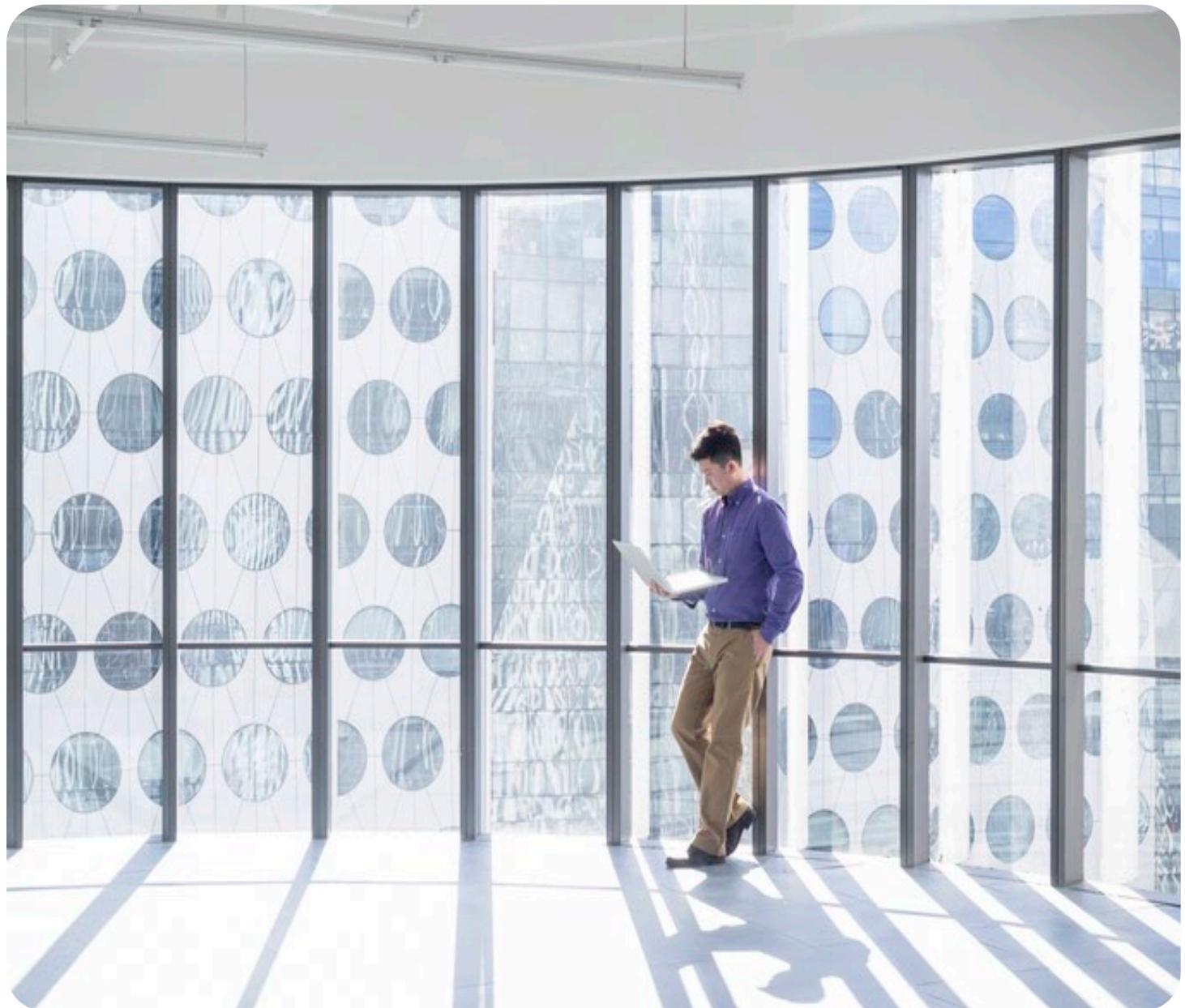


Correspondent Lending Non-QM Underwriting Guidelines

May 2023



Non-QM Loan Underwriting Introduction

A Non-QM loan, or a non-qualified Mortgage, is a Mortgage Loan that allows a borrower to qualify based on alternative standards, instead of the requirements set forth by the CFPB.

The purpose of credit and property underwriting is to ensure that each loan meets AMG's quality standards. A loan meets AMG's underwriting quality standards if the borrower's credit, capacity to make payments and the quality of the collateral are consistent with the Mortgage Loan program under which the loan is being sold. The likelihood of timely repayment is expected to be commensurate with the credit quality of the loan program and the represented value of the subject property is expected to reflect accurately its market value.

The maximum loan amount for the Non-QM Mortgage Loan program through AMG is currently \$2,000,000. Underwriting requirements may vary as a result of different loan characteristics and are outlined in Chapter One.

Regardless of underwriting method, additional information may be requested at the discretion of the Underwriter.

These Guidelines are a part of the AIG Asset Management (U.S.), LLC(AMG) Correspondent Lending Seller's Guide (the "Seller's Guide"). All capitalized terms not defined in these Guidelines have the respective meanings set forth in the Seller's Guide.

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These Correspondent Lending Non-QM Underwriting Guidelines (Exhibit A-3) are dated May 8, 2023. These Underwriting Guidelines may be updated or modified from time to time. AMG believes the information contained in this document relating to state laws and third-party requirements to be accurate as of May 15, 2023. However, this information is provided for informational purposes only and may change at any time without notice. AMG is providing this information without any warranties, express or implied.

Please refer to the AIG Asset Management (U.S.), LLC (AMG) Correspondent Seller's Guide for additional information regarding the relationship between the parties.

AIG Asset Management (U.S.), LLC ("AMG" or the "Adviser") is a registered investment adviser with the U.S. Securities and Exchange Commission. AMG is an indirect subsidiary of Corebridge Financial, Inc., formerly AIG Life & Retirement. AMG provides investment advisory and asset management services to American International Group, Inc. ("AIG"), Corebridge, and their subsidiaries, which are typically insurance companies.

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Chapter One: General

Section 1.01 Matrices

Non-QM Product Matrix													
Products			Product Description										
All Non-QM Products			<ul style="list-style-type: none"> \$100,000 minimum loan amount. \$2,000,000 maximum loan amount. Mortgage Insurance is not required. 										
Fixed Products	<ul style="list-style-type: none"> 20-year Fixed (AIGHNMFX20) 30-year Fixed (AIGHNMFX30) 		<ul style="list-style-type: none"> Fully amortizing fixed-rate loan products only. 										
Interest-Only Product	<ul style="list-style-type: none"> 40 year Interest-Only (AIGNMFX40IO) 		<ul style="list-style-type: none"> 40 Year Term. 30 Year Amortization-qualify based on the 30 year fully amortizing PITIA. 10 Year Interest Only Period. 700 Minimum Credit Score. Required reserves are based on the Interest-Only Payment. 										
Occupancy Type	Transaction Type	Property Type	Maximum LTV/HCLTV	Maximum Loan Amount	Minimum Credit Score	Max DTI							
Primary Residence	Purchase and Rate & Term Refinance	SFR, PUD, Condo, 2-4 Units	90%	\$1,000,000	720	50%							
			85%		700								
			80%		660								
			90%	\$2,000,000	740								
			85%		720								
			80%		680								
			60%		660								
	Cash-Out Refinance	SFR, PUD, Condo, 2-4 Units	80%	\$1,000,000	660								
			60%	\$2,000,000	660								
Second Home	Purchase and Rate & Term Refinance	SFR, PUD, Condo	80%	\$1,000,000	660	50%							
			80%	\$2,000,000	680								
			60%		660								
	Cash-Out Refinance	SFR, PUD, Condo	65%	\$1,000,000	660								
			60%	\$2,000,000	660								
See specific sections in these guides for additional overlays and restrictions related to First-Time Home Buyers, Significant Derogatory Credit events, Gift Funds, Declining Markets, Non-Permanent Residents and Asset Depletion Income.													
Reserve Requirements													
Loan Amount			Cash Reserves Requirement										
\$100,000-\$500,000			3 months										
\$500,001-\$2,000,000			6 months										
Additional Asset Requirements													
<ul style="list-style-type: none"> Borrowers with other properties in addition to the subject property are required to have an additional 2 months of reserves for each additional property. The additional 2 months of reserves are based on the PITIA of the additional property. Properties owned free and clear require two months of taxes, insurance and HOA dues in reserves. Evidence of liquidation of funds necessary for closing must be provided in the closed loan package. The borrower is required to make a minimum down payment from his or her own assets for all transactions (see Gift Fund Eligibility below for exceptions). All down payment funds and cash to close must be documented and verified. Electronic verifications are acceptable. Funds received from a cash-out transaction may be considered eligible for the reserve requirement calculation. Interest-Only product reserve requirements are based on the interest-only payment. 													

First-Time Home Buyer

Defined as: Any borrower who has not owned a residential property located within the United States at any time during the prior three years (prior ownership within the previous three years is measured from the HUD or Closing Disclosure closing date (when property was sold) to the date of the subject mortgage loan application).

First-Time home buyer requirements do not apply to loans with more than one borrower when at least one borrower has owned a residential property located within the United States at any time during the prior three years. See First-Time home buyer section within these Guidelines for additional criteria.

- One-unit primary residence only.
- 12 months rental history with 0x30 required.
- First-Time home buyers with significant derogatory credit will require 7 years seasoning from the completion of the event.
- For borrowers living rent-free, see Chapter Seven for requirements.
- Ineligible for the Interest-Only Product.

Loans with Significant Derogatory Credit Events

Borrowers with significant derogatory credit events (restructured mortgages, foreclosure (including Notice of Default and pre-foreclosure), bankruptcy, Deed in Lieu) are eligible provided the significant derogatory credit event meets the required seasoning periods in Chapter Seven. The borrower must meet the following criteria:

- Maximum 43% DTI.
- First-Time home buyers will require a minimum of 7 years seasoning from the completion date of the significant derogatory credit event.
- Mortgage Loans with multiple significant unrelated derogatory credit events are ineligible for purchase.
- All other requirements within this guide must be met.

Secondary Financing Eligibility

- **Simultaneous Seconds:** Purchase and refinance transactions with new simultaneous secondary financing are eligible when HCLTV does not exceed maximum LTV/HCLTV stated in the product matrix in this guide.
- **Re-subordination:** Refinance transactions with existing subordinate financing may be re-subordinated. The HCLTV may never exceed the maximum allowable LTV/HCLTV stated in the product matrix in this guide. HELOC line limits may be paid down to meet HCLTV caps. Lines reduced or balances paid down must be fully documented including source of funds.

Maximum Interested Party Contribution Requirements

Up to 75% LTV/HCLTV	9%
75.01% - 90% LTV/HCLTV	6%

Gift Fund Eligibility

- One-unit properties only.
- Minimum 5% borrower contribution from their own demonstrated savings must be documented in a liquid account.*
- Gift donors must be individuals and may not be a business or trust-refer to Fannie Mae for eligible donors.
- The donor may not be or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
- Gift funds must be evidenced by fully executed gift letter, evidence of donor's ability (e.g., bank statement or cancelled check), and evidence borrower has received the funds. Funds wired directly to the closing agent are acceptable with documentation evidencing the gift donor is the remitter of the wire and the bank account that originated the wire belongs to the donor.
- Gift funds from foreign assets must meet foreign asset seasoning requirements in Chapter Eight in order to be an acceptable source of funds for a gift.
- Gift funds for the purpose of paying off or reducing debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.
- First-Time home buyer eligible provided all First-Time home buyer requirements are met.
- Gifts of equity are ineligible.
- Gift funds are not eligible for reserves.
- All other guidelines apply.

*Purchase transactions with 70% HCLTV or lower may have all contributions from gift funds, eliminating the 5% minimum borrower contribution requirement. Gift funds may not be considered for reserves.

Other Key Underwriting Requirements

Escrow Waivers	Escrow waivers and partial escrow waivers are eligible, except as to the following: <ul style="list-style-type: none"> • Flood insurance premiums and fees as mandated by the Flood Disaster Protection Act of 1973, as amended. • HPMLs require the escrows of taxes and insurance. 						
Ineligible Geographic Locations	The U.S. Territories including Guam, Puerto Rico, and the Virgin Islands.						
Limitations on other Real Estate Owned	The borrower(s) may own a maximum of 4 financed, one- to four-unit residential real properties, including the subject property regardless of occupancy type. Each separate property (other than the subject property) requires an additional two months of PITIA reserves.						
Appraisal Requirements	<ul style="list-style-type: none"> • Full Uniform Residential Appraisal Report (URAR), with interior and exterior inspection is required on all files and must be supported by a secondary valuation (details provided in section 4.03). • All eligible appraisal and valuation products must be in the name of the originating lender. No transfers or assignments allowed. • All appraisers must be licensed and in good standing with the current appraiser's license included in the closed loan package. • Subject properties located in a declining market as noted by appraiser on appraisal report requires a reduction to maximum LTV/HCLTV for the loan product. A further reduction to LTV/HCLTV is required when qualifying with Asset Depletion income (see Chapter Six). <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Purchase</td><td style="width: 50%;">5% reduction to LTV/HCLTV</td></tr> <tr> <td>Rate & Term Refinance</td><td>5% reduction to LTV/HCLTV</td></tr> <tr> <td>Cash-out Refinance</td><td>10% reduction to LTV/HCLTV</td></tr> </table>	Purchase	5% reduction to LTV/HCLTV	Rate & Term Refinance	5% reduction to LTV/HCLTV	Cash-out Refinance	10% reduction to LTV/HCLTV
Purchase	5% reduction to LTV/HCLTV						
Rate & Term Refinance	5% reduction to LTV/HCLTV						
Cash-out Refinance	10% reduction to LTV/HCLTV						



Cash-Out and Rate & Term Refinance Transactions	<ul style="list-style-type: none"> • Maximum cash-out may not exceed \$1,000,000. • The payoff of an unseasoned second lien constitutes cash out. • A reduction to the Max LTV/HCLTV is required for properties in a declining market. • Cash-out refinance is ineligible for loans qualifying with Asset Depletion income. • Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate and term refinance will result in the loan being deemed a cash-out refinance. • Maximum allowable cash back for a rate & term refinance is 1% of the loan amount.
Ineligible Credit Characteristics	<ul style="list-style-type: none"> • "Thin-file" credit. • Documented credit profiles containing less than two valid credit scores. • Foreign credit reports. • Loans involving borrowers with undocumented credit histories ("no credit"). • Non-traditional credit reports and credit reports which are not Tri-Merge.
	<ul style="list-style-type: none"> • A refinance transaction of a property currently listed for sale. • A transaction paying off an Installment Land Contract. • Balloons and ARMs. • Cash-out transactions on properties listed for sale or purchased in the previous six months (measured from the date of application). • Community Land Trusts. • Delayed financing. • EEM Loans (Energy Efficient Mortgages). • High Cost Loans. • HUD-184 Mortgages. • Investment property. • Loans exceeding 90% HCLTV. • Loans held in a blind trust. • Loans to Principal Owners of Business Lending Client. • Loans which allow Assumptions. • Loans with more than four borrowers. • Loans with non-occupant co-borrowers, guarantors and co-signers. • Loans with Pre-Payment Penalties. • Loans with Temporary Buydowns. • New York purchase transactions documented by CEMA. • Non-Arm's Length transactions are ineligible with the exception of transactions involving unrelated tenant/landlord relationships. • Principal curtailments that exceed the lesser of \$10,000 or 1% of the loan amount. • Property Flips (as defined within these Guidelines). • Refinance an unseasoned Restructured Loan or Short Refinance Loan. • Renovation or Rehabilitation Mortgages. • Single-Close Financing for New Construction. • Texas Section 50(a)(6), Texas Section 50(a)(3) and Texas Section 50(f)(2) Loans. • Title held as Tenants in Common with unequal ownership. • Transactions consisting of an assignment of sales contract. • Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction. • Waivers for Loan Estimate and Closing Disclosure timing requirements.
Ineligible Transaction Types and Loan Attributes	
Additional Documentation Requirements	<ul style="list-style-type: none"> • Compliance Report-The closed loan package must include evidence file meets all regulatory requirements. • Non-Arm's Length Verifications-The verification of assets, credit (including mortgage/rental history), and income may not be verified by a non-arms-length third party without additional supporting documentation. • Third-party Fraud Reports-Third-party fraud reports must be included in all closed loan files.(see Section 1.02). • 1040 Tax Transcripts-Transcripts must be provided for each borrower for all income sources with the exception of Bank Statement income loans. • Income Documentation-must be obtained prior to consummation date and provided in the closed loan package. Sellers must provide written income analysis and detailed calculations for each type of income used to qualify the borrower(s). AMG will allow any type of income worksheet so long as it provides detailed complete calculations and analysis of each type of qualifying income used for each borrower. • State Disclosures-for the subject property state must be provided in the closed loan package.

Section 1.02 Borrower and Participant Eligibility

Mortgage Loans will not be purchased if any company or individual who is a material party to the Mortgage Loan transaction is listed on the Department of Housing and Urban Development (HUD) Limited Denial of Participation List, Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List, the Freddie Mac Exclusionary List (if the Seller is a Freddie Mac approved Seller/Servicer with access to such list), or the General Services Administration (GSA) Excluded Party List System. All lists must be checked for all parties to the transaction.

All loans purchased must contain a Fraud Report. It is the Seller's responsibility to fully review, identify and address any potential issues or risks discovered on the fraud report. Each Fraud Report must include a minimum list of interested parties to the transaction as verified participants. The participants should include, but are not limited to:

- Borrower(s)/Buyer(s)
- Property Seller(s) (if applicable)



- Listing Agent (if applicable)
- Selling Agent (if applicable)
- Appraiser(s)
- Loan Originator

Section 1.03 **Loan Application**

The Fannie Mae/Freddie Mac Uniform Residential Loan Application must be used, and the loan application must be complete, including without limitation:

- A full two-year history of employment/income and residency and all personal information for each borrower. If a borrower's employment history includes unemployment or insurance benefits, the application must reflect at least two years of previous employment, therefore covering a longer period of time.
- The Declarations Section VIII must be answered for each borrower.
- The method of taking the application including face-to-face, by telephone, by fax or mail, by email or the internet.
- The Loan Originator's information, including name, telephone, and NMLS number must be completed.
- The initial application must be signed and dated by the Loan Originator and all Borrowers when a power-of-attorney is being used for any of the applicants.

All loan applications must be reviewed by the Seller for reasonableness as part of the underwriting process, including without limitation:

- The feasibility of occupancy claims and the overall financial picture of the borrowers must be reasonable.
- When conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the Mortgage Loan file.
- All documents in the Mortgage Loan origination file that are relevant to underwriting must be reviewed by the Seller for signs of alteration or fabrication.

The final application must be signed and dated by all borrowers, and comply with the requirements set forth above, including without limitation:

- The borrower's complete and accurate financial information relied upon by the underwriter.
- All debt incurred during the application process and through loan closing must be disclosed on the final application.

Section 1.04 **Identity Verification**

The identity of each borrower whose credit is used for loan qualification must be confirmed in accordance with Fannie Mae guidelines unless otherwise stated within this guide.

Section 1.05 **Social Security Number Validations**

- All borrowers must have a valid Social Security number.
- Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are ineligible for purchase.

Section 1.06 **Electronically Signed Documentation**

All Electronic Signatures must comply with applicable federal and state law regarding enforceability. For all Mortgage Loans, Electronic Signatures on all documentation will be accepted with the exception of the following:

The following documents/notarizations are ineligible:

- E-Notes
- E-Mortgages
- E-Notarizations
- Remote Notarizations (RIN/RON)

Electronic signatures are ineligible for the following documents:

- Note
- Security Instrument
- Power-of Attorney (unless permitted by state law)
- Allonge
- Notarized documents
- Notice of Right to Cancel

Section 1.07 **Miscellaneous Closing and Servicing Procedures**

A. Powers of Attorney

The use of a specific POA document is allowed, provided these underwriting guidelines and Fannie Mae requirements are followed. See additional restrictions in Chapter 5.

B. Non-borrowing Spouse

A Non-Borrowing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

C. Recast Option

Loans that have completed a principal curtailment and recast of principal and interest payment are ineligible for purchase. Additionally, recast options are not offered for loans that have been purchased. If you have questions, please contact our Servicing Department.

D. Principal Curtailment

Principal curtailments may not exceed the lesser of \$10,000 or 1% of the loan amount.

E. Escrow for Postponed Improvements

- Escrow for postponed improvements related to new construction which are exterior in nature and occur as a result of any of the following circumstances, may be acceptable provided the guidelines in this Section are met:
 - Weather.
 - Shortage of building materials.
 - Water shortage.
 - Labor shortage, or
 - Third party contract delays.
- The uncompleted work must not prevent an occupancy certificate from being obtained for the subject.
- 120% of the proposed value of the improvements must be escrowed; however, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds escrowed only need to equal the full amount of the contract price.
- The closed loan package must contain a Final Inspection or appraisal report detailing the value of the postponed improvement as well as an escrow agreement signed by all parties.
- Escrows for postponed improvements must be satisfied by the date disclosed on the escrow holdback agreement and may not exceed 180 calendar days from the loan closing date.



- Evidence of funds release and property completion must be provided.

Escrow holdbacks related to the completion of in-ground pool installation are allowed. The criteria below are a minimum standard by which an escrow holdback will be considered for this reason:

- A pool must be common for the area in which the subject is located.
- The work must be completed within 120 calendar days of loan closing. Evidence of funds release and property completion must be provided.
- 120% of the proposed value of the improvements must be escrowed; however, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds escrowed only need to equal the full amount of the contract price.
- Pool installation must be included in the sales contract, an addendum to the sales contract, or in a fully executed separate contract with a licensed contractor.
- The work must be completed by a licensed contractor, pool installation-company, or the subject builder.
- The value of the pool improvements included in the purchase price must be no more than 10% of the total subject property value.
- All other Fannie Mae requirements must be met. Loans with escrows for postponed improvements for reasons other than those stated herein will be ineligible for purchase.

Section 1.08 Escrows/Impounds

Escrow or impounds are defined as all funds collected by a mortgagee on a Mortgage Loan for the servicer to cover expenses of the borrower that are required to be paid under the security instrument. The funds may include, but are not limited to, taxes, homeowners association charges, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Mortgage Loan, as well as hazard, flood and premiums.

An escrow of funds for the payment of property taxes, hazard insurance, flood insurance, and HO6 is required.

- A renewal policy is required for hazard and flood insurance policies expiring within 50 calendar days from the loan closing.
- Two months of escrow is required on all loans unless escrows have been waived or if otherwise mandated by federal or state law.
- Escrow of the HO6 policy is not required if coverage is for personal contents only.
- On a purchase transaction, if property taxes are due within 30 calendar days of the loan closing, the Settlement Statement or Closing Disclosure(s) should reflect the amount sufficient for the Seller to pay the taxes.
- On a refinance transaction, property taxes which are delinquent 60 days or more may not be paid with funds from the transaction and must be paid-current at time of consummation.
- Escrow of premiums and fees for flood insurance is required for all mortgage loans as mandated by the Flood Disaster Protection Act of 1973, as amended.

Section 1.09 Escrow/Impound Waiver

- Escrow waivers and partial escrow waivers are eligible, except as to the following:
 - Flood insurance premiums and fees as mandated by the Flood Disaster Protection Act of 1973, as amended.
 - HPMLs require the escrows of taxes and insurance.
- No escrow waivers on Mortgage Loans with LTVs greater than 80%, unless the subject property is located in the state of California, with LTVs from 80.01% to 89.99%.

Section 1.10 Subject Loan Payment History

A payment history is required when 15 days or more have elapsed since the first payment due date. The payment history should include all payments and disbursements from the new subject Mortgage Loan.

Chapter Two: Transaction

Section 2.01 Occupancy Type

A. Primary Residence

- A primary residence is a property in which all borrower(s) take title and occupy as his, her, or their primary residence for the majority of the year.
- Borrowers are required to occupy subject property within 60 calendar days of Consummation or as per the terms of the Mortgage/Deed of Trust.
- A Leaseback of the subject property to the seller is acceptable provided the period in which the lease is available does not exceed 60 calendar days from the Note date and the terms are clearly specified on the purchase contract. Builder leasebacks for the continued use of the subject property as a model home are ineligible.
- Gift funds are ineligible for use as reserves.
- Income from the subject owner-occupied property (1-4 units) may not be used to qualify the borrower when the subject transaction is a purchase transaction.

B. Second Home

- The property must be occupied by the borrower for some portion of the year.
- The property must be suitable for year-round occupancy.
- All borrowers must take title to the property.
- Property cannot be subject to any agreements that give a management company control over the property.
- The property must be under the borrower's exclusive control (timeshares and rental agreements ineligible).
- One-unit properties only.
- Gift funds are ineligible for use as reserves.
- Borrowers may own more than one second home.

Section 2.02 Loan Purpose

Mortgage Loans made for the following purposes as defined in this section are eligible for purchase:

- Purchase Money Mortgage Loan.
- Refinance Mortgage Loan.
 - Rate & Term Refinance Mortgage Loan.
 - Two Close Construction-to-Permanent Purchase Mortgage Loans
 - Cash-out Refinance Mortgage Loan.

Note: Maximum financing ineligible for declining markets-see Chapter One Matrix.

A. Purchase Mortgage Loan Transactions

A transaction in which the proceeds received must be used to finance the acquisition of the subject property.

a. Acceptable Attributes for Purchase Mortgage Loan Transactions:

- Except as otherwise required by applicable laws, closing costs may not be financed as part of a purchase money transaction.
- Purchase transactions that include new subordinate financing are eligible provided the requirements listed in Section 2.05 have been fully met. The maximum LTV/HCLTV may not exceed the allowable as per these guidelines. The Note must be included in the closed loan file and the terms of the second lien may not come due within the first three years from the Note date.
- Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing:
 - A reimbursement for the borrower's overpayment of fees.
 - Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees).
 - A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.
 - If property taxes are due within 30 calendar days of the purchase loan closing, the Settlement Statement or Closing Disclosure (s) should reflect the amount sufficient for the Seller to pay the taxes.

b. Unacceptable Attributes for Purchase Mortgage Loan Transactions:

i. Purchasing in Redemption Period

Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed under the related Mortgage Loan.

- The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.
- Unexpired redemption periods are deemed to be an unacceptable title impediment, and a Mortgage Loan with an unexpired redemption period is not eligible for purchase.

ii. Property Flips

If the seller has owned the property less than 180 calendar days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, this transaction would be ineligible for purchase.

The following types of re-sale transactions are not considered property flips; however, these transaction would be ineligible for HPMLs.

- Property being sold by a spouse who acquired the property through a divorce settlement.
- Property acquired by an employer through a relocation program.
- Property being sold by an administrator or executor of an estate.
- Property being sold by a lender, mortgage investor, or mortgage insurance company acquired through foreclosure or deed-in-lieu of foreclosure.
- Property being transferred via quit claim deed (or transfers) between the property seller and their business, when the property seller is the sole owner of the business (e.g., Joe Smith transferred to Smith LLC, or Smith LLC transferred to Joe Smith).

B. Refinance Mortgage Transactions

Refinance Mortgage Transaction are separated into two categories, rate & term refinance and cash-out.

a. Requirements for all Refinance Mortgage Transactions:

- There must be continuity of obligation if there is currently an outstanding lien that will be satisfied with the proceeds of the refinance transaction.
- If the subject property was purchased in the previous 9 months, the Settlement Statement(s) or Closing Disclosure(s) must be provided. (See "Determining Value" section to assist in LTV/CLTV/HCLTV calculations)

b. Rate & Term Refinance

I. Acceptable Attributes for a Rate & Term Refinance Mortgage Loan:

- Paying off a mortgage loan secured by the subject property.
 - Closing costs, points, and pre-paid fees may be rolled into the loan amount.
 - Borrowers may receive cash back up to 1% of the new refinance loan amount at closing.
- Buying out the equity position of a co-owner as a result of a court ordered agreement.
- Property ownership resulting from a legal documented inheritance.
- Paying off a first lien and purchase money subordinate lien (Seller must document that the entire subordinate lien was used to purchase the property).
- Paying off a seasoned non-purchase money subordinate lien or first lien HELOC.
- Paying off a first lien HELOC used in its entirety to purchase the subject property.
- The payoff of a seasoned private mortgage lien, for which cancelled checks and/or bank statements supporting an acceptable payment history are provided by the Borrower.
- The payoff of a construction loan in a two-close-construction-to-permanent mortgage loan (see below for details).

Note: A seasoned lien is defined as one in place for a minimum of 12 months from the Note date of the subordinate or private lien to the application date of the subject Mortgage Loan. Additionally, a seasoned equity line of credit is defined as not having cumulative draws greater than \$2,000 in the past 12 months, with withdrawal activity documented by providing a transaction history for the Line of Credit provided by the Note holder.

II. Unacceptable Attributes for a Rate & Term, Refinance Mortgage Loan

- Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate and term refinance, will result in the loan being deemed a cash-out refinance.
- Properties currently listed for sale.
- The payoff of a private mortgage lien for which cancelled checks and/or bank statements cannot be provided to support an acceptable payment history.
- The payoff of an unseasoned private mortgage.
- Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding \$2000 cumulatively in the previous twelve months. See Cash-out Refinance Mortgage Loans below.
- The payoff of real estate taxes which are past due 60 calendar days or more may not be included in the new loan.
- The payoff of reverse mortgage.

III. Two Close Construction-to-Permanent Mortgage Loans

The following are overlays for Two Close Construction-to-Permanent transactions. All of these parameters must be met:

- Primary Residence only.
- One unit SFR or PUD only.
- Follow Chapter One product matrix for LTV/HCLTV, loan amount, reserves, DTI and credit score requirements.
- Two-close construction loans are eligible only when structured as a Rate & Term refinance.

i. Determining Value:

- Lots owned 12 months or more at time of application will have the LTV/HCLTV based on the current appraised value.
- Lots owned less than 12 months at time of application will have the LTV/HCLTV based on the lesser of the appraised value or acquisition cost (cost of the documented construction and the documented purchase price of the lot).
- Lots owned less than 12 months from application date must have been purchased by the borrower and documented with a Settlement Statement or Closing Disclosure.
- Gifted lots titled to the borrower for less than 12 months are ineligible for purchase.
- Maximum cash back at time of closing may not exceed 1% of the final loan amount.

ii. Documentation Requirements:

- All properties must be fully complete with a final Certificate of Occupancy included in file.
- Appraisal reports completed for the construction loan may be used to determine value if (i) the Seller was the construction loan lender, (ii) all other Non-QM Underwriting Guidelines are followed including but not limited to secondary valuations, final inspections, and appraisal age standards.
- Construction contract and construction loan Note, CD and draw history are required.
- Construction loan payment history for the previous 12 months is required. When the construction phase is less than 12 months, provide full payment history.

iii. Additional Requirements:

- All construction work, including any work that could entitle a party to file a mechanics' or materialman's lien, must be completed and paid in full, with the exception of any weather-related work that cannot be completed in accordance with these Underwriting Guidelines .
- All mechanic's liens, materialman's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the Mortgage Loan is delivered, and title must certify no future mechanic's liens or materialman's liens possible.
- All construction contracts must include a general contractor. No self-builds allowed.
- All borrower(s) from the construction loan must be on the final financing; however, adding additional borrowers is not prohibited.
- Please refer to Fannie Mae's selling guide for any additional requirements.



c. Cash-Out Refinance Mortgage Loans

I. Acceptable Attributes for a Cash-Out Refinance Mortgage Loan:

- The funds received by the borrower are not limited to a specific purpose.
- The maximum amount of cash-out in any transaction, including the payoff of an unseasoned second lien, is \$1,000,000.
- Paying off a non-seasoned (financed for less than twelve months) non-purchase money subordinate lien.
- Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding \$2,000 cumulatively in the previous twelve months.
- The payoff of a first lien HELOC which has had non-purchase money draws exceeding \$2,000 cumulatively in the previous twelve months.
- The payoff of a private mortgage lien for which:
 - the Note requires no payment and therefore no payment history is available; or,
 - The lien is not seasoned for a 12 month period.
 - To determine the maximum cash-out, Sellers must include the subordinate lien payoff in the calculation.

II. Unacceptable Attributes for Cash-Out Refinance Mortgage Loans:

- Properties currently listed for sale or listed for sale in the previous six months (measured from application date).
- Owner-occupied properties located in Texas (see specific section for additional details).
- Properties owned fewer than six months.
- Loans qualifying with Asset Depletion income.

III. Properties Located in Texas

- A copy of the current mortgage or mortgage note is required to determine that the existing loan is not subject to Texas Section 50(a)(6), 50(f)(2) or 50(a)(3).
- If the first mortgage loan is not a Texas Section 50(a)(6) 50(f)(2) or 50(a)(3) loan and the second mortgage is a Texas Section 50(a)(6), 50(f)(2) or 50(a)(3), the second lien may be subordinated, and the new mortgage loan is considered to be a rate and term refinance. The second lien must be subordinate to the lien of the purchased Mortgage Loan.
- The Refinance of an existing Texas Section 50(a)(6), Texas Section 50(f)(2) and Texas Section 50(a)(3) Loans are considered ineligible for purchase.

d. PACE / HERO Loans

- Paying off a PACE loan seasoned 12 months or more may be treated as a rate & term refinance.
- Paying off a PACE loan seasoned less than 12 months is considered a cash-out refinance.
- If the PACE loan is structured as subordinate financing, it may remain in the subordinate position provided all LTV/HCLTV product requirements are met. (The terms of the program may not provide for lien priority over the first Mortgage lien in order to be eligible for purchase. Sellers must monitor State and local law to determine which jurisdictions offer PACE loans that may provide for lien priority).
- For PACE loans originated prior to July 6, 2010, the loan must be paid off.

Section 2.03 Homes Recently Acquired or Listed for Sale

- If the subject was acquired in the previous 9 months, the file must contain the Settlement Statement or Closing Disclosure from the previous transaction, and the LTV/HCLTV calculation would be based on the lesser of the purchase price or the current appraised value.
- If the subject was acquired in the previous 6 months as a result of an inheritance or the dissolution of a marriage or domestic partnership, then the file must be documented accordingly.
- Refinancing a home currently listed for sale is ineligible. Any home currently listed must be taken off the market prior to the new loan application date.
- Cash-out Refinance Mortgage Loans are ineligible when the property has been listed for sale or purchased in the previous six months as of the application date of the new loan.

Section 2.04 First-Time Home Buyer

Any borrower who has not owned a residential property located within the United States at any time during the prior three years (prior ownership within the previous three years is measured from the Settlement Statement or Closing Disclosure closing date [when the property was sold] to the date of the subject Mortgage Loan application).

First-Time home buyer requirements do not apply to loans with more than one borrower, when at least one borrower has owned a residential property located in the United States at any time during the prior three years. The following requirements apply to First-Time home buyer transactions:

- One-unit primary residence only.
- 12 months rental history with 0x30 required.
- First-Time home buyers with significant derogatory credit will require 7 years seasoning from the completion of the event.
- Borrowers living rent-free, see Chapter Seven for requirements.
- Ineligible for the Interest-Only product.

The following documentation may be necessary to provide evidence of previous/current residential property ownership:

- Evidence borrower(s) was responsible for the PITIA (if additional non-borrowing parties are or were on title to the property with the borrower).
- Evidence borrower(s) was the purchaser on the original HUD or Closing Disclosure for the purchase of the previous or current residential property, or;
- Evidence borrower has been on title to the property for the previous 12 months.

Section 2.05 Subordinate Financing

A. New Subordinate Financing

- Purchase and refinance transactions with simultaneous secondary financing are eligible when the HCLTV does not exceed maximum LTV/HCLTV stated in product matrix in this guide.
- The new subordinated Mortgage lien must have a maturity date greater than 3 years or must fully amortize under a level monthly payment plan when the maturity or balloon payment date is less than 3 years from the Note date of the new first Mortgage.
- New subordinate liens must be recorded.
- Must clearly subordinate to the first mortgage lien.

- A copy of the Note must be included in the closed loan package.
- The monthly payment must be included in the qualifying ratios.

B. Existing Subordinate Financing

Existing subordinate financing may be eligible, provided such financing is re-subordinated to the first lien of the Mortgage Loan. The HCLTV may never exceed the maximum LTV/HCLTV permitted with respect to the transaction type.

- Settlement Statement(s) or Closing Disclosure(s) are required with respect to any transaction involving the property within the past 6 months.
- The terms of any existing subordinate financing must be fully disclosed, documented with a copy of the Note, and compliant with the requirements as set forth by AMG.
 - Subordinated liens must have a maturity date greater than 3 years or must fully amortize under a level monthly payment plan when the maturity or balloon payment date is less than 3 years from the Note date of the new first Mortgage; unless the borrower has additional reserves documented in the loan file sufficient to pay the current subordinate lien balance in full.
- Regardless of the type of subordinate lien, the DTI must include all additional lien(s) monthly payment(s), and the LTV/HCLTV must include all subordinate financing loan limit(s).

C. Re-subordination Requirements for Refinance Transactions

- If subordinate financing remains in place in connection with a first Mortgage Loan refinance transaction, execution and recordation of a subordination agreement is required.
- If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first Mortgage Loan being refinanced, re-subordination is not required. Seller is responsible for determining that the subordinate lien satisfies any specified criteria of applicable law.
- Insurance against a former junior lien not being properly subordinated to the refinance Mortgage Loan does not release Seller from its obligation to comply with these re-subordination requirements, or from the requirement that the subject property be free and clear of all encumbrances and liens having priority over the lien of the Mortgage Loan.
- When an existing HELOC credit line limit is reduced, it will be necessary to evidence the newly recorded second lien amount on title and provide a copy of the modified Note.

D. Ineligible Subordinate Financing

- Employer assistance secured by a subordinate lien against the subject property.
- Liens with negative amortization.
- New subordinate liens may not have a Note which will mature within three years of the new first lien Note date unless the Note fully amortizes under a level monthly payment plan.
- Re-subordinated liens that do not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than 3 years after the Note date of the new first Mortgage; unless the borrower has additional reserves documented in the loan file sufficient to pay the current subordinate lien balance in full.
- Liens that do not require interest at a market rate.
- Variable interest rate repayment terms that do not provide for a constant monthly payment for each 12 month period over the term of the subordinate lien. (For HELOC's, the monthly payment does not have to remain constant).
- Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
- Disaster Relief Grants or loans that require a subordinate lien against the subject property.
- Any other subordinate financing ineligible for sale to Fannie Mae.
- Subordination of an existing PACE loan obtained prior to 7/6/10. Sellers must monitor State and local law to determine which jurisdictions offer PACE loans that may provide for lien priority.
- The terms of the subordinate financing may not provide for lien priority over first Mortgage liens.

Section 2.06 Multiple Properties Financed/Owned

- "Properties financed" limitations are designed to protect AMG and their investors from excessive risk exposure with the same borrower. These limitations apply for loans sold by the same Seller or by different Sellers.
- A borrower may own a maximum of 4 financed, one- to four-unit residential real properties, including the subject property (regardless of occupancy type).
 - Borrowers on title to a property and not included on the property Mortgage Note as evidenced in the loan file would not be required to include said property in the maximum property count (see Asset Chapter for additional reserve requirements for such scenarios).
 - Co-signed Mortgage Notes must be included in the maximum property count.
- Borrowers must have 2 months PITIA in reserves for each additional property owned by the borrower; this is in addition to the reserves required for the subject property as outlined in Matrices and Asset Sections of these Guidelines. If additional properties are owned free and clear, the two months of insurance, taxes, and association dues (when applicable) must be documented.
- Properties in the name of a borrower's business, commercial or residential, typically do not need to be included in this count, when the associated mortgage debt is not the borrower's personal obligation and thus not reported on the borrower's personal credit report or tax returns.
- Financed commercial properties that are the borrower's personal obligation must be included in the count of maximum financed properties owned by a borrower. When a commercial property is reported on the personal 1040 tax returns, the property is deemed a personal property unless sufficient evidence is provided to support otherwise.
- Vacant land is not typically considered in the count of maximum financed properties.

Section 2.07 Ineligible Transaction Types

Mortgage Loans made for the following purposes are **not eligible** for purchase.

- A refinance transaction of a property currently listed for sale.
- A transaction paying off an Installment Land Contract.
- Balloons and ARMs.
- Cash-out transactions on properties listed for sale or purchased in the previous six months (measured from the date of application).
- Community Land Trusts.
- Delayed financing.
- EEM Loans (Energy Efficient Mortgages).
- High Cost Loans.



- I. HUD-184 Mortgages.
- J. Investment property.
- K. Loans exceeding 90% HCLTV.
- L. Loans held in a blind trust.
- M. Loans to Principal Owners of Business Lending Client.
- N. Loans which allow Assumptions.
- O. Loans with more than four borrowers.
- P. Loans with non-occupant co-borrowers, guarantors and co-signers.
- Q. Loans with Pre-Payment Penalties.
- R. Loans with Temporary Buydowns.
- S. New York purchase transactions documented by CEMA.
- T. Non-Arm's Length transactions are ineligible with the exception of transactions involving unrelated tenant/landlord relationships.
- U. Principal curtailments that exceed the lesser of \$10,000 or 1% of the loan amount.
- V. Property Flips (as defined within these Guidelines).
- W. Refinance an unseasoned Restructured Loan or Short Refinance Loan.
- X. Renovation or Rehabilitation Mortgages.
- Y. Single-Close Financing for New Construction.
- Z. Texas Section 50(a)(6), Texas Section 50(a)(3) and Texas Section 50(f)(2) Loans.
- AA. Title held as Tenants in Common with unequal ownership.
- BB. Transactions consisting of an assignment of sales contract.
- CC. Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction.
- DD. Waivers for Loan Estimate and Closing Disclosure timing requirements.

Section 2.08 Determining Amount to be Financed

For any Mortgage Loan, the amount eligible for financing is determined by factors specific to that Mortgage Loan, including, but not limited to, the type of financing, LTV/HCLTV, loan amount, property type, income, credit, and asset determination.

Section 2.09 Determining Value

A. Purchase Transactions

The LTV/HCLTV will be based on the lesser of the purchase price or appraised value.

B. Refinance Transactions

When the subject property has been purchased in the past 9 months, the lesser of the current appraised value or the purchase price will be used to calculate the LTV/HCLTV. Ownership date is measured from the date of acquisition (or Settlement Statement or Closing Disclosure closing date) to the application date of the subject Mortgage.

Section 2.10 CLTV / HCLTV

- CLTV is the combination of the outstanding first lien and the outstanding balance of all additional liens or line amounts from home equity lines of credit.
- HCLTV is the combination of the outstanding first lien with all outstanding additional liens or available credit limits from a home equity line of credit.
- The HCLTV is calculated by dividing the sum of the first Mortgage amount and any additional lien balances (whether disbursed or not) by the value.

Chapter Three: Property

This chapter outlines the property types and project standards that apply to all Mortgage Loans purchased under this Non-QM Loan Program. For additional property requirements see Chapter Four for specific appraisal requirements.

Section 3.01 Eligible Property Types

- Single-family residences.
- Two-to four-unit properties.
- Condominiums
 - Attached Condominiums (borrower does not own the land or the exterior walls of their unit).
 - Site Condominiums (borrower owns the land on which the structure is located. These properties do not require condominium documentation; however in some instances they may be considered a PUD.)
 - Detached Condominiums (borrower does not own the land or the exterior walls of the structure. Property would be considered a detached condominium and must meet standard condominium documentation requirements shown below).
- Planned Unit Development (PUD).

Subject properties located in a declining market as noted by appraiser on appraisal report requires a reduction to maximum LTV/HCLTV for the loan product. A further reduction to LTV/HCLTV is required when qualifying with Asset Depletion income (see Chapter Six).	
Purchase	5% reduction to LTV/HCLTV
Rate & Term Refinance	5% reduction to LTV/HCLTV
Cash-out Refinance	10% reduction to LTV/HCLTV

Section 3.02 Condominiums

- Sellers must follow the eligibility guidelines of AIG Asset Management (U.S.), LLC (AMG) and Fannie Mae with respect to condominium and condominium projects.
- Seller must not be aware of any circumstances that would make the project ineligible for approval by Fannie Mae or AMG.
- The condominium project must meet all applicable Fannie Mae requirements related to insurance.
- Provide in the closed loan file the name and contact information of the subject condominium HOA/Management Company. Amount and frequency of the HOA dues (if not provided on appraisal report) and evidence of current status of HOA dues (current, past due, etc.(if applicable)).

Seller must confirm the condominium project's eligibility through one of the eligible condominium project review types and provide applicable warranty documentation in the closed loan package.

Eligible Condominium Project Review Types

- Follow Fannie Mae requirements for two-to-four-unit condo projects.
- Fannie Mae Project Eligibility Review Service (PERS): New and existing condominium project approvals are acceptable. Evidence of the PERS final project approval must be current through the Note date and included in the Mortgage Loan file.
- Condominium Project Manager (CPM): The project must have a valid, unexpired CPM Certification as of the date of the Note and a copy must be in the Mortgage Loan file. The CPM status designation must reflect a designation that is eligible for sale to Fannie Mae. In addition, the Seller must not be aware of any changes in circumstances since the project information was submitted to CPM that would result in the project's not satisfying Fannie Mae's or AMG eligibility criteria.

Warranty Documentation Requirements

- The warranty documentation must identify the warranty type of the project and be included in the Mortgage Loan file for purchase. (AMG does not provide a warranty form.)
- Sellers must retain all project documentation that supports its warranty that the project meets the applicable Fannie Mae eligibility criteria and these Guidelines. This documentation must be retained from the time the Seller first originates mortgages secured by units in the project until all such mortgages that were purchased by AMG have been liquidated. The project documentation must be available upon request for review by AMG.
- A project warranty is valid for three months preceding the date of the Note.

Note: After the three-month expiration date, all appropriate documentation must be updated to verify that there have been no changes that would adversely affect the project.

Ineligible Project Types

- Cooperatives.
- Live/Work Projects.
- Projects which include manufactured housing.
- Non-warrantable Condominium/PUD projects.
- A condominium project with no master insurance policy for the project.
- Condominiums with significant deferred maintenance and unsafe conditions.
- Conversion condominium projects that have not been fully converted or do not meet these Guidelines or Fannie Mae guideline requirements.
- A condominium project which contains more than 35 percent of its total space dedicated to non-residential or commercial use.
- Projects in which a single entity owns more than the limits established below:
 - Projects with 21 units or more with 20 percent or more of the units owned by one entity.
 - Projects with 5–20 units with more than 2 units owned by one entity.

Ineligible Project Review Types

- Loans requiring exceptions from any of the following: Freddie Mac Condo Project Advisor, Fannie Mae Credit Variance Administration System, Fannie Mae Project Eligibility Waiver (PEW).
- Limited Review.
- Fannie Mae Condo Project Manager (CPM)-Projects labeled as Unavailable.



Section 3.03 Ineligible Property Types

The following property types containing any of the following additional property characteristics are ineligible:

- 2-4 Units with an Accessory Dwelling Unit (ADU).
- Bed and Breakfast properties.
- Boarding Houses.
- Group homes.
- Lava Zones 1 & 2.
- Leasehold estate.
- Life estate.
- Log homes.
- Manufactured housing.
- Manufactured Accessory Dwelling Units (ADU).
- Mixed use properties.
- Modular, prefabricated, panelized homes and sectional housing.
- Mortgage Loans secured by a property identified by Fannie Mae as Ineligible.
- Properties comprising more than 15 acres of land.
- Properties deemed unique or consisting of unique characteristics (e.g. dome homes, berm homes, and geodesic).
- Properties located in a U.S. Territory.
- Properties not available for year-round occupancy.
- Properties not readily accessible by roads that meet local standards.
- Properties not secured by real estate (timeshares, houseboats etc.).
- Properties requiring hauled water and those lacking satisfactory utilities.
- Properties with deed restrictions with the exception of properties that meet Fannie Mae age-related deed restriction requirements.
- Vacant Land.
- Working farms.

Section 3.04 Environmental Hazard Assessment

If the Seller has identified environmental problems and an environmental assessment is required, then the loan is ineligible for purchase.

Section 3.05 Hazard and Flood Insurance Requirements

- Seller should follow Fannie Mae guidelines as they relate to Hazard and Flood Insurance requirements, unless otherwise specified in these Underwriting Guidelines and/or Correspondent Lending's Seller's Guide. Site condominiums may be treated as a single-family residence for purposes of hazard and flood insurance requirements.
- Documentation should be in the form of a declaration page or policy. Binders are not considered acceptable evidence of insurance.
- Maximum allowable deductible securing a first Mortgage Loan is 5 percent of the face value of the policy.
- Such flood insurance policy for each Mortgage Loan is in an amount representing coverage not less than the least of (A) the outstanding principal balance of the Mortgage Loan (plus any additional amount required to prevent the Mortgagor from being deemed a co-insurer), (B) the full insurable value of the related Mortgaged Property, and (C) the maximum amount of insurance which was available under the Flood Disaster Protection Act of 1973, as amended.
- A renewal policy is required for hazard and flood insurance policies expiring within 50 calendar days from the loan closing. Loans must have hazard and flood insurance policies in force at the time of purchase.

Section 3.06 HOA Assessment Liens / Super Liens

Sellers should follow Fannie Mae guidelines relative to a subject property located in a PUD or condominium project in which the subject's HOA assessments have priority over or will not subordinate to, our subject Mortgage Loan first lien.

Section 3.07 Multiple Parcels

AMG aligns with Fannie Mae guidelines with regard to multiple parcels.

Section 3.08 Rural Properties

Comparable properties should be in similar rural locations and similar property styles. Appraiser must adequately explain the use of comparables not meeting these requirements.

Section 3.09 Leased/Owned Utilities and Community Utilities

- A. Utilities owned, such as solar panels, must meet standard eligibility requirements, based on Fannie Mae's Selling Guide.
- B. Leased utilities such as solar panels are acceptable provided the guidance in Fannie Mae Seller's guide has been met, and the borrower is being qualified with any monthly obligation related to the lease. Additionally, the leased utility should be addressed by the appraiser in the property appraisal report.
- C. Community Utilities such as a shared well, should meet Fannie Mae guidelines, which include, but may not be limited to the following standards:
 - Must meet community standards.
 - Must be adequate for the number of users of the shared utility.
 - Must be in service.
 - Must be accepted by area residents.
 - Must be accessible by the subject property owner.
 - If the shared utility is not located on the subject site, there must be a legally binding agreement for access and maintenance in place by the impacted parties.

If the subject property is located on a private road, or access to the property requires the use of a private road or shared driveway, the file must contain at a minimum, one of the following documents:

- Title policy with the private road maintenance agreement language contained within.
- Private road maintenance agreement.
- Evidence the property is located within a state or county that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private road; then no separate agreement or covenant is required.

Chapter Four: Appraisal

This section outlines the appraisal documentation and evaluation requirements that apply to all Mortgage Loans purchased. Seller should follow the Fannie Mae guidelines as they relate to Appraisal Documentation, Requirements, and Property Evaluation, unless otherwise specified in these Underwriting Guidelines. Generally, requirements that vary from one Loan Program to another are described in Chapter One. Program specific differences are not referenced in this section.

Section 4.01 General Appraisal Requirements

- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, the analysis and/or opinion of value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required on the subject property. All other valuation methods are ineligible.
- The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.
- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
- Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Subject properties located in a declining market as noted by appraiser on appraisal report requires a reduction to maximum LTV/HCLTV for the loan product. A further reduction to LTV/HCLTV is required when qualifying with Asset Depletion income (see Chapter Six).

Purchase	5% reduction to LTV/HCLTV
Rate & Term Refinance	5% reduction to LTV/HCLTV
Cash-out Refinance	10% reduction to LTV/HCLTV

Section 4.02 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

The appraiser must comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision, as well as Fannie Mae and Freddie Mac Appraiser Independence Requirements.

- The appraiser must comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989 (regardless of whether Seller is subject to those regulations).
- The appraiser must be experienced in the appraisal of properties similar to the type being appraised.
- The appraiser must be actively engaged in appraisal work, licensed and in good standing.
- The appraiser may not be an interested party in the subject transaction.
- The appraiser must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

Section 4.03 Appraisal Report Requirements

All files must contain a full appraisal report and at a minimum one of the following additional valuation options:

A. Collateral Underwriter (CU) certification with a score of 2.5 or lower or a Secondary Valuation product using option B below;

B. Secondary Valuation Products-select from one of the options below:

- **Desk Reviews**— If the initial appraisal's value will be supported by a Desk Review; the following Desk Review products are acceptable to satisfy this requirement:
 - Clear Capital © Collateral Desktop Analysis (CDA®).
 - Pro Teck Valuation Services © Appraisal Risk Review (ARR).
- **Field Reviews**— if the appraised value will be supported by a Field Review, the Field Review may not be prepared by the same appraisal company as the initial appraisal; however the appraisal can be ordered through the same AMC.
 - If the secondary valuation product is greater than the appraised value, the LTV/HCLTV would be based on the initial appraised value.
 - If the secondary valuation product is lower than the appraised value but within a 10% tolerance, the LTV/HCLTV would be based on the initial appraised value.
 - If the secondary valuation product is lower than the appraised value by more than a 10% tolerance, a third valuation report must be provided.

Additional Valuation (if applicable):

All files must contain an additional valuation product if and when the secondary valuation product is lower than the appraised value by more than a 10% tolerance.

Field Review— If a Desk Review was the secondary valuation product and was not within the allowable tolerance; a Field Review should be obtained and the original appraised value supported within the 10% tolerance. The LTV/HCLTV would be based on the original appraisal value.

Second Appraisal— If a second full appraisal is obtained as the supporting valuation product, the original appraised value must be supported within the 10% tolerance and the LTV/HCLTV would be based on the lower of the two appraisal reports.

If the second full appraisal is more than 10% below the initial appraised value, the second full appraisal would then replace the initial appraisal and must be supported by a new secondary valuation product.

Note: The maximum number of supporting valuation products for any appraisal is two products.

Section 4.04 Documentation Age and Standards

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

All appraisal reports must be prepared for the current transaction and in the name of the originating lender. No transfers or assignments allowed.

All versions of the subject valuation reports (full appraisal, desk review, or field review) must be included in the closed loan package and provided to the borrower no later than three business days prior to the consummation.



A. Age of Appraisal

If the date of the appraisal report is more than 120 calendar days but less than 365 calendar days from the date of the Mortgage Note, the original appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 calendar days of the date of the Mortgage Note. A new appraisal is required when the appraiser indicates in an Appraisal Update that the property value has declined.

Loans purchased more than 90 calendar days after closing (Mortgage Note date to purchase date) require an Appraisal Update (Fannie Mae Form 1004D/Freddie Mac Form 442) or a new appraisal (Fannie Mae Form 1004/Freddie Mac Form 70) supporting the original appraised value. If an Appraisal Update indicates that the value has declined, a new appraisal (Fannie Mae Form 1004/Freddie Mac Form 70) must be obtained and must support the original appraised value. The Appraisal Update or New Appraisal must be dated within 60 calendar days of the date of purchase.

The use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used.

The appraisal date may not be more than 12 months prior to the date of the Mortgage Note.

B. Acceptable Appraisal Forms

The appraisal form must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form listed below.

1. Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)—URAR

Used for appraisals of one-unit properties and units in PUDs, (including a one-unit property with an accessory apartment) based on interior and exterior property inspections. The URAR may also be used for units in a detached condominium project if the appraiser includes an adequate description of the project and information about the homeowner association fees and the quality of project maintenance. An interior and exterior inspection of the subject property is required. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.

2. Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 and Freddie Mac Form 465)

This report must be used for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. The appraisal report must be UAD compliant.

3. Small Residential Income Property Appraisal Report (Fannie Mae Form 1025 and Freddie Mac Form 72)

This report must be used for appraisals of two- to four-unit properties. An interior and exterior property inspection is required.

4. Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)

Appraisal Update—When performing an appraisal update, the appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property.

Completion Report—The type of inspection required depends on the nature of the appraisal conditions or changes to the subject property.

- a. If the appraisal is completed "as is," an interior inspection is not required unless there are any known changes to the subject property that would have an adverse effect on condition or marketability.
- b. If the appraisal is subject to completion per plans and specifications, interior and exterior inspections are required. Exterior and interior photographs are required.
- c. If the appraisal is subject to repairs that affect safety, soundness, or habitability, interior and exterior inspections are required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection with exterior photographs is required.

5. Market Conditions Addendum (Fannie Mae Form 1004MC)

This is required for all Mortgage Loans with appraisals of 1–4 unit properties. It is intended to provide the Seller with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

6. Field Review

An analysis comparing the original appraisal and the review appraisal must be performed. The original appraiser must address any significant differences or discrepancies. The following forms must be present when a field review appraisal is required or at the discretion of the underwriter: Field Reviews may not be provided by the same appraisal company performing the full appraisal review.

a. One-Unit Property

- I. A One-Unit Residential Appraisal Field Review Report (Fannie Mae Form 2000 or Freddie Mac Form 1032).
- II. Original front and street photos of the subject property.
- III. Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.
- IV. Street map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

b. Two- to Four-Unit Property

- I. Two- to four-unit Residential Appraisal Field Review Report (Fannie Mae Form 2000A or Freddie Mac Form 1072).
- II. Original front and street photos of the subject property.
- III. Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.
- IV. Street Map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

C. Ineligible Appraisal Forms

- Exterior-Only Inspection Residential Report (Fannie Mae and Freddie Mac Form 2055).
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae Form 1075 and Freddie Mac Form 466).
- Desktop Underwriter Property Inspection Report (Fannie Mae Form 2075).
- Loan Product Advisor Condition and Marketability Report (Fannie Mae Form 2070).
- Property Inspection Waiver (PIW).
- Property Inspection Alternative (PIA).

Section 4.05 Property Quality and Condition

A. Condition Rating

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Condition rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- Property condition ratings of C1, C2, C3, or C4 are acceptable in an "as is" condition.
- Property condition ratings C5 and C6 carry additional risk, and therefore any appraisals with a C5 or C6 rating must include, but may not be limited to the following to be eligible for purchase:
 - An account of the condition items causing the C5 or C6 rating.
 - The initial appraisal must be "subject to completion of repairs."
 - Evidence of completion of repairs.
 - An updated minimum condition rating of C4.

B. Quality Rating

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 is acceptable.
- Any appraisal report containing a Quality of Construction rating Q6 is ineligible for purchase as a result of an increased risk associated with this quality rating.
- When the appraisal is made subject to completion, repairs, or inspection, the lender must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed prior to closing in order for the transaction to be eligible for purchase.

Section 4.06 Disaster Policy

- When natural disasters, such as hurricanes, tropical storms, and tornadoes, occur prior to the purchase of a loan by AMG, the Seller must take steps to ensure that the subject property secured by the loan is protected.
- Once the federal government has declared a disaster with individual assistance (assistance to individuals and households), a FEMA Disaster Notification is issued at <http://www.fema.gov/>.
- A disaster declared with public assistance (assistance to State and local governments and certain private nonprofit organizations for emergency work and the repair or replacement of disaster-damaged facilities) does not require a re-inspection.
- Unless otherwise specified, Seller should follow the Fannie Mae guidelines as it relates to properties involved in a disaster
- Loan fundings may be delayed as a result of properties located in a disaster area as declared by an individual state or by Federal authority such as FEMA.

Section 4.07 Lava Zones

- AMG and their investors will purchase Mortgage Loans secured by properties located in the state of Hawaii that are located within lava zones 3 through 9 only.
- Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.
- Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

Section 4.08 Improvements without Permits

- Unpermitted additions or unpermitted ADU should not be included in the overall square footage of the subject in the appraisal report.
- In order to include the unpermitted addition, the proper permits must be acquired, and evidence the addition is covered by an acceptable homeowner's insurance policy would be required.

Chapter Five: The Borrower

Section 5.01 Borrower Types

The loan originator must have conducted all origination and underwriting procedures without regard to the borrower's race, color, religion, national origin, age, sex, marital status, handicap, income derived from a public assistance program, or status in any other class of persons protected under any applicable federal, state or local law.

- Any person signing an application for a loan is a borrower. All borrowers must sign the Mortgage Note.
- A borrower must be an individual. Non-individual legal entities, including but not limited to corporations, general partnerships, limited partnerships, real estate syndications, blind trusts and investment trusts, are not eligible.
- Borrowers must meet credit and program eligibility requirements as set forth in these guidelines.
- Inter Vivos and Land Trust requirements must meet the eligibility and documentation requirements as described below.

Section 5.02 Non-Occupant Co-Borrower, Guarantor and Co-Signer

Loans with non-occupant co-borrowers, guarantors and co-signers are ineligible for purchase.

Section 5.03 Citizenship Requirements

A. U.S. Citizens and Nationals

U.S. citizens and nationals (citizens of a U.S. possession or territory) are eligible.

B. Non-U.S. Citizens

a. Permanent Resident

A permanent resident is a non-U.S. Citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. Permanent residents are eligible provided legal residency is documented in accordance with Fannie Mae requirements. Please see www.uscis.gov for more information.

b. Non-Permanent Resident

Non-Permanent residents are eligible provided the legal residency is documented and all the following criteria are met:

- Must have an allowable Visa: H1B, L1, E-1 through E-3, EB-5, O-1, G-1 through G-5, and R-1, TN-NAFTA.
- Valid Social Security Number required.
- Visas must be current at the time of consummation. The employer on the loan application must be the same as on the unexpired visa.
 - If fewer than six (6) months remain at loan consummation, document an extension was requested, along with a letter from the employer confirming the borrower's continued employment and continued visa renewal sponsorship.
- Two full uninterrupted years of residence and employment history (measured from application date) in the United States is required.
- Borrowers qualified with Full Income documentation or Asset Depletion must provide most recent two years of filed United States income tax returns for all borrowers whose income is being considered in qualifying. All other income requirements must be met as per Chapter Six.
- Borrowers qualified with Bank Statement (personal or business) income documentation must use the 24 month Bank Statement product option. All other Bank Statement product income requirements must be met as per Chapter Six.
- Ineligible for the Interest-Only product.
- Ineligible for the 12 month Bank Statement (personal or business) product.

c. Other Residency Statuses

Individuals classified under Diplomatic Immunity, Foreign Nationals, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole visa types are ineligible for purchase.

Section 5.04 Loans to Trust

A. Inter Vivos Revocable Trust

- An inter vivos revocable trust ("living trust") is a trust created by an individual during his/her lifetime and becomes effective during the creator's lifetime. An inter vivos revocable trust can be changed or cancelled by its creator at any time and for any reason during the creator's lifetime.
- The subject property must be a 1-2 unit primary residence.
- The Inter Vivos revocable trust must meet the eligibility and documentation requirements as determined by Fannie Mae guidelines.
- An attorney's opinion letter or a lender's legal attestation (signed by an officer of the company or Legal Counsel) stating the trust meets Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable state requirements must be provided.

B. Land Trust (Illinois Land Trust)

A land trust is an arrangement by which title to real estate is transferred to a trustee, but the full management and control of the property is retained by the beneficiaries of the trust. The trustee is named as owner of the property in the security instrument and is the "borrower" of record on the loan, even though the trustee is not personally liable for repayment of the loan.

Land trust loans are eligible subject to the following conditions:

- The subject property must be located in Illinois.
- The beneficiary of the trust must be an individual.
- At least one of the borrowers must be one of the beneficiaries of the trust.
- The land trustee must be a financial institution customarily engaged in the business of acting as trustee under Illinois state law.
- The land trust beneficiary must execute the Mortgage Note and guarantee the payment of the Mortgage Loan.
- The trustee must execute the Mortgage Note solely in his or her capacity as trustee of the land trust. The trustee must not be personally liable on the Mortgage Note.

Section 5.05 Ownership Interest

Title to the subject property must be in the borrower's name at the time of application for a refinance transaction (see exceptions below for title held by an LLC or an Inter Vivos Revocable trust at time of application) The following requirements must be met:

- Meet continuity of obligation guidelines provided in this chapter.
- Title to the property must be held as fee simple estate.
- All individuals signing the loan application are considered borrowers, and all borrowers must sign the Mortgage Note.
- Additional individuals on the Settlement Statement or Closing Disclosure are not required to sign the Mortgage Note (must meet all applicable state laws).

In addition to the applicable requirements above, title to the subject property when held in an LLC or Inter Vivos Revocable Trust must meet the requirements below:

- Title held by a LLC, that is majority owned by the borrower, must meet continuity of obligation requirements.
- At the time of application an Inter Vivos Revocable Trust may hold the title when the borrower is the primary beneficiary and Trustor (or Settler) of the trust. (see Section 5.04).

Note: For all transactions, title must be in the borrower's name at the time of the closing.

Section 5.06 Non-Borrowing Spouse

The non-borrowing/purchasing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

Section 5.07 Power of Attorney

The use of a Power of Attorney (POA) is acceptable. The POA must be specific to the transaction, and meet all Fannie Mae guidelines as well as state requirements. POA documents will not be reviewed prior to closing. A Power of Attorney is acceptable on transactions with an individual borrower.

The use of a Power of Attorney is prohibited when the transaction type is a cash-out refinance.

Section 5.08 Continuity of Obligation

The borrower acquired the subject property through an inheritance or was legally awarded the property through a court ordered agreement. This scenario requires no minimum waiting period for continuity of obligation.

Chapter Six: Employment & Income

Sellers may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been, or is set to be terminated. Sellers should not rely upon a verification of current employment that includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination. Sellers may favorably consider the stability of a borrower's income if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.

Sellers must verify the borrower's employment for the most recent two full years, and the Seller must require the borrower to indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim with college transcripts or military discharge papers.

Note: Income documentation may not be more than 90 days old at the time of consummation. Documentation received at consummation or post-consummation cannot be considered as verified in the credit decision.

As a result of inconsistencies, legibility concerns or at the discretion of the underwriter, additional information may be requested.

Please refer to Section 6.14 and 6.15 for Alternative Income Documentation (Bank statement and Asset Depletion documentation).

Income Types aligned with Fannie Mae:

Follow Sections B3-3.1-01 through B3-3.4-04 of the Fannie Mae Selling Guide Manual Underwriting for qualifying and documentation.	Automobile Allowances
	Disability Income (Long-Term)
	Employer Differential Payments
	Foster Care Income
	Government Annuity/Pension Income
	Housing or Parsonage Allowances
	Military Income
	Mortgage Credit Certificates
	Non-taxable Income
	Notes Receivable Income
	Public Assistance
	Royalty Payment Income
	Social Security Income
	Temporary Leave and Short-term Disability Income
	Tip and Gratuity Income
	Trust Income

Full Income Documentation

Section 6.01 Full Income Documentation Standards

Refer to Fannie Mae guidelines for specific standards which are not addressed below:

Full Income Documentation:

- a. **Paystubs**-a minimum of a full 30 calendar days of paystubs dated no earlier than 30 calendar days prior to the initial loan application date must be included in the file for non-self-employed borrowers. See Fannie Mae standards for acceptable paystub documentation.
- b. **W2s**-two years of W2 statements must be provided for all non-Schedule C self-employed borrowers (if applicable). All salaried employees must also provide two years W2 statements, unless a written verification of employment (WVOE) and YTD paystub are being provided.
- c. **W2 transcripts**-W2 transcripts may be used in lieu of W2s when necessary. A written explanation should be included in the closed loan package as to why the borrower's W2 statement was unavailable.
- d. **K1's**-All K-1's must be obtained regardless of the percentage of ownership. Losses must be considered in the qualifying income calculation.
- e. **Verbal Verifications of Employment**-must be completed within ten business days of the consummation date.
- f. **Verbal Verifications of Prior Employment**-must be completed within 120 days prior to the consummation date.
- g. **Non-Arm's Length Verbal Verifications of Employment**-are ineligible.
- h. **Third Party Verification of Employment**-a verbal verification of employment when provided by a third party and dated within ten business days of the date of consummation is acceptable. If the "information current as-of" date on the verification is older than 35 calendar days, updated verification documentation must be provided. Fannie Mae DU Validation Service (DVS) or Freddie Mac LPA Asset and Income Modeler (AIM) documentation is acceptable, in conjunction with any additional documentation required in these Guidelines.
- i. **Written Verification of Employment**-written verification of employment forms are acceptable provided they are accompanied by a minimum of one paystub dated within 30 calendar days of the application date. The paystub must include year to date earnings for the borrower. Written VOEs are not acceptable for a borrower employed by family or self-employed. Fannie Mae DU Validation Service (DVS) or Freddie Mac LPA Asset and Income Modeler (AIM) documentation as applicable are acceptable, in conjunction with any additional documentation required in these Guidelines.
- j. **Employment Gaps and New Employment**- must be documented prior to consummation and meet the requirements below.
 - Borrowers with an absence or gap in employment which exceeds 120 days must provide evidence of return to work for a minimum 30 days.
 - Borrower's new employment must be documented with a paystub(s) covering the 30 day period or Written Verification of Employment.
 - Verbal verification of employment dated within ten business days of the consummation date.
 - The borrower must document a 2- year work history prior to the absence or gap from employment.
 - It is acceptable to measure the length of employment from the date a borrower began or returned to work to the date of closing or loan consummation.
- k. **Residual Income**-not applicable.



Tax Transcripts and Tax Returns:

- a. **Personal Tax Transcripts (1040)**-most recent two years 1040 transcripts for each borrower.
- b. **Personal Tax Returns (1040)**-most recent two years 1040 returns signed and dated prior to date of consummation are required. Borrowers whose income is reported solely from W2, salaried, non-self-employed sources are not required to provide tax returns unless deemed necessary due to additional factors such as Unreimbursed Business Expenses, secondary income from self-employment or rental income; however, tax transcripts must be included for all borrowers.
- c. **Transactions Originated and/or Closed from January through mid-April**-of any given year, AMG will consider using the most current year's tax returns for borrowers for which tax transcripts are not yet available. AMG would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS and sourced in the file. Any significant increase or decrease in income from the prior year's returns must be satisfactorily explained.
- d. **Extension of Time to File**-Borrowers filing tax extensions for personal tax returns must provide all of the following:
 1. The filed IRS Application for Extension of Time to File
 2. The request for the tax transcript verifying "no record of return filed"; and
 3. The prior most recent two years of tax transcripts.
 4. Year-to-date Profit and Loss and Balance Sheets for the year of returns on extension.
 5. Document any amount due that has been remitted to the IRS with Extension and provide source of funds in file. Significant variances in the tax liability from previous years compared to the estimated current year must be fully explained.Additional documentation may be required.
- e. **Transactions Closed on or after October 15**-of any given year (where the borrower had filed an extension for their previous year's return), we would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS, and sourced in the file. Any significant increase or decrease in income from the prior year's return must be satisfactorily explained.
- f. **Tax Transcripts and IRS Rejection Code**-If a request for tax transcripts (personal or business) has been rejected by the IRS by means of a rejection code, Fannie Mae guidelines should be followed. In addition, the Seller should obtain documentation which includes but is not limited to the following:
 1. IRS rejection documentation.
 2. Letter of explanation from the borrower.
 3. Transcripts obtained directly from the borrower.
 4. Form 14039 (IRS Identity Theft Affidavit) if applicable.

Self-Employment (measured from application date):

- a. **Business Tax Returns**-most recent two years returns for all businesses signed prior to the date of consummation, including all schedules and K-1s. All business losses must be considered in the qualifying income calculation.
- b. **Business Tax Transcripts**-optional.
- c. **Profit and Loss Statements and Balance Sheets**-for the prior tax year are required for all businesses considered in qualifying when the IRS Form 1040 has not yet been filed (e.g., prior to the tax filing deadline or an "Extension of Time to File" has been filed).
- d. **Year-to-Date Profit and Loss Statement**-required for all self-employed borrowers when a borrower's business income is being considered for qualifying. Income from a Year-to-Date Profit and Loss should not be considered in the income calculation. Year-to-date profit and loss statements are not required if and when the borrower has a small business loss equal to 5% or less of the total qualifying income. Profit and Loss Statements are not required to be signed. (See Sole Proprietorship Section in this Chapter for further clarifications).
- e. **Year-to-Date Balance Sheet**-required for all self-employed borrowers when a borrower's business income is being considered for qualifying (See Sole Proprietorship Section for exceptions). Balance sheets are not required if and when the borrower has a small business loss equal to 5% or less of the total qualifying income. Balance Sheets are not required to be signed.
- f. **Third-party verification of self-employment**-must be completed within ten business days of consummation and include the name and phone number of the employee verifying the information. Examples of acceptable verification include CPA letters, Regulatory Agency verification, verification from the applicable licensing bureau, and website documentation.

General Requirements:

- a. **4506C**-required for all borrowers qualifying with full income documentation. (When Full Income documentation is combined with Alternative Income documentation, the 4506C is required for W2 or 1099 transcripts only (if applicable).
- b. **All income documentation**-must be obtained prior to consummation date and provided in the closed loan package.
- c. **Income Analysis**-Sellers must provide a written income analysis and detailed calculations for each type of income used in qualifying borrower(s).
- d. **Validation Service (DVS or AIM)**-are acceptable, in conjunction with any additional documentation required in these Guidelines.

Section 6.02 Alimony, Child Support, and Maintenance Payments

Alimony, Child Support, and Maintenance payments may be considered effective if:

- Payments are likely to be received consistently for the first three years of the mortgage;
- The borrower provides the required documentation, which includes a copy of the:
 - a. Final divorce decree;
 - b. Legal separation agreement;
 - c. Court order; or
 - d. Voluntary payment agreement; and
- The borrower can provide acceptable evidence that payments have been received during the last 12 months, such as:
 - a. Cancelled checks;
 - b. Deposit slips;
 - c. Tax returns; or
 - d. Court records.

Notes:

- i. Periods between 10 and 12 months may be acceptable, provided the Seller can adequately document the payer's on-time pay history. There can be no evidence of arrearages.
- ii. Child support may be "grossed up" under the same provisions as non-taxable income sources.

Section 6.03 Bonus Income or Overtime Income

- a. If used for qualifying, bonus and overtime income must be documented for the previous two or more years.
 - Bonus income should be averaged based on a minimum of two years receipt from the current employer only, and not a combination of current and previous employment income.
 - Overtime income should be averaged based on a minimum of the previous two years plus year-to-date from the current employer only, and not a combination of current and previous employment income.
- b. The documentation submitted for the loan cannot indicate that this income source will likely cease.
- c. Bonus or overtime income received for less than two years, but equal to or more than 18 months may be eligible for qualifying provided the borrower has been with their current employer for 18 months or more and the file contains strong compensating factors and documentation. If the earning trend is stable or increasing, the income must be averaged. If the earning trend is declining, the use of this income should be carefully considered, and the file must contain strong rationalization for the use of this income for qualifying purposes. If the declining bonus or overtime income is used for qualifying, only the current lower earnings should be utilized.

Section 6.04 Capital Gains and Losses

Capital gains or losses generally occur only one time and should not be considered when determining effective income. However, if the borrower has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earnings trend. If the trend:

- Results in a gain, it may be added as effective income, or
- Consistently shows a loss, it must be deducted from the total income.
- The Seller must document anticipated continuation of income through verified assets.

Example: A Seller can consider the capital gains for a borrower who purchases old houses, remodels them, and sells them for profit.

Section 6.05 Commission Income

- Commission income must be averaged over the previous two years and year to date period (when applicable).
- The file must clearly document the portion of earnings from commission.
- A borrower's income may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower for the mortgage.
- Providing tax transcripts in lieu of tax returns is not acceptable.

Commission Income		
Current Employment	Required History of Receiving Commission Income	Calculation
Minimum 18 months with current employer.	Minimum 18 months of earned commission from current employer. No prior history of earned commission income required.	Average of full 18 months maybe considered provided there is no declining income.
Minimum 12 months with current employer.	Minimum 24 consecutive months of earned commission income in the same line of work.	If the earnings trend is stable or increasing, the income must be averaged over a minimum of 24 months (12 months from current and 12 months from previous). If the earnings trend was declining but has since stabilized, only the current lower earnings may be used to qualify. The file must contain strong rationalization for the use of declining commission income.
Less than 12 months with current employer earning commission income.	Ineligible	Commission income Ineligible

Section 6.06 Interest and Dividend Income

- Interest and dividend income may be used as long as tax returns and account statements support a two-year receipt history and 3 year continuance from the date of closing. This income must be averaged over the two years.
- Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.

Section 6.07 IRA and 401k Retirement Distribution Income

- Borrowers must have unrestricted access without penalty to the accounts.
- If the assets generating income are in the form of stocks, bonds, or mutual funds; 70% of the value (remaining after any applicable deductions for the subject transaction) must be used to determine the number of distributions remaining, in order to account for the market volatility.
- Multiple accounts can be combined in order to meet the required 3-year minimum continuance requirement. Document account distributions began prior to consummation and will continue for a minimum of three years from closing. In order to document the retirement distribution income, the file must contain one of the following:
 - The most recent 2 months of statements reflecting the dollar amount of the distribution being used for qualifying. If the distribution is received annually or quarterly, then a letter from the Account Custodian must be provided to evidence the annual or quarterly amount.
 - If the retirement income distribution was recently established, a letter from the Account Custodian indicating the amount, frequency and start date of the distribution is required in addition to evidence of the first month's distribution.
 - Two years tax returns and a letter from the Account Custodian indicating the current amount and frequency of the distribution or two years tax returns and the most recent account statement.
- Deferred Compensation Plans are ineligible as qualifying income.

Section 6.08 Part-Time / Secondary Employment (Multiple Jobs)

- a. Part-time employment income can be used to qualify the borrower if the Seller documents that the borrower has worked the part time job uninterrupted for the past two years and plans to continue. For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job, and it is generally worked less than 40 hours per week.
- b. Part-time income received for less than two years but no less than 18 months may be included as effective income, provided that the Seller justifies and



documents that the income is likely to continue.

c. Secondary and/or multiple job income received for less than two years but no less than 18 months may be included as effective income, provided that the Seller justifies and documents that the income is likely to continue.

d. Part-time/secondary income not meeting these requirements may not be used in qualifying.

Section 6.09 Projected Income from New Job (Executed Employment Contracts and Fully Executed Offer Letters)

- Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job no more than 60 calendar days after loan consummation or prior to loan purchase whichever is less.
- File must contain the following:
 - An executed copy of the borrower's offer or employment contract for future employment and anticipated income.
 - A paystub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or employment contract, must be provided prior to loan purchase.
- The creditor must verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or a physician beginning a residency after the loan closes.

Section 6.10 Rental Income

Rental income received from properties owned by the borrower is acceptable for use in qualifying when the Seller can document the stability of the rental income.

Rental Income: General Requirements				
For loans qualified under the Bank Statement product, refer to Section 6.14.				
Disposition of Property	Tax Returns Required	Leases Requirements	Additional Requirements	Income Calculation
Other REO (Real Estate Owned) –Recently acquired or acquired subsequent to the last income tax filing and not reported on Schedule E	N/A	<ul style="list-style-type: none"> A fully executed 12-month current lease from an arm's-length party, or if applicable, provide a copy of the lease which was in place at the time of purchase (when the property is located in a state where the existing lease cannot be legally terminated upon sale of said property). A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract. 	<ul style="list-style-type: none"> Closing Disclosure to evidence the purchase date of said property. Document receipt of the rental income for the prior 12 mos. or since the inception of the lease (when the lease is less than 12 mos, since inception). In no case may the receipt of rental income be less than 3 mos. 	<ul style="list-style-type: none"> The documented rental income must support the fully executed lease. Reduce the gross rental amount by 25% for vacancies and maintenance. Apply the resulting positive amount to income or if negative apply to recurring debts.
Other REO-Reporting on Schedule E	<ul style="list-style-type: none"> Generally, 2 years IRS form 1040 with Schedule E is required. However, a 1 year IRS 1040 with Schedule E will be considered for borrowers with less than a 24-month rental history. 	<ul style="list-style-type: none"> A fully executed 12 month current lease from an arm's-length party or if applicable provide a copy of the lease which was in place at the time of purchase (when the property is located in a state where the existing lease cannot be legally terminated upon sale of said property). A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract 	<ul style="list-style-type: none"> If less than a full 12 mos. of rental income is reported on Sch E: <ul style="list-style-type: none"> Document receipt of the rental income for the prior 12 mos. (combination of Sch E and/or bank statement/cancelled checks); or Document receipt of rental income for the prior 12 mos. or since the inception of the lease (when less than 12 mos. since inception). In no case may the receipt of rental income be less than 3 mos. For an annual lease that has converted to a month-to-month lease, provide evidence of most recent 2 mos. receipt of rent. 	<ul style="list-style-type: none"> An average of Schedule E will be employed. The reported gross rental income must be supported by the fully executed lease, and current rents received. Apply the resulting positive amount to income or if negative apply to recurring debts.

Subject O/O 2-4 unit — Refinance— Recently Acquired or Acquired subsequent to the last income tax filing—Not Reported on Sch E	N/A	<ul style="list-style-type: none"> A fully executed 12 month current lease from an arm's-length party or if applicable provide a copy of the lease which was in place at the time of purchase (when the property is located in a state where the existing lease cannot be legally terminated upon sale of said property). A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract. 	<ul style="list-style-type: none"> Closing Disclosure to evidence the purchase date of said property. Document receipt of the rental income for the prior 12 mos. or since the inception of the lease (when the lease is less than 12 mos. since inception). In no case may the receipt of rental income be less than 3 mos. 	<ul style="list-style-type: none"> The documented rental income must support the fully executed lease. Reduce the gross rental amount by 25% for vacancies and maintenance. The rental income cannot be a direct offset to the mortgage payment.
Subject O/O 2-4 Unit Refinance— Reporting on Sch E	<ul style="list-style-type: none"> Generally, two years IRS form 1040 with Schedule E is required. However, a one-year IRS 1040 with Schedule E will be considered for borrowers with less than a 24-month rental history. 	<ul style="list-style-type: none"> A fully executed 12 month current lease from an arm's-length party or if applicable provide a copy of the lease which was in place at the time of purchase (when the property is located in a state where the existing lease cannot be legally terminated upon sale of said property). A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract. 	<ul style="list-style-type: none"> If less than a full 12 mos. of rental income is reported on Sch E: <ul style="list-style-type: none"> Document receipt of the rental income for the prior 12 mos. (combination of Sch E and/or bank statement/Cancelled checks); or Document receipt of the rental income for the prior 12 mos. or since the inception of the lease (when the lease is less than 12 mos. since inception). In no case may the receipt of rental income be less than 3 mos. For an annual lease that has converted to a month-to-month lease, provide evidence of most recent 2 mos. receipt of rent. 	<ul style="list-style-type: none"> An average of Schedule E will be employed. The reported gross rental income must be supported by the fully executed lease, and current rents received The rental income cannot be a direct offset to the mortgage payment.
Short Term/ Variable Rentals	<ul style="list-style-type: none"> 2 years IRS Form 1040 with Schedule E evidencing a 2-year rental history. 	N/A	<ul style="list-style-type: none"> Evidence of the most recent 12 mos. receipt of income with an acceptable payment receipt history from a management company. 	<ul style="list-style-type: none"> An average of the most recent 24 mos. (Sch E) of rental income is required. Income does not need to be received for consecutive 12 month periods to be considered for qualifying. Stability of rental income must be evident year-to-year and year-to-date.
Relocation / Conversion of Departing / Vacating a Property (Full Income Documentation Only)	N/A	<ul style="list-style-type: none"> The current 12 month lease must be to an unrelated arm's-length third party and must be effective as of the first payment due date of the subject Mortgage Loan. 	<ul style="list-style-type: none"> If departing principal residence is being retained or converted, reserve requirements of 2 mos. PITIA for the departing residence must be met. Provide evidence the security deposit and/or first month's rent has been received and deposited. Appraisal to evidence equity in vacated property is 25% or more (Single-Family) 	<ul style="list-style-type: none"> Reduce the gross rental amount by 25% for vacancies and maintenance; Subtract PITIA; and Apply the resulting positive amount to income or if negative apply to recurring debts.

			<p>Residences Only). Appraisal must be ordered by a mortgage lender (aged no more than six months).</p> <ul style="list-style-type: none"> Comparing the unpaid principal balance to the original sales price of the property is not permitted. Note: The appraisal may be interior/exterior or exterior-only. If a borrower has sold but not closed on the sale of their departing residence, the debt must be included in the qualifying ratios. 	
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Section 6.11 Seasonal Employment

- The borrower must have worked in the same seasonal job for the previous two years. Confirm 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.

Section 6.12 Self-Employment Income

A self-employed borrower is an individual who has a 25% or greater ownership interest in a business or receives 1099s to document income. The length of self-employment, type of business and business structure will be evaluated to assess stability and continuance of self-employment income.

Minimum Length of Self-Employment	
• Income from self-employment is considered stable, and effective, if the borrower has been self-employed for two or more years and documented with the most recent 2 years of tax returns.	
• Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for borrowers who have been self-employed for less than two years.	
If Self-Employment Period is	Then:
Between one and two years	For the borrower's income to be effective, the borrower must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. Note: A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable.
Less than one year	The income from the borrower may not be considered effective income.

Establishing a Self-Employed Borrower's Earning Trend

- When determining qualifying income, the Seller must establish the borrower's earnings trend from the previous two years using the borrower's tax returns.
- If a borrower:
 - Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
 - Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement from the most recent quarter may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings. Income from a P & L statement may not be considered in the income calculation.
- If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the Seller must base the income analysis solely on the income verified through the tax returns. Income from a Year-to-Date Profit and Loss may not be considered in the income calculation.
- If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.
- The Seller must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.
- All business losses must be considered in the qualifying income calculation.

Sole Proprietorship (IRS Form 1040 Schedule C)

Documentation Requirements	<ul style="list-style-type: none"> Most recent two years 1040 returns with all applicable tax schedules signed and dated prior to date of consummation. Most recent two years 1040 transcripts. Borrowers filing tax extensions for personal tax returns, refer to Section 6.01. Profit & Loss and Balance Sheets do not need to be provided for Sole Proprietorship (Schedule C) when a 2-year average of the Schedule C earnings from the most recent 2-years tax returns is being considered for qualifying with no downward income trend reflected from one year to the next. Third-party verification of self-employment must be completed within ten business days of consummation and include the name and phone number of the employee verifying the information. Examples of acceptable verification include CPA letters, Regulatory Agency verification, verification from the applicable licensing bureau, and website documentation.
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Analyzing Sole Proprietorship (Schedule C)

Adjustment Item	Description of Adjustment
Depreciation / Depletion / Amortization	Recurring depreciation/ depletion/ amortization may be added back to the qualifying income.
Travel / Meal / Entertainment Expenses	Nondeductible travel / meal / entertainment expenses must be deducted from the adjusted gross qualifying income.
Other Income/Loss	Non-recurring other (income)/loss should be taken into consideration when calculating the qualifying income.
Business use of home	Recurring business use of home expense may be added back to the qualifying income.

Corporation (IRS Form 1120)

Documentation Requirements	<ul style="list-style-type: none"> Most recent two years 1040 returns, with all applicable tax schedules, signed and dated prior to date of consummation. Most recent two years 1040 transcripts Borrowers filing tax extensions for personal tax returns refer to Section 6.01. Most recent 2 years signed, dated Federal business income tax returns with all applicable tax schedules. Most recent 2 years W2. Year-to-date profit and loss (P&L) statements and balance sheets are required for all businesses when the income is being used for qualifying. Exception: Year-to-date profit and loss statements and Balance Sheets are not required if and when the borrower has a small business loss equal to 5% or less of the total qualifying income.
Corporation Documentation Requirements (continued)	<ul style="list-style-type: none"> Third-party verification of self-employment must be completed within ten business days of consummation and include the name and phone number of the employee verifying the information. Examples of acceptable verification include CPA letters, Regulatory Agency verification, verification from the applicable licensing bureau, and website documentation.
Percentage of Ownership	When the percentage of ownership is not clearly evident on the tax returns, the Seller must obtain the information from the corporation's accountant, along with evidence that the borrower has the right to any compensation.

Analyzing Corporate Tax Returns (IRS Form 1120)

Adjustment Item	Description of Adjustment
Percentage of Business Income	To determine a borrower's income from a corporation, the adjusted business income must be multiplied by the borrower's percentage of ownership in the business.
Depreciation / Depletion / Amortization	Add the corporation's depreciation / depletion/ amortization back to the after-tax income.
Travel / Meal / Entertainment Expenses	Nondeductible travel /meal/ entertainment expenses must be deducted from the qualifying income in proportion to the borrower's percentage of ownership.
Other Income/Loss	Non-recurring other (income)/loss should be taken into consideration, in proportion to the borrower's percentage of ownership, when calculating the qualifying income.
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability.
Fiscal Year vs. Calendar year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.
Mortgages, Notes and Bonds Due and Payable Within the Tax Year	All Mortgages, Notes and bonds due within the tax year must be deducted from the borrower's business income, unless evidence can be provided to show the account has since been paid in full and closed.

"S" Corporation (IRS Form 1120S)

Documentation Requirements	<ul style="list-style-type: none"> Most recent two years 1040 returns, with all applicable tax schedules signed and dated prior to date of consummation. Most recent two years 1040 transcripts. Borrowers filing tax extensions for personal tax returns refer to Section 6.01. Most recent 2 years signed, dated Federal business income tax returns with all applicable tax schedules. Most recent 2 years W2 (if applicable). Most recent 2 years K-1. Year-to-date profit and loss (P&L) statements and balance sheets are required for all businesses when the income is being used for qualifying. Exception: Year-to-date profit and loss statements and Balance Sheets are not required if and when the borrower has a small business loss equal to 5% or less of the total qualifying income. Third-party verification of self-employment must be completed within ten business days of consummation and include the name and phone number of the employee verifying the information. Examples of acceptable verification include CPA letters, Regulatory Agency verification, verification from the applicable licensing bureau, and website documentation.
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Analyzing "S" Corporation Tax Returns (IRS Form 1120S)

Adjustment Item	Description of Adjustment
Depreciation / Depletion / Amortization	May be added back to qualifying income in proportion to the borrower's percentage of ownership.
Travel / Meal / Entertainment Expenses	Nondeductible travel /meal/ entertainment expenses must be deducted from the qualifying income in proportion to the borrower's percentage of ownership.
Other Income/Loss	Non-recurring other (income)/loss should be taken into consideration, in proportion to the borrower's percentage of ownership, when calculating the qualifying income.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating and must be considered in the income analysis.
Mortgages, Notes and Bonds Due and Payable Within the Tax Year	All Mortgages, Notes and bonds due within the tax year must be deducted from the borrower's business income, unless evidence can be provided to show the account has since been paid in full and closed.
Evaluating Schedule K-1	<ul style="list-style-type: none"> If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required. If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying:



	<ul style="list-style-type: none"> <input type="radio"/> the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and <input type="radio"/> the business has adequate liquidity to support the withdrawal of earnings.
Partnership (IRS Form 1065)	
Documentation Requirements	<ul style="list-style-type: none"> • Most recent two years 1040 returns, with all applicable tax schedules, signed and dated prior to date of consummation. • Most recent two years 1040 transcripts
Partnership Documentation Requirements (continued)	<ul style="list-style-type: none"> • Borrowers filing tax extensions for personal tax returns refer to Section 6.01. • Most recent 2 years signed, dated Federal business income tax returns with all applicable tax schedules. • Most recent 2 years W2 (if applicable). • Most recent 2 years K-1. • Year-to-date profit and loss (P&L) statements and balance sheets are required for all businesses when the income is being used for qualifying. Exception: Year-to-date profit and loss statements and Balance Sheets are not required if and when the borrower has a small business loss equal to 5% or less of the total qualifying income. • Third-party verification of self-employment must be completed within ten business days of consummation and include the name and phone number of the employee verifying the information. Examples of acceptable verification include CPA letters, Regulatory Agency verification, verification from the applicable licensing bureau, and website documentation.
Analyzing Partnership Tax Returns (IRS Form 1065)	
Adjustment Item	Description of Adjustment
Depreciation / Depletion / Amortization	May be added back to qualifying income in proportion to the borrower's percentage of ownership.
Travel / Meal / Entertainment Expenses	Nondeductible travel /meal/ entertainment expenses must be deducted from the qualifying income in proportion to the borrower's percentage of ownership.
Other Income/Loss	Non-recurring other (income)/loss should be taken into consideration, in proportion to the borrower's percentage of ownership, when calculating the qualifying income.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating and must be considered in the income analysis.
Mortgages, Notes and Bonds Due and Payable Within the Tax Year	All Mortgages, Notes and bonds due within the tax year must be deducted from the borrower's business income, unless evidence can be provided to show the account has since been paid in full and closed.
Evaluating Schedule K-1	<ul style="list-style-type: none"> • If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required. • If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying: <ul style="list-style-type: none"> <input type="radio"/> the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and <input type="radio"/> the business has adequate liquidity to support the withdrawal of earnings. • For guaranteed payments to partners, a 2 year history is required.

Section 6.13 Working for a Family Business

Borrowers working for a business owned and/or operated by a family member, spouse, or domestic partner carry additional risk, and therefore the following qualifying documentation is required:

- Must be qualified using a two-year average of W-2 earnings amortized over 24 months. If there has been a decline in earnings from one year to the next, the Seller must use the more conservative lower income for qualifying.
- Income must be reported on the borrower's most recent two years signed federal income tax returns, regardless of the type of income the borrower receives (commission, salary, overtime, or bonus).
- Tax transcripts obtained directly from the IRS may not be used in lieu of tax returns.
- Provide one of the following to verify borrower's ownership percentage (if any): A signed copy of the most current business tax return, a CPA letter, or most current Schedule K-1.

Alternative Income Documentation Loans

General Requirements for Alternative Income documentation loans:

- The most recent bank statements must be dated within 45 days of the initial application date and within 90 days of the consummation date. If updated statements are provided then income calculations may need to be re-analyzed.
- File must contain written documentation in the form of an income calculation worksheet (or similar) for income used in qualifying each borrower.
- Full bank statements are required. Full bank statements must include all of the following information: all pages of statement, account holder name and address, beginning, ending and average balance, institution name, account number, truncated account number permitted, statement period, and full transaction history.
- Verification of Deposits and/or DU/LP Vendor statements are ineligible.
- As a result of inconsistencies or legibility concerns or at the discretion of the underwriter, additional information may be requested.

Section 6.14 Bank Statement Income Documentation

A. Eligibility

Stability and Continuance of Self-Employment	<ul style="list-style-type: none">• Borrower's self-employment income used to calculate the debt-to-income must be reasonable for the profession, verified stable and likely to continue.• Sellers must verify the borrower's self-employment for the most recent consecutive two full years in the same business (measured from the application date).• Borrowers receiving 1099 income (filing as Schedule C or E) are eligible provided that the 1099 income is in the same line of work and meets the required most recent consecutive two full years.• The name of business noted on the initial 1003 must match the business name noted as account holder on the business bank account(s).• All borrowers using bank statement and/or asset depletion to qualify are required to be account holders of the bank accounts throughout the 12 or 24 months being used to qualify.
General Eligibility	<ul style="list-style-type: none">• Bank Statement income loans are only eligible for self-employed borrowers.• At least one borrower on the file must derive their primary and/or the loan's qualifying income from self-employed activity.• Borrower(s) must have a minimum of 50% ownership of the business, individually or combined with a co-borrower.• Bank statement income loans are limited to a maximum of 4 businesses per loan file and must be qualified under the personal bank statement program.• Tax returns/transcripts may not be provided in the loan file for any borrower qualifying with bank statement income.• It is considered acceptable when the self-employment business filing has changed (example: sole proprietorship to corporation) provided the business name and ownership percentage has remained the same and the business has been in existence for the most recent consecutive two full years.• Undisclosed debts discovered on the bank statements must be addressed and considered in qualifying.
Ineligible Attributes	<ul style="list-style-type: none">• Foreign accounts/businesses/income.• Non-self-employed 1099 income.• IOLTA (Interest on Lawyers' Trust Account) accounts. <p>Ineligible deposit types for consideration in income calculation:</p> <ul style="list-style-type: none">• Borrowed funds such as cash advances from credit cards and/or credit line/business financing deposits.• Gift funds.• Cash, ATM/Teller, instant money transfer apps such as Venmo, Zelle, etc. that are atypical for the type of business.• Tax refunds, PPP funds, and product returns/credits.• Unverifiable deposits.
Supplemental Income	<ul style="list-style-type: none">• Secondary or supplemental income/earnings for the self-employed borrower may be eligible provided the secondary/supplemental income does not exceed 50% of total qualifying income for the borrower and is documented as per the Alternative Income documentation requirements.<ul style="list-style-type: none">◦ Losses from secondary self-employment must be considered in qualifying income.• Co-borrowers who are not self-employed may use supplemental income from other income sources for qualifying. Deposits resulting from these income sources should be deducted from the bank statement analysis. See full income documentation guidelines for additional information on acceptable sources and requirements.<ul style="list-style-type: none">◦ Wage earner income not permitted from same business as the borrower's self-employment income.◦ W2/1099 transcripts and 4506-C are required.◦ Supplemental income from a non-self-employed co-borrower may not exceed 50% of total qualifying income. Joint business owners who make up the 50% or greater ownership requirement with the borrower do not apply to this rule.◦ Tax returns filed jointly with the borrower cannot be included in the loan file.• Unrelated businesses owned by a co-borrower may be considered as supplemental income when they do not meet the requirements of the bank statement program and can be qualified with full income documentation.<ul style="list-style-type: none">◦ Primary borrower may not have any ownership in co-borrower's business.◦ Co-borrower(s) must file separate individual personal and business tax returns and meet all full documentation requirements.
	<p>Supplemental Rental Income General Requirements</p> <ul style="list-style-type: none">• Rental income may be used when qualifying on Personal or Business Bank Statement program.• Supplemental rental income may not be included in the self-employment income calculation and must be detailed as a separate income source.• The 12 months of rental deposits must be documented in the borrower owned personal or business account. If the rental income is deposited into borrower's business account, the business ownership percentage must be applied to the rental income.• If the rental income is deposited into a secondary business account which is not the business being used to qualify under the bank statement program, then the percentage for that secondary business ownership must be verified via a CPA letter, Tax Attorney, or Tax Preparer. No other income from that secondary business may be used to qualify.



Supplemental Income (cont.)	<ul style="list-style-type: none"> If the business being considered for qualifying income is 100% rental property income then these supplemental rental income guidelines do not apply. Deposits should be reviewed for consistency and must equate to the amount of rent as reflected on the lease agreement. Rental income deposits from alternative payment processing applications (e.g., Square, Venmo) are eligible. Gaps in rental income are ineligible. 						
Long Term Rental							
	<table border="1" style="width: 100%;"> <thead> <tr> <th data-bbox="339 266 796 297" style="text-align: center;">Acceptable Leases</th><th data-bbox="796 266 1253 297" style="text-align: center;">Additional Required Documentation</th><th data-bbox="1253 266 1540 297" style="text-align: center;">Income Calculation</th></tr> </thead> <tbody> <tr> <td data-bbox="339 297 796 551"> <ul style="list-style-type: none"> A fully executed 12-month current lease from an arm's-length party A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract. </td><td data-bbox="796 297 1253 551"> <ul style="list-style-type: none"> Evidence of most recent 12 months receipt of rental income. Deposits must be clearly identifiable as rental income deposits. If the deposits cannot be validated as rental income, the rental income may not be included. Rental income from a newly departed primary residence are ineligible on this program. </td><td data-bbox="1253 297 1540 551"> <ul style="list-style-type: none"> Reduce the gross rental amount by 25% for vacancies and maintenance; Subtract PITIA; and Apply the resulting positive amount to income or if negative apply to recurring debts. </td></tr> </tbody> </table>	Acceptable Leases	Additional Required Documentation	Income Calculation	<ul style="list-style-type: none"> A fully executed 12-month current lease from an arm's-length party A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract. 	<ul style="list-style-type: none"> Evidence of most recent 12 months receipt of rental income. Deposits must be clearly identifiable as rental income deposits. If the deposits cannot be validated as rental income, the rental income may not be included. Rental income from a newly departed primary residence are ineligible on this program. 	<ul style="list-style-type: none"> Reduce the gross rental amount by 25% for vacancies and maintenance; Subtract PITIA; and Apply the resulting positive amount to income or if negative apply to recurring debts.
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Verification of Self-Employment	<ul style="list-style-type: none"> A CPA letter and/or equivalent documentation* verifying self-employment must be provided in all cases and shall include the following information: <ul style="list-style-type: none"> the name of the business (if there is one), the borrower's percentage of ownership, the length of self-employment, an assertion that the business is active and in good standing. Proof of existence of the business must be verified no more than ten days prior to the consummation date.* <p>*Should the CPA letter, Tax Attorney or Tax Preparer statement lack the requirements listed above, additional documentation such as an Operating Statement, a Regulatory Agency Verification or /Licensing Bureau Verification would be necessary.</p>						
Non-Sufficient Funds (NSFs)	<ul style="list-style-type: none"> Non-Sufficient Funds (NSF) will be counted against the borrower specifically when overdrafts and NSFs are not covered by the borrower's own assets. Rolling NSFs (multiple NSFs from one occurrence) will be counted as one NSF as long as it can be identified as such. Maximum 4 NSFs allowed in the most recent 12 month period. When reviewing 24 months of bank statements: <ol style="list-style-type: none"> the most recent 12 months must meet the maximum 4 NSFs criteria. If in the previous 12 months, the NSFs exceeded the maximum 4 allowed then a detailed letter of explanation from the borrower will be required. Returned checks will require a detailed letter of explanation from borrower. 						

B. Bank Statement Types

a. Personal Bank Statement

Documentation and General Requirements	<ul style="list-style-type: none"> Provide the most recent consecutive 12 or 24 months of full personal bank statements dependent on the parameters of the lock with AMG. In addition to the required personal bank statements, provide three months of business statements to verify that income is coming from borrower's business and the business is providing positive cash flow. <ul style="list-style-type: none"> Borrowers with no separate business account or borrowers that use personal accounts for both personal and business income/expenses must calculate qualifying income with the Uniform Expense Ratio method in the Business Bank Statement Section below. DBA (Doing Business As) accounts must be considered as business accounts and must be qualified using any one of the calculation methods in the Business Bank Statement Section below.
Analyzing Personal Bank Statements	Deposits <ul style="list-style-type: none"> Evaluate deposits to verify that they are part of the borrower's income stream. Any deposits that are atypical or inconsistent must be either satisfactorily sourced and documented or excluded.
	Joint Accounts <ul style="list-style-type: none"> Joint accounts shared with non-borrowing individuals or co-borrowers are eligible when the other individual's deposits are backed out.
	Transfers <ul style="list-style-type: none"> The following transfer types should not be considered as eligible deposits in the qualifying income calculation: <ul style="list-style-type: none"> Personal account to personal account. Personal account to business account.
	Trends <ul style="list-style-type: none"> Bank statements should show a stable or increasing trend of deposits. If the trend is declining and/or irregular, refer to Acceptable Variance Levels Section below for additional guidance.
	Multiple Businesses <ul style="list-style-type: none"> Borrowers qualifying with income from multiple businesses must be qualified using only personal bank statements. <ul style="list-style-type: none"> Supporting three months of business bank statements from each business are required. Borrower must be a minimum 50% owner for each qualifying business. Borrowers with no separate business accounts are ineligible. Business bank statements alone are ineligible. Bank statement income loans are limited to maximum 4 businesses per loan file.
Calculate Qualifying Income using Personal Bank Statements	Total all eligible deposits and divide by 12 or 24 to determine monthly income.

b. Business Bank Statements

Documentation	<ul style="list-style-type: none"> Provide the most recent consecutive 12 or 24 months of full business bank statements dependent on the parameters of the lock with AMG. 	
Analyzing Business Bank Statements	Deposits	<ul style="list-style-type: none"> Evaluate deposits to verify that they are part of the borrower's income stream. Any deposits that are atypical or inconsistent must be either satisfactorily sourced and documented or excluded. Large/atypical deposits are defined as exceeding 50 percent of average eligible monthly deposits.
	Transfers	<ul style="list-style-type: none"> The following transfer types should not be considered as eligible deposits in the qualifying income calculation: <ul style="list-style-type: none"> Personal account to business account. Business account to business account.
	Trends	<ul style="list-style-type: none"> Refer to Acceptable Variance Levels Section below for additional guidance
	Business Debts	<ul style="list-style-type: none"> Personal liabilities, including Mortgage debt (with the exception of the subject property), may be excluded from the DTI when documentation supports a business paying for the debt with the most recent 12 months bank statements or tax returns. Installment debts or auto leases with a history of being paid by the business, and have since been paid in full and replaced with similar/new debt may only be excluded from the DTI if the new liability payment is less than or equal to the previous/original payment. No history of delinquency on the account in question.
	Multiple Accounts	<ul style="list-style-type: none"> Multiple accounts may be utilized for calculating the business cash flow; however, the same method must be applied to all accounts being considered for qualifying.
Ineligible	<ul style="list-style-type: none"> Borrowers qualifying with income from multiple businesses are ineligible using business bank statements. 	

Calculating Qualifying Income using Business Bank Statements

<ul style="list-style-type: none"> Follow the income calculation steps as noted below using one of the following four options for evaluating business bank statements. The resulting income should be reasonable to the type of business. 	
Uniform Expense Ratio	<ol style="list-style-type: none"> Multiply eligible deposits received by a 50% uniform expense ratio. If it is determined that a borrower has an expense ratio in excess of 50%, the higher percentage must be used in qualifying. Multiply the result by borrower's ownership percentage. Divide by 12 or 24 accordingly.
CPA Letter for Expense Ratio	<ol style="list-style-type: none"> Provide a CPA letter stating the business expense ratio based on CPA's most recent year's tax return review. The CPA letter may not include any exculpatory language. The minimum expense ratio is 25%, regardless of the CPA determination. Multiply the CPA provided expense ratio by the business' total eligible deposits over the 12 or 24 month period shown on bank statements. Deduct that figure from the total deposits. Multiply net deposits by the borrower's pro-rata ownership percentage Divide by 12 or 24. <p>Note: If business does not have a CPA, then this option of income calculation is ineligible.</p>
Profit and Loss Statement	<ol style="list-style-type: none"> Provide a letter from the CPA, Tax Attorney or Tax Preparer profit and loss statement covering the most recent 12 or 24 month period. P&L must cover the same 12 or 24 month period as the provided bank statements. P&L may not reflect declining income. Use the P&L for qualifying based on the borrower's pro-rata share of ownership as long as the deposits on the business statements support at least 75% of the gross receipts listed on the P&L.
Deposits less Withdrawals	<ol style="list-style-type: none"> Review the business' deposits less withdrawals to determine a borrower's income. Transfers to a borrower's personal account do not need to be considered a deduction for calculation purposes. Sum the net income over the 12 or 24 month period provided Multiply by borrower's pro-rata ownership percentage. Divide by 12 or 24.

c. Acceptable Variance Levels

12 months Bank Statements	<p>In the event that 12 months of statements are provided and there is a decline in deposits in the last six months of the review period that exceeds 10%, an additional 12 months of bank statements must be provided.</p>
24 months Bank Statements	<p>In the event that 24 months of bank statements are utilized to determine the borrower's income, variances year over year are likely to occur.</p> <ul style="list-style-type: none"> If the eligible deposits decline greater than 5% up to 10% year over year, it should be addressed as per below. If the decline of deposits is greater than 10% year over year, then the account is ineligible for use in the income calculation. <ol style="list-style-type: none"> A declining deposit trend should be calculated as follows: <ul style="list-style-type: none"> If the eligible deposits declined by greater than 5% up to 10% year over year, utilize a 12-month average of the most recent year's eligible deposits. <ul style="list-style-type: none"> The borrower must provide a written explanation for a decline >5% in year over year eligible deposits. The explanation must address the reason for the decline and whether or not this event will continue into the future. In the event the borrower is utilizing Profit and Loss Statement method to qualify, a revised P&L should be provided covering only the most recent 12-month period and used for determining the borrower's income.

24 months Bank Statements (cont.)	ii. Deposit Trend Calculation <ul style="list-style-type: none"> • The deposit trend is measured by calculating the percent change from year one (months 13-24, previous year) to year two (months 1-12, most recent year). • Eligible deposits from year one should be subtracted from year two, and the difference divided by year one's eligible deposits to determine the change. <p style="margin-top: 5px;">For example, if year one eligible deposits are \$100,000 and year two eligible deposits are \$80,000, the percent change would be a 20% decline $(\\$80,000 - \\$100,000) / \\$100,000 = 20\%$</p>
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Section 6.15 Asset Depletion Income

Documentation	<p>Qualified Assets can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts.</p> <ul style="list-style-type: none"> • If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. • Six-month seasoning of all assets is required and must be evidenced with 6 months of most recent consecutive asset/bank statements.
Joint Accounts	<ul style="list-style-type: none"> • Joint accounts shared with a non-borrowing spouse or domestic partner are eligible with a satisfactory access letter from the non-borrowing party.
Supplemental Income	<ul style="list-style-type: none"> • Asset Depletion income can be used to supplement full income documentation when the total Qualified Assets are at least 50% of the loan amount. Tax returns/transcripts may be required as per full income documentation requirements. Loans underwritten in this fashion will be classified as Asset Depletion income loans and will be subject to all related underwriting restrictions.
Eligible Assets	<p>Qualified Assets can be utilized to calculate income based on the following:</p> <ul style="list-style-type: none"> • 100% of checking, savings, and money market accounts. • 70% of the value of stocks, bonds, and mutual funds. Any loan balances must be reduced from the balance prior to reducing the value for market fluctuation. • 70% of retirement assets may be considered with evidence the borrower has unrestricted access* to the funds. Any loan balances must be reduced from the balance prior to reducing the value for market fluctuation. *Unrestricted access regardless of any possible tax withholding or applicable penalty applied to such distribution. Borrowers do not have to be of retirement age.
Income Calculation	<ul style="list-style-type: none"> • Monthly Income = Net Qualified Assets / 120 Months.
Large Deposits	<ul style="list-style-type: none"> • When bank statements are used, large deposits must be evaluated and fully documented. Large deposits are defined as any single deposit that represents more than 50% of the borrower's monthly average deposit balance. Large deposits that cannot be sourced and documented must be excluded from the qualifying income calculation.
Restrictions & Ineligible Attributes	<p>Restrictions</p> <ul style="list-style-type: none"> • Cash-out transactions are ineligible. • Max LTV/HCLTV must be reduced by 10%. <p>The following are ineligible for use as qualifying income:</p> <ul style="list-style-type: none"> • Business assets. • Foreign assets. • Cash surrender value of life insurance. • Annuities. • Trusts. • Proceeds from sale of real estate which is not seasoned for a minimum of 6 months. • Privately traded or restricted/non-vested stocks. • Assets which produce income already included in the income calculation.

Section 6.16 Unacceptable Income Sources (All Loans and Income Types)

Income from sources considered ineligible includes, but is not limited to the following:

- A. Boarder or Roommate Income.
- B. Cryptocurrency/Virtual currency income.
- C. Deferred Compensation Plans.
- D. Farm Income from the Subject Property.
- E. Foreign Income.
- F. Future Income.
- G. Gambling Income.
- H. Home Ownership Subsidies from any source other than the Public Housing Agency.
- I. Income Derived from the Sale or Distribution of Marijuana.
- J. Income Derived from the Subject Property with Land Being Leased to Another Party.
- K. Income Determined to be Temporary or One-Time in Nature.
- L. Lump Sum Payments of Lottery Earnings that are not ongoing.
- M. Lump Sum Payments such as Inheritances or Lawsuit Settlements.
- N. Non-Incidental Income Received from Farming or Agricultural Use of a Property.
- O. Rental Income from an Accessory Dwelling Unit Associated with the Subject Property on a purchase transaction.
- P. Rental Income Received from the Borrower's Single Family Primary Residence on a refinance transaction.

- Q. Income from the subject owner occupied property (1-4 units) may not be used to qualify the borrower when the subject transaction is a purchase transaction.
- R. Restricted Stock Units.
- S. Retained Earnings in a Company.
- T. Stock Options.
- U. Taxable Forms of Income not declared on Personal Tax Returns.
- V. Trailing Co-Borrower Income.
- W. Unverifiable Income.
- X. VA Education Benefits.

Chapter Seven: Credit & Liabilities

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter. Generally, requirements that vary from one transaction type to another are described in Chapter One and, in most cases; those transaction-specific differences will not be referenced in this section.

Section 7.01 Documentation Age

Credit documentation must be dated within 90 days of the consummation date.

Section 7.02 Documentation Standards

- All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference.
- The following data is required for each trade line reported on the credit report:
 - Current balance.
 - Current status.
 - Current rating.
 - Monthly payment amount.
 - Payment history for the most recent 12 months.
- Written verifications of mortgage, rent, or credit must be sent by the Seller directly to the creditor or landlord. The return address on the verification must be the seller's address. The hand carrying of verifications by the borrower or interested party is strictly prohibited.

Section 7.03 Credit Report Requirements

- The lowest mid-score(s) will be the qualifying credit score. Should a borrower have two credit scores, the lower of the two will be considered the borrower's qualifying credit score.
- All borrowers on a loan are required to have a valid Social Security number.
- Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud. The complete Social Security number must be displayed on the credit report.
- Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are ineligible.
- Late payments unrelated to a mortgage, which occurred in the previous 12 months require a letter of explanation from the borrower.
- Self-reported tradelines such as utilities are not acceptable and should not be considered part of the borrower's credit score.
- Seller should follow Fannie Mae guidelines as they relate to Credit Report Requirements, unless otherwise specified in these Underwriting Guidelines

Section 7.04 Credit Report Red Flags

Credit repositories have developed messages to identify potential fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the borrower's Social Security number, address, telephone number, etc.

All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.

Section 7.05 Non-Traditional Credit

Any loan for which one or more borrowers do not have two valid credit scores, are considered "non-traditional" credit loans. All non-traditional credit loans are ineligible for purchase.

Section 7.06 Foreign Credit References

If a borrower does not have sufficient trade line references in the United States, credit references from foreign countries may not be used, and the loan will be ineligible for purchase.

Section 7.07 Authorized User Accounts

- The authorized user account cannot be considered part of the borrower's credit history when the borrower has several authorized user accounts, and only a few accounts of his/her own (see second bullet). Conversely, if the borrower has several trade lines in good standing and only a minor number of authorized user accounts, the seller may consider the information reported on the credit report as an accurate reflection of the borrower's credit history.
- If a borrower provides 12 months canceled checks as proof of payment on an authorized user account, the account may be considered part of the borrower's credit history. The required monthly payment must be included in the DTI calculation.
- Authorized user accounts are not required to be included in the borrower's DTI ratios, unless the debt was listed on the initial loan application, or if the borrower is responsible for making the payment.

Section 7.08 Minimum Trade Line Requirement

All loans require the borrowers meet the following minimum credit history and trade line requirements:

- The score for each borrower must be generated from a minimum of 3 traditional trade lines evaluated for at least 12 months. The three trade lines must reflect an acceptable payment history.
- Trade lines for closed accounts may be used to meet this requirement provided the payment history is acceptable.
- Authorized user accounts may not be used to satisfy this requirement unless the borrower can provide written documentation (such as canceled checks or payment receipts) proving that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.
- A trade line for which a payment has never been made may not be used to satisfy this requirement (for example, a deferred student loan).
- Borrowers who do not meet the above requirements would be viewed as having a "thin file" credit history and would be ineligible.

Section 7.09 Minimum Credit Score Requirement

AMG requires a minimum of two credit scores per borrower. Borrowers who do not meet the minimum credit score and minimum trade line requirements are considered "non-traditional" or "thin file" credit borrowers and are ineligible for purchase.

Section 7.10 Significant Derogatory Credit Events

Borrowers with significant derogatory credit events (restructured mortgages, foreclosure (including Notice of Default and pre-foreclosure), bankruptcy, Deed in Lieu) are eligible provided the significant derogatory credit event meets the required seasoning periods. The following guidelines apply to individuals who have a significant derogatory credit event reporting on their credit history, regardless of whether the incident is reported on the credit report. The borrower must meet the following criteria:

- Maximum 43% DTI.
- First-Time home buyers will require a minimum of 7 years seasoning from the completion date of the significant derogatory credit event.
- Mortgage Loans with unrelated multiple significant derogatory credit events are ineligible for purchase.
- To conclude that the borrower's credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur and the borrower's credit profile is acceptable must be explained.
- All other requirements within this guide must be met.

A. Documentation Requirements

- Evidence that the borrower has re-established an acceptable credit profile. The borrower will be considered as having acceptable re-established credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24 month period.
- Evidence on the credit report and other credit documentation that the length of time since completion of the derogatory event to the loan closing date and recovery period have been met as defined below.

B. Reestablished Credit Requirements

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale, or other significant derogatory credit, the borrower's credit will be considered reestablished if all of the following are met:

- The waiting period and related additional requirements are met.
- The minimum credit score requirements based on the loan parameters and established eligibility requirements are met.
- The borrower has traditional credit. Non-traditional credit is not acceptable. The borrower will be considered as having acceptable reestablished credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24 months period.

C. Recovery Time Periods

Recovery time requirements are based on the discharge, dismissal, or completion date to the date of the loan closing.

a. Bankruptcy Filing

For all bankruptcies discharged or dismissed, Correspondent Lending will require:

- A 4-year waiting period from the date of discharge or dismissal to the date of closing to be eligible for purchase.
- Mortgages discharged in bankruptcy require a 4-year waiting period from the date of discharge to the date of closing.

b. Foreclosures/Deeds-in-Lieu of Foreclosure/Pre-Foreclosure Notice of Default (NOD)/Short Sales/Real Property Settled Debts

Any of the above credit events require 4 years' seasoning after the completion date or from the date of notification in the case of a Notice of Default, and satisfactory re-established credit must be verified.

- Regardless of the borrower's credit score and/or payment history, the 4 year seasoning requirement applies for any reference to one of the above-mentioned events, whether via the credit report or other loan file documentation.
- Manufactured housing/mobile home loans indicated as repossession, collections, or charge-offs are considered foreclosures.

c. Deed for Lease

Borrowers may have the opportunity to lease a property for which they have given a deed-in-lieu of foreclosure. When the borrower's loan file references a deed for lease, the underwriter must determine the completion date of the deed-in-lieu of foreclosure to ensure all requirements are met.

d. Restructured Mortgage Loan/Loan Modification

A borrower who has had a loan restructured requires 4 years seasoning after the event date to the closing date, and satisfactory verified re-established credit.

A restructured mortgage is defined as a mortgage in which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- Short Refinance Mortgage Loan.
- A new transaction that includes any of the above is ineligible for purchase.

Section 7.11 Consumer Credit Counseling

Loans with borrowers who have received credit counseling as a result of derogatory credit within the past 2 years are ineligible for purchase.

Section 7.12 Forbearance

No Mortgage Loan for which the borrower is obligated may be in forbearance, including co-signed mortgage loans.

For borrowers who have exited forbearance on a mortgage the following requirements must be met:

- Documentation confirming the borrower has exited forbearance.
- The mortgage must not be in a repayment plan or loss mitigation program.

Borrowers with missed payments during forbearance must have resolved the missed payment through a reinstatement (all payments must be current under the terms of the original note). An eligible source of funds must be documented in the closed loan file when the reinstatement occurred within 90 days of or any time after the date of the loan application.

Section 7.13 Past-Due Accounts

Past-due open accounts must be brought current prior to the loan closing, and will be factored into the overall credit profile.

Section 7.14 Collections/Charge-offs/Liens/Judgments/Settled Debts

- Tax liens, judgments, and charge-offs must be satisfied or brought current prior to or at closing.
- Liens impacting title must be satisfied prior to closing.
- All collections and charge-offs must be paid if an individual collection or charge-off is equal to or greater than \$1000 or if the cumulative total of collections and charge-offs per loan is equal to or greater than \$2500.
- All settled debts reported in the previous 24 months must be fully explained and taken into consideration in the full credit review.

Section 7.15 IRS Installment Plans

Loans with borrowers making monthly installment payments to the Internal Revenue Service (IRS) may be eligible for purchase provided the borrower is being qualified with the installment payment, and the following documentation is included in the loan file:

- Document a satisfactory payment history (account must be in good standing).
- Evidence of the approved installment agreement with the IRS.
- IRS debts which have become liens or are past-due, are ineligible for qualifying as an installment plan and must be paid prior to consummation.

Section 7.16 Monthly Housing Expense (Subject Property)

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. Monthly housing expenses include the following:

- Principal and Interest Payments on the First Mortgage Loan.
 - Interest-Only products qualify based on the 30 year fully amortizing principal and interest payment.
- Financing Payments on Subordinate Lien Loans Secured by the Subject Property.
- Hazard Insurance Premiums.
- Flood Insurance Premiums.
- Real Estate Taxes (If new construction property; borrower(s) must be qualified with taxes based on full completion).
- Homeowners' Association Dues.
- Leasehold Payments.
- Ground Rent.
- Special Assessments.

Section 7.17 Housing and Rental Payment History

Borrowers must have an acceptable 12-month rental/mortgage payment history to be eligible for purchase. See below for requirements.

A. Seasoned Homeowners (Non-First-Time Home Buyers)

The following is required:

- A satisfactory (0x30) 12-month mortgage payment history for the past 12 months.
 - If currently living rent free, a minimum 12-month mortgage payment history, within the 3 years prior to the application date reflecting 0x30 is required

B. New Homeowners (Less than 12 months current ownership and no prior ownership in past 3 years)

- A 12 month housing payment history reflecting 0x30 is required. The housing history can be a combination of current mortgage and prior rental history.
- The housing payment history must be in the last 3 years.
- Borrowers that cannot document a 12 month housing history in the past 3 years, the loan is ineligible for purchase.

C. For Homes Owned Free and Clear

- Provide evidence taxes, property insurance, and association dues are paid as agreed.

D. First-Time Home Buyers

Any borrower who has not owned a residential property located within the United States at any time during the prior three years (prior ownership within the previous three years is measured from the HUD or Closing Disclosure closing date (when property was sold) to the date of the subject mortgage loan application).

- A first-time homebuyer's rental documentation requires at least one borrower has a 12- month rental history verified by:
- An acceptable VOR* or cancelled checks and/or supporting bank statements for the most recent 12 months must be provided
- *Borrowers renting from a private landlord must provide cancelled checks and/or bank statements for rental verification
- Peer to peer payment methods can be considered if properly documented with monthly statements or detailed pay histories.

First-time homebuyer's living rent-free must meet the following requirements:

- The rent-free period must be the months directly preceding or during the loan purchase application process.
- The rent-free period is consecutive and does not exceed 12 months,
- The lender obtains an acceptable 12-month rental history for the timeframe immediately prior to the rent-free period, and;
- The file contains an acceptable letter of explanation from the borrower.

Section 7.18 Derogatory Housing Payment History

- Borrowers with late mortgage or rent payments in the previous 12 months are ineligible for purchase. Additionally, late mortgage or rent payments reported on the credit report must be fully explained and carefully considered in the total credit analysis.
- First-Time home buyers with late rental payments in the previous 12 months are ineligible for purchase.

Section 7.19 Disputed Accounts

Disputed accounts/trade lines must be considered in the overall credit risk assessment. If there are multiple disputed tradelines or a dispute on a mortgage tradeline, the seller should obtain correspondence directly from the borrower indicating the reason for the dispute. The aspect of the tradeline—such as balance and payment history—that is being disputed is of particular interest when considering the impact to the borrower's overall credit profile.

The seller is responsible for determining whether the borrower's explanation is reasonable and/or whether additional documentation (such as canceled checks) is necessary to disprove the adverse information.

Section 7.20 Debts Paid by a Business (Self-Employed Borrowers)

In order for a debt to be excluded from the borrower's total qualifying ratio calculation, evidence must be provided to show the business has paid the debt for the previous 12 month period. Additional requirements in removing a business paid debt include but are not limited to the following:

- No history of delinquency on the account in question.
- Installment debts or auto leases with a history of being paid by the business, and have since been paid in full and replaced with similar/new debt, may only be excluded if the new liability payment is less than or equal to the previous/original payment.
- Personal liabilities, including mortgage debt (with the exception of the subject property), may be excluded from the DTI when documentation supports a business paying for the debt with the most recent 12 months bank statements or tax returns. It is acceptable for a separate borrower owned business not used for qualifying income to document a payment history.

Section 7.21 Paying Off and Paying Down Debt

Both installment and revolving debts may be paid off in order to remove the payment from the total qualifying ratios. The following documentation must be provided:

- Evidence the account has been paid in full.
- Source of funds to pay off the debt must be documented.
- Lease payments may not be paid down or paid off for qualifying purposes.
- Revolving debt must be documented as paid in full in order for the monthly obligation to be removed from the qualifying DTI. Paid in full revolving accounts may remain open with a zero balance at consummation.
- Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate & term refinance, will result in the loan being deemed a cash-out refinance.
- Installment debts with less than ten payments remaining may be excluded from qualifying DTI ratio.

Section 7.22 Student Loans

All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans:

- A payment that when made will fully amortize the loan, and is documented by one of the following options:
 - the credit report, or
 - student loan creditor documentation, or;
 - A payment based on 1% of the outstanding balance of the loan.

Section 7.23 Qualifying with an Interest Only Mortgage (Non-Subject Loans)

Borrowers who currently have any of the following, and will be retaining the property associated with this Mortgage, must be qualified with the fully amortizing payment and not the interest only optional payment:

- Interest-only first Mortgage.
- Option ARM Mortgage (negatively amortizing).

Section 7.24 Alimony and Child Support

Borrowers making monthly child support or alimony payments must be qualified with the monthly payment:

- Arrearages must be satisfied prior to closing or the borrower must show evidence the arrearage has been paid as agreed in the past twelve months.
- Alimony and child support must be included in qualifying ratios as monthly debt, and may not be deducted from earnings.
- Alimony and child support may not be considered a debt paid by a business when qualifying a self-employed borrower.

Section 7.25 Payment Shock

AMG does not have specific requirements related to payment shock; however, payment shock is taken into consideration in the overall risk of the loan.

Section 7.26 Revolving Account Monthly Payment Calculations

If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:

- 5 percent of the balance; or
- \$10.

Note: If the actual monthly payment is documented from the Seller, or the Seller obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

Section 7.27 30 Day Open Accounts

A payment equal to 5% of the current outstanding balance must be included in the qualifying ratios for any 30 day open account reflecting a zero payment amount or a payment equal to the current outstanding balance on the credit report.

If the borrower paid off the account balance prior to closing, the lender may provide proof the account balance has been paid in full, in addition to the source of funds used to pay the account balance.

Section 7.28 Separation Agreements

AMG will accept a legal separation agreement in lieu of a final divorce decree, provided the agreement includes proper separation of assets and liabilities, and is signed by all parties.



Section 7.29 Qualifying Payment (HELOC)

- The payment used for qualifying a borrower with an existing home equity line of credit (HELOC) must be based on the current balance owed on the HELOC documented by either the credit report or the current statement from the creditor dated after the date of the credit report.
- When funds drawn from an existing HELOC are being considered as assets for the transaction, the qualifying payment must be based on the new outstanding home equity line balance.
- The fully amortizing payment must be used for qualifying when an interest only HELOC or second lien will be converting to a fully amortized payment within 12 months of the Note date.

Section 7.30 Credit Freeze

Frozen credit is only acceptable when one credit score is impacted. Each borrower must have a minimum of two current active credit scores in order to qualify for loans recommended for purchase.

Section 7.31 Recurring Obligations

The Seller must include the following when computing the debt-to-income ratios for recurring obligations

- Monthly housing expense; and
- Payments on installment accounts;
- Child support or separate maintenance payments;
- Revolving accounts (must be included when outstanding balance exists); and
- Alimony.
- Other real estate owned debt.

Note: Monthly payments on revolving or open-ended accounts, with an outstanding balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less.

Section 7.32 Split Ownership Real Estate Debt

The monthly housing obligation (PITIA) may not be reduced based on the percentage of ownership when ownership is split with non-borrowing individuals. Rental income will be based on the borrower's Schedule E income.

Section 7.33 Debts Paid by Others

When a borrower is obligated on a non-mortgage debt, the payment may be excluded from the DTI if another party is repaying the debt. All of the following requirements must be met:

- Document in the form of 12 months cancelled checks that the other party has been making regular payments during the previous 12 months.
- The other party may not be an Interested Party to the Transaction.
- The debt must be paid as agreed with no history of delinquent payments.
- Non-mortgage debts include but are not limited to:
 - Auto loan.
 - Lease payment.
 - Student loan.
 - Revolving debt.

When a borrower is obligated on a mortgage debt, the payment may be excluded from the DTI if another party is repaying the debt. All of the following requirements must be met:

- The other party is obligated on the mortgage debt.
- Document in the form of 12 months cancelled checks that the other party has been making regular payments during the previous 12 months.
- The debt must be paid as agreed with no history of delinquent payments.
- The borrower is not using rental income from the applicable property to qualify.
- The property must be included in the total count of financed properties.

Section 7.34 Projected Obligations and Obligations Not Considered Debt

- Debt payments, such as a student loan (regardless of current status (forbearance, deferred, or in repayment)) or balloon-payment Note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the Seller as anticipated monthly obligations during the underwriting analysis.
- Debt payments deferred to a period outside the 12-month timeframe must be classified as projected obligations.

Obligations not considered debt, and therefore not subtracted from gross income, include:

- Federal, State, and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Automatic deductions to savings accounts;
- Child-care;
- Voluntary deductions.

Chapter Eight: Assets

Section 8.01 Documentation Age

Asset documentation must be dated within 90 days of the consummation date.

Section 8.02 Minimum Down Payment and Cash to Close

- Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate cash reserves based on the requirements as stated in this chapter.
- Evidence of liquidation of funds necessary for closing must be provided in the closed loan package.
- The borrower is required to make a minimum down payment from his or her own assets.
- All down payment funds and cash to close must be documented and verified. Electronic verifications are acceptable.

Section 8.03 Verification and Sourcing Funds

- All funds must be documented with a minimum of the most recent two months bank statements or most recent quarterly statement.
- A verification of deposit (VOD) form is acceptable if accompanied by a minimum of one full month bank statement.
- All funds from accounts opened for 90 calendar days or less, must be sourced if used for down payment, closing costs, or reserves.
- Large deposits exceeding 50 percent of total qualifying income must be sourced.
- If source of funds cannot be documented, it is acceptable to exclude a large deposit with an acceptable letter of explanation from the borrower, so as not to consider these funds for qualifying.

Section 8.04 Co-Mingled Funds

- All funds must come from the borrower's own demonstrated savings.
- Borrowers using accounts in which their funds are co-mingled with a non-borrowing party or parties, have the burden of proving funds in those accounts are a result of their earnings/savings. In addition, the file must also contain appropriate authorization letters from all additional account owners.
- Funds from co-owned accounts that appear to have no connection to, or ownership by the borrower, will not be considered the borrower's own funds for use in the transaction.

Section 8.05 Co-Mingled Funds–Non-Borrowing Spouse

- Provide account statements to support the borrower's history as an account holder, in addition to supporting the borrower's past and continued contributions to the account.
- All large (a-typical/non-payroll related) deposits must be sourced and will not be considered eligible if the funds are originally from a source solely associated with the non-borrowing spouse.

Section 8.06 Gift Funds

Gift funds are eligible for down payment and closing costs when a borrower has met the following requirements:

- One-unit properties only.
- Minimum 5% borrower contribution from their own demonstrated savings must be documented in a liquid account.*(see exception below)
- Donors must be individuals and not a business or Trust-refer to Fannie Mae for eligible donors.
- The donor may not be or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction
- Gift funds must be evidenced by fully executed gift letter, evidence of donor's ability (e.g. bank statements or cancelled check) and evidence borrower has received the funds. Funds wired directly to the closing agent are acceptable with documentation evidencing the gift donor is the remitter of the wire and the bank account that originated the wire belongs to the donor.
- Gift funds from foreign assets must meet foreign asset seasoning requirements in this chapter in order to be an acceptable source of funds for a gift.
- Gift funds for the purpose of paying off or reducing debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.
- First-Time home buyer eligible provided all First-Time home buyer requirements are met.
- Gifts of equity are ineligible.
- Gift funds are not eligible for reserves.
- All other guidelines apply.

*Purchase transactions with a 70% HCLTV or lower may have all contributions from gift funds, eliminating the 5% minimum borrower contribution requirement.

Section 8.07 Business Assets (Self-Employed Borrowers)

Business assets are eligible for the borrower's down payment, closing costs, and reserves. Regardless of the income documentation type, the following must be provided:

- All funds must be documented with the most recent two months bank statements.
- The percentage of business assets used in the transaction or considered for reserves may not exceed borrower's percentage of ownership in their business.
- Provide access letters from all additional business owners.
- Provide evidence the withdrawal of said funds will not negatively impact the business with any one of the following:
 - Cash-flow analysis covering the most recent three months.
 - A current balance sheet for most recent quarter.
 - A CPA letter.
- Large deposits (atypical/inconsistent) must be sourced and documented if funds are being considered for down payment, closing costs, and/or reserves.
- Business assets are eligible from any business owned by the borrower(s).

Section 8.08 Foreign Assets

- All assets considered in the transaction must be located in US bank accounts. Funds in financial institutions located outside of the US will not be eligible for reserves.
- The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.
- Funds originally sourced from foreign accounts (including gift funds) must be seasoned in US Bank accounts for a minimum 90 days from application date to be considered in subject transaction.

Section 8.09 Interested Party Contributions

A. Interested party contributions are used to cover costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may be in the form of financing concessions or sales concessions.

Interested parties include, but are not limited to builders, realtors, brokers, and sellers.

AMG does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

a. **IPC Limits Based on LTV/HCLTV**

- 9 percent of the lesser of the Mortgage property's sales price or its appraised value up to 75% LTV/HCLTV.
- 6 percent of the lesser of the Mortgage property's sales price or its appraised value 75.01% - 90% LTV/HCLTV.

b. **Financing Concessions**

Common and customary closing costs and pre-paids typical for the subject property location are acceptable. Financing concessions paid on the borrowers' behalf which include, but are not limited to, financial contributions from an interested party, payments related to pre-paids, financing terms, or other payments related to acquiring the property.

Common and customary financing concessions may include, but are not limited to:

- Origination fees, discount points, commitment fees.
- Appraisal costs.
- Transfer taxes, tax stamps, tax service fees.
- Title insurance premiums, attorneys' fees.
- Survey fees.
- Pre-paid interest (30 calendar days maximum).
- Real estate taxes covering any period after settlement, unless no escrow account established.
- Property insurance premiums (14 months).
- HOA assessments (limited to 12 months).

c. **Sales Concessions**

Non-realty items with real value, provided to the borrower within or outside a sales contract, are considered sales concessions and must be deducted from the sales price of the subject property in accordance with Fannie Mae guidelines.

B. **Ineligible Interested Party Contributions**

- Down-Payment Assistance Programs.
- Payment Abatements.

C. **Builders and Interested Parties Affiliated with Mortgage Lender**

If an affiliation exists due to common ownership or control by a Seller (originating lender) over an interested party, or when there is common ownership by a third party over a Seller (originating lender) and interested party; then all sales and financing concessions from these parties are considered in the total allowable interested party contributions.

D. **Repairs Noted within Purchase Contract**

Follow Fannie Mae guidelines related to those property repairs or improvements included in a purchase contract, as these amounts may impact subject sales price.

Section 8.10 Retirement Accounts

- Retirement accounts are an eligible source of funds for closing, down payment and reserves. When accessing retirement funds for assets to close, evidence of liquidation and reduction of any applicable penalties must be fully documented.
- Any existing loans secured by a retirement asset must be deducted from the discounted value of the vested balance.
- If using funds from a retirement account for reserves, a discounted value of 70 percent of the vested balance must be used for qualifying based on market volatility.
- Terms of withdrawal from the employer's account program administrator should be provided when using the account for reserves.
- Terms of withdrawal are not required when the 401(k) funds are associated with a previous employer; however, a discounted value of 70 percent of the vested balance must be used for qualifying.
- The portion of self-directed IRA accounts invested in real estate or other non-liquid assets are ineligible as reserves.
- Terms of withdrawal from IRA accounts are not required.
- Retirement contributions to 401(k) accounts (including repayment of debt secured by these funds) do not have to be considered in DTI calculation.

Section 8.11 Reserve Requirements

Loan Amount	Cash Reserves Requirement
\$100,000-\$500,000	3 months
\$500,001-\$2,000,000	6 months

Section 8.12 Additional Reserve Requirements

- Borrowers with other properties in addition to the subject property are required to have an additional two months of reserves for each additional property, based on the individual properties PITIA. Evidence of two months taxes, insurance, and association dues are required for properties owned free and clear, as well as for properties which the borrower(s) are on title but not included on the Mortgage Note.
- Borrowers who do not currently own a primary residence are required to have six months of rent payments in reserves when financing a second home.
- Reserve calculations for an existing rental property are based on the actual PITIA calculation for that property, rather than the negative cash flow from the property.
- Reserve requirements for the Interest-Only product are based on the interest-only payment.

Section 8.13 Retaining and Converting Departing Residence (Full Income Documentation Only)

When a borrower vacates a current principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis (see chapter 6 Rental Income for all restrictions and requirements). If the borrower is retaining their current departing principal residence and converting it to a second home or investment property, reserve requirements of two months PITIA for the departing residence must be met. If a borrower has sold but not closed on the sale of their departing residence, the debt must be included in the qualifying ratios.

Section 8.14 Reported Non-Sufficient-Funds (NSF) Fees

Asset statements showing a history of non-sufficient-fund (NSF) fees present a layer of risk that must be weighed against the borrower's credit history from the credit report and all of the other risk factors in the file. Letters of explanation should be provided.

For loans using Bank Statement Income documentation standards, refer to Chapter 6.

Section 8.15 Stocks, Bonds, and Mutual Funds

Stocks, Bonds, and Mutual Funds must be reduced by 30 percent of the current market value, to account for market volatility. Stocks, Bonds and Mutual Fund asset liquidation must be fully documented when used for closing or down payment.

Section 8.16 Relocation Funds

- Funds provided toward the borrower's down payment when an employer relocation or transfer occurs, are ineligible funds.
- Funds provided toward the borrower's closing costs and/or pre-paid interest must meet interested party contribution (IPC) requirements.

Section 8.17 Eligible and Ineligible Assets

The following table indicates whether a particular asset type can be considered for borrower's minimum contribution, down payment, closing costs, or reserves. The asset must be properly documented and verified.

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Anticipated Savings					X
Bank Accounts/Funds on Deposit in Financial Institutions	X	X	X	X	
Borrowed Funds Secured by Borrower's Own Financial Assets See Margin Accounts below	X	X	X	X	
Borrower Earned Real Estate Commission from Subject Transaction	X	X	X	X	
Bridge Loan Must be from a financial institution, and the borrower must qualify with the bridge loan payment.	X	X	X	X	
Business Assets based on percentage of business ownership See Business Assets Section for additional guidance.	X	X	X	X	
Cash-on-Hand/Cash Deposits					X
Cash-out from Subject Transaction			X	X	
Cash Value of Life Insurance	X	X	X	X	
College Savings Plans/529 Accounts for which borrower(s) is/are not the Intended Recipient *May only be used as reserves when account has been liquidated.	X	X	X	X (*)	
Community Savings Plans and Lending Clubs					X
Cryptocurrencies or any type of Virtual Currency (including virtual currency that has been liquidated within 90 days of application date). Borrowed funds secured by Virtual Currency					X
Custodial Accounts Still Under Custodians Control					X
Disaster Relief Grant Provided the funds are not considered loan funds and there is no subordinate lien to be recorded against the subject property. Donations and Grants other than Disaster Relief Grants are ineligible.	X	X			
Down Payment Assistance Programs					X
Earnest Money Deposit (EMD)	X	X	X		
Employer Assistance Programs -Primary Residence only (may not result in a lien against the property)			X		
Funds Drawn Prior to Consummation from an Existing HELOC	X	X	X	X	

Gift Funds (all funds other than reserves may come from a gift when the LTV/HCLTV is less than or equal to 70%). Refer to Section 8.06 for additional requirements.	X	X	X		
Gifts of Equity					X
Individual Development Account Provided the account does not require a subordinate lien to be recorded against the subject property.	X	X	X	X	
Individual Development Account Matching Funds					X
Interested Party Contributions (IPCs) --Undisclosed IPCs are ineligible.			X		
Lot Value (when purchased or inherited by the borrower)	X	X			
Lot Value (when received as a gift)					X
Margin Accounts	X	X	X		
Non-Vested Restricted Stock Units/Stock Options					X
Pension Funds					X
Pledged Assets					X
Private Funds (from a secured or unsecured loan)					X
Proceeds From Sale of Borrower's Own Real Estate or Assets	X	X	X	X	
Relocation: Down Payment					X
Rent Credit with Option to Purchase	X	X			
Retirement Accounts (401K and IRA) See Section 8.10 for additional guidance.	X	X	X	X	
Sales Concessions					X
Sale of Personal Property: Assets received from the sale of personal property for which ownership history cannot be documented (gold/jewelry).					X
Stocks/Bonds/Mutual Funds --70 percent of current market value (net of any margin loans). If funds are needed for closing, evidence of liquidation is required.	X	X	X	X	
Sweat Equity/Trade Equity					X
Trust Accounts for which the Borrower is the Owner and Has Immediate Access to the Funds.	X	X	X	X	
Unsecured Line of Credit Financing					X
U.S. Savings Bonds	X	X	X	X	
Vested Stock Options/Restricted Stock Units --70 percent of current market value if used for reserves. If funds are needed for closing, evidence of liquidation is required.	X	X	X	X	

Chapter Nine: Ability to Repay

Seller must comply with all federal, state, local, and municipal Ability to Repay requirements to include documenting the borrower's ability to repay and at a minimum, creditors generally must consider eight underwriting factors: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Creditors must generally use reasonably reliable third-party records to verify the information they use to evaluate the factors.