



NON-QM LOAN ELIGIBILITY GUIDELINES

Version 3.0

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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).
 - 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
 - Documents must be current at the time of the note date.
 - If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
 - EAD Card
 - Documents must be current at the time of the note date.
 - If EAD card is expired at the time of the note date, 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.)

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

- This does not apply to ITIN borrowers.

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: 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	C11	An alien paroled into the United States in the public interest or temporarily for emergency reasons.
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

2.3 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

2.3.1 Business Entity Vesting

Ownership or title vesting in the name of a U.S. domestic LLC, partnership, or corporation (collectively 'Entity') is acceptable for business purpose investment property transactions. Borrowing Entities are permitted only under the DSCR program. See the DSCR Program and Borrowing Entity requirements.

To vest ownership in an Entity but close in the name of a natural person, the following requirements must be met:

- Business purpose and activities are limited to ownership and management of real estate.
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders).
- A minimum of 25% of the Entity ownership must be represented as borrowers on the loan, each completing a 1003 as applicants.
- The loan application, credit report, income (if applicable), and assets for each borrowing Entity owner will be used to determine qualification and pricing.



The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- Employer Identification Number (EIN) Verification Form
- Certificate of Good Standing
- Certificate of Authorization for the person executing all documents on behalf of the Entity
- Entity documentation required for both the state of entity formation and state of the subject property, when they differ.

Documents must be completed and signed by each individual applicant (in their capacity as an individual only) that is an owner of the vesting Entity, as follows:

- Business Purpose & Occupancy Affidavit – signed by each applicant Entity owner.
- Loan Application (1003) – Completed and signed by each applicant Entity owner represented. 1003 section labeled “Title will be held in what Name(s)” should be completed with only the Entity name.
- Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) – completed and signed by each applicant Entity owner.
- Closing Disclosure – completed and signed by each applicant Entity owner.
- Other Closing Documents (Final TIL, Business Loan Agreement, etc.) – completed by Entity owner applicant.
- Note – signed by each applicant Entity owner represented.
- Guaranty- Must be completed and signed by member representing at least 51% cumulative ownership of the entity (including the borrower’s % of interest).
- Deed of Trust/Mortgage and all attached Riders – must be completed by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property.

2.3.2 Layered LLCs

Layered LLCs with multiple members/managers are eligible as Borrowing Entities when the following requirements are met:

- Layered entities are permitted up to two (2) layers.
- Entities layered with a trust are NOT eligible.
- LLC documentation listed in Borrowing Entities must be received for all ascending LLCs making up the overall ownership structure. Note: Certificate of Good Standing is required from the state where the LLC was formed and for all and all subsequent ascending LLCs.

2.4 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
- 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

2.5 Private Mortgage Insurance (PMI)

- Private Mortgage Insurance (PMI) is not required on any NON QM Full Doc or Alt Doc loans

2.6 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

2.7 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



2.8 Borrower Types

2.8.1 Primary

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

2.8.2 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

2.8.3 First Time Homebuyer (FTHB)

- An individual is considered a first-time homebuyer who:
 - A FTHB is defined as an applicant who have never previously owned a home (real property)
 - Is purchasing a primary or investment property

2.8.4 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

2.8.5 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

2.8.6 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.

3 Eligible Transactions

All investment properties may be eligible for business purpose. Borrowers must execute the Business Purpose and Occupancy Affidavit attesting that the loan is intended for business purposes and not for consumer or family use.

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

3.2 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
- Taxes more than 60 days delinquent cannot be paid with a R/T refinance.
- 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 2nd 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
- 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

3.3 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

3.4 Delayed Financing

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 90 days of the note date.
 - 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
 - Can be provided by one of the following: VOM, most recent mortgage statement, payoff demand not exceeding 1 months interest.
- 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

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
- 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

4.4 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 (VOM) and/or Verification of Rent (VOR) is required to support housing payment history and reviewed for delinquencies in the last 12months.

- For all properties, the mortgage must be rated within 45days at the time of application.
- For the subject property, evidence must be obtained mortgage is current at time of the closing date.

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
- Rental Payments
 - VOR (Verification of Rent) with no additional documentation (e.g. cancelled checks not required).

4.6.1 Rolling Delinquency

Rolling delinquencies are considered for 30 days late up to six (6) lates are one (1) event. Above thirty (30) days late, each late is an event.

Refer to matrix for mortgage/rental rating requirements.

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

4.8 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
- Rent free letter is not required for borrowers that are on title only

4.9 Other Credit Requirements

4.10 Significant Adverse Credit Events including Forbearance, Deferred Payments, Modifications

- Borrower cannot currently be in a forbearance plan.



- Refer to Matrix for eligibility for credit events (Bankruptcy, Foreclosure, Short sale/Deed-in-Lieu/Modifications)
- A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning referred to in the matrix for the applicable program
 - Forgiveness of a portion of principal and/or interest on either the first or second mortgage
 - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
 - Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
 - Conversion of any portion of the original mortgage debt from secured to unsecured.

Modifications involving changes to the interest rate, term of the loan, or amortization schedule are not covered under this section. These modifications are solely subject to meeting the required payment history criteria without the need for Housing Event seasoning.

4.10.1 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

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 60 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.

Income derived from state-legalized activities is acceptable, provided it can be properly documented, verified, and meets all other program requirements.

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): Follow Fannie Mae guides.

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 IRS Form 4506-C

- Only required on Full Doc loans
 - Must be executed with tax transcripts if using tax returns to qualify
- 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 two (2) 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 within 10 business days of the note date. 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 within 60 days of the note date. 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 the 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

6 Standard Income Documentation/Full Doc

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

Full Doc is fully supported as a Non-QM income type. These loans are still considered Non-QM and are subject to CAKE's Non-QM guidelines.

If a specific credit or eligibility item is not addressed in our Non-QM guidelines, Fannie Mae standards will apply.

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
- 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

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

7.1.1 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.
- Most recent statement must be dated within 60 days of application date.
- 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 one (1) year 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
- 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 reviewed the business financial statements or working papers provided by the borrower.
 - Minimum 10% Expense 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.

7.1.2 Personal Bank Statements

- 12 or 24 months complete personal bank statements (multiple bank accounts may be used but must cover 12 or 24 months from each account). Dated within 30 days of application: and
- Most recent statement must be dated within 60 days of application date.
- 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:
 - 2 months of most recent business bank statements are required.
 - If there is no business account, then only personal statements are acceptable with a 10% expense factor.
 - 100% of personal bank account deposits may be used if 2 months of business bank statements are provided.
 - Transfers will be excluded unless they are from the documented business account

7.1.3 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 $\geq 80\%$ 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 < 80% 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 all instances when utilizing rental income, 100% of the verified monthly rental income can be used. Borrowers using rental from investment properties not associated with the borrower's business may do so by providing an active current lease together with proof of rent payments received for the most recent 2 months. If there is a newly executed lease for new tenants, provide proof of receipt for deposit and 1st month's rent.

If the subject property is leased on a short-term basis utilizing an online service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of rental income. In addition, a



screenshot of the online listing must show the property is actively marketed as a short-term rental. The use of form 1007 is based on short-term rental properties which may be allowed when the property is in an established short-term/vacation market on a case-by-case basis.

If attempting to use rental income from a departing residence, a copy of the executed 12-month term lease, verification of receipt of the security deposit and proof of the first month's rent deposited to borrower's account is required. The property may not be leased to a family member. If no lease/deposit is available, a recently completed appraisal form 1007 or 1025 (as applicable) can be used to determine gross market rent. For purchase transaction of an investment property or multi-unit (can be primary), copies of the current lease agreement(s) transferred to the borrower are required. Current lease amount would be used for rental income calculation. If property is not currently rented (i.e. vacant per appraiser), or if the existing lease is not being transferred to the borrower, then lease agreements are not required, and appraisal Form 1007 or 1025 (as applicable) will be used to determine gross market rent.

- Accessory Dwelling Units (ADU)
 - If the property contains an accessory unit, the property is eligible under the following conditions:
 - The total units + Accessory Units on the property may NOT exceed 4 units.
 - Acceptable Examples: A 3 Unit Triplex + 1 ADU, a 2 Unit Duplex + 2 ADU's, and/or SFR 1 Unit + 3 ADU's
 - 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

7.3 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 in the same business
 - Must have at least two (2) years in the same line of business
- Must cover either the most recent 12 or 24 consecutive months of business activity



- The end date of the P&L must be no more than 60 days prior to the loan application date
- Acceptable formats include:
 - A single continuous 12- or 24-month period (calendar or fiscal year), or
 - Full fiscal years separated out with a current Year-to-Date (YTD) statement
- The P&L must be no older than 120 days at the time of closing
- 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 reviewed the business financial statements or working papers provided by the borrower.
- Provide current/active license or certification for the preparer
- Confirmation business has been in existence for a minimum of one (1) year
- 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

7.4 Alt Doc – P&L with Bank Statements

In addition to the requirement in Section 7.3 (Alt Doc – P&L Only), the following requirements apply for a P&L with Bank Statements Loan.

- Provide a 12 or 24 Month Profit and Loss (P&L) Statement from a properly licensed tax preparer with 3 Months Bank Statements. Proof of the preparer's current state license is required.
- NSF's/Overdrafts not allowed
- P&L Sales/Revenue must be supported by the provided bank statements, total deposits per bank statements, minus any inconsistent deposits, and must be no more than 25% below revenue reflected on the P&L
 - If this 25% tolerance is not met, continuous bank statements may be added to the analysis until the tolerance is met.
- Qualifying income is the net income from the P&L divided by the number of months it covers (12, or 24 if requested by Underwriter)
- Expenses must be reasonable for the type of business
- Pattern of deposits and payment should be consistent., determined by type of business:



- For example: A Real Estate Sales self-employed borrower may not have sold a property every month, so consistent would be if deposits were made a few times in 12 months (or 24 months if requested by the Underwriter)
- Other examples include but are not limited to: A Convenience Store owner, Gas Station owner, or Restaurant owner may make large amounts of cash deposits; if deposits are ordinary for the type of business, they will not be backed out of the deposit calculations and sourcing is not required
- ATM/PayPal/Square/Venmo deposits may be considered and analyzed for consistency
- Income documented separately but comingled must be backed out of deposits

7.5 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

7.6 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 80%.
- 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

7.7 Alt Doc – ATR in Full

In the event that the borrower has sufficient liquid assets to pay off the loan in full (branded: CAKE’s “ATR-in-Full” or “AiF” program), CAKE would consider this asset source as fulfilling the DTI / Residual income prong of the ATR test. In that event, Sections for Maximum DTI and Residual Income will not apply. Borrower will need to provide most recent two (2) months assets statements for qualification. Underwriting should take care to consider the minimum amount of funds in the account versus the amount needed for qualification and if the account is being otherwise depleted.

Generally, the Assets referenced in this subsection must be sourced as liquid assets and personally held (versus held in a business account). However, in the event that the Applicant transaction is “delayed financing”, the funds being recouped via the transaction may also be utilized for qualification under this subsection when the funds were sourced and seasoned for not less than 90 days prior to the initial purchase of the subject and those assets otherwise qualify as liquid assets under this subsection.

CAKE defines “delayed financing” as the purchase of a property for 100% cash and apply, within 90 days following the purchase, to retrieve a portion of that cash used in the purchase.

7.8 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 are waived

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

7.8.1 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 if over the age 59 ½, 50% of Retirement Assets if under the age of 59 ½. No terms of withdrawal are required.
 - 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)
 - Assets held in a trust may be utilized.
- 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

7.8.2 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

7.9 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 from 1007/1025 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 1st months' rent
 - Copy of a current lease

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
 - **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

- Max DTI is 50% or as permitted by the program matrix
- $DTI = \text{total monthly debt} \div \text{total monthly gross income}$
- 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, or
 - If the credit report does not show a payment amount, the borrower may qualify off of a payment equal to 1% of the outstanding balance.
- 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 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

8.16 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 120 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 will be considered 100% borrower funds)
 - 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 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
 - 2 month average not required
- 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 the business contributing the closing funds. Verification of business deposit accounts such as checking, savings, certificate of deposit, and money market accounts must include the following documentation:
 - Copy of the (1) most recent bank statement; AND
 - Letter of Explanation executed by the majority of the business' ownership describing the potential impact on the business if business funds are used for closing.
- 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

- If LTV /CLTV is 65% or LOWER, assets not required to be verified.
- For LTV/CLTV above 65%, (1) Month Bank Statement is required.



- 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

- Gift funds with the following restrictions:
 - Gifts may be from any 3rd party. Gifts can be used to pay off debt
 - 100% gift allowed on all occupancy types.
 - Gift may be used towards down payment, closing cost, reserves and pay off debt
 - Allowed on Purchase, Rate-and-term, Cash-out transactions
- Gift of Equity allowed for all occupancy types.
- 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)

9.5 Eligible Donors

- Gifts can be provided by:
 -
 - Any third party
 - 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
- Manufactured Home Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004C/70B

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

- Loan amounts equal to or greater than \$2,000,000 will require a second appraisal.

10.1.3 Accessory Dwelling Units (ADU)

- If the property contains an accessory unit, the property is eligible under the following conditions:
 - The total units + Accessory Units on the property may NOT exceed 4 units.
 - Acceptable Examples: A 3 Unit Triplex + 1 ADU, a 2 Unit Duplex + 2 ADU's, and/or SFR 1 Unit + 3 ADU's
 - 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: The market rent for the accessory unit should be documented on FNMA Form 1007/1025 and the file must include a copy of the current lease agreement with two (2) months proof of current receipt.



- Non Owner-Occupied: The market rent for the accessory unit should be documented on FNMA Form 1007/1025 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: Use the lower of the market rent on FNMA Form 1007 or actual rent
 - Non Owner-Occupied: Use the lower of the market rent on FNMA Form 1007 or actual rent

10.1.4 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

10.1.5 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, only one score required to be 2.5 or less)
 - If the score exceeds 2.5 or indeterminate/no score, 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%.
- Loan amounts \geq \$2MM require 2 appraisals.



10.1.6 Transferred Appraisals

- Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed.
- Transferred appraisals are generally acceptable provided they meet all applicable appraisal transfer requirements. However, transferred appraisals are not permitted under the following conditions:
 - If the appraised value reflects more than a 10% increase compared to the most recent prior sale price within the last 3 months, or
 - If the appraised value reflects more than a 20% increase compared to the most recent prior sale price within the last 6 months, AND the subject property was purchased within the last 6 months.
 - If the subject property is located in a declining market, as identified by the appraiser or internal risk flags
- The appraisal must be less than 60 days at time of transfer (120-days at closing and ordered through an Appraisal Management Company)
 - If appraisal is over 60 days old at time of transfer, then a current AVM or CDA is required to support the value.
 - 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
 - XML, Paid Invoice and SSR's must be included

10.2 Escrow Holdbacks

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

10.3 Solar Panels

Must conform to FNMA guidelines.

PACE loans (or any similar loans with payments that are included in property taxes or take lien priority) are not eligible.

10.4 Eligible Property Types

- Single Family Detached
- Single Family Attached
- 2-4 Unit Residential Properties
- Condominium
- Non-Warrantable Condos
- Condotels
- Manufactured homes
- Mixed Use Properties in accordance with Fannie Mae guidelines



- Modular homes
- Properties up to 20 acres
- Leaseholds (in areas where leaseholds are common)
- Properties that contain Accessory Dwelling Unit (ADU) refer to section 10.1.3.

10.5 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

10.6 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.

10.7 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, which 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.



10.8 Declining Markets

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

10.9 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.

10.10 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. 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.

10.11 Condominium Projects

UW Attestation and/or documentation clearly stating whether the project review completed resulted in condo being determined as warrantable or non-warrantable must be delivered with the file.

If an approved Fannie Mae's Condo Project Manager (CPM) report is provided, a lender HOA questionnaire is not required.

California and Florida Only: Condos require an attestation from the HOA regarding the required structural inspections. No further documentation is required.

10.11.1 Project Review Warrantable

FNMA eligible warrantable projects are permitted. Site Condos meeting the FNMA definition are eligible for single-family dwelling LTV/CLTV.

10.11.2 Project Review Non-Warrantable

Non-warrantable condominiums are eligible based on the following characteristics. See Credit Matrix for LTV restrictions.

CHARACTERISTIC	EXCEPTION CONSIDERATION
COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building project < 50%. Any commercial space must be "typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
Completion Status	<p>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. At least 50% must be sold or under a bona-fide contract.</p> <p>If the LTV is $\leq 80\%$ and Credit score is ≥ 680, a minimum of 30% presale is allowed.</p>
Condotels	<ul style="list-style-type: none">• For loan amounts, reserves, and LTV restrictions please refer to the corresponding matrix.• Projects where the units are individually owned, and the project offers hotel amenities.<ul style="list-style-type: none">○ Hotel amenities may include on-site registration, housekeeping services, and other hospitality services.



	<ul style="list-style-type: none"> ○ 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.
Delinquent HOA Dues	No more than 35% of the total units in the project may be 60 days or more past due on HOA fees.
HOA Control	The developer may be in control of the condominium association as long as the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA Reserves	<p>Annual budget specifies a minimum of 5% allocation of replacement reserves. Budget/Replacement Reserve Study Requirements allowed subject to the following requirements:</p> <ul style="list-style-type: none"> • < 3% allocation to replacement reserves, provide condo questionnaire completed by HOA, copy of annual budget and a reserve study completed within the previous 5 years by one of the following professionals (CPA, General Contractor, or Property Manager with 3 years experience)
Investor Concentration	Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
Litigation	<p>Pending litigation may be accepted on a case-by-case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.</p>
New Projects	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100%



	complete. Minimum of 50% of units must be sold or under contract
Single Entity Ownership	Single entity ownership in project up to 50%

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.
 - A mortgagee clause naming Fannie Mae, CAKE Mortgage, or the servicer is not required for a master property insurance policy, an NFIP RCBAP, or equivalent master flood insurance policy issued by a private issuer.
- 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.

10.12 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.
- 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.



- 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.

11 Title Insurance

11.1 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.

12 Miscellaneous

12.1 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.

12.2 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.

12.3 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.

12.4 Escrows

Escrow waivers are permitted with the following:

- 0x30x12 housing/rental history
- 700 minimum FICO score
- ≤ 80% LTV, except as per state law
- ≤ \$2,000,000 loan amounts

Escrow waivers are not allowed for the following:

- Foreign National
- Properties located in flood zones.
- HPML loans