

# Guideline Update Summary Document

May 8, 2023

## Documents Updated in this Release:

- Seller's Guide
- Conforming Agency Overlay Guide
- Jumbo Underwriting Guidelines
- Non-QM Underwriting Guidelines

## Seller's Guide

### Section 3.11 Delivery of Loan Documents to AMG, Expiration Dates and Late Delivery (update)

Section one Expiration Date has been updated in this chapter to reflect 5 business days updated from the previous 4 business days. The suspense fee has been changed to .015 or 1.5bps.

*The Seller must deliver copies of the Mortgage File, in accordance with the Stacking Order Checklist annexed as Exhibit F, to AMG on or before the initial Rate Lock Expiration Date.*

#### **1. Expiration Date**

*The Seller shall deliver documentation conforming to AMG standards on or before the time period set forth above and shall provide remedies to clear any conditions or funding requirements, including documentation issues, within 5 business days of the date the condition was requested. If remedies to the conditions or funding requirements are not provided within 5 business days, AMG will assess a daily suspense fee of -.015 (1.5 bps) per business day until the remedy has been provided.*

## Conforming Agency Overlay Guide

### DU Day One Certainty and LPA Asset and Income Modeler (AIM) (update)

- Loans using Fannie Mae Day One Certainty services (DU Validation Service, Collateral Underwriting (CU) and Appraisal Waiver/Value Acceptance, or Value Acceptance + Property Data) are eligible.
- Loans using Freddie Mac LPA asset and income modeler (AIM) and automated collateral evaluation (ACE or ACE+PDR) are eligible.

### 4506c (update)

Additionally, when business tax returns are used in the loan decision, fully completed and signed IRS Form 4506-C is required for each business.

### Ineligible Assets (clarification)

Foreign assets (including gift funds, unless seasoned in a U.S. bank account for 90 days).

## Jumbo Underwriting Guidelines

### Matrix Section First-Time Homebuyer (also in Chapter 2 & 7) (update)

Additional clarification has been provided for borrower's living rent free (see Chapter 7)

### Matrix Section Gift Fund Eligibility (also in Chapter 8) (update)

- Gift donors must be individuals-not businesses or Trusts.
- Gift funds from foreign assets must meet foreign asset seasoning requirements.
- 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.

### **Matrix Section Appraisal Requirements (also in Chapter 2,3 & 4) (update)**

The following was added to this Section:

<b>• 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.</b>	
Purchase	5% reduction to LTV/HCLTV
Rate & Term Refinance	5% reduction to LTV/HCLTV
Cash-out Refinance	10% reduction to LTV/HCLTV

### **Matrix Section Ineligible Transaction Types (also in Chapter 2) (clarification)**

High-Cost Loans

### **Matrix Section Cash-out and Rate & Term Refinance Transactions (removed from multiple sections) (update)**

We have removed the following and provided new guidance regarding declining market.

“Cash-out transactions are ineligible when the appraiser determines the subject property is located in a declining market as determined by the appraiser.”

### **Section 2.03 Property flips (update)**

Provided additional guidance:

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).

### **Section 3.02 Condominiums (update)**

We will align with Fannie Mae for 2-4 unit condominiums.

We have removed language related to the standard Fannie Mae project review.

### **Section 5.03 (B)(b) Non-Permanent Residents (update)**

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.
- Maximum 75% LTV/HCLTV.
- Maximum 43% DTI.
- One-unit primary residence only.
- 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, documentation 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.
- Provide 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.

### **Section 6.02 (C) Self-Employed Documentation Requirements (clarification)**

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). Additionally, a YTD P&L and Balance Sheet for the current tax year is required. Stable or increasing income trend reflected on a Profit and Loss may not be considered in the income calculation. Profit and Loss Statements and Balance Sheets are not required to be signed or audited.

### **Section 6.02 (H) Unacceptable Income Sources (clarification)**

Added Cryptocurrency/Virtual currency Income.

Clarified Rental Income from an Accessory Unit Associated with the Subject Property on a purchase transaction.

### **Section 7.02 Overlays to Fannie Mae (clarification)**

#### **(D) Significant Adverse or Derogatory Credit**

Mortgage Loans with unrelated multiple significant derogatory credit events are ineligible for purchase.

## **(J) Documenting Housing and Rental Payment History**

Provided additional guidance for 12-month housing history to address multiple scenarios.

### **Section 8.02 Overlays to Fannie Mae (updates)**

#### **(B) Eligible and Ineligible Assets**

Business Assets (Self-employed) are now eligible for reserves.

Vested Stock Options/Restricted Stock Units are now eligible for reserves at 70 percent of current market value. If funds are needed for closing, evidence of liquidation is required.

#### **(D) 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:

- 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 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).

#### **(K) Unacceptable Asset Sources**

Added Pledged assets as unacceptable.

## **Non-QM Underwriting Guidelines**

### **Matrix Section Product Matrix (update & clarification)**

- 40 Year Interest-Only Program has been added to our product offering with the following overlays:
  - 30-year amortization-qualify based on the 30 year fully amortizing PITIA.
  - 10-year interest-only period
  - 700 minimum credit score
  - Reserve requirements are based on the interest-only payment.
  - No Mortgage Insurance required.
- Mortgage Insurance (MI) is not required on any of the programs in our Non-QM product offering.

### **Matrix Section Product Matrix (update)**

An additional tier has been added to the product table for Second Homes up to \$1,000,000.

### **Matrix Section Additional Asset Requirements (also in Chapter 8) (update)**

Reserves for the Interest-only product are based on the interest-only payment.

### **Matrix Section First Time Home Buyer (also in Chapter 2) (update)**

The Interest-only product is not eligible for a First-Time Homebuyer.

Additional clarification has been provided for borrower's living rent free (see Chapter 7).

### **Matrix Section Loans with Significant Derogatory Credit Events (also in Chapter 7) (clarification)**

Mortgage Loans with multiple significant unrelated derogatory credit events are ineligible for purchase.

### **Matrix Section Gift Fund Eligibility (also in Chapter 8) (update)**

- Gift donors must be individuals-not businesses or Trusts.
- Gift funds from foreign assets must meet foreign asset seasoning requirements.
- 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.

**Matrix Section—Appraisal Requirements (also in Chapter 3 & 4) (update)**

The following was added to this Section:

<b>• 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.</b> 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

**Matrix Section Cash-out and Rate & Term Refinance Transactions (removed from multiple sections) (update)**

We have removed the following and provided new guidance regarding declining market.

“Cash-out transactions are ineligible when the appraiser determines the subject property is located in a declining market as determined by the appraiser.”

**Matrix Section Ineligible Transaction Types (clarification)**

High-Cost Loans.

**Section 2.02 Loan Purpose (A)(b) Property Flips (update)**

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).

**Section 3.02 Condominiums (update and clarification)**

We will align with Fannie Mae for 2-4 unit condominiums.

We have removed language related to the standard Fannie Mae project review.

**Section 5.03 Citizenship Requirements—Non-Permanent Resident (b) (update)**

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.

**Chapter Six Employment and Income (update)**

Introduction and Section 6.01 has the following changes:

**These topics have been moved to the introductory section.**

- Income for which we align with Fannie Mae’s manual underwriting guidelines has been moved to the beginning of the chapter.
- Stability and continuance of employment has been moved to the introductory language at the beginning of the chapter.

**These topics have been relocated to Section 6.01**

- Employment gaps and new employment.
- Tax Transcripts and IRS Rejection Code.
- Borrowers whose income is reported solely from W2 has been moved to (b) under tax transcripts and tax returns.

**This section has been relocated and is now Section 6.16**

- Unacceptable Income Sources for all income types was moved to the end Chapter 6.

**Section 6.01 Full Income Documentation Standards (Self-Employment(c)) (clarification)**

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).

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

Additional scenarios addressed to better align with the current job market.

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.

**Section 6.10 Rental Income-Full Doc (update)**

Additional rental scenarios were added to this section-see guidelines for specifics.

**Section 6.13 Working for a Family Business (update)**

Additional documentation options have been listed for evidencing the borrower is not considered self-employed (bottom bullet).

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.

**Section 6.14 Bank Statement Income Documentation (update)**

Multiple updates have been made to this section with the most significant reflected below.

- Ineligible Attributes section has been created to highlight ineligible deposit types and accounts.
- We've updated the supplemental rental income section to allow for both personal or business bank statement product.
- Access letter requirements have been removed.
- Large deposits are now being classified as atypical/inconsistent rather than 50% of qualifying income.
- If it is determined that a borrower has an expense ratio in excess of 50%, the higher percentage must be used in qualifying.
- The 12 Months Bank Statement variance levels has been expanded.

**Section 6.15 Asset Depletion Income (clarification)**

Added language to the Supplemental Income section to clarify tax returns/transcripts may be required as per full income documentation requirements.

**The following are additions to the ineligible list:**

- Cash surrender value of life insurance.
- Annuities.
- Trusts.

**Section 7.17 Housing and Rental Payment History (update)**

Provided additional guidance for 12-month housing history to address multiple scenarios.

**Section 7.33 Debts Paid by Others (update)**

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 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 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 8.07 Business Assets (Self-Employed Borrowers) (update)**

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 8.17 Eligible and Ineligible Assets (update)**

- Pledged assets have been added to the asset table as ineligible.
- 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.