stove/oven
- Studios allowed
- Florida Condominiums:
  - Condominium units in the state of Florida, if the project is over 30 years old (or 25 years if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories
  - The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899
    - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements
  - Projects with an unacceptable or no inspection are ineligible

### 12.16.a Funnel Cake Condotel Overlays

Vacation rental projects will be considered as non-warrantable condominium projects on a case-by-case basis. True Condotels with onsite reservation desks are prohibited.

The following requirements apply:

- Minimum square footage per unit is 600 square feet.
- Unit must contain a full-size kitchen including a minimum of a sink, refrigerator, stove, and dishwasher.
- Bedroom(s) are separate from the main living area.
- Project may include a welcome desk, concierge service, daily cleaning services, and allow rentals of units on a daily or short-term basis.

Any project with one or more of the following characteristics is ineligible:



- Projects marketed, operated, or managed as a hotel, motel, or similar hospitality entity.
- Project has a legal or common name that contains hotel or motel.
- Project is a conversion of a hotel.
- Project is subject to rental-pooling.
- Project allows fractional ownership.
- Project is primarily transient in nature.

## 12.17 Condominium Insurance Requirements

Project to meet all Fannie Mae® insurance requirements for property, liability, and fidelity coverage

- The HOI Policy must be effective for at least 60 days after the date of funding. Evidence of Insurance can be provided in one of the following forms:
  - Policy
  - Certificate of Insurance
  - Insurance Binder
- Evidence of Insurance Requirements:
  - Names of the borrowers to reflect same name as on the Note/Security Instrument
  - Property address matches the Note/Security Instrument
  - For primary residence loans, mailing address is the same as property address
  - Policy Number
  - Loan Number
  - Name of insurance company
  - Insurance agent information
- Master Insurance
  - Master property insurance policies are required for the common elements and residential structures unless the condo project requires individual property insurance policies for each unit
  - Master insurance policy must provide for claims to be settled on a replacement cost basis
  - Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable
  - Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than a replacement cost basis are also unacceptable
  - Master liability of at least \$1,000,000 is required per occurrence
- Fidelity or Employee Dishonestly Insurance
  - For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least the sum of three months of assessments on all units in the project is required
- HO-6
  - Borrowers must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit



- If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or “walls-in” coverage
- The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer
- Deductible
  - The maximum deductible amount must be no greater than 10% of the face amount of the policy
- Flood Insurance
  - The condominium homeowners’ owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
    - Building Coverage must equal the lesser of:
      - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
      - The total number of units in the condominium building times \$250,000
    - Contents Coverage must equal the lesser of:
      - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
      - The maximum amount of contents coverage sold by the NFIP for a condominium building
    - Flood insurance escrows may never be waived

## 12.18 Hazard Insurance

- Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement
- A declaration page is required prior to closing for all loans as proof of insurance
- On all refinance transactions, if the coverage termination date is within 60 days of closing, evidence of continuing coverage is required
- A loss payable endorsement is required for all loan transactions
- The coverage must provide for claims to be settled on a replacement cost basis
- Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable
- Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than replacement cost basis are also unacceptable
- Extended coverage must include, at a minimum: wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle, or explosion
- Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that normally are included under an extended coverage endorsement are not acceptable
- Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitations or exclusions



- The hazard insurance coverage should be equal to the lesser of:
  - Replacement Cost Estimator
    - Provided from the property insurer, or
    - Provided from a 3rd party source (e.g., CoreLogic)
  - Estimated cost to replace the dwelling from a recent appraisal, if provided
  - The unpaid principal balance of the mortgage(s)
- The maximum deductible amount must be no greater than 5% of the face amount of the policy

## 12.19 HO-6

- Borrowers must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit
- If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or “walls-in” coverage
- The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer

## 12.20 Title Insurance Requirements

- Each loan requires coverage provided by American Land Title Association (ALTA) or an equivalent association
- Either a Standard or Short Form Policy is acceptable
- Eligible title insurance must reflect the following:
  - The effective date of the commitment should be dated within 120 days of the date the Note is signed
    - If the date exceeds 120 days, the title company must update the commitment with either gap coverage or an updated commitment
    - **Note:** Texas loans must be within 90 days
  - Title insurance is required, the amount of the policy must be the same as the amount of the loan
  - All title vesting must be reviewed to insure it is as it appears on the application
  - All title holders are required to authorize the mortgage transaction which is accomplished by requiring all non- applicant title holders to sign certain closing documents
  - When title insurance is required on a property that is held in trust, the trust agreement must be reviewed and approved by the title company and underwriters
  - For a purchase loan, the vesting will state the seller’s name(s) and should match the purchase contract. A deed transferring title will be required at closing
  - The Legal Description for the property should appear as it does on the appraisal and the application
  - The tile report must contain the entire legal description and may be identified by lot and block or metes and bounds description
  - The original title commitment should be countersigned by an authorized person from the title company
  - Title report should show the appropriate lien position. It will also show if there are any exceptions listed on the commitment



- Outstanding mortgages on the subject property are also listed on the preliminary title report. Any additional mortgages must be addressed, paid-off and released at or prior to closing the loan. If any liens are to remain open, they must meet subordination guides
- Liens and Judgments - Any liens (federal tax liens, mechanic's liens, etc.) or judgements must be paid-off at or prior to closing. Judgments that belong to another person or of a similar name may appear on the preliminary title report. In these instances, the applicant must sign an affidavit at closing, to satisfy the title company, which states they are not the person(s) named in the judgement(s). These judgments should not be on the final title policy. Solar liens are to be subordinated or paid off. HERO liens must be paid
- If taxes on the subject property are due and payable within 30 days but the county or city will not accept payment yet, then an escrow account is required to be set up by the title company to avoid any exceptions on the final title policy
- Easements are rights that a person has on the property/land of another person. Examples of easements are public utility easements, mineral rights, beach rights and riparian rights. These will not affect our lien position and can remain as exceptions on the title policy
- Encroachment is construction on the property of another, i.e., wall, fence, or a driveway. Encroachments listed on the preliminary title report can remain as an exception on the final title policy if the title company will insure against loss or damage caused by the enforced removal of the real property that is encroaching onto the easement. However, if the title company will not provide insurance, then the encroachment must be reviewed by the underwriter to determine if this will materially affect the value of the property/improvements or our security interest
- Surveys - All survey exceptions must be cleared on all loan products
- Lis Pendens - A legal notice that is recorded to show any pending litigation relating to the property. Anyone that is acquiring an interest in the property after the date of the notice may be bound by the outcome. All Lis Pendens are to be removed or the application will be denied
- Agreements such as private well and septic, private roads and shared driveways also require affirmative language and can remain as an exception on the title unless they relate to a public utility. Private well agreements need to be reviewed to determine whether the well is on the subject property or the rights to the well will be transferred with the title to the property

## 13 Miscellaneous

### 13.1 Age of Documents Requirements

- The following documents may not be more than 120 days old at closing (the date the Note is signed):
  - Income documents/paystubs
  - Mortgage/rental verification
  - Asset documents/bank statements
  - Credit Report
- The following documents may not be more than 120 days old at closing (the date the Note is signed):
  - Title Commitment/Preliminary Report/Binder/O&E
- Appraisal report – Please see section “Appraisal Age”





Any credit review documents exceeding these timeframes must be updated

## 13.2 Fraud Report

- All loans must be submitted to an automated fraud and data check tool (e.g., Fraud Guard, DataVerify, etc.)
- Transaction participants must be included in the fraud report as follows: Borrowers/Guarantors, Property Sellers, Brokers, Loan Officers, Appraisers, Real Estate Agents, Settlement Agents
- A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted

## 13.3 OFAC and Watchlist Search

- Provide documentation to confirm borrowers, entities as borrower, sellers, realtors, settlement company/agent, appraiser and appraisal company were ran against these lists
- For refinances, the borrowers, entities as borrower, settlement company/agent, appraiser and appraisal company should be included in the search

## 13.4 Escrows

- Escrows for taxes and insurance will be required for all HPMLs (High Price Mortgage Loans) that are primary residences
- Escrows are required for LTV's greater than 80%
- Flood Insurance must be escrowed