CMG's Prime Jumbo Loan Matrix & Guidelines

Eligibility Matrix – Fixed Rate

Fully Amortizing Fixed Rate						
Occupancy	Transaction Type	Max LTV/CLTV	Number of Units	Minimum Credit Score	Max DTI	Maximum Loan Amount
Primary Residence – High LTV/No MI (1)	Purchase Only – 30 Year Fixed Rate Only	80% (1)	1 unit only	720	40%	$1,500,000
				700	40%	$1,000,000
Primary Residence	Purchase	80%	1-4 units	700	43%	$3,000,000
	Rate/Term	80%	1-4 units	700		
	Cash Out (2)					
Second Home	Purchase & Rate/Term	80%	1 unit only	700	43%	$3,000,000
	Cash Out (2)					
Investment	Purchase & Rate/Term	75%	1-4 units	700	43%	$1,500,000
				720	43%	$2,000,000
	Cash Out	Not Permitted				

1. LTV's over 80% not permitted.
2. Cashout transactions are not currently available. *(previous: Maximum cash out is $500,000.)*

Additional Notes:

- With the exception of the interest only feature, all transactions must be ATR/QM Safe Harbor in accordance with Appendix Q (HPCT not permitted; HPML not permitted))
- Texas Section 50(a)6 transactions not eligible.
- If references are in these guidelines for the discontinued features listed above, this does not mean these features are permitted.

Product Codes

Fully Amortizing Fixed Rate

- 6830 Prime Jumbo 30YrFixed
- 6815 Prime Jumbo 15YrFixed

Product Eligibility

- Retail, Wholesale, and Correspondent Originations
- 30 & 15 year fixed
- ATR/QM Safe Harbor Only
- All loans must be manually underwritten and fully documented.

Regulatory Compliance

HPML transactions are NOT permitted.

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.

All loans must be ATR/QM Safe Harbor in accordance with Appendix Q.

- Higher – Priced Covered Transaction (HPCT) not permitted.
- QM designation is Not Applicable for investment property transactions when the transaction is exclusively for business purposes. (Refer to §1026.3(a) and the Official interpretation to s1026.3(a))
- Interest-Only product eligible subject to additional restrictions as noted in the LTV Matrix
- Debt-to-income ratio > 43% not permitted
- Asset depletion not permitted
- Gaps of employment outside of QM requirements not permitted (A full explanation for each employment gap of 30 days or more is required.)
- Rental Income: Fully executed lease agreement required in all cases to use rental income.

Non-Borrowing Spouse

- See Non-Borrowing Spouse section of Borrower Eligibility topic

Program Highlights

Eligible Property Types / Ownership:

- SFR, PUD (attached or detached), Warrantable Condo
- Fee simple only (Leasehold not permitted)

Ineligible Property Type:

- Co-op, Manufactured, Mixed use, Properties zoned agricultural or commercial, Properties > 20 acres, Hobby Farms, Any leased or owned solar panels with a UCC associated with the property and/or creating an easement on title is ineligible. Deed restricted properties are not allowed; this is includes age restrictions.

Maximum Financed Properties

- The maximum number of financed properties to any one borrower is limited to 2.

Minimum and Maximum Loan Amounts

- Minimum: $ $ 484,351
- Maximum (Refer to Matrix):
  - Fully amortizing:
    - Up to 80% LTV/CLTV $3,000,000,
    - Over 80% LTV/CLTV $1,500,000

Credit Considerations

- Max age of credit report: 90 days at closing. Minimum trade line requirements must be met.
- Mortgage Lates: 0 x 30 last 24 months
- Major Derogatory (BK, DIL, Short sale, Modification, Foreclosure) – Seven year seasoning to application date
- All Judgments or liens affecting title must be paid.
- Charge-offs and collections exceeding $1,000 (either individually or in aggregate) must be paid. All past due accounts must be brought current prior to closing.

Minimum Trade Line Requirements

- All borrowers must have sufficient credit to generate a usable credit score, which must meet the minimum requirement published in the LTV matrix. The borrower's credit report should include a credit history that meets the following minimum trade line requirements. Authorized user accounts to not satisfy minimum trade line requirements. Each borrower must meet the requirements below:

  - Credit reporting history five years or longer
  - Acceptable credit score, **and**
  - History of four* or more trade lines with a minimum 12 month review period
    - At least one trade line was last active within the past 24 months, and
    - All trade lines paid as agreed in the last 48 months.

    *It is recommended that one qualifying trade be a mortgage tradeline. In all cases, a 24 month housing payment history is required to be documented: 0x30x24.

  Note: Any Borrower not employed, or employed but not using their income to qualify does not need to meet the minimum trade line requirements listed above.

Income

- YTD P&L and balance sheet are required on all self-employed businesses regardless if income was used to qualify.
- 1099 borrowers are considered self-employed.
- Paystubs are required on all wage earners (W2), even if borrowers are self-employed.

Assets

- Borrower must have 5% of own funds. Gift/Gift of equity not eligible as borrower funds.
- IPC Limit: 3%

Reserves:

- Refer to Part H: Reserves.

Eligible Borrowers:

- US Citizen, Permanent Resident Alien, First Time Home Buyer*, Inter-Vivos Revocable Trusts

  *FTHB – Standard reserves and DTI requirements apply. 24 month rental history required. Max LTV 80%. FTHB not permitted on investment property transactions (applies if any borrower is FTHB). Interest Only not permitted.

Ineligible Borrowers:

- Non-Permanent Resident Aliens, Non-occupant co-borrower, Irrevocable or Blind Trusts, Land Trusts (including Illinois Land Trusts), Foreign Nationals, LLC, General Partnerships, Corporations.

Number of appraisals:

- One full appraisal required

Departing Residence

- In addition to QM requirements, borrower must have two years of rental management experience or sufficient Reserves (additional 6 months based on subject PITIA) to use rental income. These reserves are in addition to any other reserves required for the loan transaction. Fully executed lease agreement required in all cases to use rental income.

Rate & Term

- A short term loan is one where the loan was originated within the last six months of the applicant date and was a cash-out transaction. Refinances of short term first lien loans are not eligible.
- A seasoned non-first lien mortgage is a purchase money mortgage or a closed end or HELOC mortgage that has been in place for more than 12 months and not having any draws greater than $2,000 in the past 12 months for HELOC's. Withdrawal activity must be documented with a transaction history from the HELOC.
- Up to 5% of the loan amount may be used for closing costs, financing costs, and prepaid items.
- The lesser of 1% or $5,000 incidental cash may be received back by the borrower but is included as part of the total 5% limit for closing costs, etc.
- If the property is owned less than 6 months, the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value. The prior HUD-1 will be required for proof of purchase price. Proof of improvements is required.
- Properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a rate/term refinance transaction.
- Inherited properties may not be refinanced prior to 12 months of ownership
- The rate/term refinance of a construction loan is eligible. If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs. Must be arms-length.

Additional Notes:

- Interest only not permitted, DTI cannot exceed 43%, no asset depletion, and job gaps per QM requirements, Departure residence retained must be leased to consider rental, rebuttable presumption not permitted.
- All loans must be ATR/QM Safe Harbor in accordance with Appendix Q.
- All appraisals must comply with applicable regulations and standards including, but not limited to, USPAP, FIRREA, AIR and HVCC compliance.

Part A – Borrower Eligibility

Citizenship or Residency Status

Borrowers must be US Citizens or document their non-US Citizen status using the following guidelines:

Required Identification
All borrowers are required to have a valid driver's license, state issued identification or passport on all transactions.

Permanent Resident Alien
Individuals granted permanent residence status in the U.S. also includes refugees and others seeking political asylum. Documentation is commonly referred to as a 'Green Card'. Permanent Resident Aliens must provide any of the following documents to validate acceptable status:

- Permanent Resident Card (USCIC form I-551)
  - May be issued as a conditional right to reside for individuals seeking residency through marriage to a US Citizen/ Permanent Resident Alien or based on a financial investment in a US business.
  - These cards have an expiration date and are valid for two years
  - At the end of two years the individual must apply for an unconditional right to reside or risk losing their permanent resident status.
  - Cards due to expire within 90 days must be accompanied by a copy of the USCIS form I-751 (Petition to Remove Conditions on Residence) or USCIS form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.
  - Cards may be issued without conditions and are valid for 10 years.
  - Cards that are due to expire within six months must be accompanied with a copy of the USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
- Unexpired Foreign Passport
  - Must contain an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy.

All Non- U.S. Citizen Borrowers
Non US Citizens must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS) (formerly the Immigration and Naturalization Service or INS) within the Department of Homeland Security, evidencing the person's legal residency status in the United States.

Non-Permanent Resident Alien
Non-permanent resident aliens are not eligible.

Borrower Eligibility

Social Security Number

- All borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

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). Refer to the CMG Policy for additional requirements regarding exclusionary lists: Exclusionary Lists CPS-1019-ALL

Ineligible Borrowers

Non-Permanent Resident Aliens, Non-occupant co-borrower, Irrevocable or Blind Trusts, Land Trusts (including Illinois Land Trusts), Foreign Nationals, LLC, General Partnerships, Corporations,

Power of Attorney

- Only permitted as noted below for a borrowers deployed on active military duty.

Power of Attorney – Active Military Duty

For borrowers deployed on active military duty, servicemember POAs are accepted for:

- Purchase and Sale Agreement,
- Loan application, and
- Loan closing

Servicemember POAs may be notarized by parties other than notary public or embassy official, including a judge advocate, an adjutant or a civilian attorney serving as a legal assistance officer.

Restrictions

- No employee of the lender, the title company or real estate agent can be an Attorney in Fact for any mortgage transaction unless all of the following are true:
    - Applicable law requires acceptance of the POA
    - Applicable law allows the lender, its employee, or an affiliate to be an Attorney in Fact
    - POA meets applicable law requirements

Signature Requirements

- Documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety; abbreviations are not acceptable (AIF, POA, etc.). Additionally, the same information should be typed on the documents.

Living Trust (Inter vivos Revocable Trust)

An inter vivos revocable trust is allowed provided it is established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee(s) must include either:

- The individual establishing the trust (or at least one of the individuals, if there are two or more) or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

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

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.

Part B – Property Ownership Restrictions

Multiple Loans to One Borrower / Multiple Financed Properties

The maximum number of financed properties to any one borrower is limited to 2.

Part C – Occupancy

Primary Residence

A primary residence is a property that is physically occupied by at least one borrower as their primary residence. Residency is defined by the following criteria:

- Borrower occupies the property as his or her principal residence
- Borrower occupies the property for a majority part of the year
- Property location is convenient to the borrower's principal place of employment
- Property address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

The borrower must occupy the property within 60 days of closing and continue to occupy the property for at least one year.

Second Homes

True second homes are permitted as an acceptable occupancy type. For a property to qualify as a second home, the following requirements must be met:

- Subject property must be located a reasonable distance away from the borrower's principal residence.
- Subject property must be occupied by the borrower for some portion of the year.
- Only insignificant rental income may be claimed on the tax returns for the subject property. Full 1040s for the past 2 years are required to demonstrate.
  Note: Insignificant income cannot be used to qualify even if property is determined to be eligible as second home.
- Property should be in a typical second home area, otherwise satisfactorily justified by the borrower(s) as a second home.
- The borrower(s) must have exclusive control over the property. Cannot be subject to any arrangements that give a management firm control over the occupancy of the property.
- Restricted to one-unit dwellings.
- Subject property must be suitable for year-round occupancy unless all of the following criteria are met:
  - Property is located in an area where second homes are commonly not suitable for year-round occupancy
  - Property appraisal report uses comparable properties that are seasonally occupied, demonstrating that the subject's premises are acceptable to the market
  - Property is available for the exclusive use and enjoyment of the borrower(s)

Investment Properties

Investment properties will be permitted for purchase and rate and term transactions on one to four (1-4) unit properties and approved condos. Cash out transactions not permitted.

First Time Homebuyer (FTHB) not permitted on investment property transactions.

Part D – Underwriting Documentation

All loans must be manually underwritten and fully documented.

Age of Documents

Information used to make the credit decision must be current. The maximum age of documents at closing is:

Item:	Maximum Age at Closing:
Credit Report	90 Days
Income/Asset Documents	120 Days
Appraisal	120 Days
Preliminary title report / Title Commitment	90 Days
LoanSafe	120 Days

Acceptable Documents

- 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.
- Verification forms must pass directly between lender and creditor without being handled by any third party. Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Fax Copies

Fax copies in lieu of original documents or certified copies are acceptable subject to the following:

- Verification transmitted directly from the loan processor to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the loan processor.
- Photocopies or faxes received by the loan originator or loan processor directly from the borrower are acceptable.
- Copies or faxes from a builder, real estate agent, property seller or other third party are unacceptable.

Photos of Documents

- Documents in the file must meet documentation standards whether they are copies or photos. The Borrower may provide verification of income, employment and assets in the form of a photocopy, facsimile or electronic verification. Electronic verifications, photocopies or facsimiles of other verifications, where the originator did not view and copy the original documents directly, are subject to re-verification and/or underwriting may ask for originals / certified copies on an as needed basis. In all cases, the lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file.

Internet Documentation

- For conventional loans, Internet documents/downloads of credit reports as well as income, employment and asset verification are acceptable. The allowance of Internet docs 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. The information must also 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.

Direct Written Verification

- Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between CMG and the 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.
- **VODs & VOES are not permitted as standalone documentation – must be accompanied by computer printout or other statements directly from the banking institution.**

Additional Documentation

- Tax returns, if required, must be true copies and the applicant must sign copies of filed returns.
- W-2 forms that are marked "Employer Copy" are not acceptable. Employers do not distribute their copies.
- If handwritten W-2 forms or paystubs are provided, tax returns must be obtained to substantiate the income.
- 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.

Electronic Signatures

- **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

Fraud Detection Tools

CMG employs risk management tools through selected vendors that provide information to assist with assessing the value risk and fraud potential in a loan transaction. These tools effectively screens the following components associated with mortgages:

- Income
- Employment
- Identity
- Occupancy
- Undisclosed debts
- Straw Borrowers

The tools must be performed on each loan file by the underwriter prior to issuing for QC review, providing an instant risk score and includes information detailing the risk scoring, reasoning and top fraud indicators associated with the characteristics of the loan. CMG will generate a report on all loan transactions. The underwriter is required to respond to all high risk messages.

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 Program Matrices, 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 Analysis

Credit Considerations

- Max age of credit report: 90 days at closing. Minimum trade line requirements must be met.
- Mortgage Lates: 0 x 30 last 24 months
- Major Derogatory (BK, DIL, Short sale, Modification, Foreclosure) – Seven year seasoning to application date
- All Judgments or liens affecting title must be paid.
- Charge-offs and collections exceeding $1,000 (either individually or in aggregate) must be paid. All past due accounts must be brought current prior to closing.

Minimum Trade Line Requirements

All borrowers must have sufficient credit to generate a usable credit score, which must meet the minimum requirement published in the LTV matrix. The borrower's credit report should include a credit history that meets the following minimum trade line requirements. Authorized user accounts to not satisfy minimum trade line requirements. Each borrower must meet the requirements below:

- Credit reporting history five years or longer
- Acceptable credit score, **and**
- History of four* or more trade lines with a minimum 12 month review period
  - At least one trade line was last active within the past 24 months, and
  - All trade lines paid as agreed in the last 48 months.

*It is recommended that one qualifying trade be a mortgage tradeline. In all cases, a 24 month housing payment history is required to be documented: 0x30x24.

Note: Any Borrower not employed, or employed but not using their income to qualify does not need to meet the minimum trade line requirements listed above

Credit Inquiries/Attestation

The borrower needs to address all inquiries to their credit within 120 days of the credit pull date, unless a corresponding new tradeline is evidenced on the credit bureau. In the event any new debt was incurred since the original credit pull date, details of the new obligation must be obtained and the monthly payment must be included in the debt to income ratio. Acceptable documentation would include a recent statement or a credit supplement. CMG will continually monitor the borrower's credit throughout the loan process using Undisclosed Debt Verification (UDV) for new inquiries, new debt obligations, new derogatory credit, credit line increases (if over 75% has already been utilized), and new public records (tax liens, judgments, etc.).

Part G – Evaluating Income

Evaluating Income

All loans must include an Income Worksheet, demonstrating the rationale behind the calculations used to determine the borrower's qualifying income.

Verbal Verification of Employment

TIMING

- The VVOE must be obtained within 10 business days prior to the Signing date for salaried income, and within 30 calendar days prior to the Signing date for self-employment income.

SALARIED BORROWERS

The requirements for completing a VVOE for a Salaried Borrower are:

- The employer's phone number and address must be obtained independently using directory assistance or the Internet.
- The employer must be contacted verbally to confirm the borrower's current employment status.
- The conversation with the employer must be documented and include the following:
    - Name and Title of the person at CMG who contacted the employer
    - Name and Title of the person who completed the verification for the employer
    - Employer name
    - Employer phone number
    - Source of the Employer's phone number
    - Dates of employment (Hire date to present)
- If the borrower is currently on leave, ensure that is noted on the VVOE
    - Borrower's position or title
    - Date of the call

If the employer refuses to verify employment verbally over the phone, a written verification may be obtained to confirm the borrower's current employment status. The written verification must be dated within the same timeframe as for the VVOE requirement. The written verification must be sent directly to the Human Resources, Payroll or Accounting department of the employer and received back directly from the employer. Copies provided by any other source are not acceptable. The written verification must include the Name and Title of the person who completed the verification for the employer.

Note: CMG may utilize the Written Verification of Employment (WVOE) Fannie Mae Form 1005 for the written verification.

If the employer uses a third party employment verification vendor, obtain a written verification directly from the vendor via electronic link, facsimile transmission or mail, and a legible copy must be retained in the loan file. The verification must be completed within the same timeframe as the VVOE requirement and include the borrower's current employment status with the following information:

- Employer name
- Employer phone number
- Dates of employment (Hire date to present)
- Borrower's position or title
- Date of the information provided

Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database is no more than 30 days from the date the verification was pulled by the CMG employee.

SELF-EMPLOYED BORROWERS

The VVOE for Self-Employed borrowers is a verification of the **existence** of the business through a third party source. There are three options for completing the VVOE:

Option 1: Verify a phone listing and address for the borrower's business using directory assistance or the Internet.

Note: If the borrower's business is listed under his or her personal name instead of a business company name, Option 1 is not permitted since the existence of the *business* cannot be verified utilizing directory assistance or the Internet. CMG is required to verify the *business's* existence, not the borrower's name.

Option 2: Verify the business directly with a regulatory agency or the applicable licensing bureau by obtaining a copy of the Business License. The Business License must be in Good Standing/Active Status.

Option 3: Verify the business with a CPA.
Obtain a CPA letter on letterhead that includes the following information:

- CPA name
- CPA business name, if applicable
- CPA license number
- CPA's signature
- Date
- Borrower's business name and address
- Confirmation of the business's current active status and existence of the business for at least two years.

Note: If the CPA has not prepared the borrower's business tax returns for two years or longer, it is permissible for the CPA to provide confirmation of the business's active status for as long as the CPA has prepared the taxes.

For all options, CMG must document the name and address of the business, provide the date the information was verified, the source of the information obtained, and the Name and Title of the CMG employee who obtained the information.

1099 EMPLOYEE / INDEPENDENT CONTRACTOR

If the borrower is an independent contractor, the borrower receives a 1099 instead of a W-2 to verify yearly income. If the borrower contracts with only one company, employment can be verified directly with that company using the steps outlined for Salaried Borrowers. If the borrower contracts with multiple companies, employment needs to be verified using a CPA Letter as outlined in Option 3 for self-employed Borrowers. If the borrower does not utilize a CPA, then the borrower needs to provide a minimum of two reference letters from the companies with which he or she contracts. CMG must validate the reference letters by contacting the companies to ensure the letters were provided by the companies listed.

MILITARY

Active Duty: If the borrower is an active member of the military, the Servicemembers Civil Relief Act (SCRA) website provides independent verification of service dates. The SCRA website is located at:
https:/www.dmdc.osd.mil/appj/scra/single_record.xhtml

Civilian: If the borrower is a civilian that is employed by the Department of Defense, the VVOE is obtained from the borrower. The borrower generates the verification of employment directly from the Defense Civilian Personnel Data System (DCPDS) using the Self Service My Biz tool for Employment Verification. This My Biz tool sends a password-protected Employment Verification document to CMG electronically directly to the email address provided by the borrower. The borrower must provide the password to CMG in order to access the Employment Verification document. Further explanation is provided on the following Department of Defense website:
http://www.cpms.osd.mil/Subpage/EmploymentVerification

SEASONAL EMPLOYMENT

If the borrower has seasonal employment resulting in the employer being unable to provide verification of current, active employment, then in lieu of the VVOE, CMG may obtain evidence of current receipt and amount of unemployment compensation and evidence that it is associated with the seasonal employment. The employer is also required to confirm that there is a reasonable expectation that the borrower will be rehired for the next season. CMG Operations must ensure the Underwriter is aware of the Seasonal Employment, and the Underwriter must condition the loan as needed to meet loan program guidelines.

TEMPORARY LEAVE

If the employer confirms the borrower is currently on temporary leave, CMG must consider the borrower "employed." CMG Operations must ensure the Underwriter is aware of the Temporary Leave, and the Underwriter must condition the loan as needed to meet loan program guidelines

Tax Transcript Policy

- A signed 4506T will be required on all applicants both prior to closing and at closing.
- 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.
- 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.

Stable Monthly Income

Establishing stable monthly income is based on the type of income received, the length of time received, and whether or not the income is likely to continue. Additionally, for salaried applicants, the length of time employed in current position and length of time employed in current profession are also considerations in determining stable income.

Length of Employment

- Generally at least a two-year history of receipt of income is required to deem the income as stable. A borrower who has an income history of less than 24 months may be considered if CMG is able to define and document the borrower's income as being stable, predicable, and likely to continue.

- If the borrower has less than a two year employment history, provide documentation showing borrower was in school or in a training program immediately prior to employment to use as effective income.

Income Documentation

- Depending on the type of employment, various documentation requirements may be applied based on full documentation or alternative documentation methods, and considerations as to whether the borrower is salaried, commissioned or self-employed, etc.

Non-Taxable Income

- CMG gives special consideration to regular sources of income that may be non-taxable, such as child support payments, Social Security benefits, disability retirement payments, foster care, and workers' compensation benefits.
- If the income is verified to be non-taxable, and the income and its tax exempt status are likely to continue, CMG may develop an adjusted gross income for the borrower by adding an amount equal to 25% of the non-taxable income to the borrower's income.
- Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

Salary, Commission, and Bonus

Salary & Wages

Salary and wage income may be used to qualify. Base income may be used to qualify. Significant increases in base over prior years should be adequately explained. Paystubs or payroll earnings covering the borrower's earnings for the most recent 30-day period and, if applicable, W2s for the most recent two years are required. Generally, the documents must be computer-generated or typed by the borrower's employer, although paystubs or payroll earnings statements that the borrower downloads from the internet are acceptable as well. Documents that are faxed or that the borrower downloads from the internet must clearly identify the employer's name and source of information.

- Paystubs and payroll earnings statements must identify clearly the borrower as the employee and show the employee's gross earnings for both the most recent pay period and YTD.
- The paystub must be dated within 30 days of the application date and cover at least 30 days of YTD earnings.
- IRS W2 forms must identify the borrower as the employee.

Determining the Need for Federal Income Tax Returns

CMG must obtain copies of the individual federal income tax returns filed with the IRS for the past two years for the following types of salaried or commissioned borrowers.

- Borrowers earning 25% or more of their income from commissions
- Borrowers employed by family members
- Borrowers employed by interested parties to the property sale, purchase, or financing transaction
- Borrowers receiving rental income from an investment property
- Borrowers claiming unreimbursed business expenses, when applicable (refer to "Unreimbursed Business Expenses")
- Borrowers receiving income from periodic employment or employment that is subject to time limits, such as a contract employee or a tradesperson

Overtime, Second Jobs or Additional Job

Must have a two year history of receipt and be likely to continue for the next 3 years. To document, obtain the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income;
- W2s covering the most recent two years;
- Verbal VOE not more than 10 business days prior to the Note Date.
- Written VOE (form 1005) verifying that overtime income is likely to continue

The employer must verity that overtime is likely to continue. If the employer cannot verify that overtime is likely to continue, then the overtime income cannot be used to qualify.

Bonus
Bonus income must have a two year history of receipt to use as qualifying income. To document, obtain the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income;
- W2s covering the most recent two years;
- Verbal VOE not more than 10 business days prior to the Note Date.

Commission Income
In order to use commission income, the borrower must have a two year history of receipt to use as qualifying income. To document, CMG must obtain and verify ALL of the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income;
- W-2s and/or 1099s covering the most recent two years;
- Complete signed individual federal tax returns for the most recent two years reflecting commission income and a signed 4506-T;
- Tax Return Transcripts required.
  - Transcripts must be obtained directly from a tax transcript vendor or the IRS, rather than accepted from a borrower or third-party originator.
  - Any difference between income documented in the tax transcript and income used to qualify for the loan must be reasonable and supported by information and documentation in the loan.
  - Verbal VOE not more than 10 business days prior to the Note Date.

Annual earnings must be level or increasing. If earnings show a decline in the current year, there must be strong offsetting factors to make the commission income acceptable. Simply using the lower current earnings is not acceptable. It must be determined that the income has stabilized at the current levels to consider as effective income.

Part Time, Second Job, and Seasonal Income

For all part time and second job requirements, refer to the Overtime, Second Jobs or Additional Job requirements.

The following must be verified for seasonal income:

- It must be verified that the borrower has worked in the same job (or the same line of seasonal work) for the past two years.
- It must be confirmed with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

Military Income

In addition to base pay, military personnel may be entitled to additional income. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay is acceptable, provided a verification of employment shows the continuation of the income is likely.

Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments, allowances, estimated time in service, and the amount of net and gross earnings. Also, obtain and verify the following information from the LES:

- Military Rank
- Social Security Number
- Military Address
- Length of Active Service to Date
- Estimated remaining time at present location

The LES must show at least 12 months remaining in service to use housing (BAQ), rations, uniforms, food, and flight pay income.

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.
- 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.
- Net rental income must 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 more than one unit, rental income may be included for the units not occupied by the borrower as long as the requirements for a lease agreement and/or tax returns above are met.

Other Sources of Income

Other sources of income include:

Alimony or Child Support

Auto-allowance

Capital Gains

Disability Income / Borrower(s) With a Temporary Reduction in Income / Temporary Leave:

Foreign Income

Foster Care Income

Interest and Dividend Income

Notes Receivable

Retirement, Government Annuity, and Pension Income

Social Security Income (SSI)

Tip Income

Trust Income

Unemployment Benefits

VA Benefits Income

Alimony or Child Support

- Alimony or child support may be used as effective income provided the borrower supplies a copy of the divorce decree, legal separation agreement, or court order showing the payment will continue for at least three years, as well as proof of receipt. Acceptable documentation would include cancelled checks, deposit slips, tax returns and /or court records.
- Evidence the total court ordered amount has been received by the borrower must be provided for a minimum of 12 months.

Auto-allowance

- Auto and expense account reimbursement are paid by the employer to cover expenses incurred related to conducting business. A portion of this income may be used to qualify provided there is a two-year history of receipt. If the borrower reports the auto allowance on Employee Business Expense Form 2106 or Schedule C, the amount of the auto allowance that exceeds the amount of the auto expense should be added to the borrower's monthly income; otherwise the amount of the expense that exceeds the allowance should be added to the borrower's obligations. If the borrower uses IRS Form 2106 with actual expenses instead of the standard mileage rate, review the actual expenses to verify the actual lease payment and make adjustments accordingly. If the borrower does not claim the auto allowance on Form 2106 or Schedule C, the full amount of the allowance should be added as income and the full amount of the auto expense should be included in the monthly obligations.
- Typically, auto expenses are included in the W2 earnings, therefore it is imperative to make certain the income is not being counted twice.

Capital Gains

- When income from this source is used to qualify, a two year history via tax returns must be obtained to determine if it is recurring and can be included as income. Average amount can be used as qualifying income provided there is evidence that borrower owns additional property/assets that can be sold in the future. If capital gains/loss appears to be a one-time occurrence, it should not be considered in qualifying income. If earnings are consistent, a two-year average will suffice, however if earnings fluctuate substantially, a three year average will be required.

Disability Income / Borrower(s) With a Temporary Reduction in Income / Temporary Leave:

- **Long Term Disability:** Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:
  - the borrower's current eligibility for the disability benefits,
  - the amount and frequency of the disability payments, and
  - if there is a contractually established termination or modification date
- Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. For Social Security Disability refer to section on Social Security Income section.
- If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. See below for additional information on short term disability.
- **Short Term Disability / Temporary Leave:** For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the underwriter should consider the Borrower's current disability income as effective income, if it can verify and document that:
  - the Borrower intends to return to work (letter from borrower)
  - the Borrower has the right to return to work (verification of employment or letter from employer); and
  - the Borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance.

- For Borrowers who will return to work prior to the first payment date of the mortgage and all the criteria above has been met, the borrowers post leave income may be used for qualification purposes.
- Refer to Verbal Verification of Employment section for VVOE requirements.

Foreign Income

- Foreign income is acceptable only if income is claimed on U.S. personal tax returns with a 4506T validation.
- Foreign income should be paid in U.S. currency. However, income paid in foreign currency may be considered on a case-by-case basis if it's converted into U.S. currency and claimed on borrower's U.S. tax returns.

Foster Care Income

- Income received from a state or county sponsored organization for providing temporary care for children may be considered as acceptable stable income as long as the borrower has a two-year history of receipt of such income, and is likely in the foreseeable future to continue to provide such services at the same level. If the borrower has not been receiving the income for a full two years, but has been receiving the income for at least 12 months, the income may be used as stable income, as long as it doesn't represent more than 30% of the total income used to qualify.
- Foster care may be verified by letters from the organization providing the income, copies of the borrowers signed federal tax returns filed with the IRS, or copies of the borrower's deposit slips or bank statements showing the receipt of the income.
- Per the IRS website, foster care income is not taxable so it may not appear on the tax returns.

Interest and Dividend Income

- Income from this source may be used provided the tax returns show a two year history of receipt and an anticipated three years of continuance. An average of the income earned over the past two years from the federal tax returns must be used to verify the income.
- Interest and dividend income may be used to qualify provided it is properly documented and ownership of the assets on which the interest / dividend income was earned is verified. Any asset used for down payment or closing costs must be subtracted from the borrower's total assets before calculating expected future dividend or interest income.

Notes Receivable

- Evidence of receipt for the last 12 months is required, in addition to a copy of the note verifying payment amount and remaining term of at least three years.
- A 12-month history of receipt must be verified with one of the following:
  - Bank deposit slips
  - Canceled checks
  - Tax returns
- Income from a recently executed note (less than 12 months), indicating a minimum duration of at least three years from the date of application, may not be used as stable income, but may be used to justify a higher qualifying ratio (i.e. compensating factor).

Retirement, Government Annuity, and Pension Income

- Document regular and continued receipt of the income, as verified by:
  - Letters from the organizations providing the income;
  - Copies of retirement award letters;
  - Copies of signed federal income tax returns;
  - 1099s;
  - Copies of the borrower's most recent two months bank statements.
- If retirement income is paid in the form of a monthly distribution from a 401K, IRA, or KEOGH retirement account, determine whether the income is expected to continue for three years after the date of the mortgage application to be used as effective income.
- If the distribution being received has been newly established, the following is required:

- Letter, from the organization detailing the terms of the distribution, and setup must be prior to the application date
- Asset documentation to support sufficient funds for the distribution to continue for a minimum of three years
- A minimum of one payment from the distribution must be received by the borrower prior to closing. Verification of receipt may be documented via a copy of the distribution check or bank statement showing the distribution being received into the borrower's account

- Any distribution that is being used to qualify must be established prior to the application date
    - Copy of the distribution schedule must be provided
    - Copy of at least one month's distribution check must be provided
    - Assets being depleted due to distribution cannot be used for reserves

Social Security Income (SSI)

- When CMG believes or knows that the Social Security or disability income falls in a category that does not have a defined expiration date, CMG may conclude that the income is considered stable, predictable, and likely to continue and is therefore not expected to request additional documentation from the borrower.
- Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.
- However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if documentation confirms the remaining term is at least three years from the date of the loan application.
- Document benefits and proof of current receipt.

Tip Income

- Tip income may be used to qualify the borrower if a verification of employment is received showing the type of income has been received for the past two years and will in all probability continue. An average of the past two years' tip income will be used to qualify the borrower, provided the income is consistent and not declining. The income must be shown on the borrower's tax returns and validated in order to be used to qualify.

Trust Income

- Trust income may be used if guaranteed constant payments will continue for at least 3 years. A copy of the trust agreement must be provided, confirming the amount, frequency, and duration of the distribution. Proof of receipt for the most recent three months must be provided.

Unemployment Benefits

- Unemployment benefits may be used to qualify provided tax returns are obtained showing the income has been received over the past two years and the likelihood of the continuance of the income is established.
- If the borrower is a seasonal worker, proof of current receipt of unemployment cannot be a substitute for a current paystub. The paystub must be from the borrower's regular employment.
- The following documentation is required:
    - Written VOE covering two full years for the seasonal employment
    - Proof of receipt of unemployment compensation for two years, if applicable

    OR

    - Year to date paystub for 30 days (primary job, not unemployment)
    - W2s covering the most recent two years
    - Proof of receipt of unemployment compensation for two years, if applicable

VA Benefits Income

- VA Benefits may be deemed acceptable with documentation of receipt of VA benefits from a letter of distribution form from the VA and proof the income can be expected to continue for a minimum of three years from the date of closing. Educational benefits are not acceptable income because they are offset by educational expenses.

Self-Employment Income

- Two year's documentation is required on Self Employed borrowers.
- YTD P&L and balance sheet are required on all self-employed businesses regardless if income was used to qualify.
- Paystubs are required on all wage earners (W2), even if borrowers are self-employed.

- Generally, the self-employed income is computed using a two year analysis of the borrower's federal tax returns and business returns, if applicable. .A year to date profit and loss statement is not used to calculate qualifying income but instead to consider the borrower's income trend and the overall financial stability of the business. Declining income is subject to careful analysis and may not be approvable. If approvable, generally a worst-case scenario will be used to qualify.
- Self Employed Borrowers are defined as
  - Borrowers owning 25% or more of a business. If a borrower has less than 25% ownership in a partnership or corporation, business returns are not required. Either the most recent years' K-1 or a statement from the business CPA or CEO is required to document the ownership percentage.
  - **1099 borrowers are considered self-employed.**

Income or Loss Reported on Schedule C

- The income or loss from a borrower's sole proprietorship business is calculated on the Profit or Loss from Business (Schedule C) and transferred to IRS Form 1040. Certain adjustments may need to be made to the net profit from Schedule C. If the Schedule C includes income that was not obtained from the profits of the business and that income does not appear likely to continue, the net profit should be adjusted by that figure. In addition, the following deductions may be added back to the borrower's net cash flow: depreciation, depletion, business use of a home, amortization, or casualty losses. The following should be deducted from the borrower's cash flow for all loan types: any exclusion for meals and entertainment expenses

Income or Loss from Schedule F

- Income received from farming is calculated on the Profit or Loss from Farming (Schedule F) and transferred to the IRS Form 1040. In completing the cash flow analysis, certain adjustments may need to be made to the net income amount that was transferred to the 1040. For example, certain federal agricultural payments, cooperative distributions, and insurance or loan proceeds are not fully taxable so they would not have been reported on the 1040. The income sources may or may not be stable or continuous and could be a one-time occurrence. If the income from these sources is stable and continuing, the borrower's cash flow should be adjusted by the non-taxable portion of any recurring income from these sources. Other income on Schedule F may represent income that is not obtained from the borrower's farming operation. If the income cannot be verified to be stable, consistent, and recurring, it must be deducted from the borrower's cash flow. The cash flow may be adjusted by adding the amount of any deductions the borrower took on Schedule F for depreciation, amortization, casualty loss, depletion, and business use of his or her home.

Evaluating Business Tax Returns

Returns for a Partnership or LLC (IRS 1065 / SCHEDULE K-1)

- Both partnerships and limited liability corporations use the US Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, and Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040).
- When analyzing IRS Form 1065, cash flow analysis of the business should be adjusted by adding back to the business's cash flow depreciation, depletion, amortization or casualty losses, and any other losses that are not

consistent or recurring. The business income should be reduced by the meals and entertainment exclusion, and any other reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to be adjusted.

- Income that the business receives from a partnership, estate, or trust generally should not be recognized, unless CMG obtains documentation to verify that the income was actually distributed to the borrower's business. If so, the income may only be considered if the borrower's business has a history of receiving such distributions on a consistent basis, the borrower's business has positive sales and earnings trends and adequate liquidity to support the withdrawal and the borrower can document his or her ownership and access to the income the partnership agreement or LLC's operating agreement.
- The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Returns for an S-Corporation

- S corporations pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. The S corporation uses the US Income Tax Return for an S Corporation (IRS 1120S) and the Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing federal income tax returns for the corporation. The shareholder's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040). Ordinary income from the S corporation may be used to qualify the borrower only if the borrower's business has a history of receiving such distributions on a consistent basis, the business income is stable and consistent, the earning trends are positive, and the business has adequate liquidity to support the borrower's withdrawal of cash without a severe negative effect to the business. To determine the S corporation's ability to support the borrower's withdrawal of earnings, the underwriter should review the S corporation's history of distributions and its financial and liquidity positions.
- When analyzing IRS Form 1120S, the cash flow should be adjusted by adding back depreciation, depletion, amortization or casualty losses, or any other losses that are not consistent and recurring. The cash flow should be reduced by meals and entertainment exclusion and any reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to make this adjustment.
- The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Returns for a Corporation

- A corporation uses the US Corporation Income Tax Return (IRS Form 1120) to report its taxes. Corporate earnings may not be used to qualify unless it is determined that the borrower owns 100% of the business. A borrower's percentage of ownership in a corporation can usually be determined from the "compensation of officers" section of the corporate tax return. A statement from the corporation's accountant will be acceptable evidence of the borrower's ownership of a business. When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, time adjustments must be made to relate the corporate income to the borrower's individual tax returns (which is based on a calendar year).

- When analyzing IRS Form 1120, the cash flow should be adjusted by adding back depreciation, depletion, amortization or casualty losses, or any other losses that are not consistent and recurring. Deductions the business took for net operating losses and other special deductions that do not represent recurring expenses or losses should be added back to the cash flow analysis. The cash flow should be reduced by the meals and entertainment exclusion. The corporation's taxable income does not reflect the corporation's tax liability and dividends it pays to its stockholders; therefore the cash flow should be reduced by the corporation's tax liability and the amount of any dividends payable from the corporation. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to make this adjustment.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Evaluating Profit and Loss Statements

- A profit and loss statement (audited or unaudited) may be used to support the determination of stability and continuance of income for a self-employed borrower. Profit and loss statements cannot be used to establish new income levels, but can be used to support the fully documented income level. A typical Profit and Loss statement has a format similar to the Schedule C. If the borrower's year to date salary or draws were not used for the qualifying income, they may be added to the net profit on the P&L statement, and the following items may be added back to the net profit figure as well: nonrecurring income and expenses, depreciation, and depletion. However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that can be used to qualify.

Unacceptable Income Sources

CMG considers any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations as an ineligible income source for all financing types and programs. 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 of marijuana, even if legally permitted under state or local law.
- Businesses engaged in any type of internet gambling.

CMG may only consider income if it is legally derived. Per IRS regulations, income derived from trafficking in controlled substances is illegal and under federal law, marijuana is a controlled substance.

Part H – Asset Assessment & Reserve Requirements

Assets

- Borrower must have 5% of own funds. Gift/Gift of equity not eligible as borrower funds.
- All other assets must meet Fannie Mae eligibility requirements.
- IPC Limit: 3%

Reserves:

Occupancy	Loan Amount	LTV/CLTV/HCLTV	Reserves Needed Fully Amortizing
Primary & Second Home	<= $1,000,000	<= 80%	6 months
	> $1,000,000	<= 80%	12 months
	<= $1,000,000	> 80%	18 months
	> $1,000,000 to $1,500,000	> 80%	24 months
Investment	<= $1,500,000	< 80%	12 months
	> $1,500,000		18 months

Verification of Deposits - Not permitted as standalone documentation – must be accompanied by computer printout or other statements directly from the banking institution.

Gifts cannot be used for reserves.

1031 Exchange Funds

Ineligible

Depository Accounts

For depository accounts (checking, savings, money market funds, CDs), two consecutive monthly statements are required.

- Monthly bank statements must be dated within 45 days of the initial loan application.
- Quarterly bank statements must be dated within 90 days of the initial loan application.

Bank statements must:

- Clearly identify the borrower as the account holder and include the account number
- Include the time period covered by the statement
- Include all deposits and withdrawal transactions
- Include the ending balance

Written Verifications of Deposit (VOD) are not acceptable. Only system generated Verifications of Deposit from the financial institution are acceptable. VODs as standalone asset documentation are not acceptable, and must always be accompanied by bank statements.

CMG must investigate any indications of borrowed funds. They include recently opened accounts, large deposits, or account balances that are considerably greater than the average balance over the past few months. All large deposits must have a written explanation from the borrower as to the source of the funds as well as documentation of the funds.

Custodial Accounts for Minors:

- These accounts are not an allowable asset for down payment or reserves

- Accounts that are in a minors name where the borrower is only the custodian of the funds are not eligible to be used for a transaction in either reserves or down payment

Large Deposits

Large deposit verification applies to purchase transactions only. Refinance transactions are subject to underwriter discretion to ensure that any borrowed funds are considered in the underwriting of the loan file.

If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the underwriter must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the underwriter must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The underwriter must place in the loan file written documentation of the rationale for using the funds.

For purchase transactions:

- Deposits of 50% or less of the combined total monthly qualifying income of all borrowers do not need to be sourced.
- Deposits greater than 50% of the combined total monthly qualifying income of all borrowers must be sourced.
- When a deposit contains both sourced and unsourced, only the unsourced portion must be used in calculating whether a deposit meets the 50% definition.
  - Example #1 – borrower has $4000 a month total qualifying income and a deposit of $3000 showing on his bank statement. $2500 of that deposit is sourced as coming from the borrowers tax refund, therefore only $500 would have to be considered. $500 is 12.5% of the borrowers qualifying income and therefore the deposit is not considered a large deposit and the entire amount may be used for qualifying.
  - Example #2 – borrower has $4000 a month total qualifying income and a deposit of $3000 showing on his bank statement. $500 of that deposit is sourced as coming from the borrowers tax refund, therefore $2500 would have to be considered. $2500 is 63% of the borrowers qualifying income and therefore the unsourced part of the deposit must be removed from consideration as it is considered an unsourced large deposit.

If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed, additional documentation should be obtained.

Sales Contract Deposit

The deposit on the sales contract for the purchase of the subject property is an acceptable source of funds for both the down payment and the closing costs.

Earnest Money Deposit listed on the sales contract is to be verified in the following situations:

- When the borrower needs these funds to demonstrate sufficient funds to close
- When the funds are needed to establish minimum borrower contribution limits
- When the amount of the EMD exceeds 2%
- When the borrower is receiving a refund of the cash deposit at closing
- The transaction represents and Identity of Interest; in that instance the EMD must be verified as being placed on deposit

Ensure the deposit is not counted twice in the file (deducted from the funds to close and counted as an asset).

Verification of Source of Funds

- If the deposit is being used as part of the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source.
- Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the cancelled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.
- If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

Documentation for Receipt of the Deposit

Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

Gift Funds

Borrower must have 5% of own funds. Gift/Gift of equity not eligible as borrower funds.

Documentation Requirements

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- Specify the dollar amount of the gift.
- Specify the date the funds were transferred.
- Include the donor's statement that no repayment is expected.
- Indicate the donor's name, address, telephone number, and relationship to the borrower

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

Verifying Donor Availability of Funds and Transfer of Gift Funds

Lender must verify that sufficient funds to cover the gift have been transferred to the borrower's account. Acceptable documentation includes the following:

- A copy of the donor's check and the borrower's deposit slip,
- A copy of the donor's withdrawal slip and the borrower's deposit slip
- A copy of the borrower's bank statement showing the funds have been deposited

Gift of Equity

Borrower must have 5% of own funds. Gift/Gift of equity not eligible as borrower funds.

A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property. The gift of equity is transferred to the buyer as a credit in the transaction.

Acceptable Donors

A gift of equity can be provided by:

- A relative, defined as the borrower's spouse, child, or other dependent, or by

- Any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship.
- A fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

Documentation Requirements

The following documents must be retained in the loan file:

- A signed gift letter
- The CD/HUD-1 Settlement Statement listing the gift of equity.

Retirement Accounts

Vested funds from an individual retirement account (IRA) and tax-favored retirement savings accounts (401K) are acceptable sources of funds for down payment, closing costs and reserves. When these funds are used for the down payment or closing costs, the applicable withdrawal penalties or income tax must be subtracted so that only the "net" withdrawal is counted.

Stocks, Bonds, and Mutual Funds

Stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs and reserves provided their value can be verified. 100% of the value may be used for reserves.

If funds are being liquidated for closing, Lender must verify:

- The borrower's ownership of the asset
- The value of the asset at the time of sale or liquidation (see chart)
- The borrower's actual receipt of funds realized from the sale or liquidation must be documented.

Reminder: Non-vested assets are not eligible for down payment, closing costs, or reserves.

Table: Determining the Value of Stocks, Bonds, and Mutual Funds

Asset Type	Determining the Value of the Asset
Stocks and Mutual Funds	Lender must determine the value of the asset at the time of sale or liquidation (net of any margin accounts) by obtaining either: • The most recent monthly or quarterly statement from the depository or investment firm, or • A copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.
Government Bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.
Stock Options	Stock options and non-vested restricted stock are not eligible for use as reserves.

Employer Assistance

For owner-occupied transactions, funds provided by an employer are an acceptable source of funds. Borrowers must use their own funds to meet the minimum borrower contribution requirement. The employer funds can be used for paying part of the closing costs, supplementing financial reserves, and supplementing the borrower's down payment.

Funds must come directly from the employer. Funds received from a company-affiliated credit union are not acceptable.

Forms of Employer Assistance

The employer assistance may be in the form of:

- A grant
- A direct, fully repayable second mortgage or unsecured loan,
- A forgivable second mortgage or unsecured loan,
- A deferred-payment second mortgage or unsecured loan, or
- Mortgage payment assistance.

When employer assistance is extended as a secured second mortgage, the transaction must satisfy Fannie Mae eligibility criteria for mortgages that are subject to subordinate financing.

If the secured second mortgage does not require regular payments of either principal and interest or interest only, the Lender does not need to calculate an equivalent payment for consideration as part of the borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

Documentation Requirements

Lender must document the following:

- That the program is an established company program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer's assistance and the terms of any loan agreement.
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer.

Anticipated Sales Proceeds

If the borrower's currently owned home is listed for sale but has not been sold, Lender may qualify the borrower on the basis of anticipated sales proceeds.

The actual proceeds received by the borrower must be documented.

Sales Proceeds Needed for Down Payment and Closing Costs

If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, Lender must verify the source of funds by obtaining a copy of the fully executed CD/HUD-1 Settlement Statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

Corporate Relocation Plans

When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, a copy of the executed buyout agreement must be obtained to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale.

Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

Documentation Requirements

Lender must document the following:

- The borrower's ownership of the asset.
- The value of the asset, as determined by an independent and reputable source.
- The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.

The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements or copies of the purchaser's cancelled check

Depending on the significance of the funds in question, Lender may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution.

Rent Credit (Lease Purchase or Option to Purchase)

Rent credit for option to purchase is an acceptable source of funds towards the down payment. Credit for the down payment is determined by calculating the difference between market rent and the actual rent paid for the past 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. The following documentation is required:

- A copy of the rental/purchase agreement evidencing a minimum original term of 12 months, clearly stating the monthly rental amount and specifying the terms of the lease
- Copies of the borrower's cancelled checks or money order receipts for the last 12 months evidencing rental payments.
- Market rent as determined by the subject property appraisal.

Business Accounts

Business funds may be used for down payment and/or closing costs if the borrower is a 100% owner of the business and appropriate evidence can be provided that shows the borrower as the owner of the account. Additionally, both of the following are required:

- A cash flow analysis must be completed by the underwriter to determine that the withdrawal of funds will not negatively affect the business.
- CPA letter to confirm withdrawal of funds will not negatively affect the business.

Business funds may NOT be used as reserves.

Cash on Hand

This is not an acceptable source of funds for the down payment or closing costs.

Part I – Liability Analysis

Debt-to-Income Ratio

Debt to income ratios, which consist of two components, monthly housing expense and the total of all other monthly debt obligations, are used to compare the borrower's anticipated monthly housing expense and total monthly debt obligations to his or her stable monthly gross income. Long term debt, and some that represent significant short term debt, must be taken into consideration in developing a borrower's qualifying ratio.

Payoff / Pay Down of Debt

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- Revolving debt cannot be paid down to qualify.

Monthly Debt

Lender's risk analysis must include an evaluation of liabilities that may affect the borrower's ability to repay the mortgage obligation.

For each liability, Lender must determine the unpaid balance, the terms of repayment, and the borrower's payment history. If the credit report does not contain a reference for each significant open debt shown on the application, separate credit verification must be provided.

The section describes obligations that should be considered when underwriting the loan, including:

Alimony/Child Support/Separate Maintenance Payments
Assumption with No Release of Liability
Authorized User Accounts
Business Debt in a Borrower's Name
Court Order Assignment of Debt
Co-Signed Loans
Debts Paid by Others
Deferred Payment Accounts:
Home Equity Lines of Credit (HELOC)
Installment Debt
Lease Payments
Loans Secured by Retirement Savings Plans
Open 30-Day Accounts
Revolving Debt
Student Loans
Unreimbursed Business Expenses

Alimony/Child Support/Separate Maintenance Payments

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration.

Assumption with No Release of Liability

The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:

- Copy of documents transferring ownership of the property;
- The assumption agreement executed by the transferee; and
- Evidence that the mortgage is current.

Authorized User Accounts

When the credit report contains authorized user accounts, additional evaluation is necessary to ensure the credit score is an accurate reflection of our borrower's ability to manage credit. Compare the authorized user accounts to the borrower's primary accounts to ensure there is a satisfactory relationship between the primary borrower's accounts and the authorized user accounts.

If the account shows any delinquencies (no matter who the owner of the account is), you must count the debt in the DTI and any past due amount must be paid current prior to or at closing.

Business Debt in a Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, Lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does NOT need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency,
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of cancelled company checks), and
- Lender's cash flow analysis of the business took payment of the obligation into consideration.

The account payment DOES need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but Lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the net income of the business should be adjusted by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

Court Order Assignment of Debt

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:

- Copy of the court order or divorce decree
- For mortgage debt, a copy of the documents transferring ownership of the property; or

- If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

Co-Signed Loans

When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit—but is not the party who is actually repaying the debt—the borrower has a contingent liability.

The liability does NOT need to be considered as part of the borrower's recurring monthly debt obligations if Lender can verify a history of documented payments on the co-signed debt by the primary obligor and ascertain that there is not a history of delinquent payments for that debt (since this could be an indication that the co-signer might have to assume the obligation at some point in the future). Documentation must be provided that the person making payments is the joint obligor on the loan.

The underwriter must verify the last 12 months payments with copies of cancelled checks or bank statements. The account cannot have the borrowers name on it. If bank statements are provided, you should not see deposits (other than payroll) being made into the account prior to the check clearing the primary obligor's account. Use underwriter discretion to see if it looks like someone is giving the primary obligor money to make the payment.

The liability DOES need to be considered as part of the borrower's recurring monthly debt obligations if:

- Payment by the primary obligor cannot be sufficiently documented,
- A sufficient payment history has not been established for the debt, or
- The primary obligor has a history of being delinquent in making payments on the debt.

Debts Paid by Others

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

Deferred Payment Accounts:

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

For Student Loans refer to Section I-2 Monthly Debt > Student Loans

Home Equity Lines of Credit (HELOC)

When the mortgage that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so Lender does not need to develop an equivalent payment amount.

If not shown on the credit report, payments on a home equity line of credit with an outstanding balance may be calculated at 1% of the outstanding balance or the payment reflected on the borrower's billing statement.

Installment Debt

All installment debt that is not secured by a financial asset must be considered part of the monthly debt obligations if there are more than ten monthly payments remaining.

Lease Payments
The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term the new lease payment should be determined and included in the total monthly debts.

Loans Secured by Retirement Savings Plans
Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt because they are voluntary payments; however, the underwriter should consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio or negative cash flow.

Open 30-Day Accounts
- On all open 30-day accounts such as American Express or Diner's Club, the payment is not counted in the borrower's DTI ratio. For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, the underwriter must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.
- If the borrower paid off the account balance prior to closing, the underwriter may obtain proof of payoff in lieu of verifying funds to cover the account balance.

Revolving Debt
- The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the borrower's long-term debt and ratio calculation. Also, refer to Part I: Debt-to-Income Ratio, Paying off/down Debt.
- If the credit report does not reflect a payment on a currently reporting liability, and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10.00 or 5% of the outstanding balance.

Student Loans
- If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
- If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, provide documentation verifying the proposed monthly payment amount, or use a minimum of 1% of the outstanding balance for qualifying purposes.

Unreimbursed Business Expenses
- Except for car and automobile lease payments, non-reimbursed business expenses should be treated as reductions to the borrower's total income.
- If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income.
- The standard deduction mileage rate for the business use of a car includes depreciation. This is a noncash expense and may be added back to cash flows as follows:
  - Multiply the number of business miles listed on Line 13 by the appropriate tax year rate to determine the amount to add back.
  - If the borrower does not use the standard mileage deduction and rather writes off depreciation, that figure should be added back to cash flow.

Part J – Property Eligibility

Eligible Collateral

- Single Family Dwellings, including townhomes and row homes
- 2-4 Family Dwellings
- Warrantable Condominiums
- Planned Unit Developments
- Modular homes are not considered manufactured and are eligible under the guidelines for one-unit properties. The housing must assume the characteristics of site built housing, must be legally classified as real property, and must conform to all local building codes in the jurisdiction in which they are permanently located.

Ineligible Collateral

- Leasehold Estates
- Manufactured homes
- Property > 20 acres
- Mixed Use Properties
- Multi-family properties with more than four units
- Properties zoned agricultural or commercial
- Hobby Farms
- Properties not suitable for year-round occupancy
- Properties not accessible by roads meeting local standards
- Deed restricted properties are not allowed; this is includes age restrictions.
- Non-warrantable Condominiums
- Co-ops
- Properties not typical for the area and lacking comparables (i.e. geodesic homes, log cabins, etc.)
- Property Flip when Non-Arm's Length Transaction
- Properties with:
    - Any health/safety issues or repairs needed;
    - Less than average condition;
    - No permanent heating source;
    - Private Transfer Fee Covenants;
    - Resale restrictions
- **Solar Energy/Panel Affecting CMG's First Lien Position is ineligible.** Any leased or owned solar panels with a UCC associated with the property and/or creating an easement on title is ineligible
- Timeshares
- **Wastewater Treatment Systems -** On-site wastewater treatment systems other than acceptable septic systems are not eligible. Examples of unacceptable systems include, but are not limited to, the following:
    - Vault Privy

- Incineration Toilets
- Composting Toilets
- Chemical Toilets
- Outhouses

Appraisal Documentation

All appraisals must comply with applicable regulations and standards including but not limited to USPAP, FIRREA, AIR and HVCC compliance.

USPAP Compliance

- All appraisals must comply with the standards and practices established by the Uniform Standards of Professional Appraisals Practice (USPAP).
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.
- An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. "Re-addressed appraisals" or appraisal reports that are altered by the appraiser to replace any references to the original client with CMG's name are not acceptable. Additionally, the borrower, property seller, real estate agent or other interested party is not allowed to select an appraiser from an approved appraiser list.
- Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter does not directly report to someone involved in loan production. The underwriting review must confirm the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

Appraisal Review Process

CMG will use various fraud and valuation tools to provide data to the underwriter when reviewing appraisals. The data as well as the appraisal report will be reviewed when determining acceptability of the appraisal report.

Rapid Appreciation

Loans with excessive appreciation require a satisfactory explanation from the appraiser for the increase in value. Additional appraisal products may be required at the underwriters discretion based on a review of the increase, the explanation provided to support the increase, an analysis of market trends, and a review of information provided via automated valuation tools.

Appraisal Forms and Exhibits

Table: Appraisal Forms and Exhibits

Appraisal Form/Exhibit	Description
FNMA 1004 - Uniform Residential Appraisal Report	This report is used to appraise single family properties and properties located in a PUD (including single family properties with an accessory unit). Includes both an interior and exterior inspection. In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance
FNMA 1073 - Individual Condo Unit Appraisal Form	This form is used to appraise individual units located in an individual condominium unit. It includes both an interior and exterior inspection
FNMA 1025 -Small Residential Income Property Report	This appraisal report is used for 2-4 unit properties and includes an interior and exterior inspection
FNMA 1004D – Appraisal Update and/or Completion Report	For appraisal updates and/or completion reports for all one-to-four unit appraisal reports
FNMA 1004MC – Market Conditions Addendum	Required for all one-to-four family properties. Form 1004MC is intended to provide CMG with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. There are several shaded areas in the form to recognize that not all data may be available from the data sources used by the appraiser and therefore the information may not be provided. The lack of completion in these areas is acceptable as long as the appraiser provides an explanation as to why these sections of the form are not complete. However, if the data is available, the appraiser must include the data in the analysis.
FNMA Form 216 – Operating Income Statement	This form is required for investment properties, including owner occupied two to four unit properties in which the applicant will occupy one unit as a principal residence.
FNMA Form 1007 – Single Family Comparable Rent Schedule	Required for all SFR investment properties

Exhibits for Appraisals with Interior and Exterior Property Inspections

The following exhibits must accompany appraisals with interior and exterior inspections:

- An exterior building sketch that indicates the dimensions
- Calculations demonstrating how the estimate for gross living area is derived,
- A street map showing the location of the subject property and all of the comparables used,
- Clear, descriptive photographs that show the front, back, and a street scene of the subject,

Interior photographs are required which at a minimum must include:

- The kitchen
- All bathrooms
- The main living area
- Examples of physical deterioration, if any exists
- Examples of recent updates, home improvements, upgrades, if they exist

- Clear, descriptive photographs that show the front of each comparable sale. Photos of listings and rentals are not required. Generally, photographs should be originals that are produced by photography or electronic imaging, however photographs from the Multiple Listing Service or from the appraiser's file are acceptable if they are clear and descriptive,

Appraisal Transfer

Not permitted.

Appraisal Assessment

CMG is responsible for ensuring that appraisal reports are complete and that any changes to the report are made by the appraiser who originally completed the report. If CMG has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, CMG must attempt to resolve its concerns with the appraiser who originally prepared the report. If CMG is unable to resolve its concerns with the appraiser, a replacement report prior must be obtained to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount.

Appraisal - Number of Appraisals

One full appraisal required

Appraisal Repairs

If an appraisal is required and that appraisal is subject to ANY repairs, the repairs noted need to be cured and a final inspection issued by the appraiser will be required prior to closing. Escrow Holdbacks for repairs are not permitted.

CDA Requirement

A Collateral Desktop Analysis (CDA) with accompanying MLS sheets ordered from Clear Capital is required to support the value of the appraisal for all loans. 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.
- 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.

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 Jersey: 3-4 Unit properties in New Jersey permitted subject to 100% QC audit.
- Texas: Section 50(a)(6) transactions are not eligible.
- New York:
  - CEMA transactions permitted on refinance transactions only for Wholesale and Correspondent only. Wholesale Lending refer to NY Guideline Addendum.
  - Refer to Mortgage Insurance section for LTV Considerations for properties in the state of New York.

Part L – Disaster Policy

When a property is located in a Disaster Area, Lender must verify the structure is sound and not negatively impacted by the Disaster. This must be verified prior to closing / purchasing the loan.

A list of affected counties published by FEMA for Individual Assistance is available at the following link: http://www.fema.gov/

Retail CMG branches will request the appropriate appraisal or inspection through the normal channels.

Refer to CMG's Disaster Area Policy for additional details and requirements.

Part M – Private Mortgage Insurance

Not applicable

Part N – Property Insurance

Escrows for Taxes and Insurance

Escrows are generally required on all loans with LTVs > 80% with escrow waivers for taxes and property insurance permitted with the following criteria:

Table: Escrow Waiver Criteria

Primary Residence	Second Home
All states excluding CA and NM: < = 80% LTV California: < 90% LTV New Mexico: < 80% LTV	All states excluding CA: < = 80% LTV California: < 90% LTV

Note: escrows for mortgage insurance must be established regardless of LTV unless a single premium was paid in full at closing.

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. If flood insurance premiums are paid by a condominium association, homeowner's association or other group, no escrow is required.

Note: CMG does not permit escrow for earthquake insurance.

Hazard Insurance

Lender must ensure that adequate hazard insurance for the security property is in place.

General Hazard Insurance Coverage – 1-4 Family Dwellings

- Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.
- Exclusions or limitations (in whole or in part) for windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not permitted.

Coverage Requirement

Required coverage = the unpaid principal balance of the mortgage. A cost estimator from the insuring company is required in the event the hazard insurance does not cover the loan amount.

Deductible Amount

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy

Required Coverage for PUDs or Condos

Fannie Mae requirements must be met.

Flood Insurance

Flood insurance required for any property that has a building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that has federally mandated flood insurance purchase. The determination of the flood zone is required by pulling a Standard Flood Hazard Determination. Flood insurance is required when the Flood Certification indicates one of the following symbols: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30.

If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), the loan is not eligible.

Acceptable Flood Insurance Policies

Flood insurance generally should be in the form of the standard policy issued under the NFIP. The Policy Declaration page of a policy is acceptable evidence of coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's "Write Your Own" program—are acceptable.

Maximum Available through NFIP

The maximum insurance available under the appropriate National Flood Insurance Program (NFIP) is $250,000 per unit. This maximum also applies to condos and PUDs.

Required Coverage on a 1-4 Unit Dwelling

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units, and certain individual condo units (such as those in detached condos, townhouses, or row houses) is the lower of

- 100% of the replacement cost of the insurable value of the improvements,
- The maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling, or
- The unpaid principal balance of the mortgage.

The amount of flood insurance coverage for a PUD project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program.

Required Coverage on Attached Condos

Stand-alone flood insurance dwelling policies for an attached individual condo unit are not acceptable. A master condo flood insurance policy must be maintained by the HOA, subject to the coverage requirements below.

- The HOA must obtain a Residential Condominium Building Association Policy or equivalent private flood insurance coverage for each building that is located in an SFHA. The policy must cover all of the common elements and property (including machinery and equipment that are part of the building), as well as each of the individual units in the building.
- The master flood insurance policy must be at least equal to the lower of
- 80% of the replacement cost, or
- The maximum insurance available from NFIP per unit (which is currently $250,000).

- If the condo project master policy meets the minimum coverage requirements above but does not meet the one- to four-unit coverage requirements (described in Coverage for First Mortgages), a supplemental policy may be maintained by the unit owner for the difference.
- The contents coverage should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building), owned in common by association members.

If the condo project has no master flood insurance policy or if the master flood insurance policy does not meet the requirements, mortgages securing units in that project are not eligible.

Deductibles

The deductible for 1-4 units, condos and PUD may not exceed a maximum of $10,000. Condo and PUD master policy deductibles cannot exceed a maximum of $25,000.

Part O – Title Insurance

General Requirements

All loans must close with an ALTA title insurance policy which will provide evidence of the borrower's lawful interest in the property to be mortgaged.

The title policy must be in the CMG's name and /or its assigns. Title must be vested in the borrower's name, in the name of an eligible inter vivos trust (if permitted per program guides), or in the case of a purchase money must be currently vested in the seller's name with a requirement for a deed to be recorded transferring title to our borrower's name at closing.

The insured amount of the policy must be at least for the gross loan amount and the policy must be dated within 45 days of closing.

A survey will be required only if an exception appears on the title. ALTA 9 Endorsement, or its equivalent, may be substituted in the event a survey is not commonly required by the property area.

A minimum of a twelve month title chain must be provided on each policy. The chain of title will be reviewed for flips as part of the underwriting process.

Title Company Requirements

Title companies must meet minimum standards with regards to their overall financial condition and ability to meet its credit obligations. CMG will use an independent rating measure from LACE Financial to ensure the title company meets the following minimum acceptable standards:

- LACE Rating of B or better
- Peer Groups 1 through 3

Owner of Record:

Owner of Record is the legal owner of the property that appears in the public records. The following requirements apply:

- Purchase Transactions: Must verify that the property seller listed on the sales contract is the Owner of Record of the subject property; or
- Refinance Transactions: Must verify that the borrower is an Owner of Record of the subject property.

Note: For transactions involving the payoff of a land contract/contract for deed, documentation must be provided verifying that the borrower is a vendee on the recorded land contract and that the property seller is the vendor and Owner of record.

Part P – Departing Residence Policy

Borrower must have two years of rental management experience or sufficient Reserves (additional 6 months based on subject PITIA) to use rental income. These reserves are in addition to any other reserves required for the loan transaction. Fully executed lease agreement required in all cases to use rental income.

In addition, when a consumer vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may only be considered in the underwriting analysis under the circumstances listed in the table below.

Exception	Description
Relocations	The consumer is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally-recognized commuting distance. A property executed lease agreement (that is, a lease signed by the consumer and the lessee) of at least one year's duration after the loan is closed is required. Note: Underwriters should also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner
Sufficient Equity in Vacated Property	The consumer has a loan-to-value ratio of 75 percent or less, as determined either by: • A current (no more than six months old) residential appraisal, or • Comparing the unpaid principal balance to the original sales price of the property. Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.

Part Q – Transaction Types

Purchase Transactions

Identity of Interest / Non-ARMS length / At Interest

- Non-Arm's length:
  - . Generally not allowed, but may be eligible on owner occupied purchase transactions with the full documentation of assets, income and appraisal – no waivers permitted. Note: Bailouts are not eligible for exception consideration.
  - Property Flip when Non-Arm's Length Transaction are not permitted.

- At Interest - Transactions where:
  - Builder is acting as Realtor/Broker – permitted on primary residence only
  - Realtor/Broker is selling their own property – permitted on primary residence only
  - Loan originator is acting in another real-estate related role – not eligible (Loan Originator cannot have another real estate related position on any loan, regardless of the loan program)

All Refinances

Properties Recently Listed For Sale:

- Limited Cash-Out & Cash Out Refinance Transactions: Properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a refinance transaction.

Cash-Out Refinance

- Properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a refinance transaction.
- Used to payoff the first mortgage and any subordinate lien(s) that were used for home improvements, HELOC's and second mortgages obtained for the purpose of taking equity out of the property.
  - Maximum cash-out: $500,000
  - Cash out not permitted on investment properties
  - The amount of cash-back to the borrower cannot be counted as "reserves."
  - A mortgage placed on a property previously owned free and clear by the borrower is always considered a Cash-out Refinance.
  - Interest Only NOT permitted.

Construction/Permanent:

When the lender that provides the permanent financing is different than the lender providing the interim construction financing, the transaction is referred to as a Two-Closing Construction to Permanent Mortgage. CMG only provides the permanent financing for two-closing transactions.

A final Certificate of Completion is required or the current appraisal indicates subject property is 100% complete. Photographs of the completed property must be provided. A Certificate of Occupancy or equivalent from the local authority must be provided.

Land Contract (Contract for Deed):

- Purchase Transaction: When the proceeds of a mortgage loan are used to pay off an installment land contract (contract for deed) that was executed within the 12 months preceding the date of the loan application, the transaction is considered a purchase and the following guidelines apply:
  - LTV is determined by dividing the original loan amount by the lesser of the total acquisition cost (land contract's purchase price plus any costs purchaser incurred for rehabilitation, renovation, or energy improvements) or the current appraised value. The expenditures included in the total acquisition cost must be fully documented.
- Rate/Term Refinance: When the installment land contract was executed more than 12 months before the date of the loan application, the LTV ratio for the mortgage loan is determined by dividing the original loan amount by the current appraised value of the property.
- Cash-out refinance: Not allowed.

Rate/term Refinance:

- A short term loan is one where the loan was originated within the last six months of the applicant date and was a cash-out transaction. Refinances of short term first lien loans are not eligible.
- A seasoned non-first lien mortgage is a purchase money mortgage or a closed end or HELOC mortgage that has been in place for more than 12 months and not having any draws greater than $2,000 in the past 12 months for HELOC's. Withdrawal activity must be documented with a transaction history from the HELOC.
- Up to 5% of the loan amount may be used for closing costs, financing costs, and prepaid items.
- The lesser of 1% or $5,000 incidental cash may be received back by the borrower but is included as part of the total 5% limit for closing costs, etc.
- If the property is owned less than 6 months, the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value. The prior HUD-1 will be required for proof of purchase price. Proof of improvements is required.
- Properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a rate/term refinance transaction.
- Inherited properties may not be refinanced prior to 12 months of ownership
- The rate/term refinance of a construction loan is eligible. If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs. Must be arms-length.

Part R – Secondary/Subordinate Financing

New, Modified, and existing subordinate liens are permitted within the max CLTV tolerances noted in the loan matrix. A copy of the subordinating Note, Mortgage/Deed and Subordination Agreement is also required.

Terms of Secondary Financing:

Closed End and HELOC financing are permitted subject to the following criteria:

- The maximum LTV/CLTV restrictions apply.
- The CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit – rather than the amount of the HELOC in use – must be used.
  - If the credit limit of a HELOC has been permanently modified, the greater of the outstanding principal balance or the modified credit limit must be used when calculating the HTLTV ratio. A copy of the modification agreement must be provided.

For transactions including subordinate financing, the following requirements apply for both **HELOC and Closed End Loans**:

- The subordinate financing must be recorded and clearly subordinate to the new first mortgage.
- If there is/will be an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s).
- Negative amortization is not allowed; scheduled payments must be sufficient to cover at least the interest due.
- Equity share or shared appreciation is not allowed.
- Subordinate financing from the borrower's employer may not include a provision requiring repayment upon termination.
- For new Closed End subordinate financing the following also apply:
  - Maturity date or amortization basis of the junior lien must not be less than five years after the Note date of the first lien Mortgage, unless the junior lien is fully amortizing
  - The loan cannot have a balloon or call option within five years of the date of the Note.
  - The terms of a HELOC may provide for a balloon or call option within the first five years after the Note date of the first Mortgage.

Documentation

- The terms of any subordinate financing must be verified. The following sources of verification are acceptable (the use of a combination may be required to confirm the subordinate financing meets all of the above requirements):
  - Existing subordinate loans (loans that will be re-subordinated): A copy of the credit report, **or** a copy of the mortgage note, **or a** direct verification from the lender, **or** a copy of the loan statement.
- Reminder for home equity lines of credit (HELOC): If an existing HELOC is reduced without modifying the original Note, the original line limit must be used to calculate the Combined-Loan-to-Value ratio.
- A copy of the subordination agreement must be maintained in the loan file, if applicable.

New Subordinate Financing:

- Subordinate financing must have a minimum original term of not less than five years unless the financing fully amortized prior to that time. If the subordinate financing will not fully amortize under a level monthly payment plan, it may not have a maturity or balloon payment date of less than five years.

Whether the subordinate financing is existing or new, a full underwrite of the documentation provided is required to ensure the subordinate financing meets the requirements identified in this section.

Part S – Interested Party Contributions (IPCs) / Financing Concessions / Sales Concessions / Principal Curtailment

Interested Party Contributions

Interested parties include, but are not limited to, the builder, the developer, seller of the property and real estate agent. The maximum allowable contributions from interested parties based on the lesser of the purchase price or appraised value is 3%.

Sales Incentive / Real estate commissions:

- The maximum allowable sales incentive (commission, finder's fee, etc) is limited to 8% of the sales price)
- Real estate commission from the subject transaction is generally not an acceptable contribution source.

Reimbursements

- **Reimbursements** to a borrower by an interested party for payment of short sales negotiation or processing fees must be treated as sales concessions and thus, must be deducted from the purchase price when determining value for LTV purposes.

Principal Curtailment

- Not permitted.

Part X - Links to CMG Policies Forms, Etc.

CMG Policies:	Compliance State Guidance
	Disaster Area
	Electronic Signatures
	Income Validation

Net Tangible Benefit Forms:	Net Tangible Benefit Worksheet (Multi State)
	Colorado
	Maine
	Maryland
	South Carolina

Part Z - Recent Updates / 90 Day Lookback

8/11/2020 Retired LIBOR ARMS and removed references to interest only (previously suspended, but now retired with the retirement of LIBOR ARMS). Highlights from previous updates remain.

4/7/2020 Updated to reflect that High LTV, Interest only, and cashout transactions are not permitted. If references are in these guidelines for the discontinued features listed above, this does not mean these features are permitted.

2/14/2020 Updated to allow CEMA refinance transactions on properties located in the state of NY

11/15/2019 Clarified that gifts cannot be used as reserves.

9/10/2019

- Clarified in All Refinances section that properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a refinance transaction.