STG MORTGAGE
The Foundation Of Trust

Lending Guidelines

Apex Closed End Second Mortgages

Version 2025.06

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Contents

1.0 PROGRAM OVERVIEW

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

1.1 Overview

A closed-end second mortgage is a loan where the funds are disbursed in full when the loan closes and is subordinate to the first mortgage lien.

1.2 Loan Terms

20 year and 30-year fixed rate terms only.

P&I: Mortgage Interest must be calculated monthly.

Any other method such as Daily Simple Interest (DSI) to calculate P&I is ineligible.

1.3 First Lien Seasoning

The first lien must be seasoned a minimum of 6 months, measured from the Note date of the existing first lien to the Note date of the new closed end second loan.

1.4 Ineligible First Lien

- Balloon loans with a maturity date before the maturity date of the second subject lien.
- HELOC.
- Interest Only features.
- Loans in active forbearance or deferment.
- Loans with negative amortization feature.
- Outstanding terms greater than 30 years.
- Private first liens.
- Reverse Mortgages.

1.5 Documentation

- Full 2-year documentation.
- Required Documents:
  - 1008.
  - Mortgage Statement for Subject Property 1st lien to confirm mortgage is not an ineligible 1st lien.
    - If unable to confirm eligible 1st lien, obtain original 1st mortgage note.
- Condominiums – warranty form and all supporting documentation.
- Ability to Repay Attestation (UW must attest on 1008 that file meets ATR).
- Closing Documents – must follow all federal and state document requirements and any required documents for 2nd lien loans.

1.6 Minimum Loan Amount

- Minimum loan amount $75,000.
- Maximum loan amount $400,000.
    - Maximum combined loan amount (total amount of 1st and 2nd liens combined) $3,000,000.
    - Use the current balance of the first lien and the loan amount for the subject transaction to calculate the combined loan amount.

1.7 Properties Listed For Sale

Properties listed for sale within six months of the application date are ineligible.

1.8 High-Cost Mortgage Loans

Federal, State, and Local High-Cost Loans are not permitted. Cured High-Cost loans are also not permitted.

1.9 Higher Priced Mortgage Loan (HPML) Transactions

Loans identified as Higher Priced Mortgage Loans must comply with the HPML rules in Regulation Z. The full Reg Z revisions can be found at: https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/

Specifically, every HPML loan is subject to the following regulatory requirements:

Regulatory Requirements - Higher Priced Mortgage Loan (HPML) Transactions
• File contains at least 1 full interior/exterior appraisal (Hybrid and Desktop Appraisals not permitted). • Borrower has been provided with a copy of the appraisal at least 3 full business days prior to closing. For example: if the appraisal is delivered on Monday, the soonest the transaction may close is Thursday.

2.0 BORROWER ELIGIBILITY

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

2.1 General Borrower Eligibility

Any person signing an application for a loan is a borrower.

- All borrowers must sign the Note.
- All borrowers must have a social security number.
- An Individual Tax Identification Number (ITIN) is not permitted.
- Each borrower must be an individual.

A maximum four (4) borrowers permitted.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

2.2 U.S. Citizens

Citizens of the United States or of a United States Possession or Territory are eligible for financing.

2.3 Permanent Residents

Permanent Residents are eligible for financing.

2.3.1 Permanent Resident Documentation Requirements

- Alien Registration Receipt Card (USCIS Form I-551, green card), or
- A passport stamped processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until __________, Employment authorized. It must evidence the holder has been approved for, but not issued, a Permanent Resident card.
- If the Permanent Resident Card is expiring within six (6) months of the Note Date, include a copy of the United States Citizenship and Immigration Services (USCIS) Form I-90 (Application to Replace Permanent Resident Alien Card) filing receipt.

2.4 Inter Vivos Revocable Living Trust Requirements

Inter Vivos Revocable Living Trusts are eligible for financing.

An Inter Vivos Revocable Living Trust is a trust that an individual creates during his or her lifetime, becomes effective during its creator’s lifetime, and can be changed or canceled by the creator at any time, for any reason, during that individual’s lifetime. The company will accept vesting in an Inter Vivos Revocable Living Trust for a second lien mortgage that is secured by a one-family primary residence, so long as the following eligibility criteria is satisfied.

- The Inter Vivos Revocable Living Trust must be established by a natural person, it may be established solely by one individual or jointly by more than one individual.
- No Inter Vivos Revocable Living Trusts that permit powers of attorney will be permitted.
- A copy of the fully executed trust agreement with all amendments must be provided to verify the terms of the trusts.

An Inter Vivos Revocable Living Trust will be considered eligible vesting if it meets the following requirements:
- The trust must be established by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime.
- The trust must be one in which the individual establishing the trust has reserved to himself or herself the right to revoke the trust during his or her lifetime.
- The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary; provided, that the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. For owner-occupied properties, at least one individual establishing the trust must occupy the security property and sign all applicable mortgage loan documents.
- The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals if there are two or more) or an institutional trustee that customarily performs trust functions in (and is authorized to act as trustee under the laws of) the relevant state.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the "borrower(s)" under the mortgage or deed of trust note.
- The mortgage and trust documents must meet FNMA eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to Inter Vivos Revocable Living Trusts.
- Title to the mortgaged property may be vested: solely in the trustee(s) of the Inter Vivos Revocable Living Trust, or jointly in the trustee(s) of the Inter Vivos Revocable Living Trust and in the name(s) of the individual borrowers(s), or in the trustee(s) of more than one Inter Vivos Revocable Living Trust.
- The title insurance policy (or ownership report, where applicable) must ensure full title protection to the seller and must state that title to the mortgage property is vested in the trustee(s) of the Inter Vivos Revocable Living Trust. Moreover, if there is a title insurance policy, it must not list any exceptions with respect to the trustee(s) holding title to the mortgaged property or to the trust.
- Title held in the trust must not dimmish the mortgagee's rights as a creditor, including the right to have full title to the security property vested in the mortgagee should foreclosure proceedings have to be initiated to cure a default under the terms of the related mortgage.
- The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or-co-borrower).

2.5 Ineligible Borrowers

- Non-permanent residents
- Foreign Nationals
- Bank trusts
- Blind Trusts
- Borrowers with diplomatic immunity
- Borrowers with only an ITIN

- Community Land Trusts
- Illinois Land Trust
- Irrevocable trusts
- Land trusts
- Limited partnerships, general partners, corporations, and limited liability companies
- Non-occupant co-borrowers
- Qualified Personal Residence trusts
- Real estate trusts

2.6 Certification of Trust

For properties in California, a CA Trust Certification completed by the borrower or the borrower's attorney is acceptable in lieu of the full trust documents. The title commitment is still required.

Should any portion of the trust certificate be found inaccurate or in disagreement with the title report, this exception cannot be applied, and the complete trust documents must be provided. This exception to trust documentation is ONLY for properties located in California.

2.7 Maximum Financed Properties

Maximum four financed properties, including the subject property.

Financed properties held in the name of an LLC or other corporation, commercial properties, timeshares and unimproved land can be excluded from the calculation of number of properties financed.

Properties held in the name of the LLC or other corporation where the borrower is personally obligated on the mortgage cannot be excluded from the calculation.

Definitions of Ownership:

- Partial or joint ownership is considered the same as total ownership in the property.
- 1-4 unit residential properties, where the borrower is personally obligated on the mortgage(s).
- Applies to the total number of financed properties, not the number of mortgages on the property.
- Is cumulative for all borrowers (though jointly financed properties are counted as one).

2.8 Spousal Property Rights

Certain states require spousal signatures on second mortgage transactions in order to protect a Seller's rights as a creditor. The spouse or domestic partner of any person who has an interest in the property is required to sign the security instrument if his or her signature is necessary under applicable law to waive any property rights he or she has by virtue of being the borrower's spouse or domestic partner. Individual situations should follow the direction and instructions of the issuing title commitment provider as signatory requirements can vary.

2.8.1 Non-Borrower Spouse

All owners of the homestead and their spouses must consent to the extension of credit by executing the deed of trust. Non-borrower spouses, regardless of their ownership interest in the homestead property, have the right to cancel a loan transaction.

3.0 OCCUPANCY

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

3.1 Occupancy Types

The feasibility of a borrower occupying the subject property must be considered when the borrower indicates the property will be their primary residence. A full explanation is required for any red flags or inconsistencies noted in the last 12 months.

3.1.1 Primary Residence

A primary residence is a property that at least one (1) borrower occupies as their primary residence and typically occupies or will occupy for the majority of the year. The property location is generally convenient to the borrower's principal place of employment.

A borrower may not maintain more than one primary residence at any given time.

Primary Residence is the only eligible occupancy.

3.1.2 Second Homes

Second Homes are not permitted.

3.1.3 Investment Properties

Investment Properties are not permitted.

4.0 CREDIT

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

4.1 Age of Documentation

Age of Documentation	
Topic	**Age of Documentation**
Credit Documents	• The age of credit documentation used to determine eligibility must be no more than 90 days from the Note Date.
Collateral Documentation	• AVM must be dated within 60 days of the Note Date • Property inspection when AVM used as the valuation must be dated within 120 days of the Note Date • Appraisal products (effective date) must be no older than 180 days from Note Date. After 120 days, an acceptable 1004-D, recertification of value is required. • HOA Questionnaires must be no older than 180 days from the Note Date • O&E report must be dated within 60 days of the Note Date • Title Policy must be dated within 120 days of the Note Date

4.2 Credit Score Requirements

The representative credit score for qualification purposes for an individual borrower is the middle score of the 3 scores reported. If 2 scores are reported the representative credit score is the lower of the 2 scores. Credit scores from all 3 repositories must be requested (Equifax, Experian and TransUnion). Averaging of credit scores to determine eligibility is not allowed.

For multiple borrowers the credit score is the lowest of all representative credit scores.

A minimum of 2 credit scores are required. If only 1 credit score or no credit score is reported, borrower is not eligible.

Credit rescores are not permitted unless the rescore is correcting erroneous line items or disputed accounts.

4.3 Minimum Tradeline Requirements

For a credit report and credit score to be considered valid, one of the following must be met:

- Minimum three (3) open tradelines, with at least one (1) tradeline open for a minimum 24 months from the application date.
- Minimum of two (2) open tradelines with one (1) of the two being a satisfactory mortgage rating for at least twelve (12) months. At least one (1) of the two (2) tradelines must have been open for a minimum of 24 months from the application date.

Additionally, all of the following apply:

- Each borrower contributing income for qualifying purposes must meet the minimum tradeline requirements; however, borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements.
- The minimum required tradelines must have had no significant adverse credit, such as charge-offs or collections.
- Authorized user accounts, jointly held with a co-borrower may be considered in the minimum tradeline requirements for both borrowers.
- Borrowers are not permitted to open a new tradeline after application to meet the minimum tradeline requirement.

4.4 Disputed Tradelines

All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation authenticates the dispute.

Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.

Disputed tradelines do not need to be resolved/removed from the credit report.

4.5 Frozen Credit

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

4.6 Mortgage and Rental Payment Verification (Housing History)

- 0x30x12.
- Applies to all mortgages on all financed properties regardless of position.

4.6.1 No Housing History or Less than 12 Months Verified or Rent-Free

Less than a full 12-month Housing History is not permitted. Rent-Free is not permitted.

- At least one of the borrowers must have a minimum 12-month payment.
- If borrower's mortgage history is less than 12 months, prior rental housing or prior mortgage history required.

4.7 Credit Events

- Past Due Accounts: must be brought current.
- Collection Accounts or Charge-Offs: must be paid off at, or prior to closing if account is >$1,000 or if aggregate of accounts exceeds $2,500.
- Judgments, and Liens (including tax liens): must be paid off at, or prior to closing.
- Forbearance Agreements: Borrower(s) must have completed/exited the forbearance agreement and made no less than 4 months acceptable payments prior to the application date.

- The 12-month housing history requirement would include pre-forbearance and post-forbearance payments. The months during forbearance are not considered in meeting the 12-month requirement.
- No waiting period required if the borrower(s) accepted but didn't use the forbearance plan.

4.7.1 Bankruptcy and Housing Events

- Bankruptcies (Chapters 7, 11, 13): Must be seasoned for 4 years from application date; borrowers with multiple bankruptcies are ineligible.
- Foreclosure or Pre-Foreclosure (120+ days delinquent): Must be seasoned for 4 years from application date.
- Deed-in-Lieu of Foreclosure: must be seasoned for 4 years from application date.
- Short Sale: must be seasoned for 4 years from application date.
- Notice of Default (NOD): must be seasoned for 4 years from application date.

4.8 Credit Inquiries

Recent credit inquiries within 120 days of the credit report date not resulting in a new account on the credit report will require a letter of explanation from the borrower. If additional credit was obtained, a verification of the debt must be acquired, and the new debt must be included in the DTI.

4.9 Inquiries and Undisclosed Debt

All debt incurred during the application process and through loan closing must be disclosed on the final application and included in the loan qualification. Recent inquiries may indicate that the borrower has been actively seeking new credit accounts.

When the credit report indicates recent inquiries (excluding all utility company inquiries), confirm that the borrower has not obtained any additional debt that is not reflected on the loan application. If additional credit was obtained, verification of that debt must be provided, and the borrower must be qualified with the monthly payment. All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated, which includes a letter of explanation for each inquiry and evidence of any new debt.

To help identify undisclosed debt not reflected on the initial credit report but obtained up to and including the day of closing, the following is required:

- A single repository refreshed Soft Credit Pull or a third-party undisclosed debt monitoring (UDM) report, for the purpose of determining if any new debt has been incurred by the borrower(s).
- The Soft Credit Pull or UDM report should be obtained as close as possible to closing but at least within 10 days of the Note date.
- If any new credit inquiries appear on the Soft Credit Pull or UDM report, those inquiries must be addressed by the borrower(s).
- Any new debt must be considered in the DTI and DU/LPA rerun if tolerances have been exceeded.

A Soft Credit Pull or UDM report must be included with the final package submitted for purchase.

Clients must have a policy to monitor for undisclosed debt through closing (note date).

The Soft Credit Pull should include any new obligations that were not identified on the initial tri-merge credit report. The Soft Pull should not include:

- FICO.
- Previously disclosed obligations from the initial tri-merge credit report.

When the Soft Credit Pull provides more information than is required, that information must be considered and could negatively impact the loan.

Examples:

- If the Soft Credit Pull includes a credit score(s) for any of the borrowers, then a new tri-merged credit report for all borrower(s) must be obtained.
- If the Soft Credit Pull includes updated payment histories for existing tradeline(s) shown on the original credit report, and if any new derogatory credit is revealed, then a new tri-merged credit report for all borrower(s) must be obtained.
- If the Soft Credit Pull includes updated monthly payments and updated outstanding balances for existing tradeline(s) shown on the original credit report, then the new monthly payments must be considered.

Clients may also want to consider running a MERS report to determine if the borrower has undisclosed liens or another mortgage being established simultaneously.

Any debts identified post-closing affecting loan eligibility guidelines may impede the purchase of the loan.

5.0 LIABILITIES

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

5.1 Revolving Debt

- The monthly payment on revolving accounts with a balance must be included in the borrower's DTI, regardless of the number of months remaining.
- If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10 or 5% of the account balance.
- Payments reflected on a credit report may only be excluded if the account is documented as paid in full and closed. Debts being paid off with the subject transaction are not required to be closed.
- Revolving debt may be paid off to qualify before or at closing. Documentation must be provided to evidence the revolving debt has been paid off in the closing package (i.e., evidence of the debt being paid off and 2 months bank/asset statements. If paid off at closing, the debt payoff must be reflected on the final Closing Disclosure).
- Gift funds may not be used to pay off accounts for qualifying.

5.2 Installment Debt

- Installment debts with less than 10 months remaining can be excluded from the DTI.
- Lease payments must be included in the DTI regardless of months remaining.
- Real estate owned by the borrower where the borrower is not on the Note may be excluded from the DTI.
- Property tax, insurance and HOA dues on the property must be documented and the full amount included in the DTI.
- PITIA on real estate owned pending sale must be included in the DTI
- Payment related to a 401(K) loan do not need to be included in total debt obligation.
- For alimony payments, where the divorce was finalized before January 1, 2019, in lieu of including the debt in the DTI, the alimony payment can be deducted from qualifying income. For divorces finalized on or after January 1, 2019, alimony payments must be treated as a debt.
- Child support payments with less than 10 months remaining do not need to be included in the DTI.
- Installment debt may be paid off to qualify at or before closing.
  - If payoff at closing, evidence the installment debt was paid off must be in the file.
  - If payoff prior to closing, document funds used with 2 months bank/asset statements and confirm paid in full.
- Gift funds may not be used to pay off debt to qualify.

5.3 Income Taxes and Payment Plans

If the most recent federal tax return, tax extension, or tax transcripts indicate a borrower owes money to the IRS, the following are required:

- Evidence of payment of taxes due in the form of a cancelled check, credit card statement, bank statement, or screenshot of the receipt from the taxing authority if paid online.
- If taxes due have not been paid, sufficient liquid assets to pay the debt must be documented.

- When a borrower has entered into an installment agreement with the taxing authority to repay delinquent income taxes, the monthly payment amount may be included in the DTI in lieu of requiring payment in full if file contains all of the following:
  - There is no indication on the credit report, preliminary title commitment, or other loan file documentation that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
  - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due, and
    - At least one payment must have been made prior to closing, and
    - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.

5.4 Open 30-Day Charge Accounts

Balances required to be paid monthly are not included in the DTI however verified assets must be reduced by the outstanding balance when calculating funds to close and reserves.

5.5 Home Equity Lines of Credit (HELOC) – Subject Property

- HELOCs with a current outstanding balance and no payment reflected on the credit report do not need to have the payment documented however, the payment history must have reported within the past 90 days.
- Existing HELOCs must be paid in full and closed either prior to or at closing.
- For HELOC loans paid off at closing, the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document closing.

5.6 Student Loans

For all student loans (whether deferred, in forbearance, or in repayment) a monthly payment must be included in the DTI.

If a monthly payment is reflected on the credit report, the reported monthly payment must be used for qualifying.

If the credit report does not reflect a monthly payment, or if it shows $0 as the monthly payment, the monthly payment may be documented as follows:

- Loan payment indicated on student loan documentation verifying monthly payment is based on an income driven plan.
- For deferred loans or loans in forbearance:
  - 1% of the outstanding loan balance (even if this amount is lower than the actual fully amortizing payment), or
  - A fully amortizing payment using the documented loan repayment terms.

5.7 Contingent Liabilities

When a borrower is obligated on a debt but is not the party who is repaying the debt, the payment may be excluded from the borrower's recurring monthly obligations. This policy is not applicable if the other party is an interested party to the transaction (such as the seller or realtor).

Non-mortgage debt paid by others can be excluded from the DTI if:
- There is no delinquency on the account over the past 12 months.
- 12 months canceled checks or bank statements are provided from the other party making the payments.

Mortgage debt paid by others can be excluded from the DTI if:
- The party making the payments is obligated on the mortgage debt.
- There are no delinquencies in the past 24 months.
- 12 months cancelled checks or bank statements are provided from the other party making the payments.
- The borrower is not using rental income from the property to qualify.
- The referenced property must be included in the count of financed properties.

5.8 Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation appearing on the credit report is being paid by the borrower's business, the Seller must confirm that the obligation was actually paid out of company funds, and it was considered in its cash flow analysis of the borrower's business.

The payment does not need to be included in the DTI if:
- The account does not have a history of delinquency.
- The business provides evidence the obligation was paid out of company funds (such as 12 months cancelled checks).
- The Seller's cash flow analysis of the business took payment of the obligation into consideration.

The payment must be included in the DTI if:
- The business does not provide sufficient evidence that the obligation was paid out of the company funds.
- The business provides acceptable evidence of its payment of the obligation, but the Seller's cash flow analysis of the business does not reflect any business expense related to the obligation.
- The account has a history of delinquency.
- To ensure that the obligation is counted only once, the Seller should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account.

5.9 Court Ordered Assignment of Debt

When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement), the Seller is not required to count the liability as part of the borrower's recurring monthly debt obligations.

The Seller is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The seller cannot disregard the borrower's payment history for the debt before its' assignment.

5.10 Subordinate Financing (including Solar)

No more than two mortgage liens on a single property (i.e. the first lien and the new second lien). Financing that is subordinate to the second lien is not permitted.

Pay off other existing junior liens on the property required. For example: municipal, other property liens, solar panel liens.

If the solar panels are leased (no lien on subject), follow standard FNMA requirements.

6.0 FULL DOCUMENTATION INCOME

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

6.1 Stability of Income

Income is a key factor used to determine a borrower's capacity or ability to repay the loan. Supporting documentation must be obtained either from the borrower or directly from borrower's employer or financial institution.

Stable monthly income is the borrower's verified gross monthly income from all acceptable sources, that has been received for at least the past 2 years and can reasonably be expected to continue for at least the next 3 years. For each income source used to qualify the borrower, both the source and the amount of income must be analyzed to determine stability.

When the borrower has less than a 2-year history of receiving income, the underwriter must provide a written analysis to justify the determination that the income used to qualify the borrower is stable.

6.2 Declining Income

When the borrower has declining income, the most recent 12 months of income should be used for qualifying.

In certain cases, an average of income for a longer period may be used when the decline is related to a one-time capital expenditure and proper documentation is provided.

In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay the debt. The employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

6.3 Stability of Employment

All borrowers with qualifying income should have a minimum of a two-year employment history.

6.4 Gaps of Employment

- Gaps of employment > 30 calendar days during the most recent 2-year period, based on the application date, must be explained by the borrower in writing.
- Extended gaps of employment, 6 months or greater, require a documented 2-year work history prior to the absence, and
  - The borrower must be employed with their current employer for a minimum of 6 months to include the income for qualifying purposes.

6.5 Prior Military or Education Experience

If a borrower was in the military or in school during the preceding 2 years, the following documentation is required, respectively:

- Military discharge documents, or
- College transcripts.

6.6 Unacceptable Sources of Income

- Any source that cannot be verified.
- Income that is temporary.
- Rental income (boarder income) received from the borrower's primary residence.
- Expense account payments.
- Retained earnings.
- Deferred compensation.
- Rental income from a second home.
- Projected income that will begin after Note Date.
- Foreign income unless it is declared on personal income tax returns.
- Education Benefits.
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations.
- Non-occupant income.
- Employment related assets as qualifying income (Asset Depletion).

6.7 General Income Documentation Requirements

- 4506-C must be signed and completed for all borrowers.
- Borrowers Authorization form signed by all borrowers.
- The loan file must include an income worksheet detailing income calculations. Income analysis for the borrowers with multiple businesses must show the income/loss details separately, not in aggregate.
- FNMA Form 1084 or FHLMC Form 91, or the equivalent is required for self-employed analysis. The most recent forms should be used based on the application date. Form instructions must be followed.
- Tax returns must meet the following requirements when used for qualifying:
  - Personal income tax returns must be complete with all schedules (W-2 forms, K1s, etc.) and must be signed. In lieu of a signature, personal tax transcripts for the corresponding year(s) may be provided.
- Business income tax returns must be complete with all schedules and must be signed. In lieu of a signature, business transcripts for the corresponding year(s) may be provided.

6.8 Tax Transcripts

Transcripts are required for all borrowers whose tax return income is used to qualify the loan and will be used to validate the income documentation. The transcripts and supporting income documentation must be consistent.

Tax Transcripts

- Tax transcripts for personal tax returns for the most recent 2 years are required when tax returns are used to document borrower's income or any loss and must match the documentation in the loan file.

- Borrower obtained tax transcripts are not allowed.

When the most recent year's tax returns have been filed, and where the IRS has not processed the forms, the following alternative documentation is required:
For Tax Transcripts:

- Two prior years' tax transcripts.
  - Example: Borrower provided 2022 & 2023 tax returns. 2023 tax returns have been filed but the IRS has not yet processed the returns. Required transcripts will be for 2021 & 2022.
- For the most recent years' tax return, provide proof of e-filing with the IRS. This is generally an e-file receipt, or a screen shot from the borrower's online IRS account that confirms receipt of the tax returns, and
- Proof of payment in full of tax liability or receipt of refund, as applicable, and
- A processed 4506-C that confirms "no record of return found" with the IRS.

6.9 Verbal Verification of Employment (VVOE) Requirements: Wage Earner

Verbal Verification of Employment (VVOE) is required for all borrowers with qualifying income.

- If an employer affirmatively states that a borrower's employment is likely to cease, the loan is ineligible for purchase.
- VVOE must be performed within 10 days prior to the Note date. If the VVOE is completed more than 10 days before the Note date, a post-closing VVOE is acceptable if it supports the information used to qualify the borrower.
- The VVOE should include the following information:
  - Date of contact.
  - Name and title of person contacting the employer.
  - Name of employer.
  - Start date of employment.
  - Employment status and job title.
  - Name, phone number, and title of contact person at employer.
  - Independent source used to obtain employer phone number.
- If the employer uses a third-party employment verification vendor, the Seller must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the VVOE requirements.

Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the Note date.

6.10 Verbal Verification of Employment (VVOE) Requirements: Self Employment

Verification of the existence of borrower's self-employment must be verified through a third-party source and no more than 30 calendar days prior to the Note date. If the verification is completed more than 30 calendar days before the Note date, a post-closing verification is acceptable if it supports the information used to qualify the borrower.

- Third party verification requirements:
  - Third party verification can be from a CPA, regulatory agency, or applicable licensing bureau. If a CPA letter is utilized, it must indicate that the borrower has been self-employed for a minimum of 2 years.

  - Listing and address of the borrower's business.
  - Name and title of person completing the verification and date of verification.
    - If the foregoing option is not possible then: Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the Seller verifies self-employment).
    - Evidence of current business receipts within 10 days of the loan closing date (payment for services rendered).
    - Seller certification that the borrower's business is open and operating (Seller confirmed through a phone call or other means); or
    - Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

6.11 Written Verification of Employment (WVOE)

- WVOEs may be required for a borrower's income sourced from commissions, overtime and/or other income when the income detail is not clearly documented on the paystubs.
- Paystubs and W-2s are required unless a WVOE has been obtained by a FNMA approved employment and income vendor and it contains sufficient information to analyze and calculate the income.

6.12 Wage Earner Income

Paystubs must meet the following requirements:

- Clearly identify the employee/borrower and the employer.
- Reflect the current pay period and year-to-date earnings.
- Must be computer generated.
- Year-to-date pay with most recent pay period at the time of application.

W-2s must meet the following requirements:

- Must be complete.
- Must be a copy provided by the employer.
- Must clearly identify the employee/borrower and the employer.
- Must be computer generated.

6.13 Salaried Income

- Most recent year-to-date paystub with year-to-date earnings of no less than 30 days.
- W-2s for the most recent 2-year period.
- VVOE for all borrowers with qualifying income.
- Salaried borrowers who also own 25% or more of a business or other entity are considered self-employed. In addition to the documentation noted in this section, self-employed income documentation must be provided.
- Salaried borrowers who file a Schedule C (sole-proprietorship) will be required to provide self-employment documentation. This includes borrowers who may be filing the Schedule C as a tax write off for accounting purposes.

6.14 Fluctuating Hourly, Variable Hourly, and Part-Time Income

- Most recent year-to-date paystub with year-to-date earnings of no less than 30 days.

- W-2 for the most recent 2-year period.
- VVOE.
- Stable to increasing income should be averaged over a 2-year period.

6.15 Commission Income

- Most recent year-to-date paystub with year-to-date earnings of no less than 30 days.
- 2 years W-2s.
- VVOE.
- Stable to increasing income should be averaged over a 2-year period.

6.16 Overtime and Bonus Income

- Most recent year-to-date paystub with year-to-date earnings of no less than 30 days.
- VVOE.
- Stable to increasing income should be averaged over a 2-year period.

6.17 Alimony, Child Support, Separate Maintenance

- Legal agreement such as a divorce decree, court ordered separation agreement, child support agreement, or other legal agreement reflecting the income will continue for at least 3 years beyond the closing date of the loan.
- Evidence of receipt of full, regular, and timely payments for the most recent 12 months.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts section.
  - Not required for Child Support.

6.18 Borrowers Employed by a Family Member

- Most recent year-to-date paystub with year-to-date earnings of no less than 30 days.
- W-2s or tax returns for the most recent 2-year period.
- VVOE.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts section.
- Borrower's potential ownership in the business must be addressed by obtaining a letter from a qualified disinterested third-party.

6.19 Capital Gains Income

- Document a 2-year history of positive capital gains income by obtaining copies of borrower's signed and dated federal income tax returns for the most recent 2 years, including IRS form 1040, Schedule D.
- Obtain copies of 2 most recent months or most recent quarterly investment account statements (minimum 2 months' history) reflecting year-to-date activity supporting borrower's asset position and trading activity to ensure the current year's trading activity is consistent with previous year.
- Obtain year-end statements or other documentation corresponding to the tax years analyzed for the capital gains income supporting a current asset position consistent with previous levels.
- Document sufficient assets remain after closing to support continuance of the capital gain income at the level used for qualifying.

- 2 years' tax transcripts. See specific requirements under Tax Transcripts section.

6.20 Disability Income

- Copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amounts of payments, frequency of payments, and if there is an established termination date.
- Termination date may not be within 3 years of the Note date.
- Note: Reaching a specific age may trigger a termination date depending on the policy.

6.21 Dividend and Interest Income

- Tax returns for the most recent 2-year period.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts.
- Documented assets to support the continuation of the interest and dividend income.
- If any portion of the assets used to generate the interest and/or dividend income are used for down payment and closing costs, the reduction of those assets must be taken into consideration when calculating the income used for qualifying.

6.22 Employment Offers and Contracts

Start Date Prior to Loan Closing:
If the borrower is scheduled to begin employment under the terms of an employment offer or contract, an executed copy of the borrower's offer or contract for future employment and anticipated income must be obtained. A paystub that includes sufficient information to support the income used to qualify the borrower based on the offer or contract must be provided prior to delivery of the loan.

Start Date After Loan Closing:
If the borrower will not begin employment until after loan closing, the employment and income from this source is ineligible for qualifying.

6.23 Foreign Income

- Most recent year-to-date paystub with year-to-date earnings of no less than 30 days.
- W-2s or the equivalent for the most recent 2 years.
- Income must be reported on U.S. tax returns for the most recent 2-year period.
- VVOE.
- Tax transcripts. See specific requirements under Tax Transcript.
- All income must be converted to U.S. currency.
- All foreign documents must be translated to English.

6.24 K-1 Income/Loss on Schedule E of the 1040s

- If the income is $0 or positive, stable, and not used for qualifying, the K1 is not required.
- K-1 losses do not need to be considered in qualifying when ownership in the business is less than 25%.
- If the borrower has less than 25% ownership and income is used for qualifying:
  - Verification of Employment requirements apply.

  - Year-to-date income must be verified if the most recent K1 is more than 90 days from the Note date.
- If the borrower has 25% or more ownership and income is used for qualifying:
  - Verification of Employment requirements apply.
  - Partnership/S-Corp and self-employment documentation requirements apply.
  - 2 years' tax transcripts. See specific requirements under Tax Transcripts.

6.25 Non-Taxable Income

- Income types include child support, military rations/quarters, social security, disability, foster care, etc.
- Documentation must be provided to support continuation for 3 years.
- Income may be grossed up by 25%. If the actual amount of taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's non-taxable income, that amount may be used to develop the adjusted gross income.
- Tax returns for the previous 2 years must be provided to confirm income is non-taxable.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts.

The requirements for Tax Returns and Transcripts does not apply to:
- Child Support.
- Military Rations/Quarters.
- Social Security Income: 15% of the income is non-taxable.
- VA Disability.

Example for Social Security income:
- Benefit amount: $1,500
- Nontaxable amount: $1,500 x 15% = $225
- Gross-up amount: $225 x 25% = $56 (rounded to the nearest dollar)
- Qualifying income: $1,556 (does not require additional documentation)

6.26 Note Income

- Copy of the Note must document the amount, frequency, and duration of the payment.
- Note Income must continue for at least 3 years.
- Bank statements to support receipt of Note income since the last filed tax returns.
- Tax returns for the previous 2 years must be provided to evidence Note income.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts.

6.27 Rental Income

Generally, if a borrower has a history of renting a property, the income will be reported on IRS Form 1040 Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the property or if in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the underwriter may be justified in using a fully executed current lease agreement.

Examples of scenarios that justify the use of a lease agreement are:
- Instances in which the borrower purchased the rental property during or after the last tax return filing.

- Instances in which a property experienced significant rental interruptions such that income is not reported on the recent tax return, for example a major renovation to a property in the prior year that affected the rental income.

Documenting Rental Income from Property Other than the Subject Property
- Most recent signed personal income tax returns, including Schedule 1 and Schedule E.
- Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception.

Reconciling Partial or No Rental History on Tax Returns:
To calculate qualifying rental income, the Seller must determine whether the rental property was in service for the entire tax year or only a portion of the year. In some situations, the Seller's analysis may determine that using the alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This guidance may be applied to refinances of a subject property or the other rental properties owned by the borrower.

If the borrower can document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the Seller may determine qualifying rental income by using:

Rental Income	
If....	**Then....**
The property was acquired during or after the most recent tax filing year	• The Seller must confirm the purchase date using the settlement statement or other documentation. • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for the property.
The rental property was out of service for an extended period	• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service. • Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
Conversion of a departing residence to an investment property	• Form 1007 or Form 1025, as applicable. • Fully executed lease agreement. • Evidence of receipt of security deposit.

Calculating Monthly Qualifying Rental Income or Loss:
The Seller must establish a history of property management experience by obtaining one of the following:
- The borrower's most recent signed personal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365.

- If the property has been owned for at least one year but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the personal tax returns: or
- A current signed lease may be used to supplement a personal income tax return if the property was out of service for any period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

Method for Calculating Income:

- Personal Income Tax Returns, Schedule E:
  - When Schedule E is used to calculate qualifying rental income, the Seller must add back any listed depreciation, interest, homeowner's association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.
  - If the property was in service:
    - For the entire tax year, the rental income must be averaged over 12 months; or
    - For less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.
- Lease Agreements for Form 1007 or Form 1025:
  - When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the Seller must calculate the rental income by multiplying the gross monthly rent(s) by 75% (this is referred to as "Monthly Market Rent" on the Form 1007). The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

6.28 Restricted Stock (RS), Restricted Stock Units (RSUs) and Stock Options – Performed Based

History of Receipt:

- Two consecutive years required; it is acceptable to use a rolling 24-month history of receipt vs. calendar years plus year-to-date.
- To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction.

Continuance:

- Documentation must support continuance for at least 3 years.

Documentation Requirements:

- Year-to-date paystubs documenting all year-to-date earnings, including receipt of any RSUs.
- Two years W-2s.
- Written Verification of Employment (WVOE) documenting all year-to-date earnings and the earnings for the most recent 2 calendar years.
- Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSUs.

Additional Documentation Requirements:

- Evidence the stock is publicly traded.
- Documentation verifying that the vesting provisions are performance-based (e.g., RS and/or RSU agreement, offer letter).
- Vesting Schedule(s) currently in effect detailing past and future vesting.

- Evidence of receipt of previous year(s) payout(s) of RS/RSUs (e.g., year-end paystubs, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pretax).

Calculation of Income:
Based on the form in which vested RSUs are distributed to the borrower (shares or cash equivalent), the Seller must use the applicable method to calculate the monthly income:

- RSU Distributed as Shares:
  - Multiply the 52-week average stock price as of the application date by the total number of vested shares distributed (pre-tax) to the borrower in the past 2 years, then divide by 24.
    - Example: If 200 vested shares were distributed (pre-tax) in the past 2 years and the 52-week average stock price as of the application-received date is $10, multiply 200 x $10 then divide by 24 = $83.33 monthly income.
- RSU Distributed as Cash Equivalent:
  - Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past 2 years and divide by 24.

Note: When the calculation results in declining income from the RS or RSU source, this must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay the debt. The underwriter should provide a written justification for including the declining income for qualifying.

6.29 Restricted Stock (RS), Restricted Stock Units (RSUs) and Stock Options – Time Based

History of Receipt:

- One year required; it is acceptable to use a rolling 12-month history of receipt vs. calendar years plus year-to-date.
- To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction.

Continuance:

- Documentation must support continuance for at least 3 years.

Documentation Requirements:

- Year-to-date paystub(s) documenting all year-to-date earnings, including receipt of any RS/RSUs.
- 1-year W-2 from the most current calendar year.
- Written Verification of Employment (WVOE) documenting all year-to-date earnings (including payout(s) of RS/RSUs) as well as earnings for the most recent calendar year.
- Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSUs.

Additional documentation requirements:

- Evidence the stock is publicly traded.
- Documentation verifying that the vesting provisions are time-based (RS and/or RSU agreement, offer letter).
- Vesting schedule(s) currently in effect detailing past and future vesting.

- Evidence of receipt of previous year's payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pre-tax).

Calculation of Income:
Based on the form in which vested RS or RSUs are distributed to the borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income.

- RS or RSU Distributed Shares:
  - Multiply the 52-week average stock price as of the application date by the number of vested shares distributed (pre-tax) to the borrower in the past year, then divide by 12.
    - Example: If 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as of the application date is $10, multiply 50 x $10 then divide by 12 = $41.67 monthly income.
- RS or RSU Distributed as Cash Equivalent:
  - Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.

Note: When the calculation results in declining income from the RS or RSU source, this must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay the debt. The underwriter should provide a written justification for including the declining income for qualifying.

6.30 Retirement Income

All retirement benefits, including annuity retirement benefits must have a minimum continuance of 3 years from the closing date to be considered as qualifying income.

Document verification with any of the following, including a combination of documentation:

- Distribution or award letter.
- Tax returns or tax transcripts from the prior year.
- Most recent IRS 1099 form.
- Last 2 months bank statements to document the regular deposit of payments.

6.31 Royalty Income

Income received from royalty payments may be considered as qualifying income with the following requirements:

- Evidence of receipt for the most recent 12 months (if payments are received less than monthly, 24 months is required).
- Evidence royalty payments are likely to continue for at least 3 years.
- 2 years' personal tax returns, including Supplemental Income and Loss Schedule E.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts section.

6.32 Self-Employed Income General Requirements

Borrowers who own twenty-five percent (25%) or more of a business or other entity, or where the borrower receives 1099 forms to document income, are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes regardless of how they are paid through the business (i.e. pay themselves a salary (w-2).

Profit and Loss Statements(P&Ls) and Balance Sheets:

- Signed and Dated Year-to-date P&L statements and balance sheets are required if the closing date is beyond 90 days from the end of the last fiscal year.
- P&Ls and balance sheets are not required if the income is positive and not being used for qualifying or if the income is negative and represents less than 5% of the total income.
- If the tax return for the previous tax year has not been filed, a 12-month P&L statement and balance sheet for that period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, the following is required:
  - An executed copy of the borrower's extension requests for both personal and business tax returns.
  - Where a tax amount is owed to the IRS, evidence of proof of payment, or receipt of refund.
  - A processed 4506-C that confirms "no record of return found" with the IRS is required.

6.33 Sole Proprietorship (Includes Schedule C and Schedule F)

- 2 years' personal tax returns signed on or before the closing date. In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts section. The transcripts will be used to validate the income documentation used to underwrite the loan. The transcripts and supporting income documentation must be consistent.
- Year-to-date P&L statement.
- Year-to-date balance sheet. Tax returns for prior year is not a substitute for balance sheet.
- VVOE.
- Stable to increasing income should be averaged over 2 years.

6.34 Partnership/S-Corporation

- 2 years' personal tax returns signed on or before the closing date. In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts section. The transcripts will be used to validate the income documentation used to underwrite the loan. The transcripts and supporting income documentation must be consistent.
- 2 years' K-1sreflecting ownership percentage if counting any income from this source in qualifying (K-1, W-2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- 2 years' business tax returns (1065s or 1120S) signed if 25% or greater ownership. In lieu of a signature, business tax transcripts for the corresponding year may be provided.
- Due date for business returns for Partnerships and S-Corporations is typically March 15 with an extension for six (6) months or typically September 15. After the extension date has passed, the loan is not eligible without the filed tax return.
- Business returns and year-to-date financials are not required if the income reporting is $0 or positive, not declining and not counted as qualifying income.
- Year-to-date P&L if 25% or greater ownership.
- Year-to-date balance sheet if 25% or greater ownership.
- VVOE.

- Stable to increasing income should be averaged for 2 years.

6.35 C-Corporation

- 2 years' personal tax returns signed on or before the closing date. In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- 2 years' tax transcripts. See specific requirements under Tax Transcripts section. The transcripts will be used to validate the income documentation used to underwrite the loan. The transcripts and supporting income documentation must be consistent.
- 2 years' business returns (1120) signed if 25% or greater ownership. In lieu of a signature, business tax transcripts for the corresponding year may be provided.
- Business returns must reflect percentage of ownership for borrower.
- Year-to-date P&L if 25% or greater ownership.
- Year-to-date balance sheet if 25% or greater ownership.
- VVOE.
- Stable to increasing income should be averaged for 2 years.

6.36 Secondary Self-Employed Income

- Business income reported on a borrower's individual income tax returns is not required to be used in qualification if the Seller is only using income that is not derived from self-employment and self-employment is a secondary and separate source of income.
- Secondary and separate sources of self-employment losses reporting on 1040 tax transcripts greater than 5% of borrower's total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.
- Examples of income not derived from self-employment include salary and retirement income.

6.37 Self-Employed Co-Borrower Income

- When co-borrower income derived from self-employment is not being used for qualifying purposes, the lender is not required to document or evaluate the co-borrower's self-employment income.
- Co-borrower self-employment losses reporting on 1040 tax returns or transcripts greater than 5% of borrower's total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.

6.38 Social Security Income

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

6.39 Teacher Contractors and Income

Teachers and school administrators who are employed based on an annually renewed contract, do not need to meet the three (3) year minimum continuance requirement if the following additional requirements are met:

- Annual contracts are common for the school district.
- Economic conditions of the area do not pose a threat to the demand for teachers.
- The teacher/administrator has a minimum two (2) years of experience.

The number of paychecks the borrower receives per year must be considered when calculating the income. As an example, for a teacher who receives 10 paychecks per year, qualifying income is calculated as follows:

- (Monthly salary X 10)/12 = qualifying income.

6.40 Temporary Leave Income

Temporary Leave from work is generally employee-initiated, short in duration and for reasons including, but not limited to maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or to the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

Note: Mandatory leave initiated by an employer, such as a furlough or layoff, is not considered temporary leave regardless of an expected return to work date. For income from unemployment benefits received as a result of mandatory leave initiated by an employer, refer to FNMA Selling Guide for Public Assistance Income.

If a lender is made aware that a borrower will be on temporary leave at the time of the loan closing and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.

Temporary Leave-Employment Requirements:

- The borrower’s employment and income history must meet standard eligibility requirements.
- The borrower must provide written confirmation of their intent to return to work.
- The Company must document the borrower’s agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.
    - Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee’s system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents policy.)
- The company must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.
- The Company must obtain a verbal verification of employment. If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.
- The Company must verify the borrower's income. The Company must obtain:
    - The amount and duration of the borrower's “temporary leave income,” which may require multiple documents or sources depending on the type and duration of the leave period
    - The amount of the “regular employment income” the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

- Note: Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

Requirements for Calculating Income Used for Qualifying:
- If the borrower will return to work as of the first loan payment date, the lender can consider the borrower's regular employment income in qualifying.
- If the borrower will not return to work as of the first loan payment date, the lender must the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than their regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. The following are instructions on how to calculate the "supplemental income."

Supplemental income amount (available liquid reserves divided the number of months of supplemental Income):
- Available liquid reserves: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- Number of months of supplemental income: the number of months from the first loan payment date to the date the borrower will begin receiving their regular employment income, rounded up to the next whole number.

After determining the supplemental income, the Company must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income.

The total qualifying income that results may not exceed the borrower's regular employment income.

Note: These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the lender must not ask if they intend to take leave in the future.

6.41 Trust Income

Income from trusts may be used if guaranteed and regular payments will continue for at least 3 years and have been received for no less than six (6) months prior to the application date. Evidence of receipt of trust income must be documented. If received other than monthly or quarterly, age of documentation requirements do not apply. A copy of the trust agreement or trustee statement must show the following:
- Total amount of borrower designated trust funds.
- Terms of payment.
- Duration of trust.
- Evidence trust is irrevocable.

If trust fund assets are being used for down payment or closing costs, the loan file must contain adequate documentation to indicate the withdrawals of the assets will not negatively affect the income.

7.0 ALTERNATIVE DOCUMENTATION INCOME (12 AND 24 MONTH)

Alternative Income Documentation such as Bank Statements, 1099, Asset Depletion, Asset Utilization is not permitted.

8.0 ASSETS

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

8.1 Assets and Reserves

No asset verification is required unless assets are required for:

- Cash to Close; or
- Payoff of Debt; or
- Utilizing assets as an income source (i.e., Capital Gains or Dividends and Interest).

Reserves are not required.

8.1.1 Asset Statements

When assets are required, the most recent two (2) months statements are required.

8.2 Asset Seasoning

Assets must be held in a U.S. financial institution and sourced and seasoned for a minimum 60 days.

8.3 Joint Assets

For joint accounts, when an account owner is a non-borrowing individual, an access letter is required. The access letter must specify the percentage or amount of assets the borrower is entitled to.

8.4 Large Deposits

- Large deposits exceeding 50% of the borrower's total monthly qualifying income or any large deposit that is out of the ordinary must be verified and explained by the borrower with the source of such funds documented.
- Large deposits that cannot be sourced and explained may be subtracted from the verified asset amount.

8.5 Checking, Savings, Money Market Accounts and CDs

- 2 complete months bank statements required.
- In lieu of bank statements, use of a FNMA approved asset vendor is acceptable as long as the data includes individual transaction details over a two month period.

8.6 Publicly Traded Stocks, Bonds, Mutual Funds

- 2 complete months financial statements required.
- Evidence of liquidation is required if funds will be used to close transaction.
- Value discounted to 70% for reserves.

8.7 Retirement Accounts

- 2 complete months financial statements required.
- Evidence of liquidation is required if funds are needed to close transaction.
- If borrower is > 59 ½ years old, then 70% of the vested value after the deduction of any outstanding loans.
- If borrower is ≤ 59 ½ years old, then 60% of the vested value after reduction of any outstanding loans.
- Evidence of access to funds required for employer-sponsored retirement accounts.

8.8 Cash Value of Life Insurance and Annuities

- Most recent statement(s) covering at least a 2-month period.
- 100% of the value can be used unless the account is subject to penalties.
- Evidence of liquidation is required if funds will be used to close the transaction.

8.9 Business Funds

Allowed for funds to close only.

The amounts of business assets that can be used must correspond to the borrower's percentage of ownership in the business.

In order to use Business Funds in qualifying, the borrower must own 51% or greater of the business, provide personal and business tax returns and a year-to-date P&L and Balance Sheet. Additionally, file must document that use of business funds will not adversely affect the business' operations.

In order to document use of business funds will have no adverse impact on the business, provide one of the following:

- A letter from a qualified disinterested third-party CPA can be provided confirming the amounts of business assets that can be used, that the funds are not a loan and that the use will not adversely affect the business.

  OR

- Cash flow analysis required using most recent 3 months business bank statements to determine no negative impact to the business.
- Business bank statements must not reflect any NSF or overdrafts.

8.10 Unacceptable Sources of Funds

Ineligible Qualifying Assets
Asset Type
529 accounts
Any asset that is derived from activities that are not legal in accordance with all applicable federal, state, or local laws, rules and regulations
Assets pledged as collateral on another loan
Assets titled in an irrevocable trust
Bridge Loans
Cash Advances
Cash-on-hand
Cryptocurrencies (bitcoin, etc.)
Down Payment Assistance Programs
Foreign Assets
Funds in a custodial or “In Trust For” account
Gifts
Gifts of Equity
Health savings accounts
Individual Development Accounts
Loans from Non-institutional Lenders
Non-financial assets (artwork, collectibles, stamps, etc.) unless liquidated
Non-marketable Securities
Non-vested Restricted Stock Units (RSU)
Non-vested Retirement Funds
Non-vested Stocks/Options
Pooled Savings
Proceeds of SBA/PPP Loan
Profit Sharing Plans
Rent Credit (Lease to Own Arrangements)
Salary Advances
Section 8 Voucher Assistance
Security Deposits for Rental Properties Owned
Stocks in non-publicly traded (private) companies
Sweat Equity
Unsecured Loans

9.0 APPRAISALS & PROPERTIES

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

9.1 Declining Market

Properties where the appraiser indicates the subject is located within a declining market are not permitted.

9.2 General Appraisal Requirements

The following conditions must be met on an appraisal:

- Value is on an “as-is” basis and not subject to future improvements, with an as-is appraisal or 1004D evidencing completion of any cited repair/improvements.
- 1004D to be completed and satisfied prior to closing.
- Condition rating is C1 through C4.
- C5 and C6 condition ratings are ineligible.
- Appraisals assigned from another lender are not permitted.
- Appraisal must be completed for subject transaction; prior appraisals are not permitted.

9.3 Primary Valuation Requirements

- All loans identified as HPML must follow the appraisal requirements identified in the regulation, including the requirement for a full 1004/1073 appraisal, if applicable.
- Loan amount ≤ $250,000:
  - AVM with exterior property inspection that is otherwise compliant with FIRREA requirements (AVM must be dated within 60 days of the Note Date, Property Inspection must be dated within 120 days of the Note Date).
    - Exterior Property Inspection is an exterior inspection of the subject property including photos of the front of the home, house number, left and right sides, when accessible, of the home, street scene, any visible exterior condition concerns. The report must include a description of the condition of the home and any repairs needed along with a cost estimate for repairs. The report preparer should confirm the current use of the property and current zoning as well as commenting on any positive or negative externalities. The report preparer’s signature and date of the inspection is required.
    - AVM score must comply with Fitch AVM approved vendors and PP10 90 FSD requirements noted below:
    - Company Approved AVM Providers:
      - Clear Capital: ≤ 0.13
      - ICE CA (formerly Collateral Analytics): ≤ 0.10
      - Homegenius Real Estate: ≤ 10
      - House Canary: ≤ 0.10
      - Corelogic: ≤ 0.13
      - VeroValue: ≤ 0.10
  - Exterior-only appraisal (Form 2055), or
  - Full interior/exterior appraisal (Form 1004/1073).
- Loan amount > $250,000:

- Full interior/exterior appraisal (Form 1004/1073).

9.4 HPML Appraisal Requirements

HPML loans, regardless of loan amount, require full interior/exterior appraisal (Form 1004/1073).

9.5 Properties Located in Disaster Area

Disaster Policy Overview:
The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual Assistance due to a federal government disaster declaration.

The Disaster Policy will be in effect for transactions during an ongoing disaster and transactions with a Note date within ninety (90) days of the end date of the disaster incident period. The Disaster Policy is also in effect for loans with a post-closing disaster and prior to the date of purchase by the investor.

Disaster Policy Effective Date:
The Disaster Policy becomes effective as of the Incident Period Begin Date for the disaster/event. FEMA publishes the Incident Period along with the Declaration Date once the area is declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

Disaster Incident Period Example:
- Begin Date: March 8
- End Date: March 10 Disaster Declaration Date: March 17
- Effective Date for Disaster Procedures: March 8

Based on the dates noted above in the example, all appraisals/exterior property inspections performed before March 8 would require the appropriate re-inspection or review. Appraisals/exterior property inspections performed after March 10 would continue to require written certification by the appraiser/inspector that addresses whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage would need to be addressed.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirements, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside the current known disaster boundaries.

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

- For appraisals performed before the disaster incident begin date, the property re-inspection must identify the following:
  - Property is free from damage and the disaster had no effect on value or marketability.

  - If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidence by Form 1004D/442, Appraisal Update, and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.
- For a standard Appraisal performed after incident period end date of disaster, the appraisal must include written certification by the appraiser that:
  - Property is free from damage and the disaster had no effect on value or marketability. Completion of repairs is required as evidence by Form 1004D/442, Appraisal Update, and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.

9.6 Eligible Property Types

9.6.1 Single Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes.

The minimum property size (square footage) for a SFR is 750 square feet.

9.6.2 Condominium

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.

A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

Condos must be warranted to FNMA guidelines.

The minimum property size (square footage) for a condo is 400 square feet.

Non-warrantable condos are not permitted.

9.6.3 Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all the following requirements must be met:
- Each unit owner holds title to the lot and the improvements on the lot.
- The HOA holds title to the common elements.
- The unit owners have a right to the use of the common elements.
- The unit owners pay a fee to the HOA to maintain the common elements for their benefit.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects. These projects:
- Have no common property and improvements.

- Do not require the establishment of and membership in an HOA.
- Do not require payment of assessments.

The minimum property size (square footage) for a PUD is 750 square feet.

9.6.3.1 Planned Unit Development (PUD) Requirements

PUDs must comply with all requirements published in the FNMA Selling Guide. A PUD Eligibility Letter is not required.

For properties located in a PUD project, the Project Review is waived apart from some basic requirements that must be met.

- Priority of Common Expense Assessments (HOA fees) must not exceed six (6) months of regular common expense assessments, even if applicable law provides for a longer priority period.
- Insurance requirements for PUD projects must be met for title, hazard, liability (if a new project) and flood.
- Appraisal must meet all applicable appraisal requirements established by the FNMA Selling Guide.

9.6.3.2 Ineligible Planned Unit Development (PUD) Projects

- Projects in litigation: Any project for which the HOA is named as a party to pending litigation or, any project for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project is ineligible. Litigation that involves minor matters are not considered ineligible projects; provided, that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
  - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment.
  - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance; or
  - The HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues.
- Projects with non-incidental business operations owned or operated by the HOA such as, but not limited to, a restaurant, spa, health club, etc.
- Investment securities: projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity.
- Common interest apartments or community apartment projects: any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment in the building.
- Timeshare or segmented ownership projects.
- Houseboat projects.
- Manufactured housing projects.
- New projects where the seller is offering sale/financing structures more than permitted limits. These excessive structures include, but shall not be limited to, builder/developer contributions, sales

concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the Closing Disclosure.

- PUDs with less than four hundred (750) square feet.

9.6.4 Accessory Dwelling Units (ADU)

An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilizes, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property. If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is a one-unit.
- The property contains only one accessory unit, multiple accessory units are not permitted.
- Accessory unit cannot be a manufactured home.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
- ADU must be legal-conforming.

9.7 Ineligible Property Types

The following are ineligible property types:

- 2-4 Unit Properties
- Agricultural/Farms/Ranches
- Builder Model Leaseback
- C5 or C6 Property Condition Grades
- Community Land Trusts
- Commercial Properties
- Condotels
- Cooperatives (Co-ops)
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Industrial Properties
- Leaseholds
- Live-work Projects
- Log Homes/Log Cabins
- Manufactured Homes
- Mixed-use Properties
- Mobile Homes
- Modular Homes
- Non-warrantable condominiums
- Properties in litigation
- Properties on Native American/Indian/Tribal Land (Reservations)
- Properties Subject to Rent Control

- Properties Under Construction
- Properties whose use and/or zoning are one of the following:
  - Agricultural
  - Commercial
  - Industrial
  - Farm/Ranch
  - Mixed-use
- Properties with more than 1 ADU
- Properties with Oil and Gas Lease
- Properties with over 10 acres
- Rural Properties
- Timeshares
- Unique Properties
- Vacant Lots

10.0 CONDOMINIUMS (CONDOS)

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

10.1 Condominiums Warrantable

Warrantable Condos are eligible for financing.

The minimum property size (square footage) for a condo is 400 square feet.

General Requirements:

- To be considered warrantable, a condominium project must comply with all requirements published in the FNMA Selling Guide. A Condominium Eligibility Questionnaire may be required to determine eligibility. Refer to FNMA Condominium Project Questionnaire – Short Form 1077 or Condominium Project Questionnaire – Full Form 1076, or their equivalents, and as applicable. Condominium Project Review Attached condominiums: Limited review allowed for attached units in established condominium projects.
    - Eligible transactions per FNMA guidelines.
    - Projects located in Florida are not eligible for Limited Review.
- Condo Project Manager ("CPM") or Project Eligibility Reviews Service ("PERS") allowed.
- Full review allowed. Warranty must be to FNMA full review guidelines.
- Projects with 2-4 units, project review is waived. Additional FNMA requirements apply when the project review is waived. Refer FNMA Selling Guide for additional information.
- Condominium documents to support condominium eligibility review must be no older than one hundred eighty (180) days from the Note date.

Note: For full warranty, the HOA questionnaire is required unless you provide certification from CPM that the projects is FNMA approved.

Detached condominiums:

- Project review is waived. Additional FNMA requirements apply when the project review is waived. Refer to FNMA Selling Guide for additional information.

10.1.1.1 Ineligible Condominium Projects

- Non-warrantable Condos.
- Projects in litigation: Any project for which the HOA is named as a party to pending litigation or, any project for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project is ineligible. Litigation that involves minor matters are not considered ineligible projects; provided, that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
    - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment.
    - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance; or

  - The HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues.
- Condotel: Any project that is managed and operated as a hotel or motel, even though the units are owned individually. Projects with any of the following characteristics are considered hotel-type projects, and are therefore, ineligible:
  - Projects that include registration services and offer rentals of units daily.
  - Projects with names that include the words “hotel” or “motel”.
  - Projects that restrict the owner’s ability to occupy the unit.
  - Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units. These formal agreements between the developer, HOA, and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.
  - Projects that include any of the following: central telephone system, room service, units that do not contain full-sized kitchen appliances, daily cleaning service, advertising of rental rates, restrictions on interior decorating, franchise agreements, central key systems, location of the project in a resort area, projects converted from a hotel or motel.
- Projects with non-incidental business operations owned or operated by the HOA such as, but not limited to, a restaurant, spa, health club, etc.
- Investment securities: projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity.
- Common interest apartments or community apartment projects: any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment in the building.
- Timeshare or segmented ownership projects.
- Houseboat projects.
- Manufactured housing projects.
- Multi-dwelling unit condominiums or cooperatives: projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan).
- Condominium projects that represent a legal use of the land if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.
- New projects where the seller is offering sale/financing structures more than permitted limits. These excessive structures include, but shall not be limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the Closing Disclosure.
- Attached condominium projects where more than fifteen percent (15%) of the total units in a project are thirty (30) days or more past due on their HOA dues/maintenance fees. For example, a one hundred (100) unit project may not have more than fifteen (15) units that are thirty (30) days or more delinquent.
- Newly converted, no-gut rehabilitation condominium conversions are ineligible for financing.

- Condominiums with less than four hundred (400) square feet.

11.0 PROPERTY INSURANCE

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements.

12.0 TITLE/VESTING REQUIREMENTS

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

12.1 Title Requirements

12.1.1 Loan amounts less than or equal to $250,000

- Owner and Encumbrance Property Report – dated within 60 days of the note date.
- Property Tax Information required to be verified.

12.1.2 Loan amounts greater than $250,000

- Full ALTA Loan Policy – dated within 120 days of the note date.

12.2 Entity Vesting

Entity Vesting is not permitted.

12.3 Power of Attorney

Power of Attorney is not permitted.

13.0 RATIOS & QUALIFYING METHODS

Follow the Product Matrix and/or FNMA Selling Guide for guidelines and requirements as well as any additional guidance below.

13.1 Debt-to-Income (DTI) Ratio

The Debt-to-Income (DTI) ratio is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income.

See matrix for DTI limits and restrictions.

13.2 Qualifying Rate

Note Rate.

14.0 PROGRAM FEATURES & CHARACTERISTICS

14.1 Ineligible Loan Features

The following are not eligible:

- Amortization recast.
- Assumptions.
- Prepayment penalty.
- Temporary buydown.
- Escrow Holdbacks.

14.2 Underwriting Method

- All loans must be manually underwritten.
- Any guidelines not stated in this Guide must comply with FNMA Selling Guide.
- A maximum four (4) borrowers permitted.
- A comprehensive fraud report is required – i.e. Drive, Corelogic.

14.3 Mortgage Insurance

Mortgage insurance is not required.

15.0 DOING BUSINESS WITH STG MORTGAGE

15.1 Ability to Repay (ATR)

No mortgage loan may be originated under the programs unless the loan satisfies the “Ability to Repay” provisions dictated by the CFPB in 12 CFR Part 1026.43 (also known as Qualified Mortgage Rule). For each loan, the Correspondent Lender must make reasonable and good faith determination, based on verified and documented information, that the borrower has a reasonable ability to repay the loan according to its terms. Generally, the underwriters will evaluate, at a minimum, the following eight factors in making this determination:

- Current or reasonably expected income or assets.
- Current employment status.
- The monthly payment on the covered transaction.
- The monthly payment on any simultaneous loan.
- The monthly payment for mortgage-related obligations.
- Current debt obligations, alimony, and child support.
- The monthly debt-to-income ratio or residual income.
- Credit history.

For any loan that is designated as “Qualified Mortgage Loan” having a rebuttable presumption of compliance with the “Ability to Repay” requirement under the Qualified Mortgage Rule, the underwriting determination must show that the borrower has sufficient residual income or assets to meet living expenses after taking into account the borrower’s income and debt obligation.

The Income documentation must support the Ability to Repay requirements (ATR).

15.2 Licensing

STG Mortgage originates loans where it is properly licensed or where no license is required. The regulatory requirements and legal interpretations may change frequently. Please visit https://stgmortgage.com/licenses/ for the state license numbers, the latest information on STG Mortgage’s licensed states.

STG Mortgage only works with licensed mortgage originators (MLOs) who are registered in the NMLS system and properly licensed both nationally and in the subject property state.

15.3 Equal Housing Lender

STG Mortgage is an Equal Housing Lender. As prohibited by federal law, we do not engage in business practices that discriminate on the basis of race, color, religion, national origin, sex, marital status, age (provided the capacity to enter into a binding contract exists), because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers our compliance with these federal laws is the Federal Trade Commission, Equal Credit Opportunity, Washington, DC, 20580. It is the responsibility of all buyers and brokers to ensure that they adhere to these laws and their underlying principles in connection with mortgage loans closed, purchased and sold through STG Mortgage.

15.4 STG Mortgage Loss Payee

STG Mortgage Inc. ISAOA/ATIMA
18401 Von Karman Avenue
Suite 440
Irvine, CA 92612
STG Loan #

15.5 Homeowners Association Dues

HOA dues must be current or paid current at time of closing.

15.6 Fraud Reviews

Data integrity is crucial to having a quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. Fraud Guard, DataVerify, etc.). A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted. For loans underwritten in house by STG Mortgage, a fraud report will be pulled by internal STG Mortgage staff.