



CMG FINANCIAL

Experience Extraordinary

CMG Correspondent VA Guidelines

All CMG Financial Guidelines will follow VA Guidelines (the Lenders Handbook) in addition to CMG Financial overlays, when applicable.

VA Pamphlet 26-7 is the Lenders Handbook for Mortgage Loans. This is the handbook that will be followed for all VA programs.

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Part A – Borrower Eligibility

A-1 – 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 individuals seeking temporary entry to the U.S. for a specific purpose, either business or pleasure. This group may include intra-company transferees, temporary workers/trainees, visitors for business or pleasure, students, etc. Various types of visa classification documentation will apply. Refer to the BCIS/INS for specifics at <http://www.uscis.gov/portal/site/uscis>

All non-permanent resident aliens must provide evidence of an acceptable visa. Acceptable visas include but are not limited to E-1, H-1B, H-2B, H-3, L-1, G-series and O-1. Non-permanent residents, who are permitted employment and meet the guidelines listed below, are eligible for primary or secondary residence financing only. Verification the borrower has all of the following is required:

- A valid Social Security Number
- Documentation to support that the borrower is eligible to work in the US as evidenced by an unexpired work authorization document issued by the United States Citizenship and Immigration Services (USCIS).

- If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from the USCIS.
- Borrowers sponsored by a specific employer do not need an EAD. A valid passport, a letter from the employer/sponsor and an I-94 form proving they may work in the US is acceptable.
- A social security card may not be used as evidence of eligibility of employment

All non-permanent resident aliens must have a minimum two-year history of credit and employment in the U.S. or another country.

Note: CMG requires a valid visa and considers exceptions to borrowers without an eligible/valid visa on a case by case basis only. As category C33 work status is under a deferred action and does not provide lawful status, borrowers working under DACA authorization are not eligible for financing under CMG loan programs and are not considered for exception approval.

A-2 – Eligible Borrowers

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/CAIVRS)

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

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

All borrowers must also pass a HUD Credit Alert Interactive Voice Response System (CAIVRS) check.

The search must be run on the following parties in the transaction:

- Borrowers
- Seller
- Builder
- Processor
- Underwriter
- Loan Officer
- Account Executive
- Broker
- Listing Agent and Listing Company
- Selling Agent and Selling Company
- Title Agent
- Title Company
- Closing attorney
- Appraiser and Appraisal Company

A-3 – Ineligible Borrowers

- Loans with title or interest held in various forms/legal entities such as Life Estates, Non-Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible. See product guide for full details.
- Individuals applying for a loan that will not take title are considered guarantors or co-signers. Guarantors or co-signers are ineligible. All borrowers must be in title.
- Applicants possessing diplomatic status are ineligible.
- Foreign Nationals are individuals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and are not eligible for financing.
- Borrowers with Diplomatic Immunity
- Corporations/LLC's
- Foreign Nationals
- Non-Revocable *Inter vivos* Trust
- Partnerships

A-4 – Power of Attorney

General Requirements

Only a special/limited Power Of Attorney (POA) that is specific to the subject loan transaction can be accepted. Durable/general POAs are allowed only for court-appointed guardians with unlimited powers over the ward's affairs and must be accompanied by appointing documents.

Initial 1003 and all initial disclosures must be signed without POA. All closing documents may be signed by Attorney In Fact if POA is eligible and approved for use by underwriting.

POAs are not permitted on cash-out refinance transactions or Texas Section 50(a)(6) mortgage loans.

If no borrowers are executing loan documents in person in the presence of a notary, the attorney-in-fact must be either (a) the borrower's relative or (b) the borrower's attorney-at-law.

The following guidance must be followed when evaluating a POA for eligibility:

- The POA cannot be a party to the transaction except where the POA is the coborrower
- All POAs need to be specific to the transaction with
 - Property address
 - Legal description
 - Transaction type
- The POA must be on the proper form and drawn in accordance with applicable state laws and be acceptable to the recording agent in the local jurisdiction.
- The POA is in effect (the expiration date, if any, has not passed and the POA has not been revoked).
- The POA clearly defines the agent
- The POA grants to the agent, the authority to enter into a real estate transaction and mortgage real property
- The POA does not contain any blanks
- The principal is the same person as shown on the loan application
- The agent's identity is verified and documented in the loan file
- The POA has been, or will be, recorded prior to the recording of the Deed of Trust/Mortgage. If recorded simultaneously, the POA must be recorded first.

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. Examples include:

Signature / Document Typed	
<i>Jane Doe by John Smith, Attorney-in-Fact</i>	<i>Jane Doe by John Smith, her attorney in fact</i>
Jane Doe by John Smith, Attorney-in-Fact	Jane Doe by John Smith, her attorney in fact
<i>Jane Doe by John Smith as attorney in fact</i>	<i>Jane Doe by John Smith as her attorney in fact</i>
Jane Doe by John Smith as attorney in fact	Jane Doe by John Smith as her attorney in fact
<i>Jane Doe by her attorney in fact John Smith</i>	<i>Jane Doe by attorney in fact John Smith</i>
Jane Doe by her attorney in fact John Smith	Jane Doe by attorney in fact John Smith

A-5 – 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.

Part B – Property Ownership Restrictions

B-1 – Multiple Loans to One Borrower

Borrowers are limited to one (1) VA loan and two (2) other loans, or one million dollars (\$1,200,000 limit for subject VA loan transaction) total in loans funded/purchased by CMG. Jumbo loans are excluded from loan amount limit, but still count towards the aggregate total of loans with CMG.

B-2 – Multiple Financed Properties

AUS findings are unable to determine the number of financed properties for a given borrower. It is incumbent upon the underwriter to determine the number of financed properties and apply additional standards where appropriate.

Under no circumstances are borrowers with more than ten (10) properties eligible for VA financing with CMG.

Financed Properties Abroad

For borrowers who have financed properties abroad, the property AND mortgage payment must be counted in the total amount of financed properties.

Part C – Occupancy

Only Owner Occupied/Primary Residences are eligible for VA financing with CMG.

C-1 – 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.

Part D – Underwriting Documentation

D-1 – Age of Documents

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

Table D-1-A: Document Age Requirements

Item:	Maximum Age at Closing:
Credit Report	120 Days
Income/Asset Documents	120 Days
Appraisal	6 months*

* Existing Properties & New Construction: A notice of value for property appraised as existing or new construction is valid for six months. If a veteran signs a purchase agreement during a Notice of Value's validity period, the NOV will remain valid until that transaction is either completed or terminated.

Correspondent Lending: Age of documents must meet FHA/HUD requirements.

D-2 – 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 CMG/correspondent and creditor without being handled by any third party. Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

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Information in these guidelines is for credit policy guidance only and is not a complete representation of CMG Financial (NMLS #1820) Lending Policies. Information is accurate as of the date of publishing and is subject to change without notice. The Guidelines outlined apply to VA loans submitted to DU/LP. In addition to applying these CMG-specific overlays, all loans submitted to DU/LP must comply with the AUS Findings and VA requirements. To verify our state licenses, please log onto the following website: <http://www.cmgfi.com/licensing.php> and www.nmlsconsumeraccess.org

Alternative documentation is allowed for all eligible loans. Defer to AUS findings for required documentation.

Alternative documentation provided in lieu of "Verification of Employment" and "Verification of Asset" forms must be legible originals or certified true and exact copies. The documentation cannot contain any alterations, erasures or whiteouts.

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.

Internet Documentation

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/correspondent 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.

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.

D-3 – Electronic Signatures

For VA loan programs, Electronic Signatures are permitted on the Initial 1003 and Initial Disclosures.

Electronic Signatures are permitted on Real Estate Sales Contracts. CMG must ensure the Sales Contract is signed by the correct parties in all required places.

Retail and Wholesale 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

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

D-4 – 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

E-1 – 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

Requirements

All files must contain an initial and final application signed and dated by all borrowers as well as the loan officer. It must include the originator name, address, the loan officer's name, NMLS number and phone number. The application must be completed with all information from the credit report, asset documents, appraisal report, etc. and must include all HMDA and government monitoring information.

NMLS

CMG will validate Nationwide Mortgage Licensing System (NMLS) IDs provided on all loans submitted against the NMLS 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 NMLS 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

E-2 – Process to Add or Remove Borrowers

Adding Borrowers

Adding a borrower to a loan at any time during the loan process is acceptable. When this occurs a new RESPA package will be sent out to the borrower being added. Seven (7) day waiting period is NOT APPLICABLE. File should be submitted back to underwriting for review of additional borrower's information.

Removing Borrowers

Removing a borrower from a loan is allowed only under the following circumstances:

- No credit decision has been made on the loan and borrower expresses desire to withdraw their name from the application
- Loan has been approved with both borrowers as submitted and one borrower expresses desire to withdraw their name from the application.

Under both of the above circumstances-- Request in writing from borrower should be placed in imaged file supporting their desire to withdraw their name from the application.

Detailed notes should also be placed in the system to eliminate any possible confusion with the file.

Removing a borrower from a loan is NOT allowed in the following scenarios

- Loan is declined by underwriting

In this scenario the loan would need to be declined in the system and a new application would need to be taken with a single borrower.

Underwriting should not be issuing loan approvals with any type of condition that states one borrower needs to be removed. The loan should be declined and have a new application submitted with only the one borrower.

Exceptions

Any exceptions to the above rules or scenarios not explained above should be submitted to compliance for review (ComplianceDepartment@cmgfi.com)

Part F – Credit Analysis

F-1 – Credit Report

Consumer Services:

The credit report will be pulled through CMG's credit vendor, Credit Plus.

Wholesale:

The broker may submit AUS findings tied to a credit report issued through their own vendor and released to CMG. Findings need to be released by CMG to the broker to associate with any new reports if issued after initial release to CMG.

Correspondent:

The credit report will be pulled through the seller's vendor, merged with the AUS findings, and provided to CMG in the loan package.

F-2 – Credit Score

Unless AUS approved, a minimum of two credit scores for each borrower is required. For AUS approved transactions a minimum of one credit score for each borrower is required.

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

The term "Qualifying Score" Score refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle/lower, then lowest" credit score selection methodology.

Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score using the "middle/lower" method:

- If there are three valid credit scores for a borrower, the middle score of the three scores is to be used.
- If there are three valid credit scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is to be used.
- If there is one valid score for a borrower, that score is used.

Qualifying Score Selection

After selecting the appropriate credit score for each borrower, the Qualifying Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Qualifying Score.

When there is only one borrower, the selected credit score for that borrower is also the Qualifying Score.

F-3 – Credit History

A borrower's credit history is an account of how well the borrower has managed credit with both current and past accounts. An older, established history-- even though the accounts may have zero balances-- will have a more positive impact on the borrower's credit profile than newly established accounts.

A borrower who has relatively new credit history is not automatically considered a high credit risk. Making payments as agreed on newly established accounts signifies lower risk than if payments are not being made as agreed.

Payment history is a significant factor in the evaluation of the borrower's credit. The Automated Underwriting System (AUS) considers the severity of the delinquencies, the length of time since the delinquencies, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies.

When significant adverse credit is identified in a borrower's credit history, documentation must be provided evidencing the cause of the adverse credit and that an acceptable credit history has been re-established.

F-4 – Credit Bureau Analysis

The following aspects of the credit bureau should be reviewed for all loans in addition to following any automated underwriting system messaging.

Bankruptcy or Foreclosure: Determine there is no undisclosed or reported bankruptcy or foreclosure on the credit bureau report, the application, or any other documentation in the file.

Credit Risk Score: Insure the accuracy of the Credit Risk Score selected.

Fraud Alert: All three national credit repositories have created automated messages to help identify possible fraudulent activity on a credit report. These alerts are commonly called HAWK ALERTS. All HAWK alerts must be adequately addressed and documented in the loan file.

F-5 – 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.).

F-6 – Non-Traditional Credit

For the majority of the loan programs, the borrowers established credit history needs to consist only of the amount of credit necessary to produce a credit score. See specific guidelines for details.

In the event the borrower does not have sufficient credit to produce a score, the loan will be deemed ineligible.

F-7 – Manual Downgrades/Manual Underwriting

A manual underwrite can be performed either through a AUS *Refer* decision or by a manual downgrade. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an AUS Accept.

Manual downgrades may be triggered by inaccuracies in credit reporting, eligibility issues, and for other reasons including the unlikely failure of AUS to recognize derogatory credit reference. Unless specifically permitted to continue to use AUS Accept, such as a favorable resolution of a credit issue, the loan must be downgraded to a *Refer* risk classification and manually underwritten.

Part G – Evaluating Income

G-1 – Evaluating Income

All loans must include an Income Worksheet, demonstrating the rationale behind the calculations used to determine the borrower's qualifying income. It must be determined that the borrower's income level can be reasonably expected to continue through at least the first three (3) years of the mortgage loan.

See section M – VA Residual Income for information on calculating residual income for VA loans.

G-2 – 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. Please refer to the *Written Verification of Employment Policy* for more information regarding using this form.

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

A Self-Employed borrower is defined as an individual that has twenty five percent (25%) or greater ownership of the business. An individual with less than 25% ownership is not considered self-employed.

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 agency, investor and/or loan program guidelines.

Temporary Leave

If the employer confirms the borrower is currently on temporary leave, CMG/correspondent 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 agency, investor and/or loan program guidelines

G-3 – Tax Transcript Policy

A signed 4506T will be required on all applicants at closing.

Refer to CMG's Income Validation Policy for transcript requirements and other guidance.

G-4 – 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. When analyzing the probability of continued employment, the borrower's past employment record, qualifications for the position, previous training and education, and employer's confirmation of continued employment must be examined. Income stability can take precedence over job stability in cases where a borrower changes jobs frequently within the same line of work, but continues to advance in income or benefits.

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/correspondent is able to define and document the borrower's income as being stable, predictable, and likely to continue.

If the borrower has been employed by the present employer less than two (2) years:

- Verify prior employment plus present employment covering a total of two (2) years,
- Provide an explanation as to why two (2) years employment could not be verified,
- Compare any different types of employment verifications obtained (such as, Verification of Employment (VOE), pay stubs, and tax returns for consistency), and
- Clarify any substantial differences in the data that would have a bearing on the qualification of the applicant.

Generally, employment less than 12 months is not considered stable and reliable. However, it may be considered stable and reliable if the individual facts warrant such a conclusion. Carefully consider the employer's evaluation of the probability of continued employment, if provided.

Assess whether the borrower's training and/or education equipped him or her with particular skills that relate directly to the duties of his/her current position. This generally applies to skilled positions. Examples include nurse, medical technician, lawyer, paralegal, and computer systems analyst.

If the probability of continued employment is high based on these factors, then favorable consideration may be given to including the income in the total effective income. An explanation of why income of less than 12 months duration was used must accompany the loan submission.

If the probability of continued employment is good, but not as well supported, the income still may be considered for qualifying purposes if the applicant has been employed at least 6 months to partially offset debts of 10 to 24 months duration.

Determine the amount which can be used, based on:

- The employer's evaluation of the probability of continued employment, if provided, and
- The length of employment (for example, 10 months versus 6 months).

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.

Recently Discharged Veterans

For recently discharged veterans who have been in their new jobs only a very short time, analyze prospects for continued employment as follows:

If the duties the borrower performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.

If the borrower's current job requires skills for which the borrower has had no training or experience, greater time in the current job may be needed to establish stability.

If the borrower's retirement income, compared to total estimated shelter expense, long-term debts, and family living expense is such that only minimal income from employment is necessary to qualify from the income standpoint, resolve doubt in favor of the borrower.

Examples:

Qualifying short-term employment - An applicant who was an airplane mechanic in the military is now employed as an auto mechanic or machinist.

Non-qualifying short-term employment - An applicant who was an Air Force pilot is now employed as an insurance salesperson on commission.

Most cases fall somewhere between these extremes. Fully develop the facts of each case in order to make a determination.

Apply self-employment guidelines to a recently discharged veteran who is self-employed

G-5 – 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.

Verify that the income is indeed tax-free before "grossing up." Tax-free income may be "grossed up" for purposes of calculating the debt-to income ratio only.

- This is a tool that may be used to lower the debt ratio for borrowers who clearly qualify for the loan.
- "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income.
- Use current IRS and state income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Use a figure of 125 percent of the borrower's nontaxable income when "grossing up."
- Do not add non-taxable income to taxable income before "grossing up."

Underwriter: If "grossing up" is used, indicate such and provide the "grossed up" ratio of 125 percent in item 47, "Remarks." The actual amounts of the borrower's non-taxable income should not be adjusted in in line 38.

G-6 – Projected Income

Loans involving a new job for the borrower that will begin after closing may be eligible subject to all of the following requirements:

- The subject transaction is for the purchase of a 1-unit primary residence;
- borrower must have a minimum 640 qualifying credit score;
- maximum DTI is 50%;
- the Borrower's employment offer must be non-contingent and the non- contingent offer letter must be retained in the loan file;
- the Borrower's written acceptance of the employment offer must be retained in the loan file;
- the Expected/Projected income cannot be derived from a family-owned business;
- the Borrower must have cash reserves to support the mortgage payment and any other obligations during the employment gap plus and additional one month's reserves of PITIA;

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- the time frame between the Note Date and the start of employment (the employment gap) must not exceed 60 days (Income must be guaranteed to begin within 60 Days of mortgage closing);
- the income is calculated in accordance with the standards for the type of income being received;
- a post-closing copy of the borrower's first paystub / proof of receipt of income must be provided and verified to support income used to qualify and retained in the loan file.

G-7 – 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 to CMG/correspondent 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/correspondent 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
- 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 three (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 ten (10) business days prior to the Note Date.
- Written VOE (form 1005) verifying that overtime income is likely to continue

The employer must verify 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 and be likely to continue for the next three (3) years 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
- Written VOE (form 1005) verifying that bonus income is likely to continue
- Verbal VOE not more than ten (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;
- For a borrower who qualified using commission income of less than 25% of the total annual employment income:
 - IRS Form 2106 expenses are not required to be deducted from income even if they are reported on IRS Form 2106 and are not required to be added as a monthly liability.
 - Tax returns are not required to document the source of income and deductions.
- For a borrower earning commission income that is 25% or more of annual employment income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.
 - One exception to the policy clarification concerns an automobile lease or loan payment. Automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debt obligations in Section D on the VA Form 26-6393.
 - Tax returns are required to document the source of income and deductions.

Reference VA Circular: http://www.benefits.va.gov/HOMELOANS/documents/circulars/26_16_10.pdf

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.

G-8 – 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 in section G-7: Salary, Commission, and Bonus.

CMG aligns with VA requirements in regards to eligibility of and documentation requirements for seasonal income and seasonal unemployment compensation. 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.

G-9 – 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

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- Military Address
- Length of Active Service to Date
- Estimated remaining time at present location

Service Members within 12 Months of Release from Active Duty or End of Contract Term

Service members who are within 12 months of release from active duty or end of contract term can be identified by locating the date of expiration of the borrower's current contract for active service on the LES (for an enlisted service member). For a National Guard or Reserve member, find the expiration date of the borrower's current contract. If the date is within 12 months of the anticipated date that the loan will close, the loan package must also include one of the following items, or combinations of items, to be acceptable:

- Documentation that the service member has already re-enlisted or extended his/her period of active duty to a date beyond the 12-month period following the projected closing of the loan, or
- Verification of a valid offer of local civilian employment following the release from active duty. All data pertinent to sound underwriting procedures (date employment will begin, earnings, and so on) must be included, or
- A statement from the service member that he/she intends to reenlist or extend his/her period of active duty to a date beyond the 12 month period, plus
- A statement from the service member's commanding officer confirming that:
 - The service member is eligible to reenlist or extend his/her active duty as indicated, and
 - The commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted, or
- documentation of other unusually strong positive underwriting factors, such as:
 - A down payment of at least 10 percent,
 - Significant cash reserves, and
 - Clear evidence of strong ties to the community coupled with a nonmilitary spouse's income so high that only minimal income from the active duty service member is needed to qualify.

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

Base Pay

Consider the applicant's base pay as stable and reliable except if the borrower is within 12 months of release from active duty.

- Analyze the additional documentation submitted.
- If the borrower will not be reenlisting, determine whether:
 - The borrower's anticipated source of income is stable and reliable, and/or
 - Unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

Military Quarters Allowance

The underwriter may include a military quarters allowance in effective income if properly verified. In most areas there will be an additional variable housing allowance, which can also be included.

In order to use housing allowance to qualify, the following must be obtained:

- Monthly allotment statement
- Proof of receipt
- Proof of continuance for at least three years

The military quarters and variable housing allowances are not taxable income.

Ensure that the borrower meets the occupancy requirements set forth in section 5 of chapter 3 in the VA Handbook.

Subsistence and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES.

The lender may include verified allowances in effective income. These allowances are not taxable income.

Note: The clothing allowance generally appears on the LES as an annual amount. Convert it to a monthly amount for the loan analysis.

Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, and how long the borrower has received it.

Examples include pro pay, flight or hazard pay, overseas pay, and combat pay.

All of these are subject to periodic review and/or testing of the recipient to determine continued eligibility. These types of allowances are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the recipient's assigned duties.

Example: Flight pay verified for a pilot. If duration of the military allowance cannot be determined, this source of income may still be used to offset obligations of 10 to 24 months duration.

G-10 – Rental Income

Rental income received on the subject property, unless the subject is a multi-unit property, such as boarder income, requires additional income tax documentation, and limits rental use of the property to 25% of the total floor area. Rental income received for other properties owned by the borrower is also acceptable as long as all VA requirements are met.

In the case of a Departing Residence VA will allow rental income to be used to offset mortgage only under certain circumstances, but it may not be used as effective income. Refer to Part P - Departing Residence Policy for additional guidance.

Rental of Other Property Not Securing the VA Loan

- Obtain the following:
 - documentation of cash reserves totaling at least 3 months mortgage payments (principal, interest, taxes, and insurance - PITI), and
 - individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show rental income generated by the property. Each property(ies) must have a 2-year rental history itemized on the borrower's tax return.
- Rental income verified as stable and reliable may be included in effective income.

Property depreciation claimed as a deduction on the tax returns may be included in effective income.

Notes on Reserves: If the borrower has multiple properties, the borrower must have 3 months PITI documented for *each* property to consider the rental income. If there is not a lien on the property, 3 months reserves to cover expenses such as taxes, hazard insurance, flood insurance, homeowner's association fees, and any other recurring fees should be documented for the property(ies). Equity in the property cannot be used as reserves. Cash proceeds

from a VA refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes. Gift funds cannot be used to meet reserve requirements. If rental income will not, or cannot be used, then the full mortgage payment should be considered and reserves do not need to be considered.

Verification & Analysis of Multi-Unit Property Securing the VA loan (Veteran will occupy one unit as his/her residence)

The Veteran/borrower must occupy one unit as his/her residence.

Verify cash reserves totaling at least 6 months mortgage payments (PITI), and documentation of the borrower's prior experience managing rental units and/or use of a property management company to oversee the property.

Include the prospective rental income in effective income only if:

- the borrower has a reasonable likelihood of success as a landlord, and
- cash reserves totaling at least 6 months mortgage payments (PITI).

If each unit is separate and not under one mortgage, 6 months PITI must be verified for each separate unit.

Equity in the property cannot be used as reserves to meet PITI requirements. This must be the borrower's own funds, not a gift.

Cash proceeds from a VA regular "Cash-Out" refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the lease or rental agreement unless a greater percentage can be documented (existing property).

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the appraiser's opinion of the property's fair monthly rental (proposed construction).

Boarder Income - Temporary Boarder Rental Income Single Family Residence

The verification of temporary boarder rental income requires the following:

- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property, and
- the rental cannot impair the residential character of the property and cannot exceed 25 percent of the total floor area.

Include rental income in effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Provide a justification on VA Form 26-6393, Loan Analysis.

PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.

G-11 – Other Sources of Income

In most cases, a borrower's qualifying income is limited to salary or wages. Income from other sources can be considered as effective if properly verified and documented.

Other sources of income include:

- Alimony or Child Support
- Automobile Allowances and Expense Account Payments
- Capital Gains Income
- Disability Income
- Foreign Income
- Foster Care Income
- Interest and Dividends Income
- Notes receivable income
- Retirement, Government Annuity and Pension Income
- Social Security Income
- Tip Income
- Trust Income
- Unemployment Benefits Income
- 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 for the past 12 months. Acceptable documentation would include cancelled checks, deposit slips, tax returns and /or court records.

If the borrower has been receiving full, regular, and timely payments for alimony or child support or maintenance for 12 months, the income is considered stable.

When a borrower has been receiving regular and timely payments for alimony or child support for between 6 and 12 months, the income may be considered as stable as long as it doesn't represent more than 30% of the total gross income used to qualify the borrower for the mortgage, and is only documented for less than 12 months due to a recent court order or divorce.

When a borrower has been receiving full, regular, and timely payments for alimony or child support for fewer than six months, the income may not be used as stable income, although if adequately documented, the underwriter may use to qualify at a higher ratio (i.e. compensating factor).

Automobile Allowances and Expense Account Payments

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

Cannot be used to qualify.

Disability Income

To use this income, you must verify the amount of the disability payments and determine if there is a contract established agreement, modification or termination date. A copy of the borrower's disability policy or benefits statement must be obtained.

The underwriter must confirm the borrower's current eligibility for the benefits from the benefits payer and confirm benefits will continue for at least 3 years. If the borrowers rate will change to a lesser amount in the next 3 years (going from short term to long term disability or another reason), the lesser amount must be used to qualify.

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 a three-year continuance of such income can be established.

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

Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income will cease within the first full three (3) years of the mortgage loan, the income may only be considered as a compensating factor. Regular and continued receipt of the income can be 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

Social Security Income (SSI)

Social security income for borrowers must be verified with a copy of the award letter, a copy of the most recent SSA-1099, copies of signed and filed federal tax returns, or a copy of the most recent bank statement to confirm receipt of the SSI.

For social security disability income, provide written documentation of the monthly income and verify continuance for at least the first three (3) full years of the loan. When CMG/correspondent believes or knows that the Social Security or disability income falls in a category that does not have a defined expiration date, CMG/correspondent 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.

Disability (Non-SSI)

Benefits that have a defined expiration date must continue for the next three years. If the amount of the benefit will decrease over the next three years, the lower figure must be used to qualify. A copy of the disability policy must be obtained to verify the amount of the payments. In addition, a statement from the benefits' payer should be provided to confirm the borrower's current eligibility for the disability benefits.

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 to satisfy the AUS requirement. 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)

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- 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.

G-12 – Self-Employment Income

A borrower with a 25% or greater ownership interest in a business is considered self-employed for VA loan underwriting purposes. Two (2) year's documentation is required on Self Employed borrowers.

The following documents are required for manually underwritten loans:

- Signed individual tax returns for the past two (2) years
- Signed business tax returns for the past two (2) years if business is an S corporation or a partnership
- P&L and Balance Sheet required if more than a calendar quarter (3 months) has elapsed since date of most recent calendar or fiscal-year end tax returns was filed by the borrower – with no exceptions
 - If income used to qualify the borrower exceed the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.
- Business credit report on corporations and S corporations (not required on AUS Approve/Eligible Recommendations)

No business tax returns are required if all of the following conditions are met:

- AUS Approve/Eligible
- Individual federal returns show increasing self-employed income over the past two years
- P&L and Balance Sheet required if more than a calendar quarter (3 months) has elapsed since date of most recent calendar or fiscal-year end tax returns was filed by the borrower – with no exceptions
 - If income used to qualify the borrower exceed the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.
- Funds to close are not coming from the business account, and
- The proposed mortgage is not a cash out refinance

Generally, the self-employed income is computed using a two year analysis of the borrower's federal tax returns and business returns, if applicable, unless AUS approves with less documentation. 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.

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: any exclusion for meals and entertainment expenses.

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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/correspondent 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 and depletion. 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. The borrower's withdrawal of cash from the corporation have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.

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.

G-13 – 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.

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Part H – Asset Assessment

H-1 – Asset Assessment

Automated underwriting systems will indicate the minimum verification documentation necessary for CMG/correspondent to process the loan transaction. This level of documentation may not be adequate for every borrower and every situation. The underwriter must determine whether additional documentation is warranted. Note: all refinance loans run through Loan Prospector require assets to be documented. At least one month's bank statement or equivalent must be provided. AUS will not be updated and verification of funds for a refinance transaction will need to be applied manually.

H-2 – Depository Accounts

For depository accounts (checking, savings, money market funds, CDs), two consecutive monthly statements are required. Loans scored through an AUS may provide reduced documentation requirements and should be documented according to the findings.

- 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/correspondent 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.

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 less of 2% or less of the subject property purchase price do not need to be sourced.
- Deposits greater than 2% of the subject property purchase price 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 2% definition.
 - Example #1 – borrower is purchasing a home for \$100,000 and has 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 0.5% of the property purchase price and therefore the deposit is not considered a large deposit and the entire amount may be used for qualifying.
 - Example #2 – borrower is purchasing a home for \$100,000 and has 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 2.5% of the property purchase price and therefore the unsourced part of the deposit must be removed from consideration as it is considered an unsourced large deposit.
- When an adjusted deposit/balance is necessary, the adjusted amount must be used for underwriting purposes and must be entered into DU at the reduced amount.

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, CMG 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.

H-3 – Gift Funds

In order for down payment funds to be considered a gift, there must be no expected or implied repayment of the funds to the donor by the borrower. The portion of the gift not used to meet closing requirements may be counted as reserves. Regardless of when gift funds are made available to a borrower, CMG/correspondent must be able to determine that the gift funds were not provided by an unacceptable source, and were the donor's own funds. An outright gift of cash investment is acceptable if the donor is:

- The borrower's relative
- The borrower's employer or labor union
- A close friend with a clearly defined and documented interest in the borrower
- A charitable organization
- A governmental agency or public entity that has a program providing home ownership assistance to
 - Low- and moderate- income families, or
 - First-time homebuyers

A gift can be provided by a donor that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction. A gift letter must:

- specify the dollar amount of the gift,
- include the donor's statement that no repayment is expected, and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

The lender must verify that sufficient funds to cover the gift have been transferred to the borrower's account, or will be documented as received by the closing agent at the time of closing. Acceptable documentation includes the following:

- evidence of the borrower's deposit,
- a copy of the donor's funds by check/electronic transfer to the closing agent, or
- the CD showing receipt of the donor's funds.

Gift of Equity: Not permitted.

H-4 – 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. Documentation that funds were withdrawn is required in this instance.

When funds from retirement accounts are used for reserves, the funds are not required to be withdrawn from the account(s). However, caution must be exercised when considering retirement accounts as effective reserves since these accounts often feature significant penalties for early withdrawals, allow limited access, or have vesting requirements.

To account for withdrawal penalties and estimated taxes, CMG/correspondent must include only 60% of the vested amount in its determination of the borrower’s available reserves. If the retirement account only allows withdrawals in connection with the borrower’s employment termination, retirement, or death, the vested funds should not be considered as effective reserves.

H-5 – 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. Due to the volatility in the market, only 70% of the value may be used for reserves.

If funds are being liquidated for closing, CMG/correspondent 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

Table H-5-A: Determining the Value of Stocks, Bonds, and Mutual Funds

Asset Type	Determining the Value of the Asset
Stocks and Mutual Funds	<p>CMG/correspondent must determine the value of the asset at the time of sale or liquidation (net of any margin accounts) by obtaining either:</p> <ul style="list-style-type: none"> • 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. <p>If used as reserves, only 70% of the value may be used.</p>
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.

H-6 – 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.

Form of Employer Assistance

The employer assistance may only be in the form of a grant. A salary advance cannot be considered acceptable since it represents an unsecured loan.

Documentation Requirements

CMG/correspondent 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
- 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.

H-7 – Anticipated Sales Proceeds

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

The actual proceeds received by the borrower must be documented.

Determining the Amount of Net Proceeds

The following table describes how to determine the amount of net proceeds based on borrower's anticipated equity:

Table H-7-A: Net Proceeds Calculations

Sales Price Established?	Net Proceeds Calculation
YES	Sales price – (sales costs + all liens) = Estimated Proceeds
NO	90% of Listing Price – All Liens = Estimated Proceeds. Note: the 10% adjustment factor that is applied to the listing price must be changed depending on market conditions.

When full REO data is entered, DU automatically calculates the estimated net equity from properties marked Pending Sale in Section VI R using the following formula:

$$(Present\ Market\ Value \times 90\%) - Amount\ of\ Mtgs.\ \&\ Liens$$

However, because full REO data is not required, CMG/correspondent can calculate the net equity outside of DU and enter the amount (positive or negative) as Net Equity in Asset Section.

If net equity is calculated from data in REO Section and is also entered in Asset Section, DU will use the amount from Section VI A. (Please check Destiny and DU to make sure it asset is only being counted 1 time)

If a bridge loan is obtained, the amount of the bridge loan should be subtracted from the net proceeds.

- When the net equity is positive, DU will add the amount to the funds available for closing.
- When the net equity is negative, DU will subtract the amount from the funds available for closing.

Obtain a copy of the HUD1 settlement sheet at closing to verify actual amount of proceeds and confirm sufficient to cover funds borrowers need at closing.

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, CMG/correspondent must verify the source of funds by obtaining a copy of the fully executed 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.

H-8 – 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

CMG/correspondent 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, CMG/correspondent 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.

H-9 – 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.

H-10 – Business Accounts

Business funds may be used for down payment, closing costs and reserves 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, a cash flow analysis must be completed by the underwriter to determine that the withdrawal of funds will not negatively affect the business.

H-11 – Cash on Hand

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

Part I – Liability Analysis

I-1 – 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. Maximum DTI Ratio is defined in the product matrix. DTI is calculated using the Note Rate for both fixed rate and ARMs.

Paying Down/Off Debt to Qualify:

Payoff or pay down 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:

- Paying down debt to less than 10 months to avoid including in the debt ratio is not permitted
- Revolving debt cannot be not be paid down to qualify.
- Revolving debt may be paid off to qualify at underwriter discretion subject to VA eligibility. Underwriter has discretion upon review the overall loan analysis to determine if a revolving debt is eligible to be paid off to qualify and if so, whether it must be closed prior to or at closing
- Any installment debt being paid off to qualify must be paid off and closed at or before closing; proof will be required in all instances.

I-2 – Monthly Debt

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

For each liability, CMG/correspondent 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:

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- Alimony/Child Support/Separate Maintenance Payments
- Authorized User Accounts
- Business Debt in Borrower's Name
- Court-Ordered Assignment of Debt
- Co-Signed Loans
- Deferred Installment Debt
- Home equity lines of credit
- Installment Debt
- Lease Payments
- Loans Secured by Financial Asset
- Unreimbursed Employee Expenses
- Open 30-day Charge Accounts
- Revolving Charges
- Qualifying Impact of Other Real Estate Owned

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 the payments must be considered as part of the borrower's recurring monthly debt obligations. Exceptions will be considered if the monthly payment has limited impact on the DTI, is under \$100 and AUS has excluded the payment on its own. However, voluntary payments do not need to be taken into consideration.

Spousal support or alimony may be treated as a reduction in income; however, child support is to be treated as a liability.

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, regardless of the AUS decision. 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.

Authorized user accounts do not need to be counted in the borrowers DTI UNLESS, the borrower states that they have been making the payments on the account; the tradeline belongs to the borrowers spouse and the spouse is not on the loan. You must make every effort to determine who the owner of the account is to see if it needs to be included in the DTI. You must make sure you include the account in LOS and make sure AUS is reading the account in the ratios. DU will automatically not count any "AA" accounts in the ratios. You may need to manually add the debt so it is counted.

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, CMG/correspondent 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
- CMG/correspondent'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 CMG/correspondent'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 CMG/correspondent 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.

Deferred Payment Accounts:

Deferred installment debts, must be included as part of the borrower's recurring monthly debt obligations except as noted below. 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 Deferred Student Loans, see the [Student Loans](#) section below.

Home Equity Lines of Credit (HELOC)

When the mortgage 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 CMG/correspondent 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. However, an installment debt with fewer monthly payments with a monthly payment of \$100 or more must be included in the DTI.

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.

Note: AUS will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the AUS Findings report. However, for transactions that do not require the verification of reserves, the balance of 30-day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.

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.

Qualifying Impact of Other Real Estate Owned

VA Lender Handbook requirements must be met.

Revolving Debt

Revolving debt cannot be paid down to qualify.

Also, refer to Section I-1: Debt-to-Income Ratio - Paying Down/Off Debt to Qualify.

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Information in these guidelines is for credit policy guidance only and is not a complete representation of CMG Financial (NMLS #1820) Lending Policies. Information is accurate as of the date of publishing and is subject to change without notice. The Guidelines outlined apply to VA loans submitted to DU/LP. In addition to applying these CMG-specific overlays, all loans submitted to DU/LP must comply with the AUS Findings and VA requirements. To verify our state licenses, please log onto the following website: <http://www.cmgfi.com/licensing.php> and www.nmlsconsumeraccess.org

Student Loans

Effective with Circular 26-17-02 the following requirements apply in regards to calculating a Student Loan Monthly Payment. Requirements are as noted below:

- a. If the Veteran or other borrower provides written evidence that the student loan debt will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.
- b. If a student loan is in repayment or scheduled to begin within 12 months from the date of VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the payment established in paragraph (1) or (2) below. Calculate each loan at a rate of 5 percent of the outstanding balance divided by 12 months (example: \$25,000 student loan balance x 5% = \$1,250 divided by 12 months = \$104.17 per month is the monthly payment for debt ratio purposes).

(1) The lender must use the payment(s) reported on the credit report for each student loan(s) if the reported payment is greater than the threshold payment calculation above.

(2) If the payment reported on the credit report is less than the threshold payment calculation above, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s). The statement(s) must be dated within 60 days of VA loan closing and maybe an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer. It is the lender's discretion as to whether the credit report should be supplemented with this information.

Unreimbursed Business Expenses

- For a borrower who qualified using commission income of less than 25% of the total annual employment income:
 - IRS Form 2106 expenses are not required to be deducted from income even if they are reported on IRS Form 2106 and are not required to be added as a monthly liability.
 - Tax returns are not required to document the source of income and deductions.
 - For a borrower earning commission income that is 25% or more of annual employment income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.
 - One exception to the policy clarification concerns an automobile lease or loan payment. Automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debt obligations in Section D on the VA Form 26-6393.
- Tax returns are required to document the source of income and deductions.

Reference VA Circular: http://www.benefits.va.gov/HOMELOANS/documents/circulars/26_16_10.pdf

Part J – Property Eligibility

J-1 – Eligible Collateral

- Single Family Dwellings, including townhomes and row homes
- 2-4 Family Dwellings
- Condominiums and Site Condominiums
- Planned Unit Developments
- Manufactured homes are eligible as noted in the CMG Manufactured Home Guideline Addendum.
- 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.
- Unique homes such as log homes will be reviewed on an exception basis; like comparables must be provided

Note: All properties must meet VA requirements. Refer to [VA Lender's Handbook Chapter 12 for Minimum Property Requirements](#).

J-2 – Ineligible Collateral

- Mixed Use Properties
- Multi-family properties with more than four units
- Agricultural-type properties (such as farms, orchards or ranches) where income is being produced from the property
- Bed and Breakfast Properties
- Properties not suitable for year-round occupancy
- Properties not accessible by roads meeting local standards
- Non-VA approved Condominiums
- Co-ops
- Properties not typical for the area and lacking comparables (i.e. geodesic homes, log cabins, etc.)
- Timeshares
- 2-4 Unit properties in the state of NJ
- Property Flip when Non-Arm's Length Transaction
- Properties appraised with condition C5 or worse
- Properties with:
 - Any health/safety issues or repairs needed;
 - Less than average condition;
 - No permanent heating source;
 - Private Transfer Fee Covenants;
 - Resale restrictions (Age restricted properties allowed)
 - Utilities turned off
- 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

J-3 – Manufactured Homes

- Manufactured homes are eligible per requirements noted in the CMG Manufactured Home Guideline Addendum.

J-4 – Appraisal Documentation

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/correspondent'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 required products vary in accordance with the Appraisal Tree. The data as well as the appraisal report will be reviewed when determining acceptability of the appraisal report.

CMG Ineligible List

All loans will be reviewed against the Ineligible Appraiser List. If an appraisal is completed though an appraiser on the list, additional appraisal products may be required.

APPROVED AMCs

Appraisals must be ordered through an approved AMC.

J-5 – Appraisal Forms and Exhibits

Table J-5-A: Appraisal Forms and Exhibits

<p>FNMA 1004 - Uniform Residential Appraisal Report</p>	<p>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</p>
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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/correspondent 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.

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,
- Sketch to include porches, patios, and garages
- Photos to include front and rear at opposite sides to get all angles of property and street scene to include a portion of the subject property

J-6 – Appraisal Transfer

In the event the borrower had an appraisal ordered through another mortgage company, the report should be obtained for our file. The report will be reviewed to ensure it meets CMG and VA standards and provided the underwriter is accepting of the value, it will be used in determining LTV calculations. Should the report be deemed unacceptable and a second

appraisal be requested, the cost of the second appraisal cannot be passed along to the borrower. In that instance, the lower of the two values will be used in calculating the LTV.

J-7 – Appraisal Assessment

CMG/correspondent 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/correspondent has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, CMG/correspondent must attempt to resolve its concerns with the appraiser who originally prepared the report. If CMG/correspondent 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. For information concerning the process CMG/correspondent must follow to address a change of the opinion of market value, see Guidance on Addressing Appraisal Deficiencies, below.

J-8 – Appraisal Repairs

Regardless of product, 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. See section M, Escrow Holdbacks for information on VA Repair Escrows.

J-9 – Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with one of the following Fair Housing Act exemptions:

Government Housing Programs - The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings provided under any STATE OR FEDERAL PROGRAM specifically designed and operated to assist the elderly or to house elderly persons. The Secretary of HUD must determine that the development meets this exemption.

Age Restrictions – 62 years of age or older

The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended for, and solely occupied, by persons 62 years of age or older.

Age Restrictions – Any age restriction

The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:

- At least 80% of the occupied units are occupied by persons 55 years of age or older; and
- The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older; and
- The housing facility or community can provide documentation for verification of occupancy, by means of:
 - Reliable surveys and affidavits;
 - Examples of published written policies and procedures for determination of compliance with the Fair Housing Act.

Required Documents for Age Restricted Properties

When it is determined that a housing development is subject to age restrictions, the Homeowners Association must complete and sign the form Housing Developments Subject to Age Restrictions (see Form 38). By signing this form the association certifies that the housing development is in compliance with the Fair Housing Act.

Part K – Geographic Restrictions

K-1 – 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).

Refer to applicable Loan Matrix for any additional geographic restrictions.

Part L – Disaster Policy

L-1 – General Information

When a property is located in a Disaster Area, CMG 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/>

Correspondent clients will be required to furnish CMG with the proper recertification prior to loan purchase.

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

Part M – VA Residual Income

M-1 – General Information

VA's minimum residual incomes (balance available for family support) are a guide. They should not automatically trigger approval or rejection of a loan. Instead, consider residual income in conjunction with all other credit factors.

An obviously inadequate residual income alone can be a basis for disapproving a loan.

If residual income is marginal, look to other indicators such as the applicant's credit history, and in particular, whether and how the borrower has previously handled similar housing expense.

Consider whether the purchase price of the property may affect family expense levels. For example, a family purchasing in a higher priced neighborhood may feel a need to incur higher-than-average expenses to support a lifestyle comparable to that in their environment, whereas a substantially lower priced home purchase may not compel such expenditures.

Also consider the ages of the borrower's dependents in determining the adequacy of residual income.

M-2 – Residual Income Calculation

The appropriate residual income amount from the following tables must be entered in the "guideline" box of VA Form 26-6393, Loan Analysis. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, and gasoline.

The numbers are based on data supplied in the Consumer Expenditures Survey (CES) published by the Department of Labor's Bureau of Labor Statistics. They vary according to loan size, family size, and region of the country.

Count all members of the household (without regard to the nature of the relationship) when determining "family size," including:

- An applicant's spouse who is not joining in title or on the note, and
- Any other individuals who depend on the applicant for support. For example, children from a spouse's prior marriage who are not the applicant's legal dependents.

Exception: The underwriter may omit any individuals from "family size" who are fully supported from a source of verified income which, for whatever reason, is not included in effective income in the loan analysis. For example:

- A spouse not obligated on the note who has stable and reliable income sufficient to support his or her living expenses, or
- A child for whom sufficient foster care payments or child support is received regularly.

Reduce the residual income figure (from the following tables) by a minimum of five percent if:

- The applicant or spouse is an active-duty or retired serviceperson, and
- There is a clear indication that he or she will continue to receive the benefits resulting from use of military-based facilities located near the property.

Use five percent unless the VA office of jurisdiction has established a higher percentage, in which case, apply the specified percentage for that jurisdiction.

Table M-2-A: Residual Incomes by Geographic Region

Loan Amount of \$79,999 or Below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of seven.			
Loan Amount of \$80,000 or Above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of seven			

Table M-2-B: Key to Residual Income Geographic Regions

Region	State		
Northeast	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
Midwest	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
South	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
West	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming

Part N – Property Insurance

N-1 – Escrows for Taxes and Insurance

Escrows are always required on VA loans, regardless of LTV.

N-2 – Hazard Insurance

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

Agent Rating Requirements

Unless CMG has approved alternative arrangements in advance, the hazard insurance policy for a property securing any first mortgage—including blanket policies for condos and PUDs—must be written by a carrier that meets the following rating requirements. The carrier only needs to meet only one of the following rating categories, even if it is rated by more than one agency.

Table N-2-A: Agent Rating Requirements

Rating Agent	Rating
Demotech, Inc. http://www.demotech.com/01_pages/fsr/search.aspx	an “A” or better rating in <i>Demotech’s Hazard Insurance Financial Stability Ratings</i> .
A.M. Best Co. http://www3.ambest.com/ratings/default.asp	a “B” or better Financial Strength Rating in <i>Best’s Insurance Reports</i> or a “6” or better financial performance index rating in <i>Best’s Key Rating Guide</i> OR an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in <i>Best’s Insurance Reports Non-US Edition</i> .
Standard and Poor’s Inc.	a “BBB” or better claims paying-ability rating in S&P’s International Confidence Rating Service OR a “BBBq” qualified solvency ratios or a “BBB” or better claims paying ability rating in S&P’s Insurer Solvency Review OR An “Aaisi” in its International Confidence Rating Service

Other Acceptable Insurance Underwriters

- Policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan, if it is the only coverage that can be obtained,
- Policies obtained through state insurance plans—such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools—if that is the only coverage that is available, and
- A separate windstorm and earthquake policy issued by the Virgin Islands Windstorm and Earthquake Insurance Authority (for properties in the Virgin Islands) or a separate hurricane insurance policy issued by the Hawaiian Hurricane Relief Fund (for properties in Hawaii), as long as the companion non-catastrophic fire and extended coverage (or homeowner’s) policy is obtained from a hazard insurer that satisfies Fannie Mae’s rating criteria.

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 must be equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

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

Most condominium projects have master or blanket policies that address the insurance requirements for each unit. Each loan file must contain a copy of the blanket policy as well as a copy of the Evidence of Insurance that specifies the individual unit. Blanket policies may not permit:

- A blanket policy covering multiple unaffiliated condo associations or projects OR
- Self insurance arrangements in which the HOA is self-insured or has banded together with unaffiliated associations to self-insure the general and limited common elements of various associations.

The term “walls-in” for insurance policies has been eliminated and revised requirements have been updated. The new requirements are described below. The HO-6 policy is still required if the master insurance policy does not provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made for the individual unit.

A statement is required from the insurance agent that states: “Based on our best knowledge and information, the HO-6 coverage amount is appropriate and adequate to return this property to its current condition in the event of a claim.”

A “single entity” policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must cover fixtures, equipment, and replacement of improvements and betterment coverage to cover any improvements that have been made inside the individual unit. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

An “all-in” (sometimes known as an “all inclusive”) policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made. As such, a borrower is not required to have an HO-6 policy. If the unit interior improvements are not included under the terms of this policy type, however, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

A “bare walls” policy – the policy typically provides no coverage for the interior of the condominium unit which includes fixtures, equipment, and replacement of improvements and betterments. As a result, a borrower will also be required to obtain an HO-6 policy.

For policies covering the common elements in a PUD project and for policies covering condominium or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement value of the unit.

Most units in PUD projects are insured as individual residences; therefore their insurance requirements are similar to those for single-family residences. However, if a project covers individual units with a master policy, the master policy is acceptable.

Table N-2-A: Attached Condo Requirements

Coverage	Criteria
Type of Policy	The master policy in the name of the condo association must cover all common elements, amenities, and the residential buildings.
Named Insured	Policy must be in the exact name of the association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.
Liability Coverage	All States Except CA: A liability policy of \$1,000,000 minimum per any single occurrence is required CA projects (100 or fewer units): A liability policy of \$2,000,000 minimum per any single occurrence is required CA Projects (>100 units): A liability policy of \$3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of ‘umbrella’ or ‘additional liability’)
Hazard Coverage	Must cover 100% of the insured value and include a GRC Endorsement or a Replacement Cost Endorsement.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity Bond	Required for new and established projects with more than 20 units. The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must: <ul style="list-style-type: none"> • Be in an amount equal to no less than the maximum amount of funds in the HOA’s reserve account; or • If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month’s HOA assessments
Expiration Date	The policies must not expire prior to funding.

Table N-2-B: PUD and Detached Condo Requirements

Coverage	Criteria
Type of Policy	PUD and detached condos usually carry master policies for common elements and amenities, but do not include the residences. Individual lots are usually covered by individual owner policies. Occasionally, however a PUD/detached condo association may carry a master policy that insures the residences. This type of master policy is an acceptable alternative to individual policies, but the policy must be reviewed to ensure proper coverage exists.
Named Insured	Policy must be in the exact name of the PUD/detached condo association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.
Liability Coverage	All States Except CA: A liability policy of \$1,000,000 minimum per any single occurrence is required CA projects (100 or fewer units): A liability policy of \$2,000,000 minimum per any single occurrence is required CA Projects (>100 units): A liability policy of \$3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of 'umbrella' or 'additional liability')
Hazard Coverage	No master policy verification is required. Each individual owner must provide a hazard insurance policy for the residence. If all hazard insurance is carried by the association's blanket policy that includes all the residences, the policy must cover 100% of the insurable value and must include an insurable value endorsement.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity Bond	Required for new and established projects with more than 20 units. The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must: <ul style="list-style-type: none"> • Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or • If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments
Expiration Date	The policies must not expire prior to funding.

Special Endorsements

The requirements for endorsements for PUD and condo projects are as follows:

- Inflation Guard Endorsement, when it can be obtained,
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land- use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The

endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.), and

- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.

Special Endorsements for Condo Projects Only

A Special Condo Endorsement is required if the policy doesn't provide that:

- Any Insurance Trust Agreement is recognized and the right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners' association.

The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Table N-2-C: Requirements for Name Insured

COVERAGE TYPE	REQUIRED FOR NAME INSURED
Condo Projects	The policy must show the homeowners' association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowners' association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the homeowners' association as the named insured.

Loss Payee: Refer to Selling Guide.

N-3 – Flood Insurance

Properties located in a FEMA Special Flood Hazard Area (SFHA) must be covered by a flood insurance policy. Properties located in a SFHA are not eligible if flood insurance is not available.

Regular Flooding: Based on the appraiser's knowledge of the market area, properties that are subject to regular flooding are not eligible, whether or not the area has been designated an SFHA.

Verification of Flood Zone: While appraisers must provide flood zone information on the appraisal report, flood zone maps do not typically indicate the location of specific properties. Lenders are responsible for verifying the flood zone information.

Flood Zones: SFHAs are usually designated Zones A, AO, AH, A1-A30, AE, A99, AR, AR/AE, AR/AO, AR/A1-A30, AR/A, V, VE, and V1-V30. Flood insurance is not required in Zones B, C, X, and D.

Excluding Non-Residential Improvements: At the Veteran's request, non-residential improvements such as detached garages and small sheds may be excluded from the flood insurance policy if they are also excluded from the appraised value. The cost of flood insurance with and without coverage for the detached building should be compared as excluding a detached building may not be worthwhile.

Private Flood Insurance: Veterans may elect to obtain private flood insurance instead of obtaining flood insurance through the National Flood Insurance Program.

Coastal Barrier Resources System: Properties located in Coastal Barrier Resources System (CBRS) areas are not eligible for an appraisal.

- **Appraiser Responsibilities:** Appraisers who perform appraisals for VA near the Atlantic Ocean, the Great Lakes, the Gulf of Mexico, or the Caribbean Sea must be familiar with any CBRS areas. If the appraiser finds that a property on which an appraisal has been ordered is located in a CBRS area, the appraiser must stop work and promptly notify the lender.

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

Flood insurance is required for all floors of a multi-floor structure, even if the unit is not on the ground floor. Loans on attached condos must be covered per Option 1 or 2 below:

- **Option One:** Units are covered by the project's blanket flood policy. The HOA maintains the policy and pays the premium.
 - Building coverage equals 100% or more of the insurable value of the common elements and property (including repair or replacement of foundation and its supporting structures, and machinery and equipment that are not part of the building)

- Contents coverage that equals 100% or more of the insurable value of the contents (including repair or replacement of foundation and its supporting structures, and machinery and equipment that are not part of the building) and are owned in common by association members
- Unit coverage, which should be the lesser of:
 - \$250,000 per unit
 - 100% of the insurable value (replacement cost) of each building in the project including amounts to repair or replace the foundation and its supporting structures (including all common elements and property)
 - If no common elements HOI dwelling must equal Flood
- **Option Two:** If the HOA does not carry a blanket policy or does not possess the minimum coverage, the unit owners are required to obtain separate policies for their unit with the same type of coverage required for SFRs. Coverage must be:
 - Equal to or greater than the unpaid principal balance* or
 - The maximum available from the NFIP (currently \$250,000 per unit) **If the unpaid principal balance of the mortgage is the lowest option, then the amount must be at least 80% of the replacement cost of the dwelling. If the unpaid principal balance is less than 80% of the replacement cost of the dwelling, then the required coverage is 80% of the dwelling. The replacement cost of improvements (as determined by hazard insurance coverage) is used to calculate adequate flood coverage.*

Deductibles

The deductible for 1-4 units, condos and PUD may not exceed a maximum of \$5,000. Condo and PUD master policy deductibles cannot exceed a maximum of \$25,000.

Part O – Title Insurance

O-1 – 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/correspondent'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.

O-2 – 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 Fannie Mae Selling Guide standards to ensure the title company meets acceptable standards.

O-3 – Closing Agent Requirements

All closing agents must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Errors and Omissions Insurance Policy. The minimum coverage limit is \$500,000 per claim and \$1,000,000 in aggregate with a deductible of no more than \$5,000 per million. The policy must have valid effective dates.
- A Closing Protection Letter (CPL) from the title underwriter identifying the closing agent by name and address. A transaction specific CPL will be required on each transaction.
 - In the event the property is located in a state where closing protection letters are not issued by the insurer, a Fidelity Bond policy must be obtained. The bond must provide for a minimum of \$1,000,000 in coverage and CMG must be named as a certificate holder on the policy.
- Wiring Instructions must be provided with each closing transaction.

O-4 – Closing Attorney Requirements

All closing attorneys must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Copy of Business License
- Closing Protection Letter, if available in subject property state
- Liability Insurance Policy. The minimum coverage is \$1,000,000 with a deductible of no more than \$5,000 per million. The declarations page must have valid effective dates and list the name of the attorney or firm name and address.

Part Z - Recent Updates / 90 Day Lookback

8/28/2020 Updated section N-3 Flood insurance to clarify VA's stance on private flood and other topics addressed in the revised Chapter 12 of the VA Lender's Handbook. Added a note to eligible collateral to reference the revised Chapter 12 of the VA Lender's Handbook (VA's Minimum Property Requirements).

4/13/2020 Updated verbiage regarding "grossing up" non taxable income to align with the verbiage in the revised "NEW" chapter 4 of the VA Handbook.

6/10/2019 Per previous announcement, updated Rental Income to add additional guidance regarding multi-unit properties and boarder income. Added CMG guidance for projected income (previously not allowed). Spousal support or alimony may be treated as a reduction in income; however, child support is to be treated as a liability. Updated gift funds section with better defined eligibility & documentation requirements. Reminder - VA Lender's Handbook revised Chapter 4 requirements must be adhered to with all applications on and after May 22nd, but revised requirements may be applied prior to. CMG will use Fannie Mae Selling Guide standards to ensure the title company meets acceptable standards (removed old rating agency references).