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# Expanded Jumbo (6600 Series) Loan Eligibility Matrix

## Fixed Rate Products

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Units</th>
<th>FICO</th>
<th>Maximum LTV/CLTV/HCLTV</th>
<th>Maximum Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Residence: Purchase, Rate &amp; Term Refinance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase or Rate &amp; Term Refinance</td>
<td>1-2</td>
<td>680</td>
<td>90%2</td>
<td>$1,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>661</td>
<td>80%</td>
<td>$1,500,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>680</td>
<td>75%</td>
<td>$2,000,000</td>
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<tr>
<td></td>
<td>1-4</td>
<td>661</td>
<td>70%</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>

| **Primary Residence: Cash-Out Refinance** |       |      |                        |                     |
| Cash-Out Refinance                     | 1-2   | 680  | 80%                    | $1,000,000          |
|                                       |       | 661  | 70%                    | $1,000,000          |
|                                       |       | 661  | 60%                    | $1,500,000          |
|                                       | 3-4   | 661  | 60%                    | $1,500,000          |

| **Second Home: Purchase, Rate & Term** |       |      |                        |                     |
| Purchase or Rate & Term Refinance     | 1     | 661  | 80%                    | $1,000,000          |
|                                       |       |      | 70%                    | $1,500,000          |
|                                       |       |      | 65%                    | $2,000,000          |

| **Second Home: Cash-Out Refinance**   |       |      |                        |                     |
| Cash-Out Refinance                    | 1     | 661  | 65%                    | $1,000,000          |
|                                       |       |      | 60%                    | $1,500,000          |

| **Investment: Purchase, Rate & Term, Cash-Out Refinance** | | | | |
| Purchase                                               | 1-4   | 680  | 75%                    | $1,500,000          |
| Rate and Term Refinance                                | 1-4   | 680  | 70%                    | $1,500,000          |
| Cash-Out Refinance                                     | 1-4   | 680  | 60%                    | $1,500,000          |

1. First-time homebuyers are subject to a maximum loan amount of $1,000,000. Loan amounts up to $1,500,000 allowed in CA, NJ, NY, and CT. See Eligible Borrower section for specific requirements for first-time homebuyers. See [Borrower Eligibility Section](#) for additional details.

2. The following requirements apply for transactions with LTVs greater than 80%.
   - MI not required
   - Secondary financing is allowed. See Secondary Financing section for allowable secondary financing.
   - Non-permanent resident aliens not allowed
   - Escrow/impound accounts required for LTVs greater than 80% unless prohibited by applicable laws.

3. Texas 50 (a) (6) refinance (Texas Equity Loans) only allowed 30 year fixed rate. Additional restrictions apply.

4. The following requirements apply for Investment Property Purchase, Rate and Term Refinance and Cash-Out Refinance transactions:
   - Florida condominiums limited to 50% LTV/CLTV/HCLTV.
   - Transaction must be arm’s length.

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• Appraiser to provide rent comparable schedule.
• If using rental income as an executed lease agreement must be provided.
• First-Time Homebuyers not allowed.

Additional Notes:

• Minimum loan amount is $1 over the current conforming/high balance limit set by the FHFA. fhfa.gov
• Residual income calculation must be provided and must meet the residual income requirements indicated in the Income/Employment section of this guide.
**Program Highlights**

**Eligible Borrowers:** US Citizen, Permanent Resident Alien, Non-Permanent Resident Alien

**Underwriting Method:** All loans must be manually underwritten and fully documented. No documentation waivers based on Agency AUS recommendations are permitted. Unless otherwise noted, the more restrictive of the Fannie Mae Selling Guide or Appendix Q should be followed. In all cases, the loan file must document the eight (8) ATR Rules.

**Minimum Loan Amount:** Minimum loan amount is $1 over the current conforming/high balance limit set by the FHFA. fhfa.gov.

**Maximum Loan Amount:** Up to $2,000,000. Refer to Product Matrix for restrictions.

**Credit Standards**
- FICO minimums as low as 661. Refer to Product Matrix for restrictions.
- Housing Payment History – No more than 1X30 in the last twelve (12) months or 2X30 in the last 24 months. Mortgage lates must not be within the most recent three (3) months of the subject transaction. 0X60 and 0X90 required in the most recent 24 months.
- Bankruptcy, Foreclosure, Short Sale, Deed-on-Lieu, Mortgage accounts that were settled for less, negotiated or short payoffs. If the above credit issues are seasoned between four (4) and seven (7) years, see Adverse / Derogatory Credit History section for requirements.

**Debt-to-Income Ratios**
- Fixed Rate & ARM: 43.00%
- Non Occupant Co-Borrowers with Blended Ratios 43.00%
- LTV/CLTVs over 80%: 38.00%

**Occupancy/Property Types:** Allows for primary, second home, and investment properties. For additional details regarding property eligibility refer to Part J: Property Eligibility > Eligible Property Types.

**Correspondent Lending:** Correspondent 1st Party Transactions Only. (Correspondent TPO not permitted): Prior approval required (non-delegated).

**Wholesale Lending:** CMG Select Partner Transactions not permitted.
Product Eligibility / Product Terms / Product Codes

Product Terms / Codes:

- 6615 - 15 YR FXD
- 6630 - 30 YR FXD
- 6630 TX A6 – 30 YR FXD TX A6

ARM Summary (suspended):
- 5/1, 7/1, 10/1 ARM Fully Amortizing, 30 year term
- Interest Rate Caps: 5/1, 7/1, 10/1 ARMs: 2/2/5 initial/subsequent/lifetime
- Interest Rate Floor: 3.50
- Margin: 3.50
- Index: 1 Year LIBOR
- Conversion option: Not allowed
- Assumable: Assumable

Qualifying Rate:
- Fixed Rate: Note Rate
- suspended 5/1 LIBOR ARM - Greater of the fully indexed rate (Index + Margin) or the Note Rate + 2%
- suspended 7/1 LIBOR ARM - Greater of the fully indexed rate (Index + Margin) or the Note Rate
- suspended 10/1 LIBOR ARM - Greater of the fully indexed rate (Index + Margin) or the Note Rate

Ineligible Products/Attributes:
- High Cost Loans (Federal, State or Local)
- Non-Standard to Standard Refinance Transactions (ATR Exempt)
- Balloons
- Graduated Payments
- Interest only products
- Temporary buy downs
- Loans with prepayment penalties
- Convertible ARMs
- CMG Select Partner Transactions

Regulatory Compliance
In addition to program eligibility and prudent underwriting, all loans must meet the Ability to Repay (ATR) rules established by the Consumer Financial Protection Bureau (CFPB).

The ATR rule requires that the originator make a reasonable, good-faith determination before or when the loan is consummated and that the consumer has a reasonable ability to repay the loan. The origination lender must consider the eight underwriting factors established by the CFPB and the loan file must be documented accordingly.

1. The borrower’s current or reasonably expected income or assets;
2. The borrower’s current employment status;
3. The borrower’s monthly payment on the covered transaction;
4. The borrower’s monthly payment on any simultaneous loan;
5. The borrower’s monthly payment for mortgage-related obligations;
6. The borrower’s current debt obligations, alimony, and child support;
7. The borrower’s monthly debt-to-income ratio or residual income; and
8. The borrower’s credit history.

**QM designation must be provided in the loan file** and the loan file must document the eight (8) Ability to Repay (ATR) rules. [Non Agency QM Designation and ATR Worksheet]

- QM designation is QM Safe Harbor if the loan is not a Higher-Priced Covered Transaction (HPCT).
- QM designation is QM Rebuttable Presumption if the loan is a Higher-Priced Covered Transaction (HPCT).
- QM designation is Exempt for investment property transactions when the transaction is exclusively for business purposes. (Refer to §1026.3(a) and the Official Interpretation to §1026.3(a))

Each loan must be originated, closed, serviced and transferred in compliance with all applicable federal, state, and local laws, regulations and orders.

**REGULATORY RESOURCES:** [CFPB Regulations]

- Regulation X – RESPA
- Regulation Z – Truth in Lending
- Regulation G – S.A.F.E. Act – Federal Licensing & Registration
- Regulation H – S.A.F.E. Act – State Licensing & Registration
- Regulation V – Fair Credit Reporting
- Regulation B – Equal Credit Opportunity
- Regulation P – Privacy of Consumer Financial Information (GLB)

Loan files must demonstrate proper disclosure and adherence to the following Federal regulations:

- Fair Credit Reporting Act
- Equal Credit Opportunity Act (effective with applications taken on or after 1/18/2014)
  - Will require evidence that the applicant was provided a disclosure advising them of their right to receive a copy of the appraisals. Satisfactory evidence that this disclosure was delivered within three business days of application will be required. Upon request seller must also provide evidence that appraisals and other written valuations were provided to the applicant in a timely manner. Refer to ECOA §1002.14 for rules on providing appraisals and other valuations.
  - If investor reviews an appraisal prior to origination, investor will deliver to the seller, for delivery to the applicant, any written valuations that investor may obtain as a result of the appraisal review.
- Privacy of consumer Financial information (Gramm-Leach-Bliley Act)
- Fair Housing Act
- USA PATRIOT Act

**APR Accuracy**

- If accuracy issues are identified, an itemization of fees included in the APR and Finance Charge is required. The following accuracy thresholds apply:
  - Regular transactions:
    - Fixed Rate – APR increases by more than .125%.
    - ARM when initial rate is based on the index and margin used to make later interest rate adjustments – APR increases by more than .125%.
  - Irregular transactions:
    - ARM when initial rate is not determined by the index or formula used to make later interest rate adjustments – APR increases by more than .250%.

**Notes:**
- The federally required ARM Disclosure will be reviewed to determine the applicable ARM tolerance.
- The loan file should contain the index value used and the date of index value for ARM transactions.
If the finance charge is understated by more than $35, in addition to refunding the borrower the overage and delivering a revised final CD, the rescission must be re-opened.

Closing Disclosure (CD)

- **Receipt and Waiting Period**
  - The CD must be received by the consumer at least three (3) Specific Business Days prior to consummation. Satisfactory evidence that this requirement is met must be included in the file.

- **Receipt and Waiting Period for a Revised Closing Disclosure**
  - In certain circumstances, a corrected CD is subject to the three (3) Specific Business Day waiting period:
    - The APR increases by more than .125%, regular transactions or .250%, irregular transactions. See section 4k below. (A decrease in APR will not require a new three (3) day waiting period)
    - A prepayment penalty is added.
    - The loan product changes, such as a switch from a fixed rate to an adjustable rate. (for this program, the investor does not consider a change in a fixed rate loan term or the fixed period of a hybrid arm, to be a loan product change).

Loans where the three (3) Specific Business Day waiting period has been waived or not satisfied are not eligible.

TRID Scope
- Scope includes the following: Primary Residence, Second Homes and Investment Properties
- Detached SFR, Attached SFR, PUDs, 2-4 Units, Condos, Co-ops

Non-Borrowing Spouse
- See [Non-Borrowing Spouse](#) section of Borrower Eligibility topic.

Notice of Right to Cancel Forms
Regulation Z (Appendix H) provides two model “Notice of Right to Cancel” forms for closed-end mortgage transactions. Form H-8 is designed for refinances with a different creditor and Form H-9 is designed for refinances with the same creditor when additional funds are advanced. The language in the H-8 form provides for the rescission of the new transaction and security interest, while the H-9 form is designed to preserve the security interest of the original transaction and only allow rescission of the new credit extended.

In general the use of an H-8 form when the H-9 form is acceptable when appropriate. However, due to current case law made by the 3rd Circuit Court of Appeals, loan transactions from the states of Delaware, New Jersey and Pennsylvania will require the proper use of the model form given the circumstances of the transaction. This will also apply to loans secured in the State of Illinois

This means that the H-8 form is the appropriate form for refinance transactions involving different creditors and the H-9 form is the appropriate form for same creditor transactions when additional advances are made. The following chart of examples clarifies the interpretation of same creditor versus different creditor transactions for this loan program.

<table>
<thead>
<tr>
<th>Example</th>
<th>Original Creditor</th>
<th>Sold or Assigned To</th>
<th>New Originator/Creditor</th>
<th>New Loan &gt; UPB + Earned Finance Charge + Costs of New Refinance</th>
<th>Model Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>NA</td>
<td>B</td>
<td>NA</td>
<td>H-8</td>
</tr>
<tr>
<td>2</td>
<td>A</td>
<td>B</td>
<td>B</td>
<td>NA</td>
<td>H-8</td>
</tr>
<tr>
<td>3</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>NA</td>
<td>H-8</td>
</tr>
<tr>
<td>4</td>
<td>A</td>
<td>NA</td>
<td>A</td>
<td>No</td>
<td>H-8</td>
</tr>
<tr>
<td>5</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>No</td>
<td>H-8</td>
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<tr>
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<td>A</td>
<td>NA</td>
<td>A</td>
<td>Yes</td>
<td>H-9</td>
</tr>
<tr>
<td>7</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>Yes</td>
<td>H-9</td>
</tr>
</tbody>
</table>

**Note:** For Texas Equity loans, either the appropriate federal “Notice of Right to Cancel” form, or a Texas specific “Notice of Right to Cancel” form are acceptable.
Part A – Borrower Eligibility

Eligible Borrowers
All borrowers must have a valid social security number.
The following are eligible borrowers:

First time homebuyers
- A first-time buyer is defined as anyone who has not owned a home for three (3) years. For loans with more than one (1) borrower, where at least one (1) borrower has owned a home in the last three (3) years, first-time homebuyer requirements do not apply.
- Maximum loan amount is $1,000,000.
- For transactions located in CA, NJ, NY or CT, the maximum loan amount of $1,500,000 is allowed if the following requirements are met and only apply for loan amounts over $1,000,000 in the allowed states:
  - 680 Minimum FICO Score
  - Primary residence only
  - Maximum 80% LTV/CLTV/HCLTV
  - Reserve requirements met for FTHB as specified in the Asset – Reserve Requirements section

Inter-Vivos Revocable Trusts
- An inter vivos revocable trust is a trust that an individual creates during their lifetime, becomes effective during their lifetime, and can be changed or canceled at any time for any reason, during their lifetime.
- Inter vivos revocable trusts are acceptable as an eligible borrower for 1-2 unit owner-occupied primary residences, 1-unit second homes and 1-4 unit investment properties. The subject property can be a single family residence, condominium, or PUD as long as documentation and eligibility requirements are met. Title insurance must provide full title insurance coverage without exceptions for the trust or trustees for the inter vivos revocable trust in that state.
- For inter vivos revocable trust signature requirements, please refer to section Title Requirements.
- To determine whether or not the Trust meets all the criteria required by State and investor standards, one of the following will be required:
  - A copy of the trust agreement
  - An attorney's opinion stating the trust meets all Secondary Marketing requirements as set forth by Freddie Mac (FHLMC) or Fannie Mae (FNMA), as applicable, and any applicable State requirements
  - Certification from a title company evidencing compliance with all Secondary Marketing requirements as set forth by FHLMC/FNMA and any applicable State requirements
  - Certification from an individual Trustee evidencing compliance with all Secondary Marketing requirements as set forth by FHLMC/FNMA, and any applicable State requirements. Additionally, the following requirements must be met:
    - Certifications completed by an individual Trustee must be notarized.

NOTE: Trust certifications must confirm the following:
- The existence and date of the Trust.
- The Settlers and the current Trustees.
- The powers of the Trustees.
- Whether the Trust is revocable; and, if revocable, who holds the right to revoke.
- The names and number of the Trustees required to sign on behalf of the Trust.
The trust agreement must state the following:
- The trustee is authorized to borrow money for the purpose of purchase or refinance.
- The beneficiary does not need to grant written consent for the trust to borrow money. If consent is required, consent has been granted in writing for purposes of the mortgage.
- There is no unusual risk or impairment to the lenders’ rights.
- Holding title in the trust does not diminish the lenders’ rights as a creditor.

Non-Occupant C-Borrowers
- Non-Occupant Co-Borrowers are allowed with the following restrictions:
  - Primary residence – one (1) unit property
  - Purchase and rate & term refinance transactions only.
  - Max loan amount $1,000,000; $1,500,000 is allowed for properties located in CA, CT, NY and NJ.
  - Max LTV/CLTV 80%.
  - No minimum down payment required fro the occupant borrower, down payment and reserves may be from the occupant borrower or non-occupant co-borrower.
  - Additional six (6) months reserves required.
  - Non-occupant co-borrower must be an immediate family member.
  - Blended ratios allowed with a maximum 43% DTI.
  - Transaction must be an arms’s length transaction.

Non-Permanent Resident Aliens
- A Non-Permanent Resident Alien is a non-US citizen who lawfully enters the US for a specific time period under the terms of a Visa. A Non-Permanent Resident Alien status may or may not permit employment.
- Verification of a valid and eligible visa that allows the Non-Permanent Resident Alien the right to work and live in the US issued by the USCIS is required.
- Non-Permanent Resident Aliens with evidence of lawful residency are eligible with the following restrictions:
  - Primary residence only.
  - Maximum LTV/CLTV/HCLTV 80%.
  - Unexpired H1B, H2B, E1, L1 and G series Visas only. G Series visas must have no diplomatic immunity.
  - Credit tradeline requirements must be met, no exceptions.
  - Borrower must have a current twenty-four (24) month employment history in the US.
  - Documentation evidencing lawful residency must be met.

Permanent Resident Aliens
- Permanent Resident Aliens with evidence of lawful residency
  - Must be employed in the US for the past 24 months.
  - Documentation evidencing lawful residency must be met.

- A permanent resident is a non-US citizen who is legally eligible to maintain permanent residency in the US and holds a Permanent Resident card. Document legal residency with one of the following:
  - A valid and current Permanent Resident card (form I-551) also known as a green card.
A passport stamped “processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until ________.” Employment authorized. This evidences the holder has been approved for, but not issued, a Permanent Resident card.

U.S. Citizens
- Allowed.
- See below for First Time Home Buyers

Non-Borrowing Spouse

Non-Borrowing Spouse – Right to Cancel

When a married borrower applies in their name alone, the spouse is referred to as the non-borrowing spouse. A non-borrowing spouse may have rights as a co-owner of the mortgage premises or due to state community property or marital rights. Non-borrowing spouse must sign the security instrument and if applicable, Right to Cancel.

The Right to Cancel must be executed by the non-borrowing spouse in ALL community property states, even if they do not have a vested interest in the secured property.

Non-Borrowing Spouse - Rescindable Transactions

All consumers that have a vested interest in the secured property must receive the CD no later than the third (3rd) Specific Business Day prior to consummation. In community property states, a non-borrowing spouse must also receive the CD no later than the third (3rd) Specific Business Day prior to consummation even if they do not have a vested interest in the secured property.

Excluded Parties Search (LDP/GSA)

CMG loans require confirmation that companies or individuals involved in the origination or underwriting of a mortgage transaction are not on the General Services Administration (GSA) excluded party list or the HUD Limited Denial Participation (LDP). Regardless of the reason for the party being excluded, any party to the transaction included on either list will result in the loan being ineligible for delivery.

All name variations found throughout the loan file must be run when performing the searches.

The search must be run on the following parties in the transaction:
- Borrowers
- Seller
- Builder
- Processor
- Underwriter
- Loan Officer
- Account Executive
- Broker
- Listing Agent and Listing Company
- Selling Agent and Selling Company
- Title Agent
- Title Company
- Closing attorney
Ineligible Borrowers

The following are ineligible borrowers:

• Irrevocable Trusts
• Life Estates
• Guardianships
• Foreign Nationals
• Borrowers with diplomatic status
• Land Trusts, including Illinois Land Trust
• Limited partnerships, general partners, corporations, and limited liability companies
• Borrowers with only an ITIN (individual taxpayer identification number). All borrowers must have a valid Social Security Number
• Borrowers with any ownership in a business that is federally illegal, regardless if income is not being considered for qualifying are ineligible borrowers.
Part B – Property Ownership Restrictions

Multiple Loans to One Borrower

Consumer Services & Wholesale: Borrowers are limited to four (4) loans or two million dollars ($2,000,000) total in loans funded/purchased by CMG. Jumbo/Non-Agency loans are excluded from loan amount limit, but still count towards the aggregate total of loans with CMG.

Multiple Properties Financed/Owned

- The borrower(s) may own a total of ten (10) financed, 1-4 unit residential properties including the subject property and regardless of the occupancy type of the subject property.
  - If the borrower owns up to four (4) financed properties:
    - Max financing for the subject transaction is allowed
    - Additional financed 1-4 unit residential properties require an additional three (3) months reserves for each property
  - If the borrower owns between five (5) and ten (10) financed properties:
    - The subject transaction is limited a maximum of 80% LTV/CLTV/HCLTV or program maximum (lower of the two)
    - Subject property requires the greater of six (6) months reserves or required reserves per guidelines as indicated in the Asset Section of this guide
    - Additional financed 1-4 unit residential properties require an additional six (6) months reserves for each property
- The borrower may own an unlimited number of financed 1-4 unit residential properties when the subject transaction is a primary residence with the following requirements met:
  - The subject transaction is limited to a maximum of 80% LTV/CLTV/HCLTV or program maximum (lower of the two).
  - Additional financed 1-4 unit residential properties require six (6) months reserves for each property.
- 1-4 unit residential financed properties held in the name of an LLC or other corporation can be excluded from the number of financed properties only when the borrower is not personally obligated for the mortgage.
- Ownership of commercial or multifamily (five (5) or more units) real estate is not included in this limitation.

Part C – Occupancy

Eligible occupancy types include:

- Primary residences for 1-4 unit properties
- Second home residences for 1 unit properties
  - Must be located a reasonable distance away from the borrower’s principal residence
  - Must be occupied by the borrower for some portion of the year
  - Must be suitable for year-round use
  - Must not be subject to a rental agreement and borrower must have exclusive control over the property
  - Any rental income received on the property cannot be used as qualifying income
- Investment properties for 1-4 units

Ineligible occupancy types include:

- Second home residences for 2-4 unit properties
Primary Residence
- A primary residence is where the borrower lives the majority of the year. The residence is occupied by
  the primary wage-earner; it is in a location relatively convenient to the principal place of employment;
  and it is the address of record for items such as voter registration, federal income tax reporting,
  licensing and similar functions.
- Purchase - The borrower must occupy the subject within 60 days of closing. If there are multiple
  borrowers, at least one must occupy and take title to the property.
- Refinance – The borrower must occupy the subject property at the time of the transaction for existing
  properties. For construction-to-permanent transactions, borrower must occupy within sixty (60) days of
  closing.

Second Home
- A second home is a 1-unit property, including condominiums, and PUDs, that the borrower will occupy
  for a portion of the year.
- The property generally is located in a vacation or resort area, but not always, and must be suitable for
  year round use. A second home should not be in the same local market as the borrower’s primary
  residence. There can be exceptions such as properties that are located in a metropolitan area that are
  used to minimize the commute to work.
- There is no specific mileage requirements regarding the distance between a second home and primary
  residence, but it should make sense that the subject is a second home. Additionally, 2-4 unit properties
  are not eligible. The borrower should retain exclusive control over the property and not give a
  management company control.

Investment Property
- An investment property is an income-producing property that the borrower does not occupy. The
  subject can be a 1-4 unit property, condominium or PUD.
Part D – Underwriting Documentation

Underwriting Documentation

Correspondent 1st Party Transactions Only. (Correspondent TPO not permitted): Prior approval required (non-delegated).

Wholesale Lending. CMG Select Partner Transactions not permitted.

All loans must be manually underwritten and fully documented. No documentation waivers based on Agency AUS recommendations are permitted. Unless otherwise noted, the more restrictive of either the Fannie Mae Selling Guide or Appendix Q to part 1026, 12CFR Chapter X – Trust-in-Lending (Regulation Z), should be followed. In all cases, the loan file must document the eight (8) ATR rules. In some cases, exceptions to program guidelines or product eligibility may be acceptable when strong compensating factors exist to directly address the issue and offset the risk.

The application package must contain acceptable documentation to support the underwriting decision. When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided.

Full income and asset verification is required. In an effort to fully document the borrower’s ability to meet their obligations, borrowers should disclose and verify all liquid assets (in addition to minimums required as specified by the program).

Direct Written Verifications

- Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between the lender and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.
- Documentation must not contain any alterations, erasures, and correction fluid or correction tape.
- Jumbo loans require paystubs, W-2s or tax returns; standalone VOEs are not allowed but can be provided for additional information.
- Jumbo loans require 2 month bank statements or statements to cover 60 days; standalone VODs are not allowed but can be provided for additional information.

Additional Documentation

- Letters of Explanation
  - Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant’s own words, and be signed and dated by the applicant.
  - CMG requires that loans for business purposes have a Letter of Explanation (LOE) from the borrower explaining how the funds will be used.

Alternative Documentation

Fax Copies

- Fax copies in lieu of original documents or certified copies are acceptable subject to the following:
  - Verification transmitted directly from the lender to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the lender.

Internet Documentation

- Internet documents/downloads of credit reports as well as income, employment and asset verification are acceptable. This allowance for Internet documents does not change the required content or level of documentation needed. The information must be easy to read, understandable, and have no evidence
of alterations, erasures or white-outs, and must make sense based on the borrower profile and transaction terms.

- The following source validation criteria apply to all documents obtained via the Internet:
  - Identify the borrower as the employee or owner of the applicable account.
  - Identify the credit reporting agency, employer, or depository/investment firm's name and source of information.
  - Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm.
  - Display the Internet uniform resource locator (URL) address and the date and time printed.
  - If faxing an Internet download, make sure fax header does not cover URL information.

Re-verification Authorization

- A Borrower's consent must be evidenced by their signature on the appropriate form in order to allow subsequent re-verification as may be required. In lieu of borrower's signature directly on the re-verification form, a general consent form with signatures by all borrowers is acceptable.

Underwriting Documentation Key Point Reminders

- All loans must be manually underwritten and fully documented. No documentation waivers based on AUS recommendations permitted.
- Income calculation worksheet or 1008 with income calculation. The Fannie Mae 1084, or Freddie Mac Form 91 or equivalent is required for self-employment analysis. The most recent Form 1084 or Form 91 should be used based on application date. Instructions per Form 1084 or Form 91 must be followed.
  - Copy of liquidity analysis must be included in the loan file if the income analysis includes income from boxes 1, 2 or 3 on the K-1 that is greater than distributions indicated on the K-1.
  - If a liquidity analysis is required and the borrower is using business funds for down payment or closing costs, the liquidity analysis must consider the reduction of those assets.
- Full income and asset verification is required.
- All credit documents, including title commitment must be no older than 90 days from the note Date.
- **QM designation must be provided in the loan file.**
  - QM designation is QM Safe Harbor if the loan is not a Higher-Priced Covered Transaction (HPCT).
  - QM designation is QM Rebuttable Presumption if the loan is a Higher-Priced Covered Transaction (HPCT).
  - QM designation is Exempt for investment property transactions when the transaction is exclusively for business purposes. (Refer to §1026.3(a) and the Official Interpretation to §1026.3(a))
    - Investment property transactions require an attestation from the borrower stating the property is used 100% of the time for business purposes in order for the designation to be Not Applicable. If the borrower does not use the property 100% of the time for business purposes, the loan is subject to QM and the designation would be QM Safe Harbor or QM Rebuttable Presumption.
    - Cash-out refinances of investment properties must contain an attestation also for the proceeds from the cash-out refinance and if 100% of the proceeds are not used for business purposes, the loan is subject to QM and the designation would be QM Safe Harbor or QM Rebuttable Presumption.
- Loan file must document the eight (8) Ability to Repay (ATR) rules identified in Part 1026-Truth-in-Lending (Regulation Z).
- Residual income calculation must be provided and meet the residual income requirements indicated in the Income/Employment section of these guidelines.
• If subject transaction is paying off a HELOC that is not included in the CLTV/HCLTV calculation, the loan file must contain evidence the HELOC has been closed.
• If the 1003, title commitment or credit documents indicate the borrower is a party to a lawsuit, additional documentation must be obtained to determine no negative impact on the borrower’s ability to repay, assets or collateral.

Age of Documents

Table D-1-A: Document Age Requirements

<table>
<thead>
<tr>
<th>Type</th>
<th>Age of Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Report</td>
<td>No more than 90 days before date Note is signed</td>
</tr>
<tr>
<td>Income</td>
<td>No more than 90 days before date Note is signed</td>
</tr>
<tr>
<td>Assets</td>
<td>No more than 90 days before date Note is signed</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Appraisal Update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note date. Refer to Appraisal Requirements.</td>
</tr>
<tr>
<td>Title Commitment</td>
<td>No more than 90 days before date Note is signed</td>
</tr>
</tbody>
</table>

Electronic Signatures

Initial disclosures may be electronically signed by the borrower, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act).

CMG Disclosures: The initial disclosures must be electronically signed via the IDS system. CMG contracts with IDS to deliver initial disclosures to the consumer with the option for Electronic Signatures in compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), the Uniform Electronic Transactions Act (UETA), and the IRS’s IVES Participant Guidelines for the 4506-T.

Wholesale Brokers: The Correspondent Selling Company and the Wholesale Broker is required to validate that their document delivery company is contracted to deliver initial disclosures to the consumer with the option for Electronic Signatures in compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), the Uniform Electronic Transactions Act (UETA), and the IRS’s IVES Participant Guidelines for the 4506-T.

Underwriting Method

Manual Underwriting

• All loans must be manually underwritten and fully documented.
• AUS finding are not considered; no documentation waivers are considered.
• Unless otherwise noted in these guidelines, the more restrictive of the Fannie Mae Selling Guide or Appendix Q (to part 1026 to 12 CRF Capter X-Truth-in-Lending Regulation Z) should be followed.
Part E – Application

The originator should perform a preliminary review of the borrower’s application to determine that the requested mortgage loan satisfies program mortgage eligibility criteria. The originator’s level of review should be the same for each mortgage. This eligibility review should happen before underwriting begins based on predictive risk factors that are incorporated into the guidelines, specifically:

- LTV/CLTV/HCLTV
- Qualifying Credit Score
- Product Type
- Loan Purpose
- Occupancy
- Property Type, including number of units

NMLS

CMG will validate Nationwide Mortgage Licensing System (NLMS) IDs provided on all loans submitted against the NLMS Registry which can be accessed at the following link: http://www.nmlsconsumeraccess.org/

The validation will include the following:

- Originator ID is found on the NMLS Consumer Access Website
- Originator ID matches the Originator Name
- 1003 Application Date is not prior to Originator Authorization Date
- Originator is authorized to conduct business in the property state
- Originator ID matches the listed Company Originator ID
- Company Originator ID is found on the MLS Consumer Access Website
- Company Originator ID matches the company name
- Company is authorized to conduct business in the property state
- 1003 Application Date is not prior to the Company Authorization Date
- 1003 Includes the Originator Name, Originator ID, Company Name, and Company Originator ID
Part F – Credit Standard/Analysis

Adverse / Derogatory Credit History

- Bankruptcy, Chapter 7, 11, 13 - Must be seasoned four (4) years since discharge / dismissal date
- Foreclosure - Must be seasoned four (4) years since completion date
- Short Sale/Deed-in-Lieu - Must be seasoned four (4) years since completion / sale date
- Mortgage accounts that were settled for less, negotiated or short payoffs - Must be seasoned four (4) years settlement date
- Borrowers with credit events between 4-7 years must meet the following requirements:
  o Tradeline requirements must be met
  o Satisfactory housing payment history for 24 months required
  o No mortgage lates since credit event
  o No public records since credit event
  o Primary residence – purchase or rate/term refinance with a maximum of 80% LTV or program max if lower
- Exceptions for credit events that require 4 year seasoning will be considered on a case by case basis between two (2) and four (4) years with extenuating circumstances subject to the following:
  o Extenuating circumstances are defined as non-recurring events that were beyond the borrower’s control resulting in a sudden, significant and prolonged reduction in income or catastrophic increase in financial obligations.
    ▪ Examples would include death or major illness of spouse or child but would not include divorce or job loss.
  o Documentation must be provided to support the claim of extenuating circumstances and confirm the nature of the event that led to the credit event and illustrate the borrower had no reasonable option other than to default on their obligations.
  o If the defaulted debt was assigned to an ex-spouse and the default occurred after the borrower was relieved of the obligation, the event may be considered on an exception basis.
- Loan Modification – Allowed if seasoned 24 months with no mortgage lates in the last 24 months.
- Notice of Default – Two years
  A satisfactory explanation letter from the borrower(s) must be provided addressing any of the above derogatory credit events if the event occurred in the last seven (7) years.
- Multiple derogatory credit events not allowed, regardless if seasoned over seven (7) years.
  o A mortgage with a Notice of Default filed that is subsequently modified is not considered a multiple event.
  o A mortgage with a Notice of Default filed that is subsequently foreclosed upon or sold as a short sale is not considered a multiple event.
- Medical collections – allowed to remain outstanding as long as the balance is less than $10,000 in aggregate.
- Outstanding Judgments/Tax Liens/Charge-offs/Past-Due Accounts:
  o Tax liens, judgments, charge-offs and past due accounts must be satisfied or brought current prior to or at closing. Cash-out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past-due accounts.
  o Payment plans on prior year tax liens/liabilities are not allowed, must be paid in full.

Age of Credit Report

Refer to Table D-1-A: Document Age Requirements
Credit Inquiries

- When the credit report indicates that recent inquiries took place within 120 days of the credit report date, the lender must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. In these instances the borrower must explain the reason for the credit inquiry.
- If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.
- Confirmation of no new debt may be in the form of a new credit report, pre-close credit or gap credit report.

Credit Reports – Frozen Bureaus

- Credit reports with bureaus identified as "frozen" are required to be unfrozen and a current credit report with all bureaus unfrozen is required.

Credit Score - Representative FICO Score

The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Empirica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score".

The following criteria should be used to determine each individual borrower's credit score:

- If there are three valid credit scores for a borrower, the middle score of the three scores is used.
- If two of three scores are the same, choose the middle of the three scores.
  
  Examples:
  - 700, 680, 680 = 680
  - 700, 700, 680 = 700

- If there are two valid scores for a borrower, the lower of the two scores is used.
- A minimum of two credit scores for each borrower is required.
- The representative score for the loan transaction will be based on the lowest representative score for any borrower.

Credit Standards / Minimum Tradeline Requirements

An individual’s credit history is considered to be one of the strongest indicators of future credit performance. People who have maintained a long history of excellent credit can, and do manage personal finances properly. Likewise a borrower who has a history of slow payments or has defaulted in the repayment of debt generally does not change their credit habits.

Minimum three (3) tradelines are required. The following requirements apply:

- One (1) tradeline must be open for 24 months and active within the most recent 6 months.
- Two (2) remaining tradelines must be rated for 12 months and may be opened or closed.

OR

Minimum two (2) tradelines are acceptable if the borrower has a satisfactory mortgage rating for at least 12 months (opened or closed) within the last 24 months and one (1) additional open tradeline.

- Each borrower contributing income for qualifying must meet the minimum tradeline requirements; however borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements.
- Authorized user accounts are not allowed as an acceptable tradeline.
Non-traditional credit is not allowed as an acceptable tradeline.

**Debt-to-Income**

Debt ratios are calculations used to determine whether the borrower will be able to meet expenses involved in home ownership. There are two ratios to assess the borrower’s eligibility: housing-to-income ratio and debt-to-income ratio.

**Max DTI Ratios**
- Fixed Rate & ARM: 43.00%
- Non Occupant Co-Borrowers with Blended Ratios 43.00%
- LTV/CLTVs over 80%: 38.00%

**Housing-To-Income Ratio**

The monthly housing expense includes the following:
- Principal and interest for the mortgage that is secured by the borrower’s principal residence
- Monthly amounts for:
  - Subordinate financing on the subject
  - Hazard insurance
  - Real estate taxes
  - Mortgage insurance premiums
- When applicable:
  - Homeowners association dues
  - Optional credit insurance
  - Monthly cooperative fees
  - Special assessments
  - Flood insurance fees
  - Tax abatements

**Debt-To-Income Ratio**

Monthly debt-to-income ratio is the sum of the monthly housing-to-income ratio plus the following:
- Payments on revolving debt.
- Installment debt with 10 or more months remaining.
- Lease payments, regardless of the number of payments remaining.
- Monthly PITIA for any additional properties owned by the borrower including second homes and investment properties with negative cash flow.
- Current real estate taxes and insurance on properties owned free and clear.
- Child support, alimony and separate maintenances with more than 10 months remaining.
  - Alimony payments may be deducted from income rather than included as a liability in the debt-to-income ratio for divorces prior to 1/1/2019. For borrowers with a divorce on or after 1/1/2019, the alimony payment must be treated as a liability.

**Disputed Tradelines**

- All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation can be provided that authenticates the dispute.
- Derogatory accounts must be considered in analyzing the borrower’s willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.
**Mortgage History Requirements**

- If the borrower(s) has a Mortgage history in the most recent 24 months, a Mortgage Rating must be obtained. The mortgage rating may be on the credit report or a VOM. Applies to all borrowers on the loan.
- No more than 1X30 in the last twelve months or 2X30 in the last twenty-four months. Mortgage lates must not be within the most recent three months of the subject transaction. 0X60 and 0X90 required in the most recent twenty-four months. A satisfactory explanation letter from the borrower(s) must be provided for any mortgage lates within the most recent twenty-four (24) months.
- If the mortgage holder is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory mortgage history is required.

**Rental History Requirements**

- If the borrower(s) has a rental history in the most recent 12 months, a VOR must be obtained. Applies to all borrowers on the loan.
- No more than 1X30 in the last twelve (12) months. 0X60 and 0X90 required in the most recent twelve (12) months. Rental lates must not be within the most recent three (3) months of the subject transaction. A satisfactory explanation letter from the borrower(s) must be provided for any rental lates within the most recent twelve (12) months.
- If the landlord is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory rent history is required; otherwise if not related or a party to the transaction a satisfactory VOR can be provided.
Part G – Evaluating Income

Stability of Employment and Income
Stable monthly income must meet the following requirements to be considered for qualifying:

- Stable-two (2) year history of receiving the income
- Verifiable
- High probability of continuing for at least 3 years

Income calculation worksheet or 1008 with income calculation. The Fannie Mae 1084, or Freddie Mac Form 91 or equivalent is required for self-employment analysis. The most recent Form 1084 or Form 91 should be used based on application date. Instructions per Form 1084 or Form 91 must be followed.

- Copy of liquidity analysis must be included in the loan file if the income analysis includes income from boxes 1, 2 or 3 on the K-1 that is greater than distributions indicated on the K-1.
- If a liquidity analysis is required and the borrower is using business funds for down payment or closing costs, the liquidity analysis must consider the reduction of those assets.

Declining Income

- When the borrower has declining income, the most recent 12 months should be used. In certain cases, an average of income for a longer period may be used when the decline is related to a one-time capital expenditure and proper documentation is provided. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower’s ability to repay.
- If declining income is for a non-self-employed borrower, the employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

Gaps in Employment

- A minimum of two (2) years employment and income history is required to be documented.
- Gaps in employment in excess of 30 days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to include as qualifying income.
  - Extended gaps of employment (six months or greater) require a documented two year work history prior to the absence.
- Exceptions may be considered on a case-by-case basis when the borrower is on the job less than 6 months, and the gap is less than 6 months.

Documentation Standards

Tax Payer Identification Theft

- If the 4506-T transcripts do not match the borrower’s income and the borrower is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower’s income:
  - Proof of identification theft as evidenced by one of the following:
    - Proof ID theft was reported to and received by the IRS (IRS form 14039).
    - Copy of notification from the IRS alerting the taxpayer to possible identification theft.
  - In addition to one of the documents above, all applicable documents below must be provided
    - Tax Transcript showing fraudulent information.
    - Record of Account from the IRS; the AGI should match the borrower’s 1040s, however the details will not. Validation of prior tax year’s income (income for current year must be in line with prior years).
IRS Rejection of 4506-T
If the IRS rejects a 4506-T request and the reason for the rejection is either “Unable to Process” or “Limitation”, the following conditions must be met in order to validate the borrower’s income:
- Copy of the IRS rejection with a code of “Unable to Process” or “Limitation”.
- Record of Account for 2 years obtained by the borrower from the IRS. Adjusted Gross Income and Taxable Income on the Record of Account should match the borrower’s 1040s.
- OR
- Tax return transcripts for 2 years obtained by the borrower via mail from the IRS.

Tax Transcripts / 4506T
- Tax transcripts for personal tax returns for two (2) years are required when tax returns are used to document borrower’s income or any loss and must match the documentation in the loan file.
- W-2 transcripts for two (2) years are required to validate W-2 wages if tax transcripts are not provided and the borrower does not have any other income source or loss. The following W-2 type earnings will require tax transcripts:
  - Borrower with commission-based income that is greater than 25% of borrower’s total pay.
  - Borrower with 2106 expenses (unreimbursed business expenses).
  - Borrower employed by family.
  - Borrower with ownership in company.
- 4506-T must be signed and completed for all borrowers. IRS will require the latest form completed in full.
- Taxpayer consent form signed by all borrowers.
- A 4506-T must be processed and tax transcripts for personal income tax returns obtained (for each year requested) to validate all income used for qualifying. W-2 transcripts are allowed in lieu of tax transcripts when the borrower’s sole source of income is W-2 wages, please refer to program specific guidelines for allowance of W-2 transcripts in lieu of tax transcripts.
- Tax transcripts must match documentation in the file.
- In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect “No Record Found.” In these cases, an additional prior year’s tax transcripts should be obtained and provided. Large increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case-by-case basis.

Tax Returns and Extensions
- The following standards apply when using Income Tax Returns to verify income:
  - Personal Income Tax Returns
    - Must be complete with all schedules (W-2 forms, 1099 forms, K-1 schedules, etc.).
    - Tax returns must be signed and dated on or before the closing date.
    - In lieu of a signature, personal tax transcripts for the corresponding year may be provided on or before the closing date.
  - Business Income Tax Returns
    - Must be complete with all schedules (K-1 schedules, Form 1065, etc.).
    - Tax returns must be signed on or before the closing date.
    - In lieu of a signature, business transcripts for the corresponding year may be provided on or before the closing date.
  - For Unfiled Tax Returns for the prior year’s tax return
    - For loans closed between Jan 1 and the tax filing date (typically April 15), borrowers must provide:
• IRS form 1099 and W-2 forms from the previous year.
• Loan closing in January prior to receipt of W-2s may use the prior year year-end paystub. For borrowers using 1099s, evidence of receipt of 1099 income must be provided.
  ▪ For loans closed between the tax filing date and the extension expiration date of October 15, borrowers must provide (as applicable):
    • Copy of the filed extension
    • Evidence of payment of any tax liability identified on the federal tax extension form.
    • W-2 forms
    • Form 1099, when applicable
    • Year-end profit and loss for prior year
    • Balance sheet for prior calendar year, if self employed
  ▪ After the extension expiration date, loan is not eligible without prior year tax returns.
    o Tax transcripts must be provided to support tax returns

Pay Stubs
• Paystubs must meet the following requirements:
  ▪ Clearly identify the employee/borrower and the employer.
  ▪ Show the borrower’s current pay period and year-to-date earnings.
  ▪ Pay stubs must be computer generated.
  ▪ Pay stubs issued electronically via email or downloaded from the internet must show the URL address, date and time printed, and identifying information.
  ▪ Year-to-date pay with most recent pay period at the time of application and no earlier than 90 days prior to the Note date.

W-2 Forms
• W-2 Forms must be complete and be a copy provided by the employer.

Verification of Employment Requirements
Requirements below apply when income is positive and included in qualifying income:
• Requirements below apply when income is positive and included in qualifying income:
  ▪ Verbal Verification of Employment (VVOE) must be performed no more than ten (10) business days prior to the Note date or funding date. The Verbal VOE should include the following information for the borrower:
    ▪ Date of Contact
    ▪ Name and title of person contacting the employer
    ▪ Name of employer
    ▪ Start date of employment
    ▪ Employment status and job title
    ▪ Name, phone #, and title of contact person at employer
    ▪ Independent source used to obtain employer phone number
  ▪ Verification of the existence of Borrower’s Self-Employment must be verified through a third party source and no more than 30 calendar days prior to the Note.
    o Third party verification can be from a CPA, regulatory agency or applicable licensing bureau. A borrower’s website is not acceptable 3rd party source.
    o Listing and address of the borrower’s business
    o Name and title of person completing the verification and date of verification.
- Written Verification of Employment may be required for a borrower’s income sourced from commissions, overtime and or other income when the income detail is not clearly documented on W-2 forms or paystubs. Written VOEs cannot be used as a sole source for verification of employment, paystubs and W-2s are still required.
Unacceptable Source of Income

- Any unverified source
- Deferred Compensation
- Income that is temporary or a one-time occurrence
- Rental income from primary residence - One (1) unit property or one (1) unit property with accessory unit
- Rental income from a second home
- Retained earnings
- Education benefits
- Trailing spouse income
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:
  - Foreign shell banks
  - Medical marijuana dispensaries
  - Any business or activity related to recreational marijuana use, growing, selling or supplying marijuana, even if legally permitted under state or local law.
  - Businesses engaged in any type of internet gambling.

Residual Income Requirements

- Residual Income Calculation required. All loans must meet the residual income requirements below. Residual income equals Gross Qualifying Income less Monthly Debt (as included in the debt-to-income ratio).

<table>
<thead>
<tr>
<th># in Household</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required Residual</td>
<td>$1550</td>
<td>$2600</td>
<td>$3150</td>
<td>$3550</td>
<td>$3700</td>
</tr>
</tbody>
</table>

Add $150 for additional family members.

Specific Income Documentation Requirements (Non-Self Employment)

Salaried Income

- YTD paystub
- W-2s or personal tax returns - 2 years
- W-2 transcripts or tax transcripts
- VVOE

Hourly and Part-Time Income

- YTD paystub
- W-2s or personal tax returns - 2 years
- W-2 transcripts or tax transcripts
- VVOE
- Stable to increasing income should be averaged over a 2 year period.

Commission Income

- YTD paystub
- 2 years W-2s if commissions are less than 25% of total income or
- 2 years tax returns and W-2 forms required if commissions are ≥ 25% of the total income.
- Unreimbursed business expenses (form 2106) must be subtracted from income.
- W-2 transcripts or tax transcripts
• VVOE
• Stable to increasing income should be averaged for the 2 years.

**Overtime and Bonus Income**
• YTD paystub
• W-2s or personal tax returns-2 years
• W-2 transcripts or tax transcripts
• VVOE
• Stable to increasing income should be averaged for the 2 years

**2106 Expenses**
• Employee Business expenses must be deducted from the adjusted gross income.
• Two (2) years tax returns are required. If 2017 tax returns reflect 2106expenses and 2018 tax returns show no expenses (due to tax law change), a 12-month average of expenses must be based on 2017 tax return and deducted from qualifying income.
• Two (2) years tax transcripts

**Alimony/Child Support/Separate Maintenance**
• Considered with a divorce decree, court ordered separation agreement, or other legal agreement provided the income will continue for at least three (3) years.
• If the income is the borrower’s primary income source and there is a defined expiration date (even if beyond 3 years) the income may not be acceptable for qualifying purposes.
• Evidence receipt of full, regular, timely payments for the most recent 12 months.
• Two (2) years tax transcripts

**Asset Depletion**
• Not allowed

**Borrowers Employed by Family**
• YTD paystub
• 2 years W-2s and
• 2 years personal tax returns with two (2) years tax transcripts
• VVOE
• Borrower’s potential ownership in the business must be addressed.

**Capital Gains**
• Must be gains from similar assets for 3 continuous years to be considered as qualifying income.
• If the trend results in a gain it may be added as income
• If the trend results in a loss it may be deducted from total income
• Personal tax returns- 3 years with a consistent history of gains from similar assets. Three (3) years tax transcripts to support tax returns.
• Document assets similar to the assets reported as capital gains to support the continuation of the capital gain income

**Disability Income – Long Term (Private policy or employer-sponsored policy)**
• Copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amount of payments, frequency of payments, and if there is an established termination date.
• Termination date may not be within 3 years of Note date; please note reaching a specific age may trigger a termination date depending on the policy.

**Dividends and Interest Income**
• Personal tax returns-2 years with two (2) years tax transcripts
Documented assets to support the continuation of the interest and dividend income

Foreign Income
- YTD paystub
- W-2 forms or the equivalent and personal tax returns reflecting the foreign earned income. Income must be reported on 2 years US tax returns with two (2) years tax transcripts
- VVOE
- All income must be converted to US Currency.

K-1 Income/Loss on Schedule E
- If the income is positive and not used for qualifying, the K-1 is not required.
- If less than 25% ownership with income used in qualifying:
  - Verification of Employment Requirements apply (see Income/Employment General Documentation Requirements).
  - Year-to-date income must be verified if the most recent K-1 is more than 90 days aged prior to Note date.
- If 25% or greater ownership with income used in qualifying:
  - Verification of Employment Requirements apply
  - Partnership/S-Corp and Self-Employment requirements apply
- If the income is negative, the K-1s for the applicable years are required and if ownership is 25% or greater, see self-employment requirements below.
- Two (2) years tax transcripts

Non-taxable income (Child Support, military rations/quarters, disability, foster care, etc.)
- Documentation must be provided to support continuation for 3 years.
- Income may be grossed up by applicable tax amount. Tax returns must be provided to confirm income is non-taxable. Two (2) years tax transcripts to support tax returns
- If the borrower is not required to file a federal tax return, gross-up to 25%

Note Income
- Copy of the Note must document the amount, frequency and duration of the payment.
- Evidence of receipt for the past 12 months and evidence of the Note income must be reflected on personal tax returns. Tax transcripts to support tax returns.
- Note income must have a 3 year continuance.

Projected Income
- Not allowed.

Rental income
- All properties (except departing primary residence)
- Lease agreements must be provided if rental income is used for qualifying purposes.
  - Current lease for each rental property, including commercial properties listed in Part 1 of Schedule E of the 1040s. Rent rolls are not allowed.
  - If the current lease amount is less than the rental income reported on the tax returns, justification for using the income from the tax returns must be provided and warrant the use of the higher income. If there is no justification, the lease amount less expenses will be considered for rental income/loss.
  - For leases that have a roll over clause or the property is in a state where all leases roll over, the following requirements must be met:
    - Copy of most recent lease
    - Current documentation to evidence receipt of rent (copy of check or deposit into bank account) must be consistent with most recent lease.
- Personal tax returns - 2 years
For properties listed on Schedule E, rental income should be calculated using net rental income + depreciation + interest + taxes + insurance + HOA divided by applicable months minus PITIA.

If rental income is not available on the borrower’s tax returns, net rental income should be calculated using gross rents X75% minus PITIA.

Two (2) years tax transcripts

Net rental income may be added to the borrower’s total monthly income. Net rental losses must be added to borrower’s total monthly obligations.

If the subject property is the borrower’s primary residence (one (1) unit property or one (1) unit property with an accessory unit) and generating rental income, the full PITIA should be included in the borrower’s total monthly obligations.

If the subject property is the borrower’s primary residence with 2-4 units, rental income may be included for the unit(s) not occupied by the borrower as long as the requirements for a lease agreement and/or tax returns above are met.

Rental income – Departing Primary Residence

If the borrower is converting their current primary residence to a rental property and using rental income to offset the payment the following requirements apply:

- Borrower must have documented equity in departure residence of 25%.
- Documented equity must be evidenced by an exterior or full appraisal dated within six (6) months of subject transaction OR Documented equity may be evidenced by the original sales price and the current unpaid principal balance.
- Copy of current lease agreement
- Copy of security deposit and evidence of deposit to borrower’s account.

Restricted Stock and Stock Option

- May only be used as qualifying income if the income has been consistently received for 2 years and is identified on the paystubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior 2 years.
- A two year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52-week average for the most recent 12 months reporting at the time of closing. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.
- Additional awards must be similar to the qualifying income and awarded on a consistent basis.
- There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options in order for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Vested restricted stock units and stock options (vested) cannot be used for reserves if using for income to qualify.

Retirement Income (Pension, Annuity, 401k, IRA Distributions)

- Existing distribution of assets from an IRA, 401k or similar retirement asset must be sufficient to continue for a minimum of 3 years.
  - Distribution must have been set up at least six (6) months prior to Note date if there is no prior history of receipt OR
  - 2 year history of receipt evidenced.
- Distributions cannot be set up or changed solely for loan qualification purposes.
- Document regular and continued receipt of income as verified by any of the following:
  - Letters from the organizations providing the income
  - Copies of retirement award letters
o Copies of federal income tax returns (signed and dated on or before the closing date) with tax transcripts to support
  o Most recent IRS W-2 or 1099 forms
  o Proof of current receipt with 2 months bank statements
• If any retirement income will cease within the first three (3) years of the loan, the income may not be used.
• Two (2) years tax transcripts

Social Security Income
• Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first three (3) years of the loan, the income may not be used.
• Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least three (3) years.

Trust Income
• Income from trusts may be used if guaranteed and regular payments will continue for at least 3 years.
• Regular receipt of trust income for the past 12 months must be documented.
• Copy of trust agreement or trustee statement showing:
  o Total amount of borrower designated trust funds
  o Terms of payment
  o Duration of trust
  o Evidence the trust is irrevocable
• If trust fund assets are being used for down payment or closing costs, the loan file must contain adequate documentation to indicate the withdrawal of the assets will not negatively affect income.

Self-Employment
• Self-Employed borrowers are defined as having 25% or greater ownership or receive 1099 statement to document income. The requirements below apply for Self –Employed borrowers.
• Income calculations should be based on the Fannie Mae Form 1084 or Freddie Mac Form 91 or equivalent income calculation form.
• Year-to-date is defined as the period ending as of the most recent tax return through the most recent quarter ending one (1) month prior to the Note date. For tax returns on extension the entire unfiled year is also required. For example: 2014 returns in file and Note date is 7/14/2015 would require 2015 YTD documentation through Q1 or through March 31, 2015. Note date of 8/14/2015 would require YTD documentation covering Q1 and Q2 or through June 30, 2015.

Sole Proprietorship
• 2 years personal tax returns, signed on or before the closing date.
• Two (2) years tax transcripts to support
• YTD profit and loss statement.
• YTD balance sheet.
• Stable to increasing income should be averaged for 2 years.

**YTD P&L and YTD Balance Sheet may be waived if the borrower is a 1099 paid borrower who does not actually own a business if all of the following requirements are met:
  o Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
  o Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a (Mortgage Interest, 20 (Rent/Lease) 26 (Wages) must indicate the borrower does not have expenses in these categories.
  o Analysis of Blocks 17 (Legal and Professional Services) and Block 18 (Office Expense) indicate nominal or $0 expense.
Block C (Business Name) does not have a separate business name entity.

- Year-to-date income in the form of a written VOE or pay history is provided by the employer paying the 1099. YTD income must support prior year’s income.

**Partnership/ S-Corporation**

- 2 years personal tax returns, signed on or before the closing date.
- Two (2) years tax transcripts to support
- 2 years K-1s reflecting ownership percentage if counting any income from this source in qualifying (K-1 income, W-2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- 2 years business tax returns (1065s or 1120s) signed if 25% or greater ownership.
- Due date for business returns for Partnerships and S-Corporations is typically March 15 with an extension for six (6) months or typically September 15. After the extension date, the loan is not eligible without the filed tax return.
- Business returns are not required if the income reporting is positive, not declining and not counted as qualifying income.
- YTD profit and loss statement if 25% or greater ownership.
- YTD balance sheet if 25% or greater ownership.
- Stable to increasing income should be averaged for 2 years.

**Corporation**

- 2 years personal tax returns, signed on or before the closing date.
- Two (2) years tax transcripts to support
- 2 years business returns (1120) signed if 25% or greater ownership.
- Business returns must reflect % of ownership for borrower.
- YTD profit and loss statement if 25% or greater ownership.
- YTD balance sheet if 25% or greater ownership.
- Stable to increasing income should be averaged for 2 years.

**Verbal Verification of Employment**

- Refer to “Verification of Employment Requirements” section.

**Part H – Asset Assessment & Reserve Requirements**

**Asset Requirements**

- Beyond the minimum reserve requirements and in an effort to fully document the borrowers’ ability to meet their obligations, borrowers should disclose all liquid assets.
- Eligible assets must be held in a U.S. account.
- Large deposits inconsistent with monthly income or other deposits must be verified if using for down payment, reserves or closing costs. It must be verified that large deposits did not result in any new undisclosed debt.
- Asset verification by a Fannie Mae approved asset validation provider is allowed in lieu of 2 months statements provided by the borrower. The asset verification must provide 60 days of account activity and include all items normally indicated on bank statements.
# Assets Documentation Requirements

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>% Eligible for Calculation of Funds</th>
<th>Additional Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking/Savings/Money Market/CDs</td>
<td>100%</td>
<td>Two (2) months most recent statements.</td>
</tr>
<tr>
<td>Publicly Traded Stocks/Bonds/Mutual Funds</td>
<td>100%</td>
<td>Two (2) months most recent statements. Non-vested stock is ineligible. Margin account and/or pledged asset balances must be deducted.</td>
</tr>
</tbody>
</table>
| Retirement Accounts (401(k), IRAs etc.) | If borrower is >59 ½, then 70% of the vested value after the reduction of any outstanding loans. | - Most recent statement(s) covering a two (2) month period.  
- Evidence of liquidation if using for down payment or closing costs.  
- Evidence of access to funds required for employer-sponsored retirement accounts  
- Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves. |
|                                      | If borrower is < 59 ½, then 60% of the vested value after the reduction of any outstanding loans. |                                                                                         |
| Cash Value of Life Insurance/Annuities | 100% of value unless subject to penalties. | Most recent statement(s) covering a two (2) month period.                               |
| 1031 Exchange                        | Allowed on second home and investment purchases only. Reverse 1031 exchanges not allowed. | - HUD-1/CD for both properties.  
- Exchange agreement.  
- Sales contract for exchange property.  
- Verification of funds from the Exchange Intermediary. |
| Business Funds                       | 100% for down payment/closing costs and reserves with additional requirements met | - Business funds for reserves or a combination of personal/business funds for reserves require the total amount of reserves to be 2X or double the normal requirement for the subject property and additional financed REO  
- Cash flow analysis required using most recent three months business bank statements to determine no negative impact to the business  
- Business bank statements must not reflect any non-sufficient funds activity or overdrafts  
- If borrower(s) ownership in the business is less than 100%, the following requirements must be met:  
  - Borrower(s) must have majority ownership of 51% or greater.  
  - The other owners of the business must provide an access letter to the business funds.  
  - Borrower(s) % of ownership must be applied to the balance of business funds for use by borrower(s). |
**Gift Funds**

- Gift funds may be used once borrower has contributed 5% of their own funds.
- Gift funds not allowed for reserves.
- Gift funds not allowed on LTVs >80%.
- Gift funds not allowed on investment properties.

- Donor must be immediate family member, future spouse or domestic partner.
- Executed gift letter with gift amount and source, donor’s name, address, phone number and relationship.
- Seller must verify sufficient funds to cover the gift are either in the donor’s account or have been transferred to the borrower’s account.
  - Acceptable documentation includes the following:
    - Copy of donor’s check and borrower’s deposit slip.
    - Copy of donor’s withdrawal slip and borrower’s deposit slip.
    - Copy of donor’s check to the closing agent.
    - A settlement statement/CD showing receipt of the donor’s gift check.

**Reserve Requirements**

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Loan Amount</th>
<th>Required Reserves ¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>≤ $1,000,000 with LTV ≤80%</td>
<td>3 months PITIA</td>
</tr>
<tr>
<td></td>
<td>$1,000,001 - $1,500,000</td>
<td>6 months PITIA</td>
</tr>
<tr>
<td></td>
<td>$1,500,001 - $2,000,000</td>
<td>9 months PITIA</td>
</tr>
<tr>
<td>Second Home</td>
<td>≤ $1,000,000</td>
<td>6 months PITIA</td>
</tr>
<tr>
<td></td>
<td>$1,000,001 - $1,500,000</td>
<td>12 months PITIA</td>
</tr>
<tr>
<td>Investment Property</td>
<td>≤ $1,000,000</td>
<td>6 months PITIA</td>
</tr>
<tr>
<td></td>
<td>$1,500,001 - $2,000,000</td>
<td>18 months PITIA</td>
</tr>
<tr>
<td>First Time Homebuyer</td>
<td>≤$1,000,000 with LTV ≤80%</td>
<td>6 months PITIA</td>
</tr>
<tr>
<td></td>
<td>≤$1,000,000 with LTV &gt;80%</td>
<td>9 months PITIA</td>
</tr>
<tr>
<td></td>
<td>$1,000,001 - $1,500,000</td>
<td>9 months PITIA</td>
</tr>
</tbody>
</table>

**Non-Occupant Co-Borrower**

- Additional six (6) months reserves

**1. All additional 1-4 unit financed residential properties owned require an additional three (3) months PITI in reserves for each property.**

- If borrower owns up to four (4) financed 1-4 unit properties, additional three (3) months reserves PITIA for each property is required.
- If borrower owns more than four (4) financed 1-4 unit properties:
  - Additional six (6) months reserves PITIA for each property is required.
  - Reserves for the subject property are the greater of the program requirements listed above (based on the occupancy, LTV and loan amount) or six (6) months reserves.
Part I – Liability Analysis

Liability Requirements

- The monthly payment on revolving accounts with a balance must be included in the borrower’s DTI, regardless of the number of months remaining. If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10 or 5%.
- If the credit report reflects an open-end or net 30 day account, the balance owing must be subtracted from the borrower’s liquid assets.
- Loans secured by financial assets (life insurance policies, 401(K), IRAs, CDs, etc.) do not require a payment to be included in the DTI as long as documentation is provided to show the borrower’s financial asset as collateral for the loan.
- For all student loans, whether deferred, in forbearance, or in repayment, a monthly payment must be included in the borrower’s monthly debt obligation:
  - If a monthly payment is provided on the credit report, the amount indicated for the monthly payment may be used in qualifying.
  - If the credit report does not provide a monthly payment or if it shows $0 as the monthly payment, the monthly payment may be one of the options below:
    - Loan payment indicated on student loan documentation indicating monthly payment is based on an income-driven plan.
    - 1% of the outstanding loan balance (even if this amount is lower than the actual fully amortizing payment) or
    - A fully amortizing payment using the documented loan repayment terms.
- HELOCS with a current outstanding balance with no payment reflected on the credit report may have the payment documented with a current billing statement. HELOCS with a current $0 balance do not need a payment included in the DTI unless using for down payment or closing costs.
- Lease payments, regardless of the number of payments remaining must be included in the DTI.
- Installment debts lasting 10 months or more must be included in the DTI.
- Alimony payments may be deducted from income rather than included as a liability in the DTI for divorces prior to 1/1/2019. For borrowers with a divorce on or after 1/1/2019, the alimony payment must be treated as a liability.
- If the most recent tax return or tax extension indicate a borrower owes money to the IRS or State Tax Authority, evidence of sufficient liquid assets to pay the debt must be documented if the amount due is within ninety (90) days of loan application date or if tax transcripts show an outstanding balance due.
  - A payment plan for the most recent tax year is allowed if the following requirements are met:
    - Payment plan was set up at the time the taxes were due. Copy of payment plan must be included in loan file.
    - Payment is included in the DTI.
    - Satisfactory pay history based on terms of payment plan is provided.
    - Payment plan is only allowed for taxes due for most recent tax year, prior years not allowed. For example, borrower files their 2019 return or extension in April 2020. A payment plan would be allowed for taxes due for 2019 tax year. Payment plans for 2018 or prior years would not be allowed.
    - Borrower does not have a prior history of tax liens.
**Contingent Liabilities:**

- **Co-Signed Loans:** The monthly payment on a co-signed loan may be excluded from the DTI if evidence of timely payments made by the primary obligor (other than the borrower) is provided for the most recent twelve (12) months and there are no late payments reporting on the account.

- **Court Order:** If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided.
  - Copy of court order
  - For mortgage debt, a copy of the document transferring ownership of property.
  - If transfer of ownership has not taken place, any late payments associated with the repayment of the debt owing on the mortgage property should be taken into account when reviewing the borrower's credit profile.

- **Assumption with No Release of Liability:** The debt on a previous mortgage may be excluded from DTI with evidence the borrower no longer owns the property. The following requirements apply:
  - Payment history showing the mortgage on the assumed property has been current during the previous 12 months or
  - The value on the property, as established by an appraisal or sales price on the HUD-1/CD results in an LTV of 75% or less.

**Departure Residence**

**Departure Residence Pending Sale:**

- In order to exclude the payment for a borrower's primary residence that is pending sale but will close after the subject transaction, the following requirements must be met:
  - A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared/satisfied. The pending sale transaction must be arm’s length.
  - The closing date for the departure residence must be within thirty (30) days of the subject transaction Note date.
  - Six (6) months liquid reserves must be verified for the PITIA of the departure residence.

**Departure Residence Subject to Guaranteed Buy-out with Corporation Relocation:**

In order to exclude the payment for a borrower’s primary residence that is part of a Corporate Relocation the following requirements must be met:

- Copy of the executed buy-out agreement verifying the borrower has no additional financial responsibility toward the departing residence once the property has been transferred to the 3rd party.
- Guaranteed buy-out by the 3rd party must occur within 4 months of the fully executed guaranteed buy-out agreement.
- Evidence of receipt of equity advance if funds will be used for down payment or closing costs.
- Verification of an additional 6 months PITIA of the departure residence.

Refer to [Rental Income – Departing Residence Policy](#), as applicable
Part J – Property Eligibility

Eligible Property Types

- 1-4 Unit Owner Occupied Properties
- 1 Unit Second Homes
- 1-4 Unit Investment Properties
- Condominiums – Attached – Warrantable
  - Limited review allowed for attached units in established condominium projects:
    - Eligible transactions as per Fannie Mae guidelines.
    - Projects located in Florida are not eligible for limited review
  - CPM or PERS allowed
  - Full Review required, warranty to Fannie Mae guidelines
  - Projects with 2-4 units – no condominium review or condominium warranty is required. Fannie Mae basic requirements apply
  - Limited review allowed only for detached condominiums. Site condos meeting Fannie Mae’s definition/requirements do not require limited review.
  - Limited review allowed for attached units (including 2-4 unit projects) in established condominium projects as long as the following requirements are met:
    - Primary residence with maximum LTV/CLTV/HCLTV of 80%.
    - Second home with maximum LTV/CLTV/HCLTV of 75%.
    - Limited review requirements per Fannie Mae are met and property is eligible for limited review based on Fannie Mae requirements.
    - Projects located in Arizona, Florida, Nevada, Michigan and Texas are not eligible for limited review.
  - Florida condominiums limited to 50% LTV/CLTV/HCLTV on investment transactions
  - Condominium documents to support condominium eligibility review must be no older than 120 days from Note date
- Condominiums – Detached (including site condominiums)
  - No condominium review or condominium warranty is required. Fannie Mae basic requirements apply
- Condominiums – Non-Warrantable (See Non-Warrantable Condominiums section below)
- Modular homes
- Planned Unit Development (PUDs)
- Properties with ≤ 40 acres
  - For properties >10 to 40 acres
    - Maximum 35% land to value
    - No income producing attributes
    - 30 year-fixed rate only for transactions over twenty(20) acres
    - Transaction must be 5% below maximum LTV/CLTV/HCLTV as allowed on 6600 for transactions over 20 acres. For example, if borrower qualifies for a loan at 90%LTV based on the transaction, FICO score, loan amount and reserves, then the maximum allowed would be 85%.

For Properties Subject to Existing Oil/Gas Leases refer to Section “Properties Subject to Oil/Gas Leases”

Ineligible Property Types

- 3-4 Unit Properties in New Jersey
- 2-4 Unit Second Homes
- Manufactured/Mobile homes
- Cooperatives (CO-OPs)
- Properties with condition rating of C5/C6
• Properties with construction rating of Q6
• Tenants-in-Common projects (TICs)
• Unique properties
• Working farms, ranches or orchards
• Mixed Use Properties
• Model Home Leaseback
• Properties located in Hawaii Lava Zones 1 & 2
• Properties with > 40 acres - if property has acreage, appraiser must indicate total acreage. It is not acceptable to have property appraised with only 40 acres in order to meet eligibility.
  o Maximum land value 35% (if land value exceeds 35%, exception may be considered)
  o No income producing attributes
  o Transaction must be 10% below maximum LTV/CLTV as allowed on 6200/7200 Premier for transactions over 20 acres
  o Transaction must be 5% below maximum LTV/CLTV as allowed on 6600/7600 Expanded.
  o 30-year fixed rate only for transactions over 20 acres
• Properties located in areas where a valid security interest in the property cannot be obtained.
• Properties with a private transfer covenant unless the covenant is excluded under 12 CFR 1228 as an excepted transfer fee covenant
• Properties restricted as noted in Part K: Geographic Restrictions
Appraisal Requirements

- Transferred appraisals are not allowed.
- Appraisals must be completed for the subject transaction. Use of a prior appraisal, regardless of the date of the prior appraisal, is not allowed.
- Appraisal Update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note date.
  - The appraiser must inspect the exterior of the property and provide a photo.
  - Appraiser must review current market data to determine whether the property has declined in value since the date of the original appraisal. If the value has declined since the original appraisal, a new full appraisal is required.
  - The Appraisal Update (1004D) must be dated within 120 days of the Note date.
- Investment properties must contain a rent comparable schedule.
- Collateral Desktop Analysis (CDA) ordered from Clear Capital is required to support the value of the appraisal. CMG is responsible for ordering the CDA.
  - If the CDA returns a value that is "Indeterminate" or if the CDA indicates a lower value than the appraised value that exceeds a 10% tolerance then one (1) of the following requirements must be met:
    - A Clear Capital BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation of Three Reports is required. The Value Reconciliation will be used for the appraised value of the property. The Seller is responsible for ordering the BPO and Value Reconciliation through Clear Capital.
    - A field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. The Seller is responsible for providing the field review or 2nd full appraisal.
  - If two (2) full appraisals are provided, a CDA is not required.
- For properties purchased by the seller of the property within 90 days of the fully executed purchase contract the following requirements must be met:
  - Second full appraisal is required
  - Property Seller on the purchase contract is the owner of record.
  - Increases in value should be documented with commentary from the appraiser and recent paired sales.
  - The above requirements do not apply if the property seller is a bank that received the property as a result of foreclosure or deed in lieu.
- Higher-Priced Mortgage Loans (HPML)
  - If the property was acquired by the seller less than 90 days from the purchase agreement and the purchase price exceeds the seller’s acquisition price by more than 10% then a second full appraisal is required. Bank owned properties are not exempt.
  - If the property was acquired by the seller between 91-180 days from the purchase agreement and the purchase price exceeds the seller’s acquisition price by more than 20% then a second full appraisal is required. Bank owned properties are not exempt.

If a second appraisal is required for one of the above two reasons, the borrower may only be charged for one of the appraisals.
**Number of Appraisals by Loan Amount**

<table>
<thead>
<tr>
<th>First Lien Loan Amount</th>
<th>Appraisal Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase Transactions</strong></td>
<td></td>
</tr>
<tr>
<td>≤ $2,000,000</td>
<td>One (1) Full Appraisal</td>
</tr>
<tr>
<td>&gt; $2,000,000</td>
<td>Two (2) Full Appraisals</td>
</tr>
<tr>
<td><strong>Refinance Transactions</strong></td>
<td></td>
</tr>
<tr>
<td>≤ $1,500,000</td>
<td>One (1) Full Appraisal</td>
</tr>
<tr>
<td>&gt; $1,500,000</td>
<td>Two (2) Full Appraisals</td>
</tr>
</tbody>
</table>

When two (2) appraisals are required, the following applies:
- Appraisals must be completed by two (2) independent companies.
- The LTV will be determined by the lower of the two (2) appraised values as long as the lower appraisal supports the value conclusion.
- Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled.
- If the two (2) appraisals are done “subject to” and 1004Ds are required, it is allowable to provide one (1) 1004D. If only one (1) 1004D is provided, it should be for the appraisal that the value of the transaction is being based upon.

**Leased Solar Panels**
- Properties with leased solar panels must meet Fannie Mae requirements.
Non-Warrantable Condominiums / CondoTels

- Only one (1) non-warrantable feature is allowed and LTV/CLTV must be 10% below product/program maximum. For example, if borrower qualifies for a loan at 90% LTV based on FICO score, loan amount and reserves, then the maximum allowed would be 80%:
  - Commercial Space - Commercial space includes space above and below grade. Commercial space must be compatible with the residential use of the project. For example, restaurants, small shops, business offices, small market/grocery store that complement the neighborhood.
    - Maximum 50% commercial space allowed
  - Maximum ownership by one (1) entity is 25% for projects with more than ten (10) units.
    - Units owned by the developer, sponsor, or succeeding developer that are vacant and being actively marketed for sale are not included in the calculation.
    - Units currently leased must be included in the calculation.
    - For projects with ten (10) units or less, Fannie Mae guidelines apply for the number of units owned by one (1) entity and would not be considered non-warrantable.
  - Presale - New projects or converted projects (as defined by Fannie Mae) must have at least 30% of the units sold or under contract to owner occupants or second home purchasers for the subject phase; common areas/amenities must be complete for the subject phase.
  - Budget – for projects with line item for replacement reserves of less than 10%:
    - Less than 10% but greater than 7% replacement reserves allowed if current reserve balance exceeds 10% of operating expenses
    - Less than 7% replacement reserves allowed if current reserve balances exceed 20% operating expenses
    - Project balance sheet must be provided and within 120 days of the Note date.

- The subject legal phase and any other prior legal phases in which units have been offered for sale are substantially complete (common elements complete and units complete subject to selection of buyer upgrades/preference items).
- Primary residence and second homes only.
- All other Fannie Mae condo requirements met.
- Loan must be locked as a non-warrantable condominium with applicable pricing adjustments applied.
- Loans outside of these parameters with strong compensating factors may be considered on an exception basis.

Condotel Projects –

- LTV/CLTV must be 10% below product/program maximum. For example, if borrower qualifies for a loan at 90% LTV based on FICO score, loan amount and reserves, then the maximum allowed would be 80%:
  - Rental income may not be used for qualifying
  - If subject unit appears on Schedule E of the borrower's tax returns, there must be a minimum of thirty (30) days the unit is used for personal use
  - No fractional ownership allowed in the project
  - Subject unit must not be subject to a mandatory rental pool; it must be for the borrower’s exclusive use and enjoyment
  - Project must have no more than 50% investor concentration
  - Commercial space limited to 50%
    - Commercial space does not need to include square footage from parking garage
  - Minimum square footage of 500 square feet and unit must have a fully functioning kitchen
  - Housekeeping, front desk, card key access and daily rentals allowed
  - Property must be located in a resort area or metropolitan area with a project associated with luxury high-end hotel brand
  - Primary residence and second homes only
Appraisal must include similar condotel comps
- All other Fannie Mae condominium requirements met
- Loan must be locked as a condotel with applicable pricing hits applied

Properties Subject to Oil/ Gas Leases
Properties Subject to Existing Oil/Gas Leases must meet the following:
- Title endorsement providing coverage to the lender against damage to existing improvements resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease.
- No active drilling. Appraiser to comment or current survey to show no active drilling.
- No lease recorded after the home construction date. Re-recording of a lease after the home was constructed is permitted.
- Must be connected to public water.
Properties with existing wells (producing or non-producing) or active drilling to exercise any oil, gas or mineral rights may be considered on a case by case basis.

Ownership Interest
- Fee Simple with Title Vesting as:
  o Individual
  o Joint Tenants
  o Tenants in Common
- Leasehold Estates
  o Must meet Fannie Mae requirements.
  o A leasehold arrangement is one in which there is a separate owner of the land and the improvements on the land. The landowner grants a lease to the owner of the improvement that gives the right to use the land in exchange for a rental payment. The ownership interest in the improvements with the rights granted in the lease to use the loan is called the leasehold interest. The rental payment is called the leasehold payment.
  o The lease or sublease must be valid, in good standing, and in full force. The leasehold must be assignable and/or transferable. All rents must be current.
  o The lease is commonly for a term of ninety-nine (99) years or more and is usually renewable. The remaining term of the lease must extend a minimum of five (5) years beyond the maturity date of the mortgage
Part K – Geographic Restrictions

- CMG only lends in states where they are licensed to do so; for more information please visit CMG’s NMLS Consumer Access page (www.nmlsconsumeraccess.org).
- New York:
  - 3-4 Unit Properties in New York are eligible subject to 100% CMG QC Prefunding Audit.
  - CEMA loans are not permitted regardless of licensing.
- New Jersey: 3-4 units not permitted
Part L – Disaster Policy

Properties affected by Disasters
The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual and or Public Assistance due to a federal government disaster declaration.

Effective Date of Disaster Policy
The disaster-area policy becomes effective as of the incident period end date for the disaster/event. FEMA publishes the incident period along with the declaration date once the area is presidentially declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

- Disaster Incident Period:
  - Begin Date: January 15
  - End Date: January 17
- Disaster Declaration Date: February 2
- Effective Date for Disaster Procedures: January 17

Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.

Appraisal and Re-Inspection Requirements
To ensure the property value has not been impacted by the disaster, a post disaster property re-inspection is required. The inspection may be performed by the original appraiser, another licensed appraiser, licensed property inspection company.

Appraisal performed on or before disaster incident end date
Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. The appraiser must provide the following commentary/evidence:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the re-inspection indicates damage, the extent of the damage must be addressed.
  Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post disaster inspection report, with photos of interior, exterior, and neighborhood.

Standard Appraisal Performed After Incident Period End Date for Disaster
Appraisal must include written certification by the appraiser that:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.

Please note that FEMA makes updates to their state lists, so lender should closely monitor FEMA’s online reference at http://www.fema.gov/news/disasters.fema.
Part M – Private Mortgage Insurance

Not applicable.

Part N – Property Insurance

Hazard Insurance

CMG must ensure that adequate hazard insurance for the security property is in place. Follow Fannie Mae property insurance requirements for:

- Hazard (including HOA’s blanket/master policy, if applicable)
- HO-6 (if interior of unit is not covered by HOA’s master/blanket policy, if applicable)
- Liability (HOA’s commercial general liability policy, if applicable)
- Fidelity (if applicable)
- Flood (if applicable)

Part O – Title Insurance

Title must be in the Borrower’s name at time of application for refinance transactions and at time of closing for all transactions.

Fee Simple

Fee Simple is the greatest possible interest a person can have in real estate. The lender must be recorded as the principal on the mortgagor’s estate subject only to liens for taxes and special assessments that are not currently due and payable.

Leasehold Estate

- A leasehold arrangement is one in which there is a separate owner of the land and the improvements on the land. The landowner grants a lease to the owner of the improvement that gives the right to use the land in exchange for a rental payment. The ownership interest in the improvements with the rights granted in the lease to use the loan is called the leasehold interest. The rental payment is called the leasehold payment.
- The lease or sublease must be valid, in good standing, and in full force. The leasehold must be assignable and/or transferable. All rents must be current.
- The lease is commonly for a term of ninety-nine (99) years or more and is usually renewable. The remaining term of the lease must extend a minimum of five (5) years beyond the maturity date of the mortgage.

Title Policy Forms

The title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided that those amendments do not materially impair protection.
Title Requirements:

- **Amount of Coverage** - The amount of title insurance coverage must be \( \geq \) the original principal amount of the mortgage.
- **Other Requirements**
  - The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form provides the required coverage).
  - References are to the ALTA 2006 form of endorsement, but state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted. However, if these forms are used the Seller/Originator must ensure that those amendments do not materially impair protection. As an alternative to endorsements, the requisite protections may be incorporated into the policy.
  - Title policies may not include the creditors’ rights exclusion language that ALTA adopted in 1990.
- **Applicable Endorsements**
  - Different property types (i.e. Condos, PUDs) as well as different mortgage types may require additional title policy endorsements. It is the Seller’s responsibility to ensure that the lien is protected and therefore each Seller must obtain any endorsements that are necessary to provide that protection.

Title Exceptions

The title to the subject property must be good, marketable, and free and clear of all encumbrances and prior liens. A mortgage secured by property that has an unacceptable title impediment, including unpaid real estate taxes and survey exceptions is not eligible. If surveys are not commonly required in particular jurisdictions, the lender must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

Power of Attorney – Minimum Signature Requirements

When a POA is used to sign closing documents, at a minimum the borrower granting the POA must sign the initial or final loan application. POA’s will not be accepted on Texas 50(a)(6) Home Equity transactions.

Title and Closing / Power of Attorney (POA)

Subject to the restrictions and requirements listed below, the investor will allow the use of a Power of Attorney (POA) to execute the security instrument, note and other closing documents on behalf of the borrower(s).

Requirements:

- POA to be recorded along with security instrument in those states requiring recordation.
- The person(s) name(s) granting the power of attorney must match the name on the security instrument.
- The form, signatures and recording requirements of the applicable state must be followed.
- The POA must be valid at the time the affected loan documents were signed.
- The POA must be notarized and unless otherwise required by applicable law, must reference the address of the subject property.
- Only relatives (as defined by FNMA), fiancé, fiancée or domestic partners of the borrower may be named to act as an attorney-in-fact.

Restrictions on the Use of a Power of Attorney Except as required by applicable law, the following restrictions apply:

- Borrower(s) must sign at least the initial or final 1003.
- POAs not allowed on Cash Out transactions.
- POAs not allowed on Texas Section 50 (a) (6) transactions.
Inter Vivos Revocable Trust Closing Instructions

Note
- Each trustee and each individual establishing an inter vivos revocable trust whose income and assets are used to qualify for the mortgage must separately execute the note and any necessary addendum.

Security Instrument
- The trustee(s) of the inter vivos revocable trust also must execute the security instrument and any applicable rider (if used).
- Each individual establishing the trust whose income and assets are used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider (if used), and must agree to be bound thereby, by placing his or her signature after a statement of acknowledgment on such documents.
- Any other party that Fannie Mae requires to sign either the promissory note or the security instrument also must execute the applicable document(s).

Revocable Trust Rider
- The use of a revocable trust rider avoids ambiguities for mortgages made to inter vivos revocable trusts by clarifying who is considered to be "the borrower" with respect to any given covenant in the security instrument. If the mortgage is secured by a California property, the seller should use Fannie Mae's sample rider. If the mortgage is secured by property located in another state, the seller should use a rider that has been appropriately modified to reflect the requirements of that state (unless the seller determines that use of Fannie Mae's sample Revocable Trust Rider is appropriate for the specific state).
- In lieu of a Revocable Trust Rider the Seller may either:
  - amend the security instrument to include appropriate definitions and language similar in substance to Fannie Mae’s sample rider, or
  - use the standard security instrument without such an amendment or the rider.

Signature Requirements
- Signature Requirements for Notes and Mortgages involving Inter Vivos Revocable Trusts can be found in the FNMA or FHLMC Seller Guides. These include the form of signature for the trustee(s) and the statement of acknowledgment for each individual establishing the trust whose income or assets are used to qualify for the mortgage.
Part P – Transaction Types

Eligible Transaction Types

Purchases
- A purchase transaction allows the borrower to use the proceeds of the loan to finance the purchase of a property. The borrower should not be on title to the property prior to the loan closing. The transaction must follow minimum down payment and interested party contribution requirements.

All Refinances
- Increased values as a result of improvements to the subject property by the current owner may be acceptable with adequate documentation regarding the improvements.
- A new appraisal will be required for all transactions regardless of the date of the original appraisal.
- Evidence of required seasoning must be submitted in the underwriting file. Underwriters must verify borrower is the owner of record.
- Properties Listed for Sale. Properties listed for sale “at the time of application” are not eligible for refinance transactions. Refer to “Rate & Term Refinance” and “Cash out Refinance” for additional requirements, as applicable.

Rate & Term Refinance with the following limits:
- The new loan amount is limited to pay off the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaid items.
  - If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve (12) months and total draws do not exceed $2000 in the most recent twelve (12) months.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months.
  - A seasoned equity line is defined as not having draws totaling over $2000 in the most recent twelve (12) months. Withdrawal activity must be documented with a transaction history.
  - Max cash back at closing is limited to 1% of the new loan amount.
- Properties inherited less than twelve (12) months prior to application date can be considered for a Rate and Term refinance transaction if the following requirements are met:
  - Must have clear title or copy of probate evidencing borrower was awarded the property.
  - A copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries.
  - Borrower retains sole ownership of the property after the pay out of the other beneficiaries.
  - Cash back to borrower not to exceed 1% of loan amount.
- Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met.
  - Rate and Term refinance only.
  - Primary and second homes only.
  - Documentation provided to show cancellation of listing.
  - Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing.
  - Properties listed for sale “at the time of application” are not eligible for refinance transactions.

Cash Out Refinance Requirements:
- The applicant must have taken title to the subject property more than 180 days prior to the Note date for any cash-out refinance transactions.
• Borrower must have owned the property for at least six (6) months. If the property is owned free and clear and six (6) month seasoning is not met, refer to Delayed Purchase Refinancing section.
• Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand.
• Properties that have been listed for sale within the past 12 months of loan application are not eligible for a cash out refinance transaction.
• Inherited properties may not be refinanced as a cash-out refinance prior to twelve (12) months ownership. See Rate and Term Refinances for requirements.
• Cash-out refinance where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan or replenishing business funds used to purchase the property, the following guidelines apply:
  o Cash-out limitation is waived if previous transaction was a purchase.
  o Seasoning requirement for cash-out is waived (borrower does not have to have owned for six (6) months prior to subject transaction).
  o Funds used to purchase the subject property must be documented and sourced.
  o HUD-1/CD for subject transaction must reflect payoff or pay down of pledged asset/retirement account loan, secured loan, unsecured family loan or business asset account. If cash-out proceed exceeds payoff of loans, excess cash must meet cash-out limitations.
  o The purchase must have been arm’s length.
  o Investment properties are ineligible.
• Texas Cash Out Refinances
  o 30 year fixed rate only
  o Texas Equity Loans are limited to the lesser of 80% LTV/CLTV or program maximum.

Continuity of Obligation

When at least one borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements have been met. If continuity of obligation is not met, the following permissible exceptions are allowed for the new refinance to be eligible.

• The borrower has been on title for at least 12 months but is not obligated on the existing mortgage that is being refinanced and the borrower meets the following requirements:
  o Has been making the mortgage payments (including any secondary financing) for the most recent 12 months or
  o Is related to the borrower on the mortgage being refinanced.
• The borrower on the new refinance transaction was added to title 24 months or more prior to the disbursement date of the new refinance transaction.
• The borrower on the refinance inherited or was legally awarded the property by a court in the case of divorce, separation or dissolution of a domestic partnership.
• The borrower on the new refinance transaction has been added to title through a transfer from a trust, LLC or partnership. The following requirements apply:
  o Borrower must have been a beneficiary/creator (trust) or 25% or more owner of the LLC or partnership prior to the transfer and
  o The transferring entity and/or borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to the disbursement of the new loan.

NOTE: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
Construction-to-Permanent Financing
The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a Borrower for the purpose of replacing interim construction financing that the Borrower has obtained to fund the construction of a new residence. The Borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction. The time frame is defined as the date the lot was purchased to the Note date of the subject transaction.

- The borrower must hold title to the lot which may have been previously acquired or purchased as part of the transaction.
- LTV/CLTV/HCLTV is determined based on the length of time the borrower has owned the lot. The time frame is defined as the date the lot was purchased to the Note date of the subject transaction.
  - For lots owned twelve (12) months or more, the appraised value can be used to calculate the LTV/CLTV/HCLTV.
  - For lots owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs (documented construction costs plus documented purchase price of lot).

Delayed Purchase Refinancing:
- Delayed Purchase Refinancing is allowed with the following requirements:
  - Property was purchased by borrower for cash within six (6) months of the loan application.
  - HUD-1/CD from purchase reflecting no financing obtained for the purchase of the property.
  - Preliminary title reflects the borrower as the owner and no liens.
  - Funds used to purchase the property are fully documented and sourced and must be the borrower’s own funds (no borrowed funds, gift funds, business funds).
  - Funds drawn from a HELOC on another property owned by the borrower, funds borrowed against a margin account or funds from a 401(k) loan are acceptable as long as the following requirements are met:
    - The borrowed funds are fully documented
    - The borrowed funds are reflected on the Closing Disclosure (CD) as a payoff on the new refinance transaction
  - LTV/CLTV/HCLTV for Rate and Term refinances must be met. The loan is treated as a Rate and Term refinance except for primary residence transactions in Texas.
  - Investment properties are allowed as long as borrower is not a builder or in the construction industry and prior transaction was arm’s length.

LTV/CLTV/HCLTV Calculations
Purchases
- The LTV/CLTV/HCLTV for a purchase transaction is calculated based on the lesser of the purchase price or appraised value of the subject property.

Refinances:
- If subject property is owned more than 12 months, the LTV/CLTV/HCLTV is based on the current appraised value. The 12 month time frame is defined as prior Note date to subject Note date.
- If subject property is owned less than 12 months, the LTV/CLTV/HCLTV is based on the original purchase price plus documented improvements made after the purchase of the property. Documented improvements must be supported with receipts. The 12 month time frame is defined as prior Note date to subject Note date.
Non-Arms Length Transactions

A non-arm’s length transaction exists whenever the borrower has a personal or business relationship with parties to the transaction which may include the seller, builder, real estate agent, appraiser, lender, title company or other interested party. The following non-arms’ length transactions are eligible:

- Family sales or transfers
- Property seller acting as their own real estate agent
- Relative of the property seller acting as the seller’s real estate agent
- Borrower acting as their own real estate agent
- Relative of the borrower acting as the borrower’s real estate agent
- Borrower is the employee of the originating lender and the lender has an established employee loan program. Evidence of employee program to be included in loan file.
- Originator is related to the borrower
- Borrower purchasing from their current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).

Gifts from relatives that are interested parties to the transaction are not allowed. Real estate agents may apply their commission towards closings costs and/or prepaids as long as the amounts are within the interested party contribution limitations.

Investment property transactions must be arm’s length.

NOTE: Other Non-Arms Length Transaction may be acceptable on an exception basis.

Texas– Owner Occupied Homestead Property Transactions

General Overview Refinance Loans

The three types of refinances in the state of Texas include standard refinance, loans covered under Section 50 (a)(6), and loans covered under Section 50 (f)(2). Refinance loans subject to Section 50 are subject to additional restrictions. The Investor follows Fannie Mae requirements related to Section 50 (a)(6) loans and 50 (f)(2) loans. Failure to follow these requirements will result in the loan being ineligible for purchase. A transaction may be considered rate and term under Texas regulatory law but may be considered a cash out refinance under program guidelines.

1. Standard Refinance Loan
   If the existing loan was a purchase money first or a rate and term refinance not subject to Section 50, the new loan will be considered a standard refinance loan.
   a) New loan is less than or equal to the existing UPB.
   b) New loan equals UPB plus prepaids and closing costs.
   c) New loan pays down or pays off a purchase money second.
   d) New loan pays down or pays off an existing Secured Home improvement Loan (mechanics lien)*.
   e) New loan provides funds necessary to satisfy a court ordered divorce equity buyout.

   *A transaction may be considered rate and term under Texas regulatory law but may be considered a cash out refinance under program guidelines. Please consult program guidelines.
2. General Restrictions and Requirements for Section 50 (a)(6) (Texas Equity Loans)

The following outlines the restrictions and requirements applicable to Texas Equity Loans. Failure to originate these loans within these guidelines can potentially invalidate the loan and lien.

a) Eligible Programs – 30-Year Fixed Rate Only

b) Maximum LTV/CLTV – 80% or program maximum (lesser of)

c) Eligible Property Type - Single-unit principal residence designated as the borrower’s homestead under Texas law. Eligible property types are limited to an attached or detached dwelling, a unit in a PUD project, or a unit in a condominium project. Owner occupied primary residences only. Documented proof of Homestead Designation is required.

NOTE: 2-4-unit properties not allowed.

d) Non-borrowing spouse - The owner of the homestead and their spouse must consent to the extension of credit by executing the Deed of Trust. A non-borrowing spouse, regardless of their ownership interest in the homestead property, has the right to cancel. The investor will accept either the appropriate federal “Notice of Right to Cancel” or a Texas specific “Notice of Right to Cancel.”

e) Property Valuation - To determine current value lenders must obtain a new full appraisal on either a Uniform Residential Appraisal Report, or Individual Condominium Unit Appraisal Report. The appraisal for the property and the acknowledgment of fair market value must not include any property other than the homestead.

f) Survey (or other acceptable evidence) is required and must demonstrate that:
   I. Homestead property and any adjacent land are separate parcels, and
   II. Homestead property is a separately platted and subdivided lot for which full ingress and egress is available.

g) Additional Restrictions and Requirements
   I. Fees and charges to make the loan may not exceed 2% of the loan amount. The following fees and charges can be excluded from the testing:
      a. Bona Fide Discounts to lower the rate selected
      b. Appraisal Fee
      c. Survey Fee
      d. Lender’s Title Policy
      e. The borrower’s first payment must be due no later than two (2) months after closing.
      f. The lender must provide the title company with a detailed closing instruction letter and require acknowledgement of its receipt.
      g. If this loan is being used to pay off a previous Texas Equity Loan, the loan may not close before twelve (12) months have passed from the closing date of the Texas Equity Loan being paid off. (See Section D.3 for additional information)
      h. If the new loan is a Texas Equity Loan originated to cure a failure in the original mortgage to comply with Section 50(a)(6), then the Texas law requirement that at least twelve (12) months have passed since any previous Texas Home Equity loan secured by a homestead property was closed does not apply.
      i. The loan may not close before twelve (12) days after the loan application was taken by the lender or the borrower receives the “NOTICE CONCERNING EXTENSIONS OF CREDIT DEFINED BY SECTION 50(a)(6), ARTICLE XVI, TEXAS CONSTITUTION” disclosure, whichever date is later AND may not close, without the borrower’s consent, one (1) business day after the date on which the borrower receives a copy of the loan application, if not previously provided, and a final itemized disclosure of the actual fees, points, interest, costs and charges that will be charged at closing.
      j. The loan may only close at the office of the lender, title company or an attorney at law.
      k. Power of Attorney may not be used on a Texas Equity Loan.
      l. The use of FNMA approved Texas Equity legal documents (Note, Deed, Riders, etc.) is required.

If the new refinance loan is classified under Texas law as a Texas 50 (a) (6), the loan must be locked with as a Cash-Out Refinance.
3. General Restrictions and Requirements for Section 50 (f)(2) (Texas Equity Loans)

Under certain circumstances a refinance of an existing Texas Equity loan may be considered as a standard refinance transaction, per Section 50 (f)(2). The following requirements must be met:

a) At least one year has elapsed since the Texas Home Equity loan was closed.

b) There can be no advance of new money except closing costs and when the funds advanced refinance a debt described by Sections 50(a)(1) through (a)(7).

Note: in certain cases, paying a divorce settlement, property tax lien or mechanics lien will require a cash out lock while this would be considered a rate and term refinance per the regulatory text.

c) The new principal loan balance may not exceed the lesser of 80% of the property’s fair market value on the day of the refinance or the maximum LTV under program guidelines.

d) The borrower must be provided a new 12-day disclosure within 3 business days of application and may not close until 12 days after the disclosure is received.

e) The borrower(s) and borrower’s spouse (if applicable) must sign an Affidavit at closing acknowledging that the above four requirements have been met.

Additional CMG Compliance: Under certain circumstances a refinance of an existing Texas Home Equity loan may be considered as a standard refinance transaction. Texas amendments now for a rate/term refinance of a home equity loan. Under the previous law, a home equity loan could only be refinanced into another home equity loan or reverse mortgage – commonly known as the “once a home equity, always a home equity” rule. A Texas home equity loan may be refinanced with a regulator rate/term refinance as long as all of the following conditions are met in addition to rate/term eligibility:

- At least one year has elapsed since the Texas Home Equity loan was closed
- There can be no advance of new money (except closing costs)
- The new principal loan balance may not exceed 80% of the property’s fair market value on the day of the refinance. Wholesale & Retail: Since there is no safe harbor in the law on what type of valuation may be relied on to establish fair market value of the property, the Fair Market Value Affidavit must be signed and dated by the borrowers at closing.
- The 12-Day Notice (aka Refinance Option Disclosure) must be delivered the borrowers no later than 3 business days after the application date and received by all owners/borrowers at least 12 calendar days prior to the closing/signing date.
- The borrower(s) and borrower’s spouse (if applicable) must sign an Affidavit at closing acknowledging that the above four requirements have been met
- Do not use TX a6 product codes unless the transaction is remaining a TX a6 transaction.
- CMG Internal Operations: Refer to Corporate Procedures > TX 2018 Home Equity Loan Procedure. In order to generate the documents with IDS, the “TXA6 to Non TXA6” field in Byte must be checked.

Lender Eligibility Requirements for Delivery of Texas Equity Loans

- Lender must qualify as an authorized lender under the Texas Constitution. NMLS record must confirm that Lender holds the necessary Texas registration.
- Lender has policy and procedures in place around the origination of Texas Home Equity loans that meet the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50 (a)(6), Article XVI of the Texas Constitution.
- The proceeds from a Texas Home Equity loan must not be used to acquire or improve the homestead if a mortgage for that purpose could have been made under a different provision of the Texas Constitution.
Part Q- Secondary/Subordinate Financing

- Institutional Financing only. Seller subordinate financing not allowed.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower’s debt-to-income ratio.
- Full disclosure must be made of the existence of subordinate financing and the subordinate financing repayment terms. The following are acceptable subordinate financing types:
  - Mortgage terms with interest at market rate
  - Mortgage with regular payments that cover at least the interest due, resulting in no negative amortization.
- Employer subordinate financing is allowed with the following requirements:
  - Employer must have an Employee Financing Assistance Program in place.
  - Employer may require full repayment of the debt if the borrower’s employment ceases before the maturity date.
  - Financing may be structured in any of the following ways:
    - Fully amortizing level monthly payments
    - Deferred payments for some period before changing to fully amortizing payments
    - Deferred payments over the entire term.
    - Forgiveness of debt over time
    - Balloon payment of no less than five (5) years, or the borrower must have sufficient liquidity to pay off the subordinate lien.
- LTV/CLTV/HCLTV guidelines must be met for loans with subordinate financing.
Interested Party Contributions / Financing Concessions

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.

The following restrictions for interested party contributions apply:

- May only be used for closing costs and prepaid expenses and may not be used for down payment or reserves.
- Maximum interested party contribution is limited to:
  - 6% for primary and second home transactions with LTVs ≤80%.
  - 3% for primary residences with LTVs over 80%.
  - 2% for investment properties regardless of LTV.

Seller Concessions

- All seller concessions must be addressed in the sales contract, appraisal and HUD-1/CD. A seller concession is defined as any interested party contribution beyond the stated limits, in the above section, or any amounts not being used for closing costs or prepaid expenses.
- If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV/CLTV/HCLTV.

Personal Property

- Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal.
- If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Escrows

- **Impound Accounts:** Escrows may be established for funds collected by the originator or servicer that are required to be paid under the Security Instrument. These funds include, but are not limited to, taxes, insurance (hazard, flood, mortgage) premiums, special assessments, ground rents, water, sewer, and other governmental impositions. Loans without escrows established are subject to a price adjustment. At a minimum, taxes must be escrowed in order to avoid the loan level price adjustment.

- The Biggert-Waters Flood Insurance Reform Act goes into effect on loans closed on or after January 1, 2016 that require flood insurance. For loans requiring flood insurance the premiums related to the flood insurance must be escrowed. Escrows for these premiums may not be waived, regardless of LTV.
  - Satisfactory evidence prior to purchase that premiums for flood insurance have been escrowed. This requirement applies to all loans that require flood insurance. If flood insurance premiums are paid by a condominium association, homeowner’s association or other group, no escrow is required.
  - Loans with a closing/note date on or after January 1st, 2016 where flood insurance is required are not eligible for purchase if an escrow for flood insurance premiums has not been established.

- **Escrow Holdbacks:** Escrow holdbacks are not allowed.
Part Z - Recent Updates / 90 Day Lookback

2/14/2020 Updated to reflect the previously announced suspension of hybrid ARMs effective 2/14/2020.

1/6/2020

- Revised the cash out limits from $250,000 to $500,000 for all occupancy types. Effective for loans locked on or after 1/02/2020.
- Note: The minimum loan amount referenced in these guides is $1 over the current conforming/agency high balance limit set by FHFA. No update is necessary for these guides since a specific loan amount is not referenced. Effective date for new minimum loan amounts will be for locks on or after 1/02/2020.
- Credit: Added requirement for letter of explanation from borrower(s) for housing lates within the most recent 12 months on Renew and 12-24 months on Choice. Also added requirement for letter of explanation from borrower(s) for derogatory credit events. Effective for loans locked on or after 1/02/2020.
- Liabilities: Language added for borrowers that are on a payment plan with the IRS for the most recent tax year. See section for additional information. No effective date due to clarification.
- Assets: Added clarification for eligible assets to be held in a US account. No effective date due to clarification.
- Assets: Updated business funds for assets when borrower is a majority owner but less 100% owner of the business. See specific guidelines for requirements. Effective for loans locked on or after 1/02/2020.
- Assets: Updated the reserve requirements for Additional 1-4 Unit Financed REO due to the change to allow unlimited number of financed properties when the subject transaction is a primary residence. Effective for loans locked on or after 1/02/2020.
- Multiple Financed Properties: Updated to allow unlimited number of financed 1-4-unit residential properties when the subject transaction is a primary residence. Subject transaction is limited to program maximum or 80% LTV/CLTV/HCLTV and additional financed properties require 6 months reserves for each additional property. Effective for loans locked on or after 1/02/2020.
- Appraisal Requirements: Removed the requirement for MLS sheets to be included in the Collateral Desktop Analysis (CDA). The CDA without MLS sheets should result in a lower cost for the CDA. Effective immediately.
- Primary Residence: Clarification added for occupancy on primary residence refinance transactions. For existing properties, borrowers must occupy at the time of the transaction. No effective date due to clarification.
- Texas Owner Occupied Homestead Property: Reorganized the Texas Equity Refinance Loan Requirements section for a clearer set of requirements for standard refinance loans, Texas section 50(a)(6) and Texas section 50(f)(2) loans. No effective date due to clarification.
- Inter Vivos Revocable Trust: Removed the requirement for copies of the first page, signature page, and the pages of the trust agreement that verifies the trustee and that the trust is revocable when a trust certification form is provided. Effective immediately.
- Appraisal Requirements clarification: Added Higher-Priced Mortgage Loans (HPML) requirements. Effective immediately.
- Clarified first time homebuyer section. Effective immediately.

8/26/2019 Updated Age of Documents section with previously announce change that Appraisal Update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note date. Removed that recert is not allowed.