



STG  **MORTGAGE**
The Foundation Of Trust

LENDING GUIDELINES

STAR NON-QM PRODUCTS

10/09/2026

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1.0 TRANSACTION TYPES

1.1 Construction Loans (Including Construction-to-Permanent)

Construction Loans and Construction-to-Permanent Loans are not eligible.

Transactions to refinance construction financing on recently completed properties into a permanent loan are eligible. These transactions are treated as rate/term refinances. For properties owned for 12 or more months, use the appraised value for determining LTV. For properties acquired in the most recent 12 months, use the lesser of the appraised value or the land purchase price plus total construction and acquisition costs to determine the LTV.

1.2 Purchase

A purchase transaction allows a buyer to acquire property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the LTV.

1.2.1 Assignments of Contract

When a contract to purchase real estate is transferred from the original signer to a new buyer, this is completed via an assignment of the original contract. Assignments of Contract are only acceptable if the sales price is not increased and no transfer or finder's fee is charged to the buyer. The final closing disclosure may not contain any compensation to the party assigning the contract, other than reimbursement of their transferred earnest money. No fees to any party for the assignment may be factored into the sales price or LTV calculation.

Assignments of Contract are ineligible with Flip and Non-Arm's Length transactions. See [Flip Transactions](#) and [Non-Arm's Length Transactions](#).



1.3 Refinance Transactions

1.3.1 Benefit to Borrower

In keeping with the commitment to responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower. When determining the benefit on a refinance transaction, one or more of the following must exist:

- Balloon Payoff
- Title Transfer
- Property Retention
- Rate Reduction
- P&I Reduction
- Debt Reduction
- Cash Out (cash proceeds must be 25% greater than closing costs)
- Comply with Court Order
- ARM to Fixed
- Co-Owner Buyout
- Lower Interest Rate
- Increased Residual Income
- Lower Amortization Term
- Refinance Negative Amortization Loan
- Inherited Property Mortgage Payoff

State-specific and/or federal benefit to borrower compliance requirements must be adhered to. Underwriting must complete the Benefit for Borrower Worksheet to ensure compliance with this policy. Files must contain documentation supporting the acceptable benefit.



1.3.2 Rate/Term Refinance

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest rate and/or term of a mortgage without advancing new money.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- No more than 60 days of delinquent property taxes may be included. Delinquent taxes in excess of 60 days must be subtracted from borrowers' allowable cash-back or the loan must be converted to cash-out.
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property.
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property.
- Any subordinate financing that was not used to purchase the subject property, provided:
 - For closed-end seconds, the loan is at least 1 year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage.
 - For HELOCs and other open-ended lines of credit, the loan is at least 1 year seasoned and there have been less than \$2,000 in total draws over the past 12 months.

If the most recent first mortgage transaction on the property was a cash-out refinance, at least 6 full months must have passed for the new mortgage to be eligible as either a cash out or rate/term refinance. Note date to note date is used to calculate the 6 months.

Rate/Term refinances do not have title seasoning requirements. At least 1 borrower must be on title prior to loan application.

The buyout of a co-owner pursuant to an agreement or court order is considered a rate/term refinance.

Loan proceeds in excess of those needed to meet the above requirements are considered cash out which is limited to an amount that is the greater of 1% of the new mortgage balance or \$2,000.

1.3.2.1 Loan Proceeds as Reserves (R/T Refi Loan Amount up to \$3.5MM)

Loan proceeds may be used to meet reserve requirements at Loan Amounts $\leq$ \$3.5MM.

1.3.2.2 Loan Proceeds as Reserves (R/T Refi Loan Amount above \$3.5MM)

Loan proceeds cannot be used to meet reserve requirements at Loan Amounts $>$ \$3.5MM.

1.3.2.3 Determining the LTV (Rate/Term Only)

The current appraised value shall be used to determine LTV.



1.3.2.4 Properties Listed For Sale (Rate/Term Only)

For Rate/Term Refinances listed for sale in the previous 6 months, the subject property must meet the following standard requirements & restrictions:

STG Mortgage Standard Requirements/Restrictions (All Star Series) Properties Listed for Sale (Rate/Term Only)	
Listing Removal Time Frame	Requirements/Restrictions
Within 30 days of Application Date	Not permitted
Between 31 to 90 Days from Application Date	- The property must not be currently listed for sale. - The property listing must have been removed from the market at least 31 days prior to the date of application. - Short-term rental income not permitted. - Borrower must provide a letter explaining their intentions. Letter must support an intent to keep the subject loan for 12 months or more. - LTV will be calculated using the lesser of appraised value or recent listing price. - For loans not eligible to have prepayment penalty, the maximum price is 99.0 (no premium or par pricing is permitted). - For loans eligible to have a prepayment penalty, a 1-year minimum prepayment penalty is required.
Between 91 to 180 Days from Application Date	- The property must not be currently listed for sale. - The property listing must have been removed from the market at least 91 days prior to the date of application. - Short-term rental income not permitted.

Certain Star Series contain additional requirements/restrictions on Rate/Term Refinances for Properties Listed For Sale. Reference the table below for details.

Star Series Specific Requirements/Restrictions Properties Listed for Sale (Rate/Term Only)	
Star Series	Requirements/Restrictions
Series 1	Standard Rate/Term Refinance Listed For Sale Requirement/Restrictions



1.3.3 Cash-Out Refinance

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction, when paying off other liabilities, or paying off a subordinate lien that does not meet the rate/term seasoning requirements.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash-in-hand reflected on the settlement statement.
- Delinquent Property Taxes.

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained for all cash-out transactions. The purpose of the cash-out should also be reflected in the loan application.

For all cash-out refinance transactions (except delayed financing), at least 1 borrower on the transaction must have held title for the most recent 6 months to fulfill seasoning requirements. Additionally, 6 months must have elapsed since the most recent mortgage transaction on the subject property (either the original purchase transaction or subsequent refinance). Note date to note date is used to calculate the 6 months.

Cash-out transactions for properties owned 6 to 12 months are subject to LTV restrictions. See [Determining the LTV \(Cash-Out Only\)](#).

There is no seasoning or waiting period if the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership. Appraised value may be used for calculating the LTV.

Delayed financing transactions are not subject to the 6-month seasoning requirement but must use the lesser of the current appraised value or the acquisition price plus documented improvements in calculating LTV.

The time the property was held in an LLC, Partnership, or S-Corp, where the borrower owns 25% or more, shall count toward seasoning requirements.

1.3.3.1 Loan Proceeds as Reserves (C/O Refi Loan Amount up to \$3.5MM)

Loan proceeds may be used to meet reserve requirements at Loan Amounts $\leq$ \$3.5MM.

1.3.3.2 Loan Proceeds as Reserves (C/O Refi Loan Amount above \$3.5MM)

Loan proceeds cannot be used to meet reserve requirements at Loan Amounts $>$ \$3.5MM.



1.3.3.3 Maximum Cash-in-Hand and Total Cash-Out to the Borrower for Cash-Out Refinances

Cash-in-Hand is defined as money paid back to the borrower in the form of loan proceeds. Liabilities being paid off, whether or not they are attached to the subject property are not counted in the Cash-in-Hand total.

The Total Cash-Out amount includes the following:

- Cash-in-Hand
- Any non-mortgage debts paid off
- Delinquent property taxes exceeding 60 days
- Non-Purchase Subordinate liens which have been seasoned less than 12 months or had a draw within the last 12 months

Each Star Series has varying requirements/restrictions regarding maximum Cash-in-Hand as well as maximum Total Cash-Out. Reference the table below for details.

Star Series Specific Requirements/Restrictions		
Maximum Cash-in-Hand and Total Cash-Out to the Borrower for Cash-Out Refinances		
Star Series	Maximum Cash-in-Hand	Maximum Total Cash-Out
Series 1	• LTV/CLTV > 65% - MAX \$1MM • LTV/CLTV ≤ 65% - No limit	• No Limit

1.3.3.4 Determining the LTV (Cash-Out Only)

For Cash-Out Refinances the length of time since the acquisition date determines how the LTV will be calculated. See the table below for details.

STG Mortgage Standard Requirements (All Star Series)		
Property Acquisition Date for Determining the LTV (Cash-Out Only)		
Months from Note Date - 12 or more	Months from Note Date - 6 to 12	Months from Note Date - Less than 6 (Delayed Financing only)
• Use the appraised value.	• Use the appraised value. • LTV limitations: ○ Primary Residence - 75% ○ Second Home - 70% ○ Investment - 70%	• The lesser of the current appraised value or acquisition price plus any documented improvements. • The purchase settlement statement and any invoices for materials/labor will be required.



1.3.3.5 Delayed Financing

Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 6 months of the loan application.

Delayed financing transactions are not subject to the 6-month seasoning requirement but must use the lesser of the current appraised value or the acquisition price plus documented improvements in calculating LTV.

Delayed financing transactions are subject to the following requirements:

STG Mortgage Standard Requirements (All Star Series) Delayed Financing	
• The original purchase transaction was an arm's length transaction. • The original purchase transaction was documented by a settlement statement which confirmed no mortgage financing. • The source of funds for the purchase transaction is documented (such as bank statements, personal loan documents, or a HELOC on another property). • The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements. • The preliminary title search or report must confirm that there are no existing liens on the subject property. • The transaction is considered cash-out. Cash-out pricing adjustors apply. • If the source of funds was an unsecured loan or a loan secured by another asset or property, then all cash-out proceeds are to be used to pay-off or pay-down the loan used to acquire the subject property.	

1.3.3.5.1 Maximum Loan Amount (Delayed Financing Transactions)

For Delayed Financing, the loan amount can be no more than the acquisition price plus any documented improvements and is subject to the maximum LTV/CLTV for cash-out transactions.



1.3.3.6 Properties Listed for Sale (Cash-Out Only)

Properties recently listed for sale are acceptable under some circumstances. The following restrictions apply:

STG Mortgage Standard Restrictions (All Star Series) Properties Listed for Sale (Cash-Out Only)	
Standard Requirement - All Occupancies	
- The property listing must have been removed from the market. - The borrower must provide a letter of explanation for the property listing and later removal, which must support the intention to keep the loan for 1 year or longer. - LTV will be calculated using the lesser of appraised value or recent listing price. - Properties listed for sale by the borrower in the most recent 6 months may not use short-term rental income.	
Primary Residence & Second Home Additional Restrictions	
- Primary Residence or Second Homes must have been removed from the market at least 3 months prior to the date of application. - Primary Residence or Second Homes listed for sale greater than 3 but less than 6 months are eligible with a maximum LTV/CLTV of what is shown in the program matrix or 70%, whichever is less, and subject to a maximum pricing of 99.0% (no par or premium pricing is available).	
Investment Property Additional Restrictions	
- Investment Properties listed for sale within the previous 6 months require at least a 1 year prepayment penalty and are permitted up to a maximum of 70% or what is shown in the program matrix, whichever is less, according to the prepayment penalty schedule below: 1 Year Prepay: Max Price 99 2 Year Prepay: Max Price 100 3+ Year Prepay: Max Price 101 - Investment properties not eligible for prepayment penalties due to State Restrictions are not eligible for financing if listed for sale in the most recent 6 months.	

Certain Star Series contain additional requirements/restrictions for Cash-Out Refinances with properties recently Listed For Sale. Reference the table below for details.

Star Series Specific Requirements/Restrictions Properties Listed for Sale (Cash-Out Only)	
Star Series	Requirements/Restrictions
Series 1	Standard Cash-Out Refinance Listed For Sale Requirement/Restrictions



1.3.4 Texas Refinances - Texas 50(a)(6), Texas 50(a)(4) and Texas 50(f)(2)

Texas has distinct requirements for its refinances that are different from all other states. Second Homes and Investment Properties have no special requirements, but refinances for Primary Residences fall into one of three categories as shown in the table below.

STG Mortgage Standard Requirements/Restrictions (All Star Series) Texas Refinance	
Type of Refinance	Requirements/Restrictions
50(a)(6)	50(a)(6) is known as a Texas Cash Out Refinance and has the following requirements/restrictions: - Maximum LTV/CLTV 80%. - Limited to 1 every 12 months. - Full Interior/Exterior Appraisal Required (Appraisal Waivers & AVMs are not permitted). - Must be a fixed rate loan of 15 years or longer (ARMs and interest-only are not permitted). - Paying off a second mortgage is considered cash out if it was not used to acquire the property. - The loan must close in the office of a Texas Attorney or Title Company (at home closings are not permitted). - The Texas 12-Day Disclosure is required to be included in the Disclosure Package. All title holders must sign this document. The timeframe between this disclosure being signed and loan closing must be at least 12 days. This period may not be waived. When multiple title holders are signing the disclosure, the timeframe is measured from the date the last person signed. - All loans with a loan purpose of Cash Out on the 1003 are 50(a)(6). Loans not listed as Cash Out on the 1003 are still considered 50(a)(6) if the borrower receives ANY money back.
50(a)(4)	50(a)(4) is known as a Texas Rate/Term or No Cash Out Refinance and has the following requirements/restrictions: - The loan being paid off must have either been purchase money or a previous rate/term refinance. - Paying off a previous 50(a)(6) Texas Cash Out Refinance is not permitted. - Paying off non-mortgage debts is not permitted. - ANY Cash Back to the Borrower (Cash-in-Hand) is not permitted (even a single dollar is not allowed).
50(f)(2)	50(f)(2) is similar to a Texas Rate/Term or No Cash Out Refinance, except that the borrower is paying off a loan that was classified as a 50(a)(6) Texas Cash Out Refinance and therefore would not qualify as a 50(a)(4) Texas Rate/Term or No Cash Out Refinance. The 50(f)(2) has the following requirements/restrictions: - Maximum LTV/CLTV 80%. - The file must contain a Texas 50(f)(2) Disclosure that was sent by the lender within 3 days of the application. A Texas 50(f)(2) that does not receive this disclosure within 3 days of application cannot be fixed. The loan must be canceled and restarted and the disclosure provided. All persons on title must sign the disclosure. - The Texas 50(f)(2) disclosure requires a 12-day waiting period from the date the disclosure is signed before the file can close. This period may not be waived. When multiple title holders are signing the disclosure, the timeframe is measured from the date the last person signed.



	- The loan being paid off must have been seasoned for 12 months (note date to note date). - Paying off non-mortgage debts is not permitted. - ANY Cash Back to the Borrower (Cash-in-Hand) is not permitted (even a single dollar is not allowed).
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All Texas Refinances against primary residence properties must go through a legal review prior to closing. This review generally takes 24 hours to complete. STG Mortgage uses the services of Blackman and Graham to complete the legal review.

Certain Star Series restrict Texas refinances. Reference the table below for details.

Star Series Specific Restrictions Texas Refinances			
Star Series	Texas 50(a)(6)	Texas 50(a)(4)	Texas 50(f)(2)
Series 1	Permitted *	Permitted	Permitted

*See Texas 50(a)(6) Restrictions line on program matrix for additional restrictions.

1.4 High-Cost Mortgage Loans

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

1.5 Higher Priced Mortgage Loan (HPML) Transactions

HPML regulations apply to primary residence transactions only. Second Homes and Investment Properties are not subject to HPML restrictions.

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 (All Star Series) Higher Priced Mortgage Loan (HPML) Transactions
- File contains at least 1 full interior/exterior appraisal (Hybrid and Desktop Appraisals not permitted). - Loan contains escrows for taxes and insurance. - 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.

If the transaction is a flip, see [Higher Priced Mortgage Loan \(HPML\) Requirements for Flip Transactions](#) for additional requirements.



1.6 Flip Transactions

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

STG Mortgage Standard Requirements (All Star Series) Flip Transactions	
• All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction. • No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, properties involving a relocation company or corporate relocation and sales by the holder of a defaulted loan. • The property was marketed openly and fairly, through a multiple listing service, auction, for-sale-by-owner offering (documented) or developer marketing. • No assignments of the contract to another buyer are permitted. • If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained.	

Certain Star Series contain additional requirement/restrictions for Flip Transactions. Reference the table below for details.

Star Series Specific Requirements/Restrictions Flip Transactions with Rapid Appreciation	
Star Series	Requirements/Restrictions
Series 1	• Properties acquired within the previous 6 months of the application date with value appreciation > 25% from prior acquisition cost, will require an additional independent third-party valuation product (an additional appraisal, a BPO, or AVM), dated within 30 days of loan file delivery, that supports the original appraised value within 10% in order for the file to be eligible for purchase consideration. • BPOs or AVM property data (i.e. Condition, property type, GLA prior sales date/price, prior listing date/price, lot size, year built, bedroom/bathroom county, stories, basements, pools, garage type, etc.) must match the data of the appraisal.



1.6.1 Higher Priced Mortgage Loan (HPML) Requirements for Flip Transactions

Flip transactions identified as HPML loans must comply with Regulation Z. The full Reg Z revisions can be found at: <https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/>.

A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price when seller acquired the property in the past 90 days.
- Greater than 20% increase in sales price when seller acquired the property in the past 91-180 days.

The borrower may not be charged for a second required appraisal on an HPML loan.

In all cases, the file must contain evidence that the appraisal(s) were delivered to the borrower at least 3 business days prior to closing. For example: if the appraisal is delivered on Monday, the soonest the transaction may close is Thursday.

In order to comply with CFPB regulations for HPML loans, new construction properties where the previous transaction represented value as vacant land ARE considered a Flip Transaction and the above criteria must be satisfied.

For non-HPML loans, new construction properties where the previous transaction represented value as vacant land are NOT considered a Flip Transaction and the above criteria do not apply.

See [Higher Priced Mortgage Loan \(HPML\) Transactions](#) for additional requirements regarding HPML Loans.



1.7 Non-Arm's Length Transactions

Non-Arm's Length Transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.

Examples of Non-Arm's Length Transactions include, but are not limited to, the following:

- Family member sales.
- Renters purchasing from current landlord (12 months canceled checks to prove timely payments are required).
- Buyer trading properties with the seller.
- Property seller foreclosure bailouts.
- Existing buyer affiliation or business/family relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.
- Realtor buying their own listing.
- Borrower is the mortgage broker or loan officer on the transaction or otherwise works for the submitting mortgage company. See [Mortgage Industry Personnel](#).
- Borrowers who are employees of any interested party other than the property seller must follow non-arm's length requirements unless their employer is a verifiably large organization with more than 100 employees.
- Borrowers who are employees of the property seller are only permitted when the seller/employer is a recognized large-scale builder. This scenario is considered an arm's length transaction. Other types of seller/employee relationship are ineligible.

Non-Arm's Length Transactions are subject to ALL the following requirements:

STG Mortgage Standard Requirements (All Star Series) Non-Arm's Length Transactions

- Primary residence only.
- Maximum LTV/CLTV 80%.
- For-sale-by-owner transactions must be arm's length.
- No assignments of contract to another buyer.
- Relationships must be fully disclosed.
- A secondary appraisal review product is required (CDA, Protek, Desk Review).
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- Underwriter must be satisfied that the transaction makes sense, and that the borrower will occupy the property.
- All liens on title to be paid in full and reflected in the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.).
- Borrower may not be an owner of a business entity selling the subject property.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or reserves.
- Properties with a Notice of Default or Lis Pendens against the seller or property are not permitted for Non-Arm's Length Transactions.



The following additional requirements apply only to family sales:

STG Mortgage Standard Requirements (All Star Series) Family Sales on Non-Arm's Length Transactions	
- To verify the transaction is not a foreclosure bail out, the seller must provide a current mortgage statement (if applicable) to verify they are not more than 30 days delinquent on the mortgage being paid off through the transaction. - Verification that the borrower has not been on title to the property in the past 24 months.	

1.8 Ineligible Transaction Types

Star Non-QM programs do not allow loans with the following characteristics or features:

STG Mortgage Standard Restrictions (All Star Series) Ineligible Transaction Types	
Assignments of the Contract with a Finder's Fee	Loans to Bailout a Family Member
Builder/Home-Flipper Bailout Loans	Loans to Finance Vacant Land
Construction-to-Permanent Transactions	Loans with a Negative Amortization
Graduated Payment Mortgage Loans	Loans with Assumable Loan Terms
Lease Options/Rent-to-Own	Loans with Temporary Buydowns
High-Cost Loans (Federal, State, or Local)	Loans with Escrow Holdbacks



2.0 BORROWER ELIGIBILITY

2.1 U.S. Citizens

U.S. Citizens are eligible for financing.

2.2 Permanent Residents

A permanent resident is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent residents are eligible for financing.

Refugees, asylum seekers, and asylees can only be considered permanent residents once they have lived in the United States for a minimum of 1 year and have received their green card.

Certain Star Series contain requirement/restrictions for Permanent Residents. Reference the table below for details.

Star Series Specific Requirements/Restrictions Permanent Resident		
Star Series	Eligible Doc Types	Requirements/Restrictions
Series 1	All	None

2.2.1 Verification of Permanent Residency Status

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 - Permanent Resident Card (Green Card) that does not have an expiration date.
- I-551 - Permanent Resident Card (Green Card) issued for 10 years that has not expired.
- I-551 - Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions.
- Un-expired Foreign Passport with an unexpired stamp reading as follows, "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

2.3 Non-Permanent Residents

A Non-Permanent Resident is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Residents are eligible for financing.

Certain Star Series contain requirement/restrictions for Non-Permanent Residents. Reference the table below for details.

Star Series Specific Requirements/Restrictions Non-Permanent Resident		
Star Series	Eligible Doc Types	Requirements/Restrictions
Series 1	• All	• Purchase & Rate/Term Only • Max LTV/CLTV 80%



2.3.1 Verification of Non-Permanent Residency Status

See the tables below for Visa and EAD eligibility matrix.

STG Mortgage Standard Restrictions (All Star Series) Visa Eligibility Matrix				
Visa Category	Visa Type	Brief Description	Documentation Required	EAD Code
Trade Treaty Work Visa	E-1	Treaty trader - employee, spouse, and/or child	Visa and EAD	C02
	E-2	Treaty investor - employee, spouse, and/or child	Visa	
	E-3	Specialty occupation		
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	Visa and EAD	A17/C12
Temporary Employment Visa	H-1B	Specialty occupation	Visa	
	H-1B1	Specialty occupation		
	H-1B2	Specialty occupation - U.S. Department of Defense		
	H-1B3	Fashion model of distinguished merit and ability		
	H-1C	Registered nurse - U.S. Department of Labor		
	H-4	Spouse or child of H-1B	Visa and EAD	C26
Media Work Visa	I	Foreign media outlet (press, radio, film, or other)	Visa	
Non-immigrant Visa for Fiancé(e)	K-1	Fiancé(e) - purpose of marriage	Visa and EAD	A06
Non-immigrant Visa for Spouse	K-3	Spouse of a U.S. citizen	Visa and EAD	A09
Temporary Employment Visa	L-1A	Intracompany transfer - managerial or executive	Visa	
	L-1B	Intracompany transfer - specialized knowledge		
	L-2	Spouse or child of L-1A or L-1B	Visa and EAD	A18
Temporary Employment Visa	O-1A/B	Extraordinary ability in analysis, business, education, entertainment	Visa	
	O-2	Assistant to O-1		
	P-1A	Internationally recognized athlete		
NAFTA Professional Workers Visa	TN	Professional under NAFTA	Visa	
Spouse/Child of Permanent Resident	V-1	Spouse of a Legal Permanent Resident (LPR) who is the principal beneficiary of a family-based petition (Form I-130) which was filed prior to December 21, 2000, and has been pending for at least three years.	Visa and EAD	A15
	V-2	Child of a Lawful Permanent Resident (LPR) who is the principal beneficiary of a family-based visa petition (Form I-130) that was filed prior to December 21, 2000, and has been pending for at least three years.		
	V-3	The derivative child of a V-1 or V-2.		



STG Mortgage Standard Restrictions (All Star Series) EAD Eligibility Matrix	
Certain borrowers may hold an EAD which does not require a corresponding Visa type. Borrower's holding the EADs noted below are eligible without a Visa.	
EAD Code	EAD Code Definition
C09	Adjustment of status applicant
C10	- Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants - Applicant for suspension of deportation - Applicant for cancellation of removal
C24	LIFE legalization applicant
C31	- Principal beneficiary of an approved VAWA self-petition - Qualified child of a beneficiary of an approved VAWA self-petition
C33	Deferred Action for Childhood Arrivals

Copies of the borrower's passport and unexpired visa and/or EAD documentation must be obtained. These documents must be valid through the date of closing. Acceptable alternative documentation to verify visa classification is an I-797 Form (Notice of Action) with valid extension dates and an I-94 Form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>.

2.3.2 DACA - Deferred Action for Childhood Arrivals

In alignment with Fannie Mae and FHA's bulletin regarding borrowers with DACA immigration status, STG Mortgage permits these borrowers to be considered non-permanent residents. The borrower must provide DACA approval documentation (such as an immigration visa category of C33) and a social security card or similar documentation evidencing the issuance of a social security number. DACA borrowers without a valid social security number are not eligible for Star Non-QM programs and must qualify using the Globe Plus ITIN program. Please reference that seller guide for ITIN eligible products.



2.4 Foreign Nationals

Foreign National borrowers are not permitted on any Star Non-QM program.

A Foreign National is a citizen of a country other than the United States who resides primarily outside of the U.S. and does not have U.S. citizenship or U.S. permanent residency authorization (e.g. active green card). Foreign Nationals may have temporary authorization to work and/or reside in the U.S., but their immigration status will be temporary in nature.

2.5 ITIN - Individual Taxpayer Identification Number Borrowers

ITIN borrowers who reside within the United States are not permitted on Star Non-QM programs. However, they may qualify using the Globe Plus ITIN program. Please reference that separate seller guide for ITIN eligible products.

Borrowers without a valid U.S. Social Security Number are not permitted on any Star Non-QM program.

ITIN numbers can be differentiated from Social Security Numbers because they begin with the number 9.

2.6 First-Time Home Buyers (FTHB)

A First-Time Home Buyer (FTHB) is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 3 year period. First-Time Home Buyers are eligible for financing with the following restrictions:

STG Mortgage Standard Restrictions (All Star Series) First-Time Homebuyer Eligibility	
- Primary Residence and Second Home only - Interest-only not permitted	

Certain Star Series contain additional requirements/restrictions for First-Time Home Buyers. Reference the table below for details.

Star Series Specific Requirements/Restrictions First-Time Homebuyer Eligibility			
Star Series	Ineligible Doc Types	Eligible Doc Types	Requirements/Restrictions
Series 1	- DSCR - FN - DSCR	- Full Doc - Bank Statements 1099 - P&L - Asset Depletion - Asset Utilization	Standard FTHB Restrictions
		WVOE	- Standard FTHB Restrictions, plus - MAX 70% LTV/CLTV - MAX DTI 45%



2.6.1 Payment Shock

Certain Star Series have restrictions regarding Payment Shock for First-Time Homebuyers. Payment Shock is defined as Proposed Housing Payment/Present Housing Payment * 100.

2.7 Non-Occupant Co-Borrowers

Non-Occupant Co-Borrowers are allowed on loans with select doc types. Pricing and eligibility are based on the credit score of the occupying borrower. The following standard restrictions apply:

STG Mortgage Standard Restrictions (All Star Series) Non-Occupant Co-Borrowers	
- Purchase and Rate/Term only (for Rate/Term refinances, the non-occupant co-borrower must currently be on the mortgage being refinanced). 1 Unit Properties only. - Maximum LTV/CLTV 80%. - The non-occupant borrower must be included on the title for the subject property. - Borrower(s) and co-borrower(s) must complete and sign the Non-Occupant Co-Borrower Certification. - Not permitted on Asset Depletion or Asset Utilization	

Certain Star Series contain additional requirements/restrictions for Non-Occupant Co-Borrowers. Reference the table below for details.

Star Series Specific Restrictions Non-Occupant Co-Borrowers			
Star Series	Ineligible Doc Types	Eligible Doc Types	Requirements/Restrictions
Series 1	- WVOE - Asset Depletion - Asset Utilization - DSCR - FN-DSCR	- Full Doc - Bank Statements 1099 - P&L	Standard Non-Occupant Co-Borrower Requirements/Restrictions

2.8 Mortgage Industry Personnel

At STG Mortgage, mortgage loan originators, whether they are loan officers or mortgage brokers, are not allowed to act as both the borrower and the licensed originator on their own loan. In cases where a loan originator requires a mortgage, STG Mortgage encourages them to have another licensed originator within the company submit the loan application on their behalf. Loans in which the borrower is a mortgage professional and their employer is the originator of record on the file must follow Non-Arm's Length guidelines. See [Non-Arm's Length Transactions](#).

Alternatively, loans may be originated under the STG Mortgage Partner Program to avoid Non-Arm's Length Transaction restrictions.



2.8.1 STG Mortgage Partner Program

STG Mortgage recognizes that our partners in the mortgage industry may prefer to keep their personal financial information confidential from co-workers and colleagues. Loan originators and their employees have the option to send their personal loans directly to STG Mortgage for origination outside of their company. In these cases, an STG Mortgage loan officer will act as the originator of record. Borrowers who choose this program will receive the same pricing and terms available through our wholesale and correspondent channels. For more information, please contact your account executive. Loans originated under the STG Mortgage Partner Program are not subject to Non-Arm's Length Transaction guidelines.

2.9 Incapacitated Borrowers and Elder Abuse

All personnel involved in the origination of mortgage loans must exercise a heightened duty-of-care when originating loans for borrowers and/or property owners who are elderly, disabled, incapacitated, or otherwise vulnerable.

Underwriters must review each loan transaction to ensure that no party is exercising undue influence over a vulnerable person and that each person obligating themselves on the note or pledging the property as collateral is able to fully comprehend their rights and responsibilities in the mortgage transaction.

Special care should be taken with cash-out transactions involving elderly or vulnerable borrowers and property owners. If the underwriter suspects that a participant in the transaction is being coerced or that the transaction may not align with their best interests, it may be necessary for the underwriter to speak directly with the borrower or property owner. This conversation should ensure that the transaction participant fully understands the mortgage obligations and is participating willingly in the transaction.

2.9.1 Physical Incapacitation & Hospitalization

Borrowers and property owners may be incapacitated in a variety of ways. Borrowers who are fully mentally competent to understand the transaction and acknowledge it, but are otherwise limited by physical disability, hospitalization or incapacitation, may proceed with the transaction using documentation that is acceptable to the title company. The most common documents are durable powers of attorney, living trusts, and conservatorship/guardianship documentation. Prior to closing, the loan must be reviewed by an attorney licensed to practice in the state where the subject property is located, who must concur that the mortgage and note will be enforceable, and that proper documentation exists to comply with state and federal law. This legal review is the responsibility of the borrower & originator and will not be paid for by STG Mortgage.

2.9.2 Mental Incapacitation

Borrowers who are mentally incapacitated or in any way unable to fully understand the implications of a mortgage transaction are not eligible to sign the note or mortgage. In order for a mentally incapacitated person to proceed as a borrower in the mortgage transaction, a court must have granted conservatorship or guardianship to someone eligible to sign on their behalf and obligate them financially.



2.9.3 Incapacitation of Non-Borrowing Title Holders

Non-borrowing title holders may proceed with a transaction if their property rights have been delegated to another via either a court order, a durable power of attorney or a living trust, which was executed prior to their incapacitation. In all cases, the documentation provided must be acceptable to the title company and the loan must be reviewed by an attorney licensed to practice in the state where the subject property is located, who must concur that the mortgage and note will be enforceable, and that proper documentation exists to comply with state and federal law. This legal review is the responsibility of the borrower & originator and will not be paid for by STG Mortgage.

2.10 Lawsuit/Pending Litigation

Borrowers who are party to a pending lawsuit or litigation as defendants are ineligible.

2.11 Ineligible Borrowers

2.11.1 Sanctioned Borrowers & Entities (OFAC)

The following are ineligible:

- Non-Permanent Residents from OFAC sanctioned countries (borrowers with U.S. Citizenship or Permanent Residency Status in the United States are eligible, provided they are not individually sanctioned by OFAC).
- Entities from OFAC Sanctioned Countries.
- Borrowers sanctioned by OFAC individually (whether person or entity).

At time of Publication in May 2025, Russia, Iran, North Korea, Cuba, Venezuela, Syria, Belarus, were on the OFAC sanctioned countries list. The Russian invasion of Ukraine has caused OFAC to sanction many occupied regions, local entities and individuals, while not sanctioning the entire country. As the situation is quickly evolving, to ensure compliance, STG Mortgage is not lending to citizens or entities from Ukraine.

A list of sanctioned countries is available at <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information>.

2.11.2 Other Types of Ineligible Borrowers

The following are ineligible:

- All Persons with Diplomatic Immunity, including Senior Members of Foreign Governments.
- Employees of the Property Seller (unless the property seller is a recognized large-scale builder).
- 501(c)(3) Charitable Organizations & Non-Profits.
- Borrowers whose income is derived from illegal activity.
- ITIN (Individual Taxpayer Identification Number) borrowers are only permitted on designated ITIN programs (Globe Plus ITIN).
- Borrowers whose income is derived from the marijuana or cannabis industry (even if legal in their state).
- Mortgage originators who are both the borrower and originator on the loan. See loans to [Mortgage Industry Personnel](#).
- Borrowers who are party to a pending lawsuit or litigation as defendants.
- Irrevocable Trusts.
- Life Estates.
- Land Trusts.
- Blind Trusts.



2.12 Maximum Exposure

STG Mortgage will allow up to 10 loans per borrower or entity, including the subject property, or \$10,000,000 total financing, whichever is less. Due to exposure limits with various investors that STG Mortgage sells to, rates, terms, and fees may be different from published pricing for scenarios with aggregate loans in excess of \$5,000,000.

STG Mortgage may, at its discretion in concert with its investors, allow for loans in excess of the above limits on a case-by-case basis.

2.13 Maximum Financed Properties

The cumulative maximum number of financed properties for all borrowers on the loan is 10. The number of financed properties includes:

- All 1-4 unit residential properties where borrower is personally obligated on the mortgage (even if the monthly housing expense is excluded from DTI, such as a contingent liability)
- The borrower's principal residence

The following property types are not subject to the maximum financed property limitations:

- Commercial/Industrial real estate
- Multi-family properties that have 5 or more units
- Timeshares
- Any type of vacant lot, residential or commercial
- Mobile homes that have not been converted to real property with the local tax assessor

The maximum financed properties limitation does not apply to DSCR transactions.



3.0 OCCUPANCY

3.1 Primary Residence

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

To qualify as a primary residence, the transaction must meet each of the following criteria:

STG Mortgage Standard Requirements (All Star Series) Primary Residence	
- The property is located in the same general area as the borrower's employment, or it has been verified that the borrower can work remotely. - The borrower intends to occupy the subject property for the majority of the year. - The property possesses physical characteristics that accommodate the borrower's family.	

3.1.1 Documenting Primary Occupancy

If the borrower is purchasing a new primary residence in a geographic area where they already own an existing primary residence, the file must contain documentation to support occupancy of the subject.

Examples:

- Proof the departing primary is listed for sale or rent.
- Evidence the new primary residence is better suited to the borrower's current or expected daily needs.
- Evidence the new primary residence is superior in location, desirability, utility, or value to the previous home.

The underwriter will use discretion in documenting the reasonableness of the occupancy declaration and may request additional documentation.



3.2 Second Home

A Second Home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second Homes are restricted to 1-unit dwellings or 1-unit dwellings with an accessory dwelling unit (ADU).

Typical Second Homes should meet the following criteria:

STG Mortgage Standard Requirements (All Star Series) Second Home
• Located a reasonable distance away from the borrower's primary residence (40+ miles). Second Homes which are closer to the borrower's primary residence, may be permitted on a case-by-case basis, if the borrower is able to provide a reasonable explanation for having two properties in the same area. For example: a primary residence in the city, which is close to work, with a second home located outside of the city with different characteristics (i.e. a country home, beach home, lake house, etc.). • Occupied by the borrower for some portion of the year. • Suitable for year-round occupancy (Homes outside of temperate areas without permanent heat sources, running water, or grid electricity are not eligible). • Borrower must have exclusive control over the property. • Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm. • 1-unit dwellings with ADUs are permitted for second home occupancy in situations where the borrower intends to fully occupy both the main dwelling and the ADU for personal use. Properties with rented out ADUs are not permitted for Second Home occupancy and should be financed as Investment occupancy.

3.3 Investment Properties

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.



4.0 CREDIT

4.1 Credit Report

A credit report is required for every borrower. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.

A three-bureau merged report is required.

4.2 Age of Credit Documentation

All credit documentation, including the credit report, may not be more than 120 days old at the time of closing.

All mortgage tradelines must be verified current through the month of closing. This can be accomplished via Credit Supplements, Payoff Statement, Mortgage Statements, and/or bank statements showing proof of on-time payment.

Example: A loan closing on April 25th must verify that all March mortgage payments were made on time. April payments are not required to be verified, as they could not possibly be 30+ days delinquent as of closing.

4.3 Fraud Alerts

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert.
- Extended Fraud Alert.
- Active-Duty Alert.
- HAWK Alert.

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

When a Fraud Alert related to the borrower's identity or potential identity theft appears, at a minimum, the file must contain a written certification from the processor that the borrower was affirmatively reached using the data within the alert, and that their identity was positively verified. Additional documentation may be required depending on the extent and language of the individual fraud alert.

4.4 Security Freeze

The credit report used to evaluate a loan may not reflect a security freeze. Borrowers must unfreeze their credit to facilitate a tri-merge credit report. No frozen bureaus are permitted.



4.5 Credit Inquiries

For all loans using DTI to qualify, the underwriter must verify that all current borrower obligations are accurate. Additionally, any credit inquiries listed on the report within 90 days of the report date require a letter of explanation. If new credit was extended, borrowers must provide documentation on the current balance and payment. If no credit was extended, the borrower must state the purpose of the inquiry.

For guidance specific to DSCR programs, see [DSCR - Credit Inquiries](#).

4.6 Credit Score Requirements

STG Mortgage only permits FICO scores to be used in credit qualifying. Other brands/types of credit scores, such as VantageScore are not permitted or considered at this time.

4.6.1 Credit Score Requirements - DTI Qualifying Loans

To determine the qualifying credit score for the loan, use the representative credit score of the primary wage-earner.

To determine each borrower's representative credit score, select the mid-score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

The primary wage-earner is defined as the borrower who earns the highest income. When qualifying income amount is equal for all borrowers on the loan, the highest representative credit score of all borrowers will be used.

All borrowers must have a valid score from at least 2 of the following 3 agencies:

- Experian.
- Trans Union.
- Equifax.

While the score of the primary wage-earner is used for qualifying and pricing, all borrowers must have a qualifying middle-score of 640 or higher.

The Asset Utilization and DSCR programs do not use a DTI in qualifying and have different requirements for determining the representative credit score. See below for details.

4.6.2 Credit Score Requirements - Asset Utilization

For guidance specific to the Asset Utilization program, see [Asset Utilization - Credit Score Requirements](#).

4.6.3 Credit Score Requirements - DSCR

For guidance specific to the DSCR programs, see [DSCR - Credit Score Requirements](#).



4.7 Tradeline Requirements

If the borrower whose score is being used to determine the representative credit score has 3 credit scores, the tradeline requirement is waived and no tradeline analysis is required.

If the borrower whose score is being used to determine the representative credit score does not have 3 credit scores available, he or she must meet one of the following tradeline requirements:

STG Mortgage Standard Requirements (All Star Series) Tradelines	
• 3 tradelines reporting for 12+ months with activity in the last 12 months. • 2 tradelines reporting for 24+ months with activity in the last 12 months. • 1 tradeline for 36+ months with activity in the last 12 months.	

If the borrower whose score is being used to determine the representative credit score is unable to meet the criteria above, married borrowers on a joint application may combine their tradelines and must meet the following requirement: 3 tradelines reporting for 12+ months with activity in the last 12 months.

Current Housing History not reported on credit can be considered an open tradeline if supported by either an institutional Verification of Rent/Mortgage (VOR/VOM) or bank records (Canceled Checks/Bank Statements/Zelle showing debits). VOR/VOMs from private individuals, must be accompanied by bank records to be acceptable as an additional tradeline. Borrowers who pay their housing expense to a relative or in cash are not eligible to meet tradeline requirements using their current housing history.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines if they are in repayment and are not deferred.

The following are not acceptable to be counted as tradelines:

- Non-traditional credit as defined by the Fannie Mae Selling Guide.
- Self-reported tradelines.
- Liabilities in deferment status.
- Accounts discharged through bankruptcy.
- Charge-offs.
- Collection accounts.
- Foreclosures.
- Deed-in-lieu of foreclosure.
- Short Sales.
- Pre-foreclosure sales.
- Liabilities with more than one 30-day late in the most recent 12 months or two in the most recent 24 months.
- Authorized user accounts (An authorized user account can generally not be used to satisfy tradeline requirements, however if the borrower is able to provide documentation that they have made at least 12 payments on the obligation from an account with their name on it, then it may be used as a qualifying tradeline. When using an authorized user account as a qualifying tradeline, it must be considered in the borrower's DTI).



4.8 Bankruptcy

See the table below for Bankruptcy Seasoning requirements.

STG Mortgage Standard Requirements (All Star Series) Bankruptcy Seasoning		
Type of Bankruptcy	Waiting Period	Measured From
Chapter 7 Bankruptcy	48 Months	Discharge/dismissal date to the transaction note date
Chapter 13 Bankruptcy	48 Months	Discharge/dismissal date to the transaction note date

All bankruptcies must be discharged or dismissed prior to the application date.

If a property was surrendered in a Chapter 7 bankruptcy, this is considered a single derogatory event. The bankruptcy discharge date is used for seasoning the housing event. Bankruptcy papers will be required to show the property was surrendered.

4.8.1 Multiple Derogatory Events (Bankruptcy)

Borrowers with multiple bankruptcy filings (regardless of disposition), multiple derogatory housing events, or any combination of the two within the most recent 84 months are ineligible for financing.

4.9 Housing Events

See the table below for Housing Event Seasoning requirements.

STG Mortgage Standard Requirements (All Star Series) Housing Event Seasoning		
Type of Event	Waiting Period	Measured From
Foreclosure (FC)	48 Months	Date of completed sale or final property transfer
Deed-in-lieu (DIL)	48 Months	Date of completed sale or final property transfer
Short Sale (SS)	48 Months	Date of completed sale or final property transfer
Modification	48 Months	Date the modification was executed
Notice of Default (NOD)	48 Months	Date the mortgage was brought current
120 Day Mortgage Late	48 Months	Date the mortgage was brought current
Mortgage Charge-off	48 Months	Date charged off

Timeshares are not considered real property, and therefore not subject to housing history requirements. These accounts are treated as consumer installment debt.

If a property was surrendered in a Chapter 7 bankruptcy, this is considered a single derogatory event. The bankruptcy discharge date is used for seasoning the housing event. Bankruptcy papers will be required to show the property was surrendered.

All housing events are measured to the Note Date of the subject transaction.



4.9.1 Multiple Derogatory Events (Bankruptcy and all other Housing Events)

Borrowers with multiple bankruptcy filings (regardless of disposition), multiple derogatory housing events, or any combination of the two within the most recent 84 months are ineligible for financing.

4.9.2 Modifications, Forbearance and Deferment

A mortgage modification is only considered a derogatory Housing Event when it results in any of the following attributes:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecured.

Loans with forbearance or deferment in the most recent 12 month period are ineligible. Loans with forbearance or deferment periods that concluded more than 12 months ago that can document a 0x30x12 housing history are acceptable.

In all cases, if the deferment or forbearance resulted in principal forgiveness, the loan is subject to the waiting period for modifications listed in the table above.

4.10 Judgments, Garnishments and Liens

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

4.11 Collections and Charge-Offs

Any collection or charge-off account which impacts title to the subject property must be paid, without exception.

For guidance specific to IRS payment plans see [IRS Tax Payment Plans](#). All other individual collection and non-mortgage charge-off accounts may remain open as follows without additional DTI or reserve considerations:

- Medical collections may remain open.
- Non-Medical collections in the past 24 months may remain open with a cumulative balance for all collections of up to \$2,000.
- Non-Medical collections older than 24 months may remain open for individual accounts that do not exceed \$2,500.
- Collections and charge-offs that have expired under the state statute of limitations on debts may remain open. Evidence of expiration must be documented.

Charge-offs and collections permitted to remain open by one of the above bullet points do not need to be counted in DTI and do not have additional asset requirements.

Accounts not covered by the above bullet points must be paid or included in loan qualifying via either:

- Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). If a payment amount is not known, 5% of the balance may be used as the payment. OR
- Reserves are sufficient to cover the balance of the charge-offs or collections and meet all other Reserve Requirements.



4.12 Consumer Credit Counseling Services (CCCS)

Borrowers currently enrolled in active consumer credit counseling services or debt management plans are not permitted. Borrowers who have completed consumer credit counseling or debt management plans are eligible once the credit report or other evidence is provided to show the plan has been completed.

4.13 Delinquent Credit Belonging to Ex-Spouse (Court Ordered Assignment of Debt)

Delinquent credit belonging to an ex-spouse or domestic partner can be excluded from the credit evaluation when ALL of the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse or partner. The document must be signed or stamped by the courts.
- Late payments occurred after the date of the divorce or separation.
- If the debt is a mortgage, file must contain evidence the transfer of title took place prior to the debt becoming delinquent.

Collection accounts assigned to an ex-spouse or partner may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse or partner.

4.14 Rolling Late Payments

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

4.15 Past Due Accounts

Consumer debts can be no more than 30 days past due at time of closing. Any past due accounts must be brought current at or before closing.

4.16 Mortgage and Rental Payment Verification (Housing History)

A 12-month housing history is required. The housing history information may be no more than 31 days old at the time of closing.



4.16.1 Housing History for DTI Qualifying Transactions and Asset Utilization

All REO owned by the borrowers must evidence no late payments for the most recent 12 months of mortgage history (0x30x12), or proof that the property is owned free & clear. Housing/Mortgage history information may be no more than 31 days old at the time of closing. Proof that a property is owned free & clear may be no more than 90 days old at the time of closing.

All expenses (including mortgages, taxes, insurance and HOA dues) and rental payments must be current (most recent payment has not been due for more than 30 days) at time of closing. If the credit report or VOR/VOM reflects a past due status, updated documentation is required to verify account is current.

Certain Star Series contain additional requirements/restrictions regarding housing history for DTI qualifying transactions and Asset Utilization. Reference the table below for details.

Star Series Specific Requirements/Restrictions Housing History for DTI Qualifying Transactions and Asset Utilization	
Star Series	Requirements
Series 1	0x30x12

4.16.2 Housing History for DSCR Qualifying Transactions

The file must document a mortgage/housing history for the borrower's primary residence and the subject property (if refinance) evidencing no late payments within the previous 12 months (0x30x12). Properties owned free & clear are acceptable in lieu of a housing history. Housing/Mortgage history information may be no more than 31 days old at the time of closing. Proof that a property is owned free & clear may be no more than 90 days old at the time of closing.

All expenses for both the subject property (for refinances) and the borrower's primary residence (including mortgages, taxes, insurance, HOA dues) and rental payments must be current (most recent payment has not been due for more than 30 days) at time of closing. If the credit report or VOR/VOM reflects a past due status, updated documentation is required to verify account is current and at least 12 months have passed since any late payment.

While only the housing payment history for the subject property and the borrower's primary residence is required to be verified for DSCR transactions, the credit report will often include data for mortgages attached to additional properties. All mortgages and HELOCs shown on credit must reflect 0 late payments in the most recent 12 months, even if those properties were not required to have their housing history verified. Additionally, the fraud report will provide information on notices of default and lis pendens (pre-foreclosure) actions. When provided, negative housing history may not be disregarded.

For additional information on documenting housing history & properties owned free and clear, see [Documenting Housing History](#) and [Documenting Free & Clear Status](#).



4.16.3 Documenting Housing History

Mortgage and rental payments not reflected on the original credit report must be documented via one of the following:

- An institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.
- Electronic pay history printout obtained directly from the property management company or mortgage servicer showing timely payments.
- Bank Statements showing account ownership and timely payments made for rent/mortgage along with evidence to show required payment amount (i.e. note, mortgage statement or lease).
- Canceled checks (front and back) along with a recent mortgage statement/Verification of Rent along with evidence to show required payment amount (i.e. note, mortgage statement or lease).
- A credit supplement.

When verifying rental information and using checks or bank records to support on time payment, file must contain information to ascertain the amount of the monthly rent, via Lease, VOR, or letter from landlord.

4.16.4 Housing Payments Paid to Family Members

If the borrower is making payments to a family member or interested party to the transaction, 12 months of canceled checks, electronic payment history or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

4.16.5 Private Party Verifications

Non-Institutional VOMs/VORs (Private Party) must be accompanied by either canceled checks, bank statements, or electronic payment histories.

Records from online banking transfer providers such as PayPal, Zelle, Venmo, etc. are acceptable to document on-time payment of rent or mortgage.

Borrowers who pay their housing expense in cash must document their housing history with either an institutional VOR/VOM or, if using a private party VOR/VOM, must provide account statements showing cash withdrawals in similar amounts to their monthly rent. Borrowers who are unable to provide this documentation will be considered under the section titled [No Housing History or Less than 12 Months Verified or Rent-Free Situations for DTI Qualifying Transactions and Asset Utilization](#).



4.16.6 Documenting Free & Clear Status

Properties owned free & clear are considered to be 0x30 for each month they are owned free & clear to meet mortgage and housing history requirements.

Free & Clear Status may be evidenced by one of the following:

- A property profile report or similar document showing no liens against the property, dated within 90 days of closing.
- Title report showing no liens, dated within 90 days of closing.
- Most recent year's tax return (must be no more than 9 months since end of tax year), showing the property with no mortgage expense and ALL of the following:
 - Free & Clear Letter from the Borrower.
 - Insurance Policy with no mortgagee listed, dated within 90 days of closing.
- Fraud report showing no active liens on the property and ALL of the following:
 - Free & Clear Letter from the borrower.
 - Recently issued insurance policy or hazard declarations page with no mortgagee list, dated within 90 days of closing.

In all cases, if the credit report, fraud report, or other documentation within the file indicates the possibility of a recently filed mortgage, the underwriter should request additional documentation to verify the Free & Clear status of a property.



4.16.7 No Housing History or Less than 12 Months Verified or Rent-Free Situations for DTI Qualifying Transactions and Asset Utilization

Borrowers who do not have a complete 12-month housing history are subject to the following standard restrictions:

STG Mortgage Standard Restrictions (All Star Series) < 12 months or No Housing History for DTI Qualifying Transactions and Asset Utilization	
• Primary residence. • Maximum LTV/CLTV 80%. • 10% Minimum Borrower Contribution (own funds). • Minimum 6 months reserves after closing. • Any available portion of housing history must reflect 0X30.	

Rent-Free situations must be documented with a letter from the borrower explaining their housing circumstances (Rent-Free Letter). Additionally, a letter from the person or entity providing the Rent-Free housing must be included in the file.

Certain Star Series contain additional requirements/restrictions on scenarios with less than a full 12 month housing history for DTI Qualifying Transactions and Asset Utilization. Reference the table below for details.

Star Series Specific Requirements/Restrictions < 12 months or No Housing History for DTI Qualifying Transactions and Asset Utilization		
Star Series	Eligible Doc Types	Requirements/Restrictions
Series 1	• All	• Standard < 12 Month Housing Restrictions • When borrower is living rent-free with spouse, rent-free restrictions do not apply if spouse can show standard 0x30x12 housing history. • Borrowers living rent-free with anyone other than spouse are subject to rent-free restrictions.

Borrowers who live rent-free with non-borrowing spouse are not subject to the Rent-Free limitations.

Borrowers who sold a primary residence within the past 6 months (from loan application date) and are currently residing Rent-Free until subject transaction closes are not subject to the above restrictions.

Borrowers who sold a primary residence within the past 6 months (from loan application date) and are currently residing in temporary housing (Airbnb or similar) are not subject to the above restrictions if they are able to provide evidence of recent temporary housing stays. The file should document that the borrowers have been living in temporary housing recently, but it is not required that the entirety of their time since selling their primary to be documented.



4.16.8 No Housing History or Less than 12 Months Verified or Rent-Free Situations for DSCR Qualifying Transactions

A 12-month primary residence housing history is required for all DSCR transactions.

Borrowers who live rent-free with a non-borrowing spouse are acceptable without further restrictions when the rent free living situation can be documented and rent-free letters from the borrower and the non-borrowing spouse are provided. All other rent-free scenarios are not permitted.

Borrowers who own their primary residence free & clear are acceptable subject to the provisions of [Documenting Free & Clear Status](#).

Borrowers who have recently vacated a primary residence in the most recent 120 days and are living with family or friends are acceptable if the file supports their current primary housing situation is temporary, common and customary. The file must demonstrate proof that borrowers have secured another primary residence for occupancy in the near future. The file must also contain the 12 months of housing history prior to their rent-free situation and be 0X30. The underwriter should take caution to ensure the borrower will not attempt to occupy the subject property as a primary residence.

Files which otherwise contain no primary housing history are unacceptable for DSCR transactions.



5.0 LIABILITIES

5.1 Alimony and Child Support Obligations

Monthly alimony, child support or separate maintenance fees must be current at the time of application and must be included in the borrower's DTI ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If alimony or child support obligations are past due, the arrearages must be brought current at loan closing.

If 10 or fewer payments remain, see [Installment Debt](#) to determine if the obligation may be excluded from the DTI calculation.

In alignment with Fannie Mae and Freddie Mac, because alimony payments are tax deductible, they may either be treated as an installment liability or a reduction of monthly income. Child support, separate maintenance, and other family support obligations must always be treated as installment debt.

5.2 Authorized User Accounts

Authorized user accounts should not be considered in the borrower's DTI ratio, unless the borrower is using that account to meet minimum tradeline requirements. See [Tradeline Requirements](#) for further information.

5.3 Business Debt

A business debt is a financial obligation of a business but may also be the responsibility of the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must either be included in the DTI ratio or documentation provided to evidence that the business is paying that liability. When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the underwriter must verify the obligation was actually paid out of company funds to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt from DTI:

- Most recent 6 months of canceled checks drawn against the business account.
- Tax returns reflecting the business expense deduction.
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than 6 months old, the payment must be included in the DTI ratio.



5.4 Contingent Liabilities

Contingent liabilities can be excluded from DTI if the borrower provides evidence that their business or another individual/entity has made payments for 6 months (0x30).

Any liability related to a separation or divorce can be omitted if ordered by family court. Documentation from the court is required.

Liabilities which have existed for fewer than 6 months are not eligible to be excluded as contingent liabilities.

The party paying the contingent liability is not required to be on the note for that liability.

5.5 Departure/Departing Residence

5.5.1 Pending Sale

If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, both the current PITIA and proposed PITIA should be used in the qualifying DTI unless the credit file is documented with ALL of the following:

- The executed sales contract for the current residence.
- Sales contract must provide that departing residence will close within 60 days of subject loan closing.
- Confirmation that any financing contingencies have been cleared.
- Proof of receipt of Earnest Money.

The sale of the departure residence must be an arms-length transaction. Sales to family members, related entities, other transaction participants, or anyone associated with the subject property are not acceptable for excluding the departing residence PITIA.

The file must also contain a letter from the borrower indicating whether they intend to pay down or pay off the subject loan once the departing primary residence sale is complete. Underwriters must evaluate the loan for Early-Pay-Off (EPO) risk. STG Mortgage reserves the right to require below-par pricing on loans with EPO risk factors.

5.5.2 Converting to a Second Home

If the borrower's current principal residence is converting to a second home, the current PITIA and proposed PITIA must be used in qualifying the borrower.



5.5.3 Converting to an Investment Property

Positive rental income from a departing residence cannot be used as qualifying income. Departing residence PITIA can be offset by 75% of rental income with ALL of the following:

- Market Rent Analysis (Form 1007/1025).
- Copy of a current 12-month lease.
- Evidence of proof of receipt of security deposit and first month's rent.

The lease must be from an unrelated party. Leases coming from a relative or any business affiliated with or owned by the borrower or another loan participant are not acceptable.

The income from the lease may be used to offset (reduce) the negative Net Rental income of the departing primary. If the addition of the lease income results in a positive Net Rental Income for the departing primary, that income may not be used for qualifying (A \$0 Net Rental Income would be used in the event the departing primary was profitable).

If converting to a short-term rental, no rental income may be used in qualifying.

5.6 Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans which do not qualify for an exclusion must be included in the borrower's DTI ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed by the underwriter to ensure the remaining installment payments will not negatively impact the borrower's ability to handle the new mortgage payment.

Installment debt may either be paid down (to have 10 or fewer payments remaining) or paid in full in order to be excluded from the DTI ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid either at closing or prior-to closing. See [Paying Off/Paying Down Debt to Qualify](#) for more details.

5.7 IRS Tax Payment Plans and Tax Liens

If any borrower or non-borrowing title holder has open/active tax liens against them or the subject property, they are not eligible for financing unless those liens are released or paid at closing.

If the borrower is on a tax payment plan with the IRS, the monthly amount of the payment plan must be included in DTI, and the file must evidence that the 3 most recent monthly payments were made on time. IRS payment plans which have been in force for fewer than 3 months are not eligible and the IRS obligation must be paid in full.

For DSCR loans, the IRS Payment Plan may remain open and is not required to be paid off if the file contains proof that 3 recent monthly payments were made on time.



5.8 Lease Obligations

Lease obligations must be included in the DTI ratio calculation, regardless of time remaining on the lease. Borrower(s) seeking to exclude a lease obligation must be able to provide significant evidence that the conclusion of the lease will not result in another obligation.

Example: A borrower who has recently terminated an auto lease and wishes to exclude that from DTI, must be able to show that they have alternate transportation available to them that is reasonable for their living and employment situation. Additionally, the new transportation cannot result in additional significant expenses. E.G. Trading a personally leased automobile for Uber/Taxi services would simply trade lease expense for Taxi expenses, and so the auto lease could not be excluded.

To exclude an Auto lease obligation, the file must contain at minimum a letter from the borrower explaining how they will be able to provide for their transportation needs without obtaining a new vehicle. Additionally, verification of the information from that letter must be in file (e.g. a household already owning multiple vehicles).

5.9 Mortgage Payoffs

All refinance transactions involving the payoff of an existing mortgage require a payoff demand from the current lender that is not more than 30 days old at the time of closing. The underwriter should examine the payoff for late fees, deferred balances and delinquent interest to ensure that the loan meets housing history and significant derogatory credit requirements. See [Mortgage and Rental Payment Verification \(Housing History\)](#), [Bankruptcy](#) and [Housing Events](#).

5.9.1 Payoff of Balloon Notes

If paying off a balloon note that has matured more than 30 days in the past, the file must contain an extension from the creditor which allows for payment through the disbursement date of the new loan.

5.10 Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be used as the monthly payment in qualifying ratios.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

For cash-out transactions with a Loan Amount $\leq$ \$3.5MM, since loan proceeds may be used to meet reserve requirements, the proceeds may also be used to evidence sufficient assets to exclude a 30-day charge account from qualifying ratios.

If the borrower paid off the account balance prior to closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.



5.11 Paying Off/Paying Down Debt to Qualify

Installment and revolving debt paid at or before closing may be excluded from the DTI ratio with ANY of the following:

- A credit supplement.
- A verification from the creditor evidencing the liability as paid in full.
- Evidence of payoff on Closing Disclosure.

Installment debt may either be paid down (to have 10 or fewer payments remaining) or paid in full in order to be excluded from the DTI ratio. Revolving debt must be paid off to be excluded from the DTI ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid either at closing or prior to closing.

When revolving or installment debt is paid at closing, the balance from the most recent credit report may be used as the payoff amount unless more recent data exists within the file.

5.12 Property Tax Estimates for New Construction, Renovated, and Recently Acquired Properties

Property taxes should be calculated using 1.5% of the sales price for qualification (1.25% in California) or the documented tax rate from municipality. Alternatively, property tax estimators from the title company or local taxing authority are acceptable substitutes. These calculators must be run at the higher of the sales price or appraised value.

5.13 Property Tax Estimate for Existing Construction

5.13.1 Purchase Transactions - Property Tax Estimates

Property taxes may be calculated using 1.5% of the sales price for qualification (1.25% in California) or the documented tax rate from municipality. Alternatively, property tax estimators from the title company or local taxing authority are acceptable substitutes. These calculators must be run at the higher of the sales price or appraised value.

5.13.2 Refinance Transactions - Property Tax Estimates

Existing property taxes may be used in PITIA calculations when all of the following are met:

- Property is being taxed as improved real property (not vacant land if recently constructed).
- The property taxes are in the borrower's name (not the previous owner).

Existing taxes may be evidenced by a current tax bill, or taxes as shown on the title report or tax certification. When a property is still being taxed as vacant land or has not yet been reassessed due to a recent sale or transfer, then the taxes should be calculated under the same guidelines used for purchase transactions.

Properties existing (constructed) for more than 12 months do not require the underwriter to obtain verification that the current tax bill is for improved-property and may use existing taxes without additional documentation.

Properties owned for more than 12 months by the borrower do not require verification the property has been reassessed into the borrower's name.



5.14 Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the DTI ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the DTI ratio calculation.

Revolving debt must be paid off to be excluded from the DTI ratio. It cannot be paid down. See [Paying Off/Paying Down Debt to Qualify](#) for more details.

5.15 Secured Debt, Margin Loans, Retirement & Savings Plan Loans

Repayment for loans against a financial asset (retirement/savings plan, insurance policy, stocks) can be excluded from the total DTI ratio provided the debt can be repaid by liquidating the asset. Value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

As 401(K)/403(B) Loans are statutorily limited to 50% of the eligible assets and are non-recourse loans, proof of sufficient 401(K)/403(B) balance to cover the loan is not required. All other secured obligations require proof of sufficient funds in the secured account to cover the debt amount in order to exclude the payment from DTI.

Only vested amounts in financial accounts may be used in qualifying. Loans against non-financial assets, such as businesses, automobiles, watercraft, airplanes, artwork, cryptocurrency, jewelry, bullion, collectibles, real estate, etc., must be included in qualifying ratios.

5.16 Solar Financing

Properties with solar panels are eligible in many circumstances. The underwriter should review the appraisal report and title report for indications that solar panels are present.

When solar panels are present, the underwriter must review the ownership & financing structure of the solar system. Common structures include:

- Borrower owned panels.
- Separately financed panels (where the panels are collateral for a debt that is not a mortgage).
- Leased panels.
- Power purchase agreements.

In many states such as California, the title report will include a recorded notice that solar panels are present on the property. This serves as notification only and does not require subordination or additional documentation as it does not represent a lien, mortgage, or security interest.



5.16.1 Borrower Owned Solar Panels

Solar panels owned free & clear by the borrower are not subject to any additional restrictions if ALL requirements in the following table are met:

STG Mortgage Standard Requirements (All Star Series) Borrower Owned Solar Panels	
- Appraiser does not indicate they are out of character within the market area. - Appraiser does not note any building code violation related to the solar system. - There is no deferred maintenance related to the solar panels.	

5.16.2 Mortgage Financed Solar Panels

Solar panels that are financed via a mortgage or deed of trust against the subject property may be identified by the presence of a recorded mortgage on the title report. Any type of Pace Energy Lien or Pace Mortgage is not eligible to be subordinated and must be paid off at closing. Mortgage financed solar panels must meet ALL requirements in the following table:

STG Mortgage Standard Requirements (All Star Series) Mortgage Financed Solar Panels	
- Solar panel mortgage liens must be subordinated or paid off. - When being subordinated, the balance of the solar mortgage must be considered in the LTV and any payment must be considered in the DTI. - When being subordinated, must meet all subordinate financing requirements. See Subordinate Financing.	



5.16.3 Non-Mortgage Financed Solar Panels

Separately financed panels (where the panels are collateral for a debt that is not a mortgage) must meet the requirements in the following table:

STG Mortgage Standard Requirements (All Star Series) Non-Mortgage Financed Solar Panels	
Type of financing and collateralization	Requirements
Financed and collateralized - the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records. These can be identified by the presence of a UCC fixture filing and/or financing statement on the title report.	- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement that reflect the terms of the secured loan. - Include the debt obligation in the DTI ratio calculation. - Provided that the panels cannot be repossessed for default on the financing terms, the appraiser may consider the solar panels in the value of the property (based on standard appraisal requirements). - Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records. - If a UCC fixture filing is in the land records as a priority senior to the mortgage loan, it must be subordinated.
Financed and collateralized - the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.	- Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or related security agreement). - Include the debt obligation in the DTI ratio calculation. - Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt. - Do not include the panels in the LTV ratio calculation. - Do not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.

If the UCC financing statements are satisfied or otherwise removed at or before closing, the obligation does not need to be included in the LTV calculation.



5.16.4 Leased Solar Panels and/or Power Purchase Agreements

Solar panels that are leased or panels owned by a third party under a power purchase agreement must meet the requirements in the following table:

STG Mortgage Standard Requirements (All Star Series) Leased Solar Panels and/or Power Purchase Agreements	
The lender must obtain and review copies of the lease or power purchase agreement.	
Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.	
For other types of leases, the monthly lease payment must be included in the DTI ratio calculation unless the lease includes ALL of the following provisions: - Provides delivery of a specific amount of energy at a fixed payment during a given period. - Has a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.	
The value of the solar panels cannot be included in the appraised value of the property.	
The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.	
A "precautionary" UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.	
The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.	
The property must maintain access to an alternate source of electric power that meets community standards.	
The lease or power purchase agreement must indicate ALL of the following: - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition. For example: sound and watertight conditions that are architecturally consistent with the home. - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy. - In the event of foreclosure, the lender or assignee has the discretion to do any of the following: - Terminate the lease/agreement and require the third-party owner to remove the equipment. - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party. - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.	
Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with standard Fannie Mae Selling Guide title insurance requirements.	



5.17 Student Loans

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, reflects the account as a deferred student loan, or if the credit report shows \$0 as the monthly payment, then the qualifying monthly payment must be determined using one of the options below:

STG Mortgage Standard Requirements (All Star Series)	
Student Loans in Deferment or with \$0 Payment: Qualification Options	
- A payment equal to 1.0% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment). OR - Fully amortizing payment using the documented loan statement or repayment terms. OR - For borrowers eligible for an income driven repayment plan, the amount of the payment the borrower will pay once forbearance has ended as documented by a repayment calculator from the servicer.	

5.18 Subordinate Financing

Secondary or subordinate financing is allowed with a maximum CLTV equaling maximum LTV per program matrix. All secondary financing must be subordinate to STG Mortgage's first lien position.

STG Mortgage Standard Requirements (All Star Series)	
ALL Subordinate Financing	
- Subordinate financing must be recorded and clearly subordinate to the new STG Mortgage first mortgage. - All subordinate financing must be from a financial institution, government entity, housing authority, or corporate employer (private party financing is not permitted). - Interest-only subordinate financing is not permitted. - Negative amortization is not permitted. - Balloon Payments within the next 60 months are not permitted. - Prepayment penalties are not permitted (HELOCS & HELOANS may require the borrower to repay lender paid closing costs upon termination of the loan. These closing cost reimbursements are not considered prepayment penalties.). - Subordinate financing from the borrower's employer which includes a provision requiring payment upon termination is not permitted. - If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the lesser of the purchase price or appraised value of the subject property. - Pace Loans are not eligible for either new subordinate financing or resubordination and if already existing, must be paid in full as part of the transaction. - Payment on the subordinate financing must be included in the borrower's DTI. Loans with no required payment must use 1% of the current balance in the DTI. The underwriter must carefully review the note and deed of trust to ensure these loans are eligible for subordination and will not impact the first lien position of the new STG Mortgage loan. Only loans from government entities, employers, or housing authorities are eligible to be resubordinated when they provide for no regular payment. HELOC payments are based on actual drawn amount/current balance and not the total credit line amount.	

For information on secondary financing related to Solar Panels see [Solar Financing](#).



5.18.1 New Subordinate Financing

For new subordinate financing obtained concurrently with an STG Mortgage first loan, ALL of the following are required:

STG Mortgage Standard Requirements (All Star Series) New Subordinate Financing	
- Title commitment or equivalent which shows the proposed subordinate lien and that the STG Mortgage loan will be in first lien position. - The repayment terms of the proposed subordinate lien from a sample note, underwriting approval or equivalent documentation. The documentation must be sufficient to allow the underwriter to accurately determine the second mortgage payment and review for allowable financing terms. - A copy of the underwriting approval from the subordinate lien showing ALL of the following: - All borrowers' names - Maximum loan amount - Interest rate - Occupancy - Loan Purpose	

For information on secondary financing related to Solar Panels see [Solar Financing](#).

For additional subordinate financing requirements applicable to DSCR loans, see [DSCR - Subordinate Financing](#).

5.18.2 Existing Financing Being Subordinated

For existing financing, which is being subordinated to a new STG Mortgage first lien, ALL of the following are required:

STG Mortgage Standard Requirements (All Star Series) Existing Financing Being Subordinated	
- Title commitment or equivalent which shows the existing subordinate lien and that the STG Mortgage loan will be in first lien position. - The repayment terms of the existing second lien from the note or equivalent documentation. - An unsigned copy of the subordination agreement prior to closing. - A copy of the executed subordination agreement at closing.	

Any type of Pace Energy Lien or Pace Mortgage is not eligible to be subordinated and must be paid off at closing.

For information on secondary financing related to Solar Panels see [Solar Financing](#).

5.19 Timeshares

For credit review purposes, timeshare obligations will be considered an installment loan and must be included in DTI. Timeshares are not considered real estate obligations and will be treated as a consumer debt obligation. Timeshare payment history cannot be used to satisfy housing history requirements, nor will it be considered in analysis of mortgage/housing history.



5.20 Undisclosed Debt

If asset statements or other file documentation provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's DTI ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed letter of explanation from the borrower is sufficient.

If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio unless it can be excluded under contingent liability guidelines.

5.20.1 Gap Credit (Credit Refresh, Undisclosed Debt Monitoring (UDM))

STG Mortgage requires a Gap Credit report or equivalent (i.e. Credit Refresh, Undisclosed Debt Monitoring) from at least 1 credit reporting agency (Equifax, Experian or Trans Union) on all files within 10 days of the Note date. All new inquiries must be addressed. All new tradelines must be included in the DTI.

This requirement does not apply to DSCR loans.



6.0 FULL DOCUMENTATION INCOME (12 AND 24 MONTH)

6.1 12 Month and 24 Month Income Type Eligibility (Full Doc)

Not all income types are eligible for 12-month programs. Refer to the table below to see income types not allowed for 12-month programs.

STG Mortgage Standard Requirements (All Star Series) 12 Month and 24 Month Income Type Eligibility - Full Doc		
Income Type	Eligible on 12 Month Programs	Eligible on 24 Month Programs
Alimony and Child Support	✓	✓
Annuity Income	✓	✓
Automobile Allowance	✓	✓
Capital Gains/Capital Losses	Not Permitted	✓
Clergy/Housing/Parsonage Income	Not Permitted	✓
Commission, Bonus, Overtime, & Other Variable Income	✓	✓
Cryptocurrency/Virtual Currency Income (e.g. Bitcoin)	Not Permitted	✓
Disability Income	✓	✓
Dividend/Interest Income	✓	✓
Employment By a Relative (No Borrower Ownership)	✓	✓
Employment Offers and Contracts	✓	✓
Foreign Income	✓	✓
Foster Care Income	✓	✓
Variable Hours/Hourly Wages	✓	✓
Notes Receivable Income	✓	✓
Non-Profit, Charity, Church, or Religious Organizations	✓	✓
Part-Time/Second Job Income	Not Permitted	✓
Pension/Retirement/401(K) Withdrawal	✓	✓
Public Assistance	Not Permitted	✓
Rental Income	✓	✓
Royalty Income	✓	✓
RSU - Restricted Stock Unit Income	Not Permitted	✓
Seasonal Income	Not Permitted	✓
Self Employed Income	✓	✓
Social Security Income	✓	✓
Teacher Income	✓	✓
Tips and Gratuities	✓	✓
Trust Income	✓	✓
Unemployment Compensation	Not Permitted	✓
VA Benefits	✓	✓
VA Survivors Benefits/Dependent Care	✓	✓
Wage Earner Income-Base/Salary	✓	✓



6.2 Ineligible Sources of Income (Full Doc)

STG Mortgage Standard Requirements (All Star Series) Ineligible Sources of Income - Full Doc	
Income Type	
Boarder income	
Education benefits	
Expense account reimbursement	
Gambling income (except lottery winnings continuing for 5 years)	
Income derived from illegal activities	
Income from an OFAC sanctioned country, entity, or person	
Business Income from Non-Profits, Charities or Churches/Religious Organizations	
Lump-Sum distributions from non-retirement/non-trust investments	
Marijuana or Cannabis related wage or business income	
Mortgage credit certificates	
Rental income from a second home	
SBA loan or paycheck protection funds	
Tax refunds	
Trailing spouse or co-borrower income	

6.3 Proof of Agency Ineligibility (Anti-Steering & Best Interest of the Borrower)

All Star Non-QM programs require that the loan program be reasonably suitable for the borrower's financial situation. For 24-Month Full-Doc loans at loan amounts which appear eligible for Fannie Mae or Freddie Mac financing, the file should contain evidence that the loan is either ineligible for agency financing or that better fees, pricing, or loan terms are available with the Star Non-QM program.

Loans with any of the following characteristics do not require any proof of being agency ineligible as Fannie Mae/Freddie Mac do not offer these loan options:

- Alt-Doc Income.
- 12-Month Full-Doc Income.
- DSCR Qualifying.
- Interest-Only.
- 40 year Amortization.
- Loan Amount Exceeds Agency Limits.
- Non-Warrantable Condo (including Condotel).

Proof of agency ineligibility may be provided with an AUS which shows Ineligible or a Letter of Explanation describing which Agency Guideline the loan is unable to meet. Alternatively, proof that Star Non-QM program Fees, Pricing or Loan Terms are superior to those available from Fannie Mae/Freddie Mac is acceptable to document Anti-Steering.

6.4 Age of Income Documentation (Full Doc)

Unless otherwise indicated, all income documentation may not be more than 120 days old at the time of closing.



6.5 Wage-Earners

Income derived from a consistent hourly, weekly, or monthly wage, will be verified by ALL of the following:

- Pay stubs covering the most recent 30-day period providing year-to-date earnings.
- Most recent year 1 or 2 Years W-2s.
- Signed IRS Form 4506-C for W-2 Transcripts.
- Verbal Verification of Employment (VVOE) completed within 10 business days of closing.
- Overtime, Commission, Bonus, & Auto Allowance require a Written Verification of Employment detailing the history of income receipt for each category.

6.6 Self-Employed Borrowers

A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, Limited Liability Company (LLC), C corporation, or S corporation.

Star Non-QM programs follow Fannie Mae Selling Guide requirements on length of self-employment.

24 months of self-employment is generally required, however a self-employment length between 12 and 24 months may be considered if the borrower has a minimum of 2 years in the same line of work or a 2 year history of performing the same services & functions as their business.

In no circumstance will a business ownership history shorter than 1 year be considered.

On all programs, regardless of 12-month or 24-month doc type, the length of business existence must be documented.

For files in which the borrower has between 12 and 24 months of business ownership, the underwriter must document their previous work experience to support 24 months of experience in the same line of work.

6.6.1 Non Profit Organizations

Income derived from the Control/Ownership of non-profits, charities, and churches/religious organizations is not permitted to be used in qualifying. Only normal W2 wages paid by one of these organizations may be used in qualifying.



6.6.2 Sole Proprietorship (1040 - Schedule C)

A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's Schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are ALL of the following:

- Federal income tax returns (IRS Form 1040, Schedule C) for the most recent 1 or 2 complete years, including all schedules.
- If the initial filing deadline for the most recent year tax return has passed, and the borrower has not yet filed due to an extension, a full year P&L is required for that tax year. For example: if, as of July 1, 2025, the 2024 taxes have been extended and have not been filed, a full year P&L for 2024 would be required.
- Year-to-date profit and loss statement (if the loan application is greater than 90 days after the year-end reflected on the most recent business tax returns provided).
- Signed IRS Form 4506-C for 1040s for years provided.
- Verification of the existence of the business within 10 business days of closing.

IRS Transcripts may be used in lieu of Tax Returns if sufficient information is present to calculate and verify income.

Tax returns do not require a signature when file contains a properly signed 4506-C or IRS Tax Transcripts.

6.6.3 Partnerships (1065)

A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.

Documents required for determining partnership income are ALL of the following:

- Federal income tax returns (IRS Form 1040) for the most recent complete 1 or 2 years, including all schedules.
- W-2s for the most recent complete 1 or 2 years from the Partnership (if applicable).
- Partnership tax returns (IRS Form 1065) for the most recent complete 1 or 2 years, including all schedules and K-1s (If borrower is a limited partner with less than 25% ownership, K-1 forms are all that is needed, partnership tax returns & related 4506-C are not required).
- If the initial filing deadline for the most recent year tax return has passed, and the borrower has not yet filed due to an extension, a full year P&L is required for that tax year. For example: if, as of July 1, 2025, the 2024 taxes have been extended and have not been filed, a full year P&L for 2024 would be required.
- Year-to-date profit and loss statement (if the loan application is greater than 90 days after the year-end reflected on the most recent business tax returns provided).
- Signed IRS Form 4506-C for 1040s for years provided.
- Verification of the existence of the business within 10 business days of closing.

Tax returns do not require a signature when file contains a properly signed 4506-C or IRS Tax Transcripts.



6.6.3.1 Distributions and Ordinary Income Analysis (Partnerships)

Borrowers are qualified using actual business income in qualifying and that amount is compared to the borrower's Distributions + W-2 wages + Guaranteed Payments from the partnership. If the borrower's Distributions + W-2 wages + Guaranteed Payments from the partnership do not support a history of paying the borrower amounts similar to the Ordinary Income, the lesser of Distributions + W-2 + Guaranteed Payments to partner or Ordinary Income will be used unless the borrower is able to provide a balance sheet supporting that the business assets are greater than the liabilities. For further details, please review the Fannie Mae Selling Guide calculations on the matter.

6.6.4 Limited Liability Company (LLC)

LLCs are considered disregarded entities by the IRS. The LLC may elect to be taxed as a partnership, an S Corporation, a C Corporation, or a single member LLC may be taxed as a sole proprietorship (Schedule C). The underwriter should evaluate the documentation carefully to determine how the LLC is filing taxes and apply the appropriate guidelines for that tax entity type.

6.6.5 Corporations (1120 C-Corp)

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered to be self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub and W-2 and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).

Documents required for determining income from a corporation are ALL of the following:

- Federal income tax returns (IRS Form 1040) for the most recent 1 or 2 years, including all schedules.
- W-2s for the most recent 1 or 2 years if applicable.
- Corporate tax returns (IRS Form 1120) for the most recent complete 1 or 2 years, including all schedules.
- If the initial filing deadline for the most recent year tax return has passed, and the borrower has not yet filed due to an extension, a full year P&L is required for that tax year. For example: if, as of July 1, 2025, the 2024 taxes have been extended and have not been filed, a full year P&L for 2024 would be required.
- Year-to-date profit and loss statement (if the loan application is greater than 90 days after the year-end reflected on the most recent business tax returns provided).
- Signed IRS Form 4506-C for 1040s for years provided.
- Verification of the existence of the business within 10 business days of closing.

Tax returns do not require a signature when file contains a properly signed 4506-C or IRS Tax Transcripts.

The borrowers must be 100% owner of corporation to use corporate 1120 income in qualifying (the W-2 wages and dividends paid to the 1040s by the corporation are acceptable qualifying income regardless of corporate ownership percentage).



6.6.6 S Corporations (1120-S)

A Subchapter S corporation is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S corporations are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

Documents required for determining income from an S corporation are ALL of the following:

- Federal income tax returns (IRS Form 1040) for the most recent complete 1 or 2 years, including all schedules.
- W-2s for the most recent 1 or 2 years if applicable.
- Corporate tax returns (IRS Form 1120-S) for the most recent 1 or 2 years, including all schedules and K-1s. (If borrowers own less than 25% of S-Corp, business returns are not required, income will be calculated using W-2 and K-1).
- If the initial filing deadline for the most recent year tax return has passed, and the borrower has not yet filed due to an extension, a full year P&L is required for that tax year. For example: if, as of July 1, 2025, the 2024 taxes have been extended and have not been filed, a full year P&L for 2024 would be required.
- Year-to-date profit and loss statement (if the loan application is dated more than 90 days after the end of the business's tax year).
- Signed IRS Form 4506-C for 1040s for years provided.
- Verification of the existence of the business within 10 business days of closing.

Tax returns do not require a signature when file contains a properly signed 4506-C or IRS Tax Transcripts.

6.6.6.1 Distributions and Ordinary Income Analysis (S Corporations)

Borrowers are qualified using actual business income in qualifying and that amount is compared to Distributions + W-2 payouts to the borrower. If the Distributions + W-2 payouts do not support a history of paying the borrower amounts similar to the Ordinary Income, the lesser of Distributions + W-2 or Ordinary Income will be used unless the borrower is able to provide a balance sheet supporting that the business assets are greater than the liabilities. For further details, please review the Fannie Mae Selling Guide calculations on the matter.

6.6.7 1099 Income

Payments to sole proprietors or contract individuals that are reported on IRS Form 1099 should be included in the borrower's Schedule C and follow requirements for Sole Proprietorships. See [Sole Proprietorship \(1040 - Schedule C\)](#) for details.



6.6.8 Conversion of Business Type

Businesses which have converted to another tax structure within the most recent 2 year period have special income calculation considerations. Recently converted business entities may be used in income qualifying subject to the requirements in the table below:

STG Mortgage Standard Requirements (All Star Series) Business Type Conversions		
Converted From	Converted To	Income Calculation Options/Requirements
S-Corporation	C-Corporation	For the 1 year Full Doc program, must have at least 1 year as a C-Corporation with corresponding C-Corporation tax returns or 2 years for the 2 year full doc program. Cannot average tax returns from the previous structure with C-Corporation tax returns in calculations, as the business will now be subject to double taxation as a C-Corporation. All full doc C-Corporation income requirements apply.
Partnership		
Sole Proprietorship		
C-Corporation	S-Corporation	The underwriter may average income from previous C-Corporation taxes and converted tax structure as the conversion lowers the business's tax liability.
	Partnership	
	Sole Proprietorship	
Sole Proprietorship	S-Corporation	The underwriter may average taxes from the previous and converted tax structures as the conversion has no effect on tax liability.
	Partnership	
S-Corporation	Sole Proprietorship	
	Partnership	
Partnership	S-Corporation	
	Sole Proprietorship	



6.7 Other Sources of Income

6.7.1 Alimony and Child Support Income

For child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained (must be court signed/stamped).
- Documentation must be received to evidence on time receipt of the most recent payments through copies of deposit slips, canceled checks, and/or bank statements.

Full and timely payments must be received according to the table below. Income received for less time than indicated in the table below is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

Child support payments are generally not taxable for the recipient and may be grossed up in accordance with [Non-Taxable Income \(Full Doc\)](#). Due to legislative changes, alimony from a divorce finalized on or before December 31, 2018 is taxable and cannot be grossed up. Alimony from a divorce finalized on or after January 1, 2019 is non-taxable and can be grossed up.

As required under the federal Equal Credit Opportunity Act, child support, alimony, or maintenance income information does not need to be provided unless the borrower wants to consider such income.

Each Star Series has varying length of receipt requirements regarding receipt of Alimony & Child Support Income. Reference the table below for details.

Star Series Specific Requirements Alimony and Child Support Income	
Star Series	Requirements
Series 1	12 months receipt required



6.7.2 Annuity Income

Annuity income can be used for qualification when the following requirements are met:

For annuities from a large organization (employer/financial institution/pension fund/insurer), if the annuity payment amount is guaranteed, provide ALL of the following:

- Copy of award letter or benefit statement.
- Proof of 1 month's receipt.
- Evidence the annuity payments will continue for at least 3 years or the life of the borrower, or has no specified termination date.

For annuities with ANY of the following characteristics:

- Does not provide a minimum guaranteed payment (variable payments).
- Provides a variable payment that is based upon assets or market performance.
- Not provided by a large organization (employer/financial institution/pension fund/insurer).

Provide ALL of the following:

- 12-month history of receipt must be verified using 1099s, tax returns, or bank statements.
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after closing. Annuities which continue for the life of the borrower are acceptable.

Large organization is generally defined as a widely recognized business or financial company or one with more than \$100 million in assets or revenue, however underwriters may use discretion in determining the financial stability of the annuity provider. State & Local governments are considered to meet the organization definition.

6.7.3 Automobile Allowance

Automobile allowances may be used as income if the borrower is able to document receipt for the most recent 12-month period. The amount received may fluctuate due to different mileages driven but must generally be stable over the period received. An automobile allowance may not be used to offset a liability. It may only be used as qualifying income. The full amount of the automobile payment or lease must be included in the qualifying liabilities.



6.7.4 Capital Gains/Capital Losses

Capital gains income is usually a one-time gain from the sale of assets or property. When the borrower can demonstrate a history of having generated this type of income and the likelihood of 36 month continuance, capital gains may be used in qualifying.

The following documentation is required:

- 2 Years Personal Tax Returns that include Schedule D (both years must reflect Capital Gains Income).
- Evidence the borrower has additional assets/property that could be sold to continue capital gains income, OR evidence the income is otherwise likely to continue. The underwriter may use reasonable discretion in determining if the borrower's capital gains are likely to continue.

Example: Borrowers with a successful history of fixing and flipping properties will consistently buy and sell properties for profit but may not own a property under repair at the current time. Likewise, a professional stock/commodities trader will show numerous small capital gains and losses but might not hold the assets overnight or for long periods of time. In this instance they would have a significant cash account to support their trading.

Capital gains must have been received for the most recent 2 years.

Due to the nature of this income and that many individuals choose to take capital gains in December, receipt in the current year is not required.

Capital losses do not need to be considered when calculating income or liabilities, even if the losses are recurring, as capital losses must cease once the assets are fully depleted.

This income type cannot be used with the 12-month full doc program.

6.7.5 Clergy/Housing/Parsonage Income

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24 months and the allowance is likely to continue for the next 3 years.

All of the following documentation is required:

- The 2 most recent years of tax returns are required (if tax returns confirm the non-taxable nature of the Parsonage income, it may be grossed up by 25%).
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained (documentation from the church must confirm the continuance of the income).

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

This income type cannot be used with the 12-month full doc program.



6.7.6 Commission, Bonus, Overtime, & Other Variable Income

Star Non-QM programs follow Fannie Mae Selling Guide requirements regarding minimum length of receipt for variable income.

24 months is generally required, however variable income sources may be eligible with between 12 and 24 months of history provided that the employer confirms likelihood of continuance. When variable income has been earned for between 12 and 24 months, the underwriter may request additional documentation to confirm the consistency and stability of the variable income. In no circumstance may variable income earned less than 1 year be considered in qualifying.

Variable earnings must be averaged over the most recent 1 or 2 years based upon the documentation type, and include ALL of the following:

- Most recent year-to-date pay stub reflecting the variable earnings.
- W-2 forms covering the most recent 1 year or 2 year period.
- A completed Written Verification of Employment detailing base, overtime, commission, or bonus earnings.

Tax returns are not required, nor is form 2106 evaluation required for the above variable income types. Should tax returns be provided to document other income types, Star Non-QM programs align with the Fannie Mae Selling Guide in not requiring expenses shown on form 2106 to be subtracted from wage income.

Careful consideration should be given to the pay structure of variable income. For example: bonus income may sometimes only be paid once yearly, often in December, therefore it would make sense that YTD income might show no bonus income throughout a significant portion of the year. In these instances, the underwriter must use reasonable discretion to calculate the variable income fairly and accurately. This may require the underwriter to request additional pay history for the variable income to discern the pattern & frequency of the income.

Borrowers who have recently switched employers must show at least 6 months of variable income at the new employer that is in line with their earnings from their previous employer in order to use variable income.



6.7.7 Cryptocurrency/Virtual Currency Income (e.g. Bitcoin)

Income paid to or earned by the borrower in the form of virtual currency, such as cryptocurrencies, may only be used to qualify for the loan when it has been converted to U.S. dollars and appears on the tax returns for 2 years.

Examples:

- A cryptocurrency mining operation that creates virtual currency and then sells them for U.S. Dollars, would have 2 years of either business or personal tax returns evidencing either capital gains or operating income from cryptocurrency sales.
- A cryptocurrency trader would have either business or personal tax returns which show gains from trading.

The borrower must provide a narrative and supporting documentation regarding the nature of their cryptocurrency business. The underwriter must be able to determine that the cryptocurrency profits are a result of a legal activity such as mining or trading and that the income appears likely to continue.

The underwriter must pay special attention to ensure there are no potential money laundering concerns. Businesses involving mixing, tumbling, or washing of cryptocurrency are expressly prohibited. Businesses that involve bartering goods & services or exchanging cash for cryptocurrency are not eligible sources of income due to money laundering concerns.

If the underwriter is unable to determine the cryptocurrency profits are from a legal source or activity, the income may not be used in qualifying.

The cryptocurrency profits must come from U.S. based activities. Foreign entities and activities are not eligible sources of cryptocurrency income.

This income type cannot be used with the 12-month full doc program.

6.7.8 Disability Income

Long-term and short-term disability income can be used for qualification.

6.7.8.1 Disability Income Documentation Requirements

ALL of the following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company, government agency, or employer providing the payment amount, conditions for termination of payment, and the likelihood of it continuing for at least 3 years.
- Copy of the most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Documentation from the insurer stating that the disability income will continue as long as the disability exists is sufficient for continuance. The file should not contain protected health information regarding the borrower's medical condition. When documenting disability income, it is inappropriate and/or unlawful to inquire regarding the nature or severity of the borrower's disability.



6.7.8.1.1 Social Security Disability

For disability income received from the Social Security Administration, no additional proof of continuance is required as SSA only provides disability payments to those deemed to be permanently disabled. An award letter and 1 month's proof of receipt is sufficient to document this income.

For additional details see [Social Security Income](#).

For additional details see [Non-Taxable Income \(Full Doc\)](#).

6.7.8.1.2 Short-term Disability Additional Documentation Requirements

In addition to the requirements listed above, short-term disability income requires all of the following:

- Signed letter from borrower stating intent to return to work once the disability no longer exists.
- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

The file should not contain protected health information regarding the borrower's medical condition. When documenting disability income, it is inappropriate and/or unlawful to inquire regarding the nature or severity of the borrower's disability.

6.7.8.2 Taxable and Non-Taxable Disability Income

Disability Income is taxable when the disability premiums were paid for on a pre-tax basis and is non-taxable when the premiums were paid on a post-tax basis. If it can be documented that the disability income is non-taxable, then it may be grossed up by a factor of 25%.

Often disability insurers will not have sufficient information to confirm whether or not payments are taxable and so they do not withhold tax. Receiving payments with no tax taken out is not sufficient proof that disability payments are non-taxable.

Proof of the non-taxable nature of disability income may include ANY of the following:

- Letters from the insurer.
- Financial Advisor Letters confirming the premium payments were made post-tax.
- Tax Returns.
- Accountant Letters.

If a file does not contain the above documentation to evidence the non-taxable nature of the disability income, then the income must be treated as taxable income and may not be grossed up.



6.7.9 Dividend/Interest Income

Dividend and interest income derived from investments can be used as qualifying income when ALL of the following requirements are met:

- 1 or 2 most recent years federal income tax returns received supporting a 1 or 2 year history of receipt.
- Verification of stock asset values no older than 120 days at closing.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being liquidated as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings. If the income has declined over the 24-month period, the 12-month calculation of income shall be used.

The underwriter must ensure the amount of interest/dividends is reasonable for the amount of assets that remain. Dividends & Interest that exceed 10% of the invested assets will be scrutinized to ensure one-time payouts and windfalls are not included in the income calculation.

6.7.10 Employment by a Relative (No Borrower Ownership)

Income for borrowers who are employed by a relative must be verified with ALL of the following:

- Borrower must have been employed at this same business for a minimum of 12 months (Proof Required).
- Federal income tax returns for the most recent 1 or 2 years.
- W-2s for the most recent 1 or 2 years.
- All pay stubs received in the most recent 90-day period.
- Bank Statements covering the most recent 90 days, showing deposits matching pay checks.
- Independent documentation if borrower has any ownership in the business (Borrower may be an officer, but not an owner of the business).
- Letter documenting borrower's relationship with the business owners.
- 1040 Tax Transcripts for the most recent 1 or 2 years.

If borrowers have recently received an increase of greater than 10% in base pay, it must be supported by paystubs and bank statements that cover the period 90 days prior to loan application in order to use the increased base pay in qualifying.



6.7.11 Employment Offers and Contracts

Borrowers may only use guaranteed base/salary income when using an Employment Offer/Contract. Employment offer may not be from a relative or an interested party in the loan transaction. The employer offering the offer/contract must be independently verifiable. Additionally, the borrower must be reasonably suited to the profession and position by experience or education.

The following restrictions apply:

- Primary Residence.
- Purchase.
- 1-Unit.

For borrowers starting new employment, the loan file must meet one of the following in accordance with the Fannie Mae Selling Guide requirements:

- A copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the note date. Only Base/Salary income may be used in qualifying.
- A copy of an executed offer or contract with employment to begin within 90 days of closing plus evidence the borrower has an additional 6 months of reserves for all liabilities and the subject property. This requirement is in addition to all other reserve requirements. This option is limited to:
 - Recent graduates with a professional degree and/or license.
 - Experienced corporate executives relocating for a new job or position.
 - Experienced highly skilled professionals who are relocating for a new job or position (Engineers, Medical Professionals, Tech Workers, High Finance).
- A copy of an executed offer plus a Written VOE confirming the borrower has started their new employment plus a copy of their first paystub dated no more than 30 days after closing. This option is limited to:
 - Recent graduates with a professional degree and/or license.
 - Experienced corporate executives relocating for a new job or position.
 - Experienced highly skilled professionals who are relocating for a new job or position (Engineers, Medical Professionals, Tech Workers, High Finance).

When using the option to provide a paystub after closing, the originator's commission will not be released until this documentation is obtained. Underwriter to PTF condition for a Commission-Short-Funding until paystub received.



6.7.12 Foreign Income

Foreign income is income earned by a U.S. Citizen or Permanent Resident borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Non-Permanent Residents may not use foreign income to qualify. Foreign income may be used to qualify with copies of the following:

- Federal income tax returns for the most recent 1 or 2 years that include foreign income.
- Standard documentation requirements based upon the source and type of income.

Any documents not in English or U.S. currency must be translated and converted. A certified translation must be provided and signed and dated by the translator. Contact information for the translator or their company must be in the file. Artificial Intelligence (AI) or Online Dictionary translations are not acceptable. Fees for translation services must be paid for by the borrower or broker directly and are not reimbursable. These fees may never be included on the final Closing Disclosure.

Any type of income derived from an OFAC sanctioned country is not permitted. See [Sanctioned Borrowers & Entities \(OFAC\)](#).

6.7.13 Foster Care Income

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if ALL of the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documentation verifying that the borrower has received foster care income for a minimum 1 year period.

Qualifying income is based upon the current amount received.

6.7.14 Variable Hours/Hourly Wages

Borrowers paid on an hourly basis or who may not work a regular 40-hour work week throughout the year will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average. Paystubs often don't provide sufficient information to calculate income for these borrowers, so a Written VOE is the preferred documentation method.

For additional information on other types of variable income, see [Commission, Bonus, Overtime, & Other Variable Income](#).

6.7.15 Notes Receivable Income

Notes receivable income may be used for qualifying income subject to ALL of the following:

- Verify that the income can be expected to continue for a minimum of 3 years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months using either canceled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.



6.7.16 Non-Profit, Charity, Church, or Religious Organizations

Income from a not-for-profit entity is ineligible. Borrower may be a W-2 employee of these entities, and that income is acceptable for use in qualifying. However, distributions or other types of income from these organizations are not considered to personally belong to the borrower and is thus ineligible for use in qualifying.

6.7.17 Part-Time/Second Job Income

Income from part-time employment or multiple jobs can be considered stable income if it has been received for the previous 2 years and is likely to continue. Earnings must be documented with current pay stubs and W-2s for the most recent 2 year period. Borrowers must have a 2 year history of having worked multiple jobs simultaneously. Borrower's may not have a gap in employment in either the first or second job exceeding 2 months in the most recent 24-month period.

This income type cannot be used with the 12-month full doc program.

6.7.18 Pension/Retirement/401(K) Withdrawal

If retirement income is paid in the form of a distribution from a 401(k), 403(b), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least 3 years after the date of the mortgage note. Additionally, the borrower must have unrestricted access to the accounts without penalty.

Income from a retirement account withdrawal may be evidenced with one of the following:

- If distributions are lump-sum or inconsistent, a current account statement, plus 1 or 2 years of 1099-R to show annual distribution amounts. Account balance must support 36 months of continuance.
- If distributions are set up for regular withdrawal, then provide 3 recent account statements showing regular withdrawals. The account balance must support 36 months of continuance.
- If distributions have been set up for regular withdrawal within the last 90 days, provide a letter from financial advisor or institution to confirm that regular ongoing withdrawal amounts have been set up, and provide an account statement showing at least 1 withdrawal has taken place prior to closing. The account balance must support 36 months of continuance. Withdrawals that are not set up on an automatic, regular ongoing basis, are not permitted to use this documentation option.

For Pension/Social Security/VA, document regular and continued receipt of the income with the following:

- Award letters from the organizations providing the income and 1 month proof of receipt.
- 1 Prior year 1099-R will be acceptable in lieu of award letter.



6.7.19 Public Assistance

Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years must be documented with copies of checks, copies of bank statements, copies of award letters or copies of grant statements.

When documenting and evaluating public assistance income, loans must comply with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

This income type cannot be used with the 12-month full doc program.

6.7.20 Rental Income (Full Doc)

Star Full Doc programs verify and calculate rental income as outlined below. Situations not specifically addressed should follow Fannie Mae Selling Guide requirements.

6.7.20.1 Rental Income for the Subject Property (Full Doc, Purchase)

For rental income on 2-4 Unit Primary Residences or 1-unit Primary Residences with an ADU, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.

Rental Income is never permitted on second homes.

For investment properties, when using rental income on a property being acquired, the subject PITIA may be offset by the rental income. However, should that calculation result in a profit, a positive income may not be used for the subject property.



6.7.20.1.1 Documenting Income from Long-Term Leases (Full Doc, Purchase, Subject Property)

Rental income from a new property being acquired through a purchase transaction can be used to qualify, using the lesser of:

- 75% of the lease amount minus the full PITIA (evidence of rent receipt by the current owner must be obtained). OR
- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

If the subject property is not currently rented, has a month-to-month tenant, or has a lease that is not transferring to the new owner, then 75% of the Market Rent from Form 1007/1025 shall be used.

The transaction must be arm's length. Neither the existing tenant nor the property seller may have a relationship with the borrower.

STG Mortgage Standard Restrictions (All Star Series)	
Rental Income for the Subject Property (Purchase) - Occupancy Restrictions	
Primary Residences	• Rental income may be used on a 2-4 unit Primary Residence, provided the file contains documentation as to which units will be owner occupied, and the Market Rent Analysis (Form 1007/1025) lists the expected market rents for each unit. The underwriter must use discretion in determining if the borrower's intent to occupy certain units is reasonable for their family size and financial situation. For example: the square footage and bedroom count is sufficient to house the number of people in their household. • For the purchase of a 1-unit primary residence with an accessory dwelling unit (ADU), the rental income from the ADU may not be used. • For rental income on the purchase of 2-4 Unit Primary Residences, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.
Second Homes	• Not permitted to use any rental income in qualifying.
Investment Properties	• No additional restrictions.

6.7.20.1.2 Documenting Income from Short-Term Rentals (Full Doc, Purchase, Subject Property)

Short-term rental income may not be used to qualify on purchase transactions. Long term rental income is all that may be used in qualifying.

6.7.20.2 Rental Income for the Subject Property (Full Doc, Refinance)

For rental income on 2-4 Unit Primary Residences or 1-unit Primary Residences with an ADU, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.

Rental Income is never permitted on second homes.

For investment properties, use of rental income has no additional restrictions and is calculated as outlined below.



6.7.20.2.1 Documenting Income from Long-Term Leases (Full Doc, Refinance, Subject Property)

Rental income from the subject property owned prior to loan application should be documented and calculated using the borrower's federal income tax returns for the most recent 1 or 2 years. Net rental losses should be included in ratios as a liability.

For properties where income is not properly reflected on tax returns due to a verified qualifying circumstance (under renovation, recently acquired, owned less than 1 year, inherited), the long-term rental income may be calculated as follows:

- 75% of the current lease minus the full PITIA.
- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable) calculated to account for the number of months in service. The file must contain documentation to support the actual dates in service. For example: dates of renovation/repair, acquisition date, etc.

When using a lease to document rental income, the file must contain one of the following:

- Market Rent Analysis (Form 1007/1025).
- A copy of the security deposit and first month's rent.
- Proof of 2 most recent month's rent receipt.

For unleased (vacant) properties that have been owned for less than 120 days or have just undergone major construction/repairs/renovation and have not yet been leased, use:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

For unleased (vacant) properties that were previously tenant occupied and have been vacated within the last 60 days and are currently seeking new tenants, provide a copy of the previous lease and proof of last month's rental receipt. Calculate income as:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

Unleased (vacant) properties which have been owned for more than 120 days must have a qualifying circumstance (major repairs, renovation, construction, or other circumstances which left the property unable to be rented) that explains the vacancy in order to use rental income in qualifying. The file must document these circumstances in order to use the Market Rent from Form 1007/1025. The recent conversion of a second home to investment occupancy is not a qualifying circumstance.

Unleased (vacant) properties which have been marketed for rent for 120 days or more and have been unable to secure a tenant are ineligible to use rental income in qualifying.

Rental income received from relatives or other interested parties to the transaction may only be verified via Tax Returns. Leases cannot be used to support that income.

6.7.20.2.2 Documenting Income from Short-Term Rentals (Full Doc, Refinance, Subject Property)

Short-term rental income may only be documented with tax returns. Short-term rental income received for less than 12 months is not eligible. Properties listed for sale by the borrower in the most recent 6 months may not use short-term rental income.

Certain Star Series contain additional restrictions when using Short-Term Rental Income. See [Short-Term Rental Restrictions \(Full Doc\)](#) for more information.



6.7.20.3 Rental Income from Other Real Estate Owned (Full Doc)

For rental income on 2-4 Unit Primary Residences or 1-unit Primary Residences with an ADU, the rental income must be added to qualifying income and may not be used to offset the PITIA of the property.

Rental Income is never permitted on second homes.

For investment properties, use of rental income has no additional restrictions and is calculated as outlined below.



6.7.20.3.1 Documenting Income from Long-Term Leases (Full Doc, Other REO)

Rental income from another property owned prior to loan application should be documented and calculated using the borrower's federal income tax returns for the most recent 1 or 2 years. Net rental losses should be included in ratios as a liability.

For properties where income is not properly reflected on tax returns due to a verified qualifying circumstance (under renovation, recently acquired, owned less than 1 year, inherited), the long-term rental income may be calculated as follows:

- 75% of the current lease minus the full PITIA. OR
- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable) calculated to account for the number of months in service. The file must contain documentation to support the actual dates in service. For example: dates of renovation/repair, acquisition date, etc.

When using a lease to document rental income, the file must contain one of the following:

- Market Rent Analysis (Form 1007/1025).
- A copy of the security deposit and first month's rent.
- Proof of 2 most recent month's rent receipt.

For unleased (vacant) properties that have been owned for less than 120 days or have just undergone major construction/repairs/renovation and have not yet been leased, use:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

For unleased (vacant) properties that were previously tenant occupied and have been vacated within the last 60 days and are currently seeking new tenants, provide a copy of the previous lease and proof of last month's rental receipt. Calculate income as:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

Unleased (vacant) properties which have been owned for more than 120 days must have a qualifying circumstance (major repairs, renovation, construction, or other circumstances which left the property unable to be rented) that explains the vacancy in order to use rental income in qualifying. The file must document these circumstances in order to use the Market Rent from Form 1007/1025. The recent conversion of a second home to investment occupancy is not a qualifying circumstance.

Unleased (vacant) properties which have been marketed for rent for 120 days or more and have been unable to secure a tenant are ineligible to use rental income in qualifying.

Rental income received from relatives or other interested parties to the transaction may only be verified via Tax Returns. Leases cannot be used to support that income.

For additional restrictions regarding departure residences see [Departure/Departing Residence](#).

6.7.20.3.2 Documenting Income from Short-Term Rentals (Full Doc, Other REO)

Short-term rental income may only be documented with tax returns. Short-term rental income received for less than 12 months is not eligible. Properties listed for sale by the borrower in the most recent 6 months may not use short-term rental income.



6.7.20.4 Short-Term Rental Restrictions (Full Doc)

Certain Star Series contain additional requirements/restrictions when using Short-Term Rental. Reference the table below for details.

Star Series Specific Requirements/Restrictions Short-Term Rental - Full Doc	
Star Series	Requirements/Restrictions
Series 1	- When using short-term rental income from subject property - 5% LTV/CLTV reduction from allowable limit per program matrix 24-month Full Doc requires 24-month short-term rental history

6.7.20.5 Maximum Financed Properties - Rental Income (Full Doc)

The cumulative maximum number of financed properties for all borrowers on the loan is 10. The number of financed properties includes:

- All 1-4 unit residential properties where borrower is personally obligated on the mortgage (even if the monthly housing expense is excluded from DTI, such as a contingent liability)
- The borrower's principal residence

The following property types are not subject to the maximum financed property limitations:

- Commercial/Industrial real estate
- Multi-family properties that have 5 or more units
- Timeshares
- Any type of vacant lot, residential or commercial
- Mobile homes that have not been converted to real property with the local tax assessor

The maximum financed properties limitation does not apply to DSCR transactions.

6.7.21 Royalty Income

To document income from royalties, confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of 3 years after the date of the mortgage note. Obtain copies of ALL of the following:

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
- The borrower's most recent signed federal income tax return, including IRS Form 1040 and Schedule E.

6.7.22 RSU - Restricted Stock Unit Income

Star Full Doc programs verify and calculate RSU income as outlined below. Situations not specifically addressed should follow Fannie Mae Selling Guide requirements.

For all Restricted Stock Unit Income, ALL of the following requirements must be met:

- The stock must be publicly traded and have a market capitalization of \$100,000,000 or greater.
- The stock must be highly liquid and have a minimum daily average trading volume of \$10,000,000 or greater (daily trading volume is defined as average number of shares traded daily multiplied by the current share price).

This income type cannot be used with the 12-month full doc program.



6.7.22.1 RSU - Documentation

RSU documentation should include ALL of the following:

- Brokerage or bank statement showing receipt of the previous 2 years' distribution of restricted stock, and, at a minimum, the number of vested shares or cash equivalent received.
- Current Vesting Schedule reflecting past and future vesting.
- Copies of grant awards.
- A WVOE or Paystubs which show receipt of restricted stock distributions.
- W-2s covering the most recent 2 year period.

6.7.22.2 RSU - Performance Based Awards

For performance-based awards, a minimum history of 24 months restricted stock income from the current employer is recommended. Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income if there are positive factors to offset the shorter income history such as:

- Future vesting equal to or greater than previous vesting and that will continue for at least 24 months.
OR
- Restricted stock income received for the previous 5 years from any employer.

6.7.22.3 RSU - Time Based Awards

For time-based awards, a minimum history of 12 months restricted stock income from the current employer is required. Time based awards must verify continuance unless it can be shown that multiple awards have been received in consecutive years. Time based awards which were received only once, but vest into the future must show a 36-month continuance.

6.7.22.4 RSU - Income Calculation

The calculation method for restricted stock income will vary depending on whether payment is made in shares or cash. For income paid in shares use:

- The 52 Week Low Share Price multiplied by the total number of distributed vested shares (pre-tax) in most recent 24 months divided by the number of months.

For income paid in cash use:

- Total cash distributed (pre-tax) equal to the total value of vested shares in the most recent 24 months divided by the number of months.

When the borrower has a history of income ranging from 12-24 months, the lender may use the actual number of months the borrower has received the income rather than 24 months. In no instance may RSU income be used when the history of receipt is less than 12 months.

For Awards which require proof of continuance, the income calculation will be the lesser of the above calculations or the total value of shares due to be vested in the next 3 years divided by 36 months.



6.7.23 Seasonal Income

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and reasonably expects to be rehired for the next season.

A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers being rehired or at minimum state they are eligible for rehire. Seasonal income should be averaged over a 2 year period.

This income type cannot be used with the 12-month full doc program.

For additional details see [Unemployment Compensation](#).

6.7.24 Social Security Income

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter.
- Proof of current receipt (must positively identify borrower and type of income).

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, ALL of the following items are required:

- SSA Award letter.
- Proof of current receipt.
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age).

In order to prove that Social Security Income of any type is not taxable, additional documentation must be provided. Generally, tax returns or tax transcripts will be required to show the taxable percentage. Statements which show no taxes being taken out of the monthly payments are insufficient to prove non-taxable status. All types of Social Security and Disability can be taxable under certain circumstances and must be verified per the requirements in [Non-Taxable Income \(Full Doc\)](#).

Borrowers who receive social security and no other income are not required to file taxes. 100% of social security income may be grossed up when the underwriter can determine that taxes are not required and are not being filed. This will require either tax transcripts which show no record of return filed or an accountant letter verifying no taxes are required to be filed.

For additional details see [Social Security Disability](#).



6.7.25 Teacher Income

Teachers are paid on a 9-month, 10-month, or 12-month basis. The pay structure should be determined before calculating the monthly income. If documents in file support a pay frequency that supports earnings in line with previous W-2 earnings, that is sufficient to determine number of months paid and no special documentation is required.

If unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

It is common for teachers to receive annually renewing contracts. If the teacher has at least a 1 year history of working annually renewing contracts, that is acceptable to prove continuance is likely in their occupation.

6.7.26 Tips and Gratuities

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e. waitperson, taxi driver, etc.). Tip income should be received for at least 2 years. For both 1 and 2 year documentation types, the file must document a 2 year work history at jobs for which such income is common.

Documentation will be based upon the documentation type selected, 1 or 2 years. Obtain 1 or 2 years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

6.7.27 Trailing Spouse or Co-Borrower Income

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.



6.7.28 Trust Income

Star Full Doc programs verify and calculate trust income as outlined below. Situations not specifically addressed should follow Fannie Mae Selling Guide requirements.

Trusts can be structured in numerous ways and may serve as pass-thru entities, with all income appearing on the borrower's personal tax returns or taxable entities with their own tax returns. The documentation required will vary based upon the complexity and structure of the trust.

Income from both revocable and irrevocable trusts is eligible for use in qualifying.

Trust income must be verified with one or more of the following to confirm the amount, frequency, type of income being received, and the date the trust was created:

- A copy of the trust agreement.
- An independent trustee's statement (a borrower or interested party to the transaction who is a trustee may not supply this).
- The trust's federal income tax returns.
- A letter from an accountant or attorney who reviewed the trust documents and/or financials, when the above documents are not available or when the borrower is the trustee.

The underwriter must review the trust documentation provided to ensure that it does not expire within the next 36 months and that the income does not decrease. For example: upon reaching a certain age. If the trust documentation provided does not mention an expiration, then no further documentation is required.

The underwriter may use reasonable discretion in requesting additional documentation to support continuance. For example: if the trust's stated purpose is to provide for minor children and those children are about to turn 18, the underwriter would request proof of their ages.

Lump-sum distributions from the trust made prior to loan closing can be used for down payment or closing costs if the withdrawal does not affect the qualifying amount of continuing distributions to the borrower. The funds must be verified by a copy of the check or the trustee's letter that shows the distribution amount.



6.7.28.1 Trusts Existing Greater Than 12 Months

See the table below for requirements regarding trusts existing greater than 12 months.

STG Mortgage Standard Requirements (All Star Series) Trusts Existing Greater Than 12 Months	
Trust income is based upon historical payments or fluctuating payments that are derived from the variable income and/or assets and investment performance of the trust:	Trust income consists of fixed payments, or payments that only increase:
- Obtain the most recent 1 or 2 year tax returns reflecting the trust income. Depending on the structure of the trust, this may be Personal Tax Returns (1040), Trust Tax Returns (1041), and Beneficiary Distribution Statements (1041 - K-1) or a combination thereof. - Document current receipt of trust income either via bank statement or equivalent documentation. Trust income must be received at least annually in order to qualify. Income that is earned within the trust but not distributed to the borrower is not eligible to be used in qualifying.	- Use the fixed payment amount from the trust verification documentation. - Document current receipt of the trust income with one bank statement or equivalent documentation.

6.7.28.2 Trusts Existing Less Than 12 Months

For trusts existing for less than 12 months, ALL of the following requirements must be met:

STG Mortgage Standard Requirements (All Star Series) Trusts Existing Less Than 12 Months
- The trust verification documentation reflects fixed payments that occur at minimum annually. - At least one payment has been received prior to closing. - The assets of the trust are sufficient to provide 84 months of continuance of this income, without considering any future investment gains or interest income (This may be verified either with asset statements or a financial advisor/CPA/Attorneys letter confirming the trust has sufficient assets). Asset balances must be discounted according to the provisions of the Asset Depletion Program.

6.7.29 Unemployment Compensation

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction). The income can be used to qualify with a 2 year employment history in the same field of work and a 2 year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

This income type cannot be used with the 12-month full doc program.

For additional details, see [Seasonal Income](#).



6.7.30 VA Benefits

Document the borrower's receipt of Veteran Administration (VA) benefits with a distribution form or letter from the VA, along with a one-month proof of receipt. Verify that the income can be expected to continue for a minimum of 3 years from the date of the mortgage note (Verification is not required for VA retirement or long-term disability benefits.). Education benefits are not acceptable income because they are offset by education expenses.

6.7.31 VA Survivors Benefits/Dependent Care

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.

6.8 Documentation Standards (Full Doc)

6.8.1 Verbal Verification of Employment (Full Doc, VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all of the following criteria:

- Completed within 10 business days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of the person processing the VVOE at the Lender or Originator.
- Include the name, position and phone number of the person providing the verification at the employer.
- Business Name and telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 10 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- Accountant/Tax Preparer, regulatory agency, or applicable licensing bureau.
- Secretary of State listing reflecting current year registration.
- Verification of a phone and address listing using the internet.

If the documentation is over 30 days old, a processor's certification verifying employment with the accountant/tax preparer is acceptable. An updated Secretary of State listing or phone and address listing from the internet are also acceptable.

When using accountant or tax preparer letters as a verbal verification of employment, the letter must attest that they have either audited the business financials or reviewed their working papers.

6.8.2 Written Verification of Employment (Full Doc)

Income and employment for wage-earners or salaried borrowers may be obtained via direct written verification from the borrower's employer (Fannie Mae Form 1005). The verification should be signed by a member of the company's human resource department or one of the business owners or officers. At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary.

Electronic verifications from a third party such as The Work Number (or equivalent) are acceptable.



6.8.3 IRS Form 4506-C (Full Doc)

IRS Form 4506-C must be completed and signed by all borrowers (must be wet signed, e-sign is not permitted) both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.).

Alt Doc income may be combined with other income sources that are documented as Full Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Alt Doc, a tax return is not required for the Full Doc income. If the 4506-C form is provided, the appropriate box should be checked to obtain a transcript of W-2 earnings.

Documentation received from executing the 4506-C must be reviewed and compared to the qualifying income to confirm consistency. Results from processing the 4506-C should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the 4506-C results and qualifying income should be addressed by the underwriter.

The presence of a signed 4506-C or Tax Transcripts within a loan file negates the need for tax returns to be signed by the borrower.

6.8.4 Allowable Accountant Types (Full Doc)

When accountant letters are used to support the underwriting decision, they must come from an accountant with acceptable credentials.

Acceptable accountant types are, Certified Public Accountant (CPA), Enrolled Agent (EA), California Tax Education Council (CTEC), Licensed Tax Attorneys, and Chartered Tax Advisors. Financial Advisors without a tax preparation license are not acceptable. The accountant must be independently verifiable through state licensing and online databases.

6.8.4.1 AFSP Tax Preparers/Accountants (Full Doc)

Annual Filing Season Program (AFSP) tax preparers without a higher level certification are not permitted to provide written statements, letters of explanation, certifications or P&Ls.



6.8.4.2 PTIN Tax Preparers (Full Doc)

Tax preparers without a more advanced certification (such as CPA, EA, CTEC) are called PTIN Tax Preparers. Unlike tax preparers with advanced certifications, PTIN Tax Preparers are only permitted on a limited number of Star Series programs.

For Star Series programs that explicitly allow PTIN tax preparers, or allow them by exception, the PTIN tax preparer is only permitted if they work for a verifiable tax preparation or bookkeeping firm that has been in business 24+ months and has multiple tax preparers. One-person PTIN accounting firms require an exception from STG credit management.

Certain Star Series restrict PTIN Tax Preparers. Reference the table below for details. No exceptions are permitted to allow the use of a PTIN Tax Preparer when the program matrix does not allow for them.

Star Series Specific Restrictions PTIN Tax Preparers	
Star Series	Permitted/Not Permitted
Series 1	Permitted by exception only

6.9 Income Calculation Considerations (Full Doc)

6.9.1 Declining Income (Full Doc)

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. The underwriter should carefully evaluate the file to ensure the decline has no material impact on the borrower's ability to repay the mortgage. Minor income declines of less than 10% typically do not need to be addressed if they are insignificant to qualifying ratios.

Income declines exceeding 10%, or that are significant to qualifying ratios, should be investigated and documented within the file. A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2 year period must be used and may not be averaged. Documentation should be present in the file to assure the underwriter that further decline is unlikely.

Income showing a decline of 20% or more over the prior period should generally not be considered as stable or usable income for qualification purposes. STG Senior Credit Management may accept income declines of more than 20% with an exception and significant evidence that further income decline is unlikely.

6.9.2 Non-Taxable Income (Full Doc)

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the underwriter may gross up the income for the non-taxable income source by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

Certain income sources such as social security are only partially taxable. The underwriter is responsible for verifying the percentage of any income that is non-taxable and grossing up the portion that is non-taxable.

See [Social Security Income](#) for additional details regarding non-taxable social security income.



6.9.3 Residual Income (Full Doc)

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations.

Residual Income = Gross Monthly Income minus total ongoing monthly debt.

Income Taxes, Utilities, and other expenses which do not represent ongoing obligations are not required to be considered in residual income calculations.

For Interest-Only loans, the residual Income calculation uses the full PITIA payment.

DSCR loans do not have a residual income requirement.

Each Star series has varying requirements based upon household size, and/or loan risk parameters. Reference the table below for details.

Star Series Specific Requirements Residual Income	
Star Series	Requirement
Series 1	\$1,500



7.0 ALTERNATIVE DOCUMENTATION INCOME (12 AND 24 MONTH)

7.1 Ineligible Sources of Income (Alt Doc)

STG Mortgage Standard Restrictions (All Star Series) Ineligible Sources of Income - Alt Doc	
Income Type	
Boarder income	
Education benefits	
Expense account reimbursement	
Gambling income (except lottery winnings continuing for 5 years)	
Income derived from illegal activities	
Income from an OFAC sanctioned country, entity, or person	
Business Income from Non-Profits, Charities, or Churches/Religious Organizations	
Lump-Sum distributions from non-retirement/non-trust investments	
Marijuana or Cannabis related wage or business income	
Mortgage credit certificates	
Rental income from a second home	
SBA loan or paycheck protection funds	
Tax refunds	
Trailing spouse or co-borrower income	

7.2 Age of Income Documentation (Alt Doc)

Unless otherwise indicated, all income documentation may not be more than 120 days old at the time of closing.



7.3 Bank Statement Program (12 & 24 Month)

All Star Alt-Doc Bank Statement programs require that the borrower be self-employed. The borrower(s) qualifying with Bank Statement Documentation must have 25% or more ownership interest in the business in order to use it in qualifying.

The business may be a sole proprietorship, general partnership, limited partnership, Limited Liability Company (LLC), C corporation, or S corporation. If the business is a C Corporation, the borrower must own 100% of the business to use it in qualifying.

Non-profits, churches, charities and businesses involved in asset speculation (such as day trading, crypto trading) are not eligible for the Bank Statement program.

The business being used to qualify must be engaged in an active business activity. While passive income is permitted to be combined with operational income, businesses whose only income source is passive (such as rental income) are not eligible. Businesses engaged in purchasing real estate for rehab and repair (fix & flip) must have a 2 year history and use the 24-month Bank Statement program to qualify.

24 months of self-employment and business existence is generally required, however a self-employment length between 12 and 24 months may be considered if the borrower has a minimum of 2 years in the same line of work or a 2 year history of professionally performing the same services & functions as their business.

The borrower must have owned the business used in qualifying for at least 1 full year (2 years for 24-month bank statement program).

If a 24-month program is selected, the business must have been in existence for 24 months or longer.

On all programs, regardless of 12-month or 24-month doc type, the length of business existence must be documented.

For files in which the borrower has between 12 and 24 months of business ownership, the underwriter must document their previous work experience to support 24 months of experience in the same line of work.



7.3.1 Accountant Letter Requirements (Bank Statement Program)

An Accountant Letter prepared for the Bank Statement Program must include ALL of the following:

STG Mortgage Standard Requirements (All Star Series) Accountant Letter (Bank Statement Program Only)	
• Be on the Accounting Firm's Letterhead. • Include accountant's contact information. • Include the date prepared. • State the name of the business for which it was prepared. • Include the following attestation, "I attest that I am not related to or affiliated with [Borrower Name] or [Business Name], apart from a professional accounting relationship. I have reviewed the business records and/or financial working papers for [Business Name] to arrive at my conclusions." • State the accountant's type (i.e. CPA, EA, CTEC, etc.) • Include the accountant's license number. • Include a real "wet" signature (e-sign is not permitted).	

An Accountant Letter prepared for the Bank Statement Program may be used for any one or a combination of the following purposes and may therefore include any one or a combination of the following approved statements in the table below, depending on the need:

STG Mortgage Standard Requirements (All Star Series) Optional Accountant Letter Verbiage	
Purpose	Required Verbiage
Verifying borrower's business ownership percentage and length of ownership. (When verifying the borrower's ownership percentage, the length of time that percentage has been owned must be included.)	[Borrower Name] has owned ____% of [Business Name] for ____ months.
Verifying borrower's length of time in business.	[Business Name] has existed for ____ months.
Determining business' expense ratio.	The expense ratio for [Business Name] is: ____%.

Letters which provide information regarding business ownership percentage, business structure, length of time in business, or the purpose of the business may be provided by either an accountant or a business attorney. Letters which provide calculated financial information such as expense ratio, may only come from a licensed accountant.

For Allowable Accountant Types, see [Allowable Accountant Types \(Alt Doc\)](#).

For a sample Accountant Letter, see [Accountant Letter 1](#) or [Accountant Letter Sample 2](#).



7.3.2 Business Bank Statement Documentation

The Business Bank Statement Program is designed for those with a separate bank account for their business where income and expenses are accrued before distributions to the borrower are made.

A maximum of 3 businesses may be qualified on the same loan application using bank statement documentation. Borrowers wishing to use more than 3 businesses to qualify may qualify using the Personal Bank Statement program.

STG Mortgage Standard Requirements (All Star Series) Business Bank Statement Program Documentation

- Proof of self-employment and length of business existence (accountant or business attorney letter or other proof).
- Evidence of business ownership percentage and how long the borrower has owned that percentage (accountant or business attorney letter or other proof).
- 12 or 24 months of complete, consecutive business bank statements from the same account. If an account has been moved entirely to a different bank and is shown to be one and the same, that is acceptable (proof of original account closure not required). Co-mingling of multiple accounts to generate a full 12 or 24 months is not permitted.
- Signed & dated business narrative explaining the ownership percentage, date business was established, business type (Sole Proprietor, Partnership, LLC, C Corp, S Corp), number of contractors/employees, and a brief explanation of the services/products the business provides. For a sample form, see [Self-Employed Business Narrative Form](#).
- Verification of the existence of the business within 10 business days of closing.

The most recent business bank statement may be a maximum of 90 days old at time of closing.

Transaction histories, online printouts, and digital verification services are not an acceptable replacement for the full bank statements.

Borrowers who operate a business out of a personally titled account are acceptable if the statements support the account being used for business income and expenses. If the account is also being used for any personal income or expenses, the underwriter must be able to affirmatively determine which deposits represent business income and which are from non-business sources (Rental Income, Social Security, Wage Income, transfers from friends/family etc.). Income from non-business sources will be excluded, and it must be documented separately from the business income if it will be used in qualifying. If the underwriter is unable to separate the business income from other income sources, then the account is not eligible.

Multiple alternative income documentation types are not permitted on the same loan.

Other sources of income may be considered with this loan program, provided the Business Bank Statement income represents 51%+ of the total file income and the calculation of the other income does not conflict with the Business Bank Statement income documentation requirements (i.e. any other type of income which requires tax returns is not acceptable). With the exception of rental income, which is documented within its own section, all other sources of income must be verified according to full documentation requirements.

If using an accountant letter to document business ownership percentage, dates that business has been in existence, or other information, see [Accountant Letter Requirements \(Bank Statement Program\)](#).



7.3.3 Business Bank Statement Calculations

To calculate the qualifying income for the Business Bank Statement program:

1. Determine the total business deposits for the program selected (either 12 or 24 months).
2. Subtract any unallowable items (see list below).
3. Determine the appropriate expense factor & reduce the total allowable deposits by this factor.
4. Divide by the number of months for the program selected (either 12 or 24).
5. Multiply by the borrower's percentage ownership in the business.

Example: For the 12 month program, with \$400k in total business deposits, with \$40k in unallowable items, using a 20% expense factor, for a borrower who owns 50% of the business, the qualifying income would be calculated as follows:

1. Add up all 12 months of deposits = \$400k total business deposits in this example.
2. \$400k - \$40k unallowable items = \$360k in total allowable deposits.
3. \$360k x 80% (which is 1.00 - 0.20 = 0.80 to account for the 20% expense factor) = \$288k after accounting for the expense factor.
4. \$288k / 12 months = \$24k total monthly business income.
5. \$24k x 50% ownership percentage = \$12k monthly qualifying income.

The following unallowable items will be excluded from bank statement income calculations:

- Deposits from borrowed money.
- Transfers from other accounts unless it can be verified the transfer(s) represent business income.
- Income considered elsewhere on application.
- Tax Refunds.
- Deposits that appear to represent 1-time or windfall Income (Lawsuit proceeds, Lottery, etc.).
- Items not related to business operations (i.e. interest, purchase returns, etc.).

Payments from online money transmitters, such as PayPal, Zelle, Venmo must be reasonable for the industry in order to be used for income qualifying.

Cash deposits must be excluded unless they meet one of the following criteria:

- The cash deposits are consistent, regularly occurring, and typical for the type of business (e.g. Laundromat, Car Wash, Handyman, Retail Establishment, Restaurant, Domestic Services).
- The cash transactions are infrequent, do not represent more than 10% of annual business deposits, and can be supported with additional documentation such as invoices, receipts, or contracts.

7.3.3.1 Expense Factor (Business Bank Statements)

An expense ratio must be determined in order to qualify the borrower. There are 3 acceptable methods described below for determining expense factor.



7.3.3.1.1 Expense Factor Option 1: Accountant Letter

Option 1 is a letter prepared by a third-party accountant attesting to the business expense ratio.

For Accountant Letter Requirements, see [Accountant Letter Requirements \(Bank Statement Program\)](#).

For Allowable Accountant Types, see [Allowable Accountant Types \(Alt Doc\)](#).

For a sample Accountant Letter, see [Accountant Letter 1](#).

The minimum expense ratio that may be used in qualifying using Option 1 is 15%.



7.3.3.1.2 Expense Factor Option 2: Accountant Prepared Profit and Loss (P&L)

Option 2 is a 12-month or 24-month P&L prepared by a third-party accountant along with an acceptable attestation letter from the accountant. The minimum expense ratio that may be used in qualifying using Option 2 is 15%.

The P&L must include ALL of the following:

STG Mortgage Standard Requirements (All Star Series) P&L (for Bank Statement Program Expense Factor Option 2 Only)

- List the business name.
- List the dates covered by the P&L, which must cover the same dates as the bank statements provided for qualifying. Bank statements provided must support P&L.
- Cover exactly 12 or 24 months (Cannot combine a full year P&L for previous year with a Year-to-Date P&L. The P&L must cover exactly 12 or 24 months. This will often result in a timeframe that doesn't coincide with a calendar year. For example: April 2025 - March 2026.).
- Include the printed name and signature of both the borrower and the accountant (must be wet signed, e-sign is not permitted).
- P&L documents prepared by the borrower are never acceptable.

The expense ratio is defined as the $1 - (\text{net income} / \text{gross revenue})$.

Certain expenses that are either non-cash, non-recurring, or which represent owner's pay draws may be added back to the Net Income shown on the Profit & Loss (Depreciation, Amortization, Owner's Salary).

Expense Ratio Calculation Example (using numbers found in [P&L Sample](#)):

- $1 - [(1,204,942 + 5,137) / 1,319,652] = 8.31\%$.
- Add the \$5,137 amortization back to the \$1,204,942 Net Income equaling \$1,210,079.
- Divide \$1,210,079 by the gross revenue of \$1,319,652 equaling 0.9169.
- Subtract the 0.9169 from 1 equaling 0.0831 (which is 8.31%).
- Since the 8.31% expense ratio is below the 15% minimum expense ratio, 15% would be used in this scenario.

The P&L must be accompanied by an acceptable attestation letter from the accountant. For requirements, see [Accountant Letter Requirements \(Bank Statement Program\)](#).

For Allowable Accountant Types, see [Allowable Accountant Types \(Alt Doc\)](#).

For a sample Accountant Letter, see [Accountant Letter Sample 2](#).

For a sample P&L see [P&L Sample](#).

The minimum expense ratio that may be used in qualifying using Option 2 is 15%.



7.3.3.1.3 Expense Factor Option 3: Standard Expense Ratio

Option 3 is a standard expense ratio.

For Star Series that differentiate between business types, the business must first be classified as either a Service Business or a Product Business in order to obtain the standard expense ratio.

A service business is one where the main work product is an intangible item or a service, and the business expenses are not heavily dependent upon the number of services provided or number of units sold. Fixed costs such as rents and employee salaries are generally the primary business expenses. Service business examples: Accounting & Bookkeeping, Architecture & Design, Attorney & Legal, Beauty & Wellness (Hair/Nails/Massage/Fitness/Counseling/Therapy), Computer Repair, Consulting, Finance & Insurance, Healthcare Practitioners, Hospitality & Tourism, Media & Entertainment, Marketing & Sales, Software & Programming, Training & Education.

Businesses which do not meet the definition of a service business are considered Product Businesses. These are industries which have significant variable costs or require specialized buildings, machinery, tools, etc. Additionally, the product being sold or the raw materials represent a significant portion of the business expenses. Product Business examples: Construction, Grocery & Retail Stores, Healthcare Facilities, Manufacturing, Money Lenders, Oil & Gas Exploration, Property Flippers, Restaurants, Transportation.

For each Star Series, the Standard Expense Ratio can depend on the type of business and number of employees. Reference the table below for details.

Star Series Specific Restrictions Standard Expense Ratio		
Star Series	Service Business	Product Business
Series 1	50%	50%

If using an accountant letter to document business ownership percentage, dates that business has been in existence, or other information, see [Accountant Letter Requirements \(Bank Statement Program\)](#).

For Allowable Accountant Types, see [Allowable Accountant Types \(Alt Doc\)](#).

For a sample Accountant Letter, see [Accountant Letter 1](#).

7.3.3.2 Large Deposits (Business Bank Statement Income Calculations)

Large deposits will be scrutinized for acceptability. Large deposits are defined as exceeding 50% of the average monthly business deposits.

Only large deposits considered in the income calculation must be addressed.

If the underwriter can reasonably determine that any large deposit originates from business income, no additional documentation is required.



7.3.3.2.1 Non-Recurring Large Deposits (Sporadic)

If the large deposits are isolated in nature and don't occur regularly, the borrower must provide a letter of explanation that addresses them individually and confirms their source as business income. If the underwriter determines that the large deposits appear in line with the business type/industry and appear to represent on-going income, no further documentation is required. If the underwriter is unable to confirm that the large deposits are in line with the business type, they must either be excluded from the income calculation or individually sourced. An accountant letter or proof of source is acceptable for verifying the deposits represent income.

7.3.3.2.2 Recurring Large Deposits

If the large deposits are frequent and occur with regularity, the borrower should address them generally in a letter that explains their overall source and how they represent normal income for this type of business. If the underwriter determines that the large deposits are in line with the industry and business type, no further documentation is required.

If the underwriter is unable to verify the large deposits are normal for the business/industry, then the borrower may provide some contracts, invoices, or other business documents to demonstrate that the large deposits are normal income for the business. When the underwriter can ascertain through the sourcing of some of the large deposits or from business documents that large deposits are normal for the business, the sourcing of remaining large deposits is not required. Alternatively, the borrower may provide a third-party accountant prepared letter that explains the large deposits are normal and customary for the business in lieu of sourcing the large deposits.

7.3.3.2.3 Extremely Large Deposits

The Underwriter must review for any extremely large deposits which represent more than 25% of the total business deposits for the 12 month period. These deposits can sometimes represent one-time or windfall income that will not recur, and in those cases must be excluded from the income calculation.

Any extremely large deposits should be carefully reviewed to ensure they represent business income and are reasonably likely to recur in the borrower's normal course of business.

7.3.3.3 Deposit Trend & Reasonableness

The deposit trend should be examined to ensure the business is ongoing. In general, variances in the monthly deposits will represent seasonal trends and are usually not a cause for concern and require no further investigation or documentation.

7.3.3.3.1 24 Month & 12 Month Income Comparison (24-Month Business Bank Statement Program Only)

When 24 months of bank statements are provided, the underwriter must review both the 24 month income calculation and the calculation for the most recent 12 months of statements. The lower of the 2 calculations must be used in qualifying.

For additional details, see [Declining Income \(Alt Doc\)](#).



7.3.3.3.2 Unusual Deposit Trends Requiring Further Documentation

The underwriter must review carefully to ensure that the deposit trend does not suggest the business is defunct and is in line with what is expected within that industry.

The following scenarios require additional documentation to explain the trend:

- Little to no income related deposits in the most recent 4 months.
- 1 or 2 very large deposits represent 75%+ of all of the qualifying income over the 12 month period.
- 50%+ of qualifying deposits are from the oldest 2 months of bank statements.

In many cases, the above trends can be satisfactorily explained by a letter from the borrower or accountant. The underwriter must use discretion in determining that the qualifying income used is likely to continue.

Underwriters are encouraged to use their general knowledge of the business type and economy in reviewing the above unusual deposit trends. Industries which are known to have suffered economic hardship in the most recent 12 months should be carefully evaluated to ensure the business and income levels are stable and likely to continue.

Unusual Deposit Trend Examples:

Example 1: A business with few or no income deposits in the most recent 4 month period could indicate the business is no longer active or making money. This could also be acceptable for a seasonal business such as a lawn care service that doesn't bill customers in the winter months and will resume normal business in spring.

Example 2: Businesses which receive 1-2 very large deposits could represent one-time windfalls or income that is unlikely to recur in the same amount. This could be acceptable if the business makes most of its money from a few large events that are likely to continue, such as customer contracts that pay only once per year or a contractor who completes a small number of large jobs per year.

Example 3: When more than 50% of qualifying deposits are found in the oldest 2 months of bank statements, that can indicate the borrower is in a business or industry that has slowed down dramatically and future income is likely to be lower. This could be acceptable if this represents seasonality, such as a jewelry store that makes most of its money in the November - December holiday season and then the deposits trend downward for 10 months.



7.3.3.4 NSF/Overdraft/Insufficient Funds (Business Bank Statement Program)

The business accounts should not reflect more than 3 instances of insufficient funds occurring in the most recent 12-month period, or 6 instances in the most recent 24-month period.

Occurrences happening on the same day are counted as 1 instance.

If it can be evidenced that the overdrafts are the result of a sweep arrangement, where the business bank account holds minimal cash but is linked to either a working capital credit line or backup funding account, the overdrafts may be disregarded. The borrower must provide sufficient documentation to evidence that the overdrafts did not represent a lack of funds or financial mismanagement.

Negative balances that are not resolved within 2 business days require a Letter of Explanation from the borrower. The underwriter should determine that the overdrafts are not due to significant financial mismanagement or insufficient income.



7.3.4 Personal Bank Statement Documentation

The Personal Bank Statement Program is designed for the borrower who is self-employed and maintains a separate business account which they use to pay themselves to their personal account. There is no expense ratio for this program. Borrowers who maintain multiple businesses may use this program to combine income from them for qualifying.

If the borrower doesn't maintain a separate business account and uses a personal account for their business, they must be qualified under the Business Bank Statement program and use the appropriate expense factor allowed under that program.

When the Personal Bank Statement Program is used, all persons appearing on the bank statements must be borrowers on the loan.

STG Mortgage Standard Requirements (All Star Series) Personal Bank Statement Program Documentation

- Proof of self-employment and the length of business existence (accountant or business attorney letter or other proof).
- Evidence of business ownership percentage and how long the borrower has owned that percentage (accountant or business attorney letter or other proof).
- 12 or 24 months of complete, consecutive personal bank statements. Up to 3 total accounts may be used.
- Signed & dated business narrative explaining the ownership percentage, date business was established, business type (Sole Proprietor, Partnership, LLC, C Corp, S Corp), number of contractors/employees, and a brief explanation of the services/products the business provides. For a sample form, see [Self-Employed Business Narrative Form](#).
- 2 months of business bank statements that evidence there is a separate business account, and its operations are ongoing.
- Verification of the existence of the business within 10 business days of closing.

The most recent personal bank statement may be a maximum of 90 days old at time of closing.

Transaction histories, online printouts, and digital verification services are not an acceptable replacement for the full bank statements.

Multiple alternative income documentation types are not permitted on the same loan.

Other sources of income may be considered with this loan program, provided the Personal Bank Statement income represents 51%+ of the total file income and the calculation of the other income does not conflict with the Personal Bank Statement income documentation requirements (i.e. any other type of income which requires tax returns is not acceptable). With the exception of rental income, which is documented within its own section, all other sources of income must be verified according to full documentation requirements.

If using an accountant letter to document business ownership percentage, dates that business has been in existence, or other information, see [Accountant Letter Requirements \(Bank Statement Program\)](#) and [Allowable Accountant Types \(Alt Doc\)](#).



7.3.5 Personal Bank Statement Calculations

Personal Bank Statement income will be calculated by taking the total deposits from the business into the personal account and subtracting any unallowable items listed below.

The following unallowable items will be excluded from bank statement income calculations:

- Deposits from borrowed money.
- Transfers from other accounts unless it can be verified the transfer(s) represent business income.
- Income considered elsewhere on application.
- Tax Refunds.
- Income that is unable to be validated as business related.
- Cash deposits.

Payments from online money transmitters, such as PayPal, Zelle, Venmo must be reasonable for the industry in order to be used for income qualifying.

Any income that is not business related (Wage Income, Social Security, Rental Income, Interest Income, etc.) will be excluded and must be documented separately.

Large deposits are not required to be investigated provided they can be verified as business related income. The underwriter must be able to determine that each deposit's origin is from the borrower's business activities. Deposits with unclear origins require further documentation to be used in income.

7.3.5.1 Expense Factor (Personal Bank Statements)

Personal Bank Statement income must use a 10% expense factor.

7.3.5.2 NSF/Overdraft/Insufficient Funds (Personal Bank Statement Program)

The personal accounts should not reflect more than 3 instances of insufficient funds occurring in the most recent 12-month period, or 6 instances in the most recent 24-month period.

Occurrences happening on the same day are counted as 1 instance.

If it can be evidenced that the overdrafts are the result of a sweep arrangement, where the personal bank account holds minimal cash but is linked to either a credit line or backup funding account, the overdrafts may be disregarded. The borrower must provide sufficient documentation to evidence that the overdrafts did not represent a lack of funds or financial mismanagement.

Negative balances that are not resolved within 2 business days require a Letter of Explanation from the borrower. The underwriter should determine that the overdrafts are not due to significant financial mismanagement or insufficient income.



7.3.5.3 24 Month & 12 Month Income Comparison (24-Month Personal Bank Statement Program Only)

When 24 months of bank statements are provided, the underwriter must review both the 24 month income calculation and the calculation for the most recent 12 months of statements. The lower of the 2 calculations must be used in qualifying.

For additional details, see [Declining Income \(Alt Doc\)](#).

7.4 Profit and Loss (P&L) Program (12 & 24 Month)

All Star Alt-Doc Profit and Loss (P&L) programs require that the borrower be self-employed. The borrower(s) qualifying with P&L documentation must have 25% or more ownership interest in the business in order to use it in qualifying.

The business may be a sole proprietorship, general partnership, limited partnership, Limited Liability Company (LLC), C corporation, or S corporation. If the business is a C Corporation, the borrower must own 100% of the business to use it in qualifying.

Non-profits, churches, charities and businesses involved in asset speculation (such as day trading, crypto trading) are not eligible for the P&L program.

The business being used to qualify must be engaged in an active business activity. While passive income is permitted to be combined with operational income, businesses whose only income source is passive (such as rental income) are not eligible. Businesses engaged in purchasing real estate for rehab and repair (fix & flip) must have a 2 year history and use the 24-month P&L program to qualify.

24 months of self-employment and business existence is generally required, however a self-employment length between 12 and 24 months may be considered if the borrower has a minimum of 2 years in the same line of work or a 2 year history of professionally performing the same services & functions as their business.

The borrower must have owned the business used in qualifying for at least 1 full year (2 years for 24-month P&L program).

If a 24-month program is selected, the business must have been in existence for 24 months or longer.

On all programs, regardless of 12-month or 24-month doc type, the length of business existence must be documented.

For files in which the borrower has between 12 and 24 months of business ownership, the underwriter must document their previous work experience to support 24 months of experience in the same line of work.



7.4.1 Profit and Loss (P&L) Documentation

The P&L program is designed for the borrower who is self-employed and has an independent accountant that can prepare a P&L document covering the most recent 12-month or 24-month period along with an acceptable attestation letter from the accountant.

The P&L must be provided by the accountant who prepared the borrower's most recent tax returns.

The most recent month on the P&L must be no older than 90 days at the time of closing.

STG Mortgage Standard Requirements (All Star Series) P&L Program Documentation

- Proof of self-employment and length of business existence (accountant or business attorney letter or other proof).
- Evidence of business ownership percentage and how long the borrower has owned that percentage (accountant or business attorney letter or other proof).
- Accountant letter (see requirements below).
- 12-month or 24-month P&L prepared by an acceptable third-party accountant, signed by both the accountant and the borrower (e-sign is not permitted). See requirements below.
- Signed & dated business narrative explaining the ownership percentage, date business was established, business type (Sole Proprietor, Partnership, LLC, C Corp, S Corp), number of contractors/employees, and a brief explanation of the services/products the business provides. For a sample form, see [Self-Employed Business Narrative Form](#).
- Verification of the existence of the business within 10 business days of closing.

The Accountant Letter prepared for the P&L Program must include ALL of the following:

STG Mortgage Standard Requirements (All Star Series) Accountant Letter (P&L Program Only)

- Be on the Accounting Firm Letterhead.
- Include accountant's contact information.
- Include the date prepared.
- State the name of the business for which it was prepared.
- Include the following attestation, "I attest that I have prepared the most recent tax returns for (business name)".
- Include the following attestation, "I attest that I am not related to or affiliated with [Borrower Name] or [Business Name], apart from a professional accounting relationship. I have reviewed the business records and/or financial working papers for [Business Name] to arrive at my conclusions and prepared the profit and loss dated [Date]."
- Include the following attestation, "I attest that [Business Name] has existed since [Date] and borrower [Borrower Name] has owned ___% of this business since [Date]."
- State the accountant's type (i.e. CPA, EA, CTEC, etc.)
- Include the accountant's license number.
- Include a real "wet" signature (e-sign is not permitted).

Letters which provide information regarding business ownership percentage, business structure, length of time in business, or the purpose of the business may be provided by either an accountant or a business attorney. Letters which provide calculated financial information such as expense ratio, may only come from a licensed accountant.



For Allowable Accountant Types, see [Allowable Accountant Types \(Alt Doc\)](#).

For a sample Accountant Letter see [Accountant Letter Sample 2](#).

A P&L must include ALL of the following:

**STG Mortgage Standard Requirements (All Star Series)
P&L (for P&L Programs Only)**

- List the business name.
- List the dates covered by the P&L.
- Cover exactly 12 or 24 months (Cannot combine a full year P&L for previous year with a Year-to-Date P&L. The P&L must cover exactly 12 or 24 months. This will often result in a timeframe that doesn't coincide with a calendar year. For example: April 2025 - March 2026.).
- Include the printed name and signature of both the borrower and the accountant (must be wet signed, e-sign is not permitted).
- P&L documents prepared by the borrower are never acceptable.

For a sample P&L see [P&L Sample](#).

Multiple alternative income documentation types are not permitted on the same loan.

Other sources of income may be considered with this loan program, provided the P&L income represents 51%+ of the total file income and the calculation of the other income does not conflict with the P&L income documentation requirements (i.e. any other type of income which requires tax returns is not acceptable). With the exception of rental income, which is documented within its own section, all other sources of income must be verified according to full documentation requirements.



7.4.2 Profit and Loss (P&L) Calculations

The monthly qualifying income shall be calculated by multiplying the net income by the ownership percentage then dividing by the number of months on the P&L (either 12 or 24).

Certain expenses that are either non-cash, non-recurring, or which represent owner's pay draws may be added back to the Net Income shown on the Profit & Loss (Depreciation, Amortization, Owner's Salary).

Incomes significantly exceeding the top 10% for the profession regionally may require additional documentation. The underwriter will use their discretion to determine the reasonableness of the net income. If the underwriter determines the income significantly exceeds the expected range for the profession, business type, or size, they may utilize available online tools to verify the income is appropriate and aligns with the business narrative. Additional documentation such as contracts, invoices, receipts, bank statements, credit card processing ledgers, accountant letter, etc. may be requested by the underwriter to substantiate P&L income.

7.5 1099 Program (12 & 24 Month)

All Star 1099 programs require that the borrower has a history of receiving 1099 (independent contractor) income.

24 months of 1099 Income receipt is generally required, however 1099 income received between 12 and 24 months may be considered if the borrower has a minimum of 2 years in the same line of work or a 2 year history of professionally performing the same services & functions as their 1099 contract employer.

In no circumstance will 1099 income received for less than 1 year be considered.

For files in which the borrower has between 12- and 24-months of 1099 income receipt, the underwriter must document the previous work experience to support 24 months of experience in the same type of work.



7.5.1 1099 Documentation

The 1099 program is designed for the borrower who earns 1099 income paid directly to them (and not a business name) by a contract employer. The borrowers must be providing a service for a contract employer and have no employees. Borrowers who sell goods are not eligible for this program.

Limited to 1 contract employer. Exceptions to use up to 3 employers may be considered if it is common for the industry and all contract employers are in the same industry (e.g. Medical, Entertainment, etc.). Borrowers must still be working as a contractor for all employers used in qualifying. The borrower's contract employer may not be owned by a family member.

STG Mortgage Standard Requirements (All Star Series) 1099 Program Documentation

- 1 or 2 years of 1099s (must be paid to borrower in personal name, not a business).
- Year-to-date earnings for the 1099 compensation (either recent check with YTD numbers or a statement from contract employer (WVOE or ledger) or copies of all earnings stubs for the year).
- Either 1099 IRS-Transcripts or a Written VOE from Contract Employer to confirm all earnings.
- Signed IRS Form 4506-C for 1099 Forms (if transcripts are not already provided).
- Verbal Verification of Employment is required for each contract employer within 10 business days of closing. Borrower must still be active in order to use that employer's income in qualifying.
- Business narrative identifying the type of work the borrower is performing, length of time as a contractor and time in the line of work. For a sample form, see [Self-Employed Business Narrative Form](#).

A 10% expense ratio will be used to calculate the income.

Multiple alternative income documentation types are not permitted on the same loan.

Other sources of income may be considered with this loan program, provided the 1099 income represents 51%+ of the total file income and the calculation of the other income does not conflict with the 1099 income documentation requirements (i.e. any other type of income which requires tax returns is not acceptable). With the exception of rental income, which is documented within its own section, all other sources of income must be verified according to full documentation requirements.



7.5.2 Year To Date and Prior Year(s) Comparison

The underwriter must evaluate the current year to date documentation to ensure that the self-employed income is still being earned, and that the year-to-date income levels support the amounts from the 1099(s).

At the beginning of the year, due to limited information availability and pay period rounding, it is common for year-to-date calculations to be lower than the yearly income average from the 1099(s). Variances occurring in the first 3 months of the year caused by these issues do not require further investigation or documentation.

If the year-to-date income calculations do not support the income amounts from the 1099(s) within 10%, and the variance cannot be readily explained with other file documentation, then the borrower must provide a letter of explanation.

The underwriter should carefully evaluate the explanation and borrower's income source to determine if the explanation is reasonable, and if allowable factors such as seasonality, contract renewal dates, pay period timing (such as year-end contract bonus) or similar are the cause for the variance. The loan may be approved when file contains reasonable evidence to support that the current year's income is anticipated to be in line with the income amounts from the 1099(s), despite the lower year-to-date figures.

Borrower's whose income is seasonal, such as lawncare, construction, real estate, or retail sales will often have year-to-date income amounts which do not support the 1099 income calculation until later in the year. These situations are permissible if the underwriter is able to determine that the lower year-to-date income is normal within their industry considering the current time of year.

7.5.3 24 Month & 12 Month Income Comparison (24-Month 1099 Program Only)

When 24 months of 1099 information is provided, the underwriter must review both the 24 month income calculation and the calculation for the most recent 12 months. The lower of the 2 calculations must be used in qualifying.

For additional details, see [Declining Income \(Alt Doc\)](#).



7.6 Written Verification of Employment (WVOE) Program

This Written Verification of Employment (WVOE) program is designed for borrowers who have a 2 year history of employment with the same employer. Paystub, Tax Return, W-2 and 4506-C are not required.

The WVOE must be completed by human resources or an officer of the company. Digital (Work Number VOE) are also acceptable.

ALL of the following standard requirements and restrictions must be met:

STG Mortgage Standard Requirements/Restrictions (All Star Series) WVOE Program	
• Primary Residence Only. • Minimum Credit Score 680. • First-Time Home Buyer limited to 70% LTV/CLTV. • A 24-month housing history with 0X30 is required (Rent-free, incomplete, or no housing history situations are ineligible). • 2 year history with the same employer required. • Borrower may not be employed by a family member. • Independent verification of business existence must be in file (web search, secretary of state, etc.). • WVOE within 10 days of closing is required. • Supplemental income sources are not permitted • STG Mortgage staff must order WVOE	

Certain Star Series contain additional requirements/restrictions. Reference the table below for details.

Star Series Specific Requirements/Restrictions WVOE Program	
Star Series	Requirements/Restrictions
Series 1	• Standard WVOE Requirements/Restrictions • First-time Homebuyers - MAX DTI 45% • Gift funds not permitted

A STG Mortgage representative will contact the employer to verify the accuracy of the Written VOE received. Documentation that this verification took place must be in every file (Not applicable to Work Number WVOEs).

When using WVOE documentation, second job income is not permitted. Multiple Alt-Doc verification types may not be combined on the same loan. Other sources of income may be used, provided they do not conflict with the WVOE documentation requirements. With the exception of rental income, which is addressed within its own section, all additional income sources must be verified using full documentation methods.

7.7 Asset Depletion Program

The Asset Depletion program permits a borrower with substantial financial assets to calculate an income stream from those assets and use it in qualifying to meet DTI requirements. Asset Depletion may be used alone or combined with other income types.



7.7.1 Asset Depletion - Minimum Assets Required

STG Mortgage Standard Requirements (All Star Series) Minimum Assets for Asset Depletion	
Loan Amount	Minimum Asset Requirement
Up to \$400,000	\$500,000
\$400,001 to \$800,000	125% of the Loan Amount
Over \$800,000	\$1,000,000

Minimum asset requirements should be evaluated after all asset discounts have been taken and reserves & cash to close have been subtracted.

7.7.2 Asset Depletion - Seasoning & Documentation Requirements

Each Star Series has varying requirements regarding seasoning for the Asset Depletion program. Assets must be seasoned for the time period shown in the table below and full consecutive account statements covering this period are required. VODs and online printouts are not permitted.

The recent sale of real estate or of a business or other asset held longer than the seasoning period shown in the table meets eligibility criteria and may be used for depletion once the asset is liquidated to cash. Additionally, inheritance or proceeds from a legal settlement or divorce may be used for depletion and are not subject to the seasoning requirement.

If funds from the sale of an asset are to be used in calculating a qualifying income for Asset Depletion, the file must contain proof those assets were owned by the borrower(s) for at least the time period shown in the table prior to closing. See [Net Proceeds from Sale of Real Estate or Other Assets](#).

At closing, the most recent asset account information must be no more than 31 days old. If a full account statement dated within 31 days of closing is not available, an online printout or VOD may be used to supplement the required full account statements, showing the asset values have not declined.

Star Series Specific Requirements Asset Depletion Seasoning	
Star Series	Seasoning Requirement
Series 1	120 days

7.7.2.1 Asset Depletion - Large Deposits

For asset accounts included in the depletion calculation, large deposits are defined as deposits exceeding 25% of the account balance used to qualify. If the underwriter is able to determine the source of the large deposit from information in the file, no additional documentation is required. When the underwriter is unable to determine the source of the large deposit, its source must be documented to verify it was neither a gift nor borrowed funds.



7.7.3 Asset Depletion - Eligible Asset Types and Allowable Percentages

The following asset types are eligible to be used for Asset Depletion:

STG Mortgage Standard Restrictions (All Star Series) Asset Depletion - Eligible Asset Types and Discount Percentages	
Asset Type	Allowable Percentage
CDs	100%
Checking	
Life Insurance Cash/Surrender Value	
Money Market Accounts	
Savings	
Short-Term U.S. Treasury Bond Funds	
US Treasuries & Savings Bonds with less than 1 year until maturity	
Annuity Surrender Value	80%
Bonds (other than U.S. Treasuries)	
Mutual Funds	
Stocks	
US Treasuries & Savings Bonds with greater than 1 year until maturity	
Retirement Accounts (401K, IRA, 403B, SEP IRA, Thrift Savings Plan TSP)	70%

The percentage and type of assets which may be used in qualifying are different for Asset Depletion than for other programs. When calculating qualifying income for Asset Depletion, the above allowable percentages supersede those from the Assets section of this guide.

The following asset types are not eligible to be used for Asset Depletion:

STG Mortgage Standard Restrictions (All Star Series) Asset Depletion - Ineligible Asset Types	
Asset Type	
Business Assets	
Cryptocurrency	
Equity in Real Estate	
Foreign Assets	
Funds Secured by an Asset (secured-borrowed funds)	
Gift Funds	
Life Insurance (face value/death benefit)	
Non-liquid assets (automobiles, artwork, business net worth etc.)	
Non-Vested Stock	
Proceeds from the Subject Transaction (Cash-Out Proceeds)	
Restricted Stock	
Stock in any Publicly Traded Company with less than a \$100,000,000 market cap	
Stock in any Privately Traded Company	
Trust Assets (including Living Trusts)	
1031 Exchange Funds	



7.7.4 Asset Depletion - Income Calculation

To calculate the qualifying income for Asset Depletion:

1. Determine the account balances for each eligible asset and multiply each balance by its allowable percentage (see table above).
2. Add up all the allowable amounts.
3. Subtract all down payments, reserves and cash to close to arrive at assets eligible for depletion.
4. Confirm assets eligible for depletion meets minimum requirement of table in [Asset Depletion - Minimum Assets Required](#).
5. Divide the remaining amount by the number of months shown in the table below to arrive at the qualifying monthly income.

Example: For a \$500k loan amount with \$200k in a checking account, \$1 million in stocks, \$250k required to close and \$50k in required reserves, the qualifying income for a loan which has a divisor of 84 would be calculated as follows:

1. \$200k checking X 100% allowed = \$200k, \$1 million stocks X 80% allowed = \$800k.
2. \$200k + \$800k = \$1 million in total allowable assets.
3. \$1 million - \$250k cash to close - \$50k reserves = \$700k in assets eligible for depletion.
4. Confirm \$700k meets minimum assets for depletion requirement from table above (\$625k in this example, which is 125% of the \$500k loan amount).
5. \$700k / 84 = \$8,333.33 for the final qualifying monthly income.

Each Star series has a separate number of months divisor for the Asset Depletion Income Calculation. Reference the table below for details.

Star Series Specific Requirements Asset Depletion - Income Calculation Divisor	
Star Series	Divisor
Series 1	84 months



7.7.5 Asset Depletion - Restrictions

Non occupant co-borrower(s) are not permitted.

Cash-Out Refinances are permitted on a limited number of Star Series as outlined in the table below, however cash-out from the subject transaction is not permitted to be used in the qualifying income for Asset Depletion.

Only personal funds held in the borrower's name are permitted. If any other parties are listed on the assets being depleted, they must be borrowers on the loan. For example: a joint account with a spouse is not acceptable for depletion unless both account holders are borrowers on the loan. This applies even in community property states.

The following asset types are not permitted to be used in the qualifying income calculation. However, they may be used for down payment, closing costs, and reserves as outlined in other sections:

- Business Assets.
- Cryptocurrency.
- Foreign Assets.
- Funds Secured by an Asset (Secured-Borrowed Funds.)
- Gift Funds (when permitted in table below).

Assets used in the depletion calculation cannot be used for any other purposes such as reserves, cash to close, interest income, capital gains, dividends, retirement distributions, etc.

Foreign assets cannot be used in the qualifying income calculation for Asset Depletion. To be eligible to be used, assets held in foreign accounts must have been transferred to a U.S based account and seasoned in the U.S. Upon meeting this requirement, they would no longer be considered Foreign Assets.

Cryptocurrencies cannot be used in the qualifying income calculation for Asset Depletion unless they have been seasoned in a licensed U.S. cryptocurrency exchange and have been converted to cash at a U.S. licensed financial institution (bank, credit union, or stock brokerage firm).

Privately traded or restricted stocks or non-vested stocks cannot be used in the qualifying income calculation for Asset Depletion. For publicly traded stocks, the company must have at least a \$100 million market capitalization for the stock to be used in the asset depletion calculation.

Certain Star Series contain additional restrictions regarding Occupancy, Loan Purpose & Gift Funds. Reference the table below for details.

Star Series Specific Restrictions Asset Depletion Program			
Star Series	Permitted Occupancy	Permitted Loan Purpose	Gift Funds Permitted for Down Payment/Closing Costs
Series 1	• Primary • Second Home	• Purchase • Rate/Term Refi	• No



7.7.6 Asset Depletion - Special Requirements - ATR Compliance

The file must contain an attestation signed by EACH borrower that affirms ALL of the following:

- Borrower has fully disclosed their financial obligations.
- Borrower has reviewed and understands the loan terms.
- Borrower has the ability to repay the loan.

Each borrower must provide their own attestation document.

The underwriter should request this attestation as a prior to doc underwriting condition. This must be Wet Signed before closing (e-sign is not permitted).

An approved attestation which may be used can be found at [Borrower Attestation for ATR Compliance \(Asset Depletion & Asset Utilization\)](#).

7.8 Asset Utilization (Asset Qualifier) Program

The Asset Utilization (Asset Qualifier) program permits a borrower with substantial financial assets to qualify using their assets in lieu of calculating a traditional income. In this program, a DTI is not calculated. Asset Utilization may not be combined with any other income or documentation type.

The Asset Utilization program requires that 2 qualifying factors are met:

- Minimum Assets Required from [Asset Utilization - Minimum Assets Required](#) must be met.
- Residual Income Requirements from [Asset Utilization - Residual Income Calculation](#) must be met in order to meet ATR (ability to repay) regulatory requirements.



7.8.1 Asset Utilization - Minimum Assets Required

The minimum assets required are the total of the items below:

- 100% of Loan Amount.
- 60 months of all other payments (including taxes, insurance & HOA on the subject. P&I for subject property not required to be included).
- Reserves.
- Cash to Close.

Example: If the subject loan amount is \$400,000, the taxes, insurance, & HOA are an additional \$1,000, all other monthly debts are \$500, \$25,000 in reserves is required, and \$100,000 cash to close is required.

- \$400,000 Loan Amount.
- \$1,500 (\$1,000 Subject Property Tax/Insurance/HOA and \$500 other monthly payments) X 60 months = \$90,000.
- \$25,000 Reserves.
- \$100,000 Cash to Close.

The minimum assets required in this scenario are \$400,000 + \$90,000 + \$25,000 + \$100,000 = \$615,000.

In addition to the minimum asset requirement, Asset Utilization also requires that residual income criteria are met as outlined in [Asset Utilization - Residual Income Calculation](#).

For a sample worksheet to determine minimum assets required, see [Minimum Assets Required Worksheet \(Asset Utilization\)](#).

7.8.1.1 Asset Utilization - Monthly Debts Considered

Monthly debts must be totaled in the same way as for a traditional DTI qualifying loan when determining the minimum asset requirement. For example: installment loans with fewer than 10 payments remaining may be excluded from the monthly debt calculation and the 60 month minimum asset requirement calculation. However, all debts required to be included in a standard DTI calculation must be multiplied by 60 and included in the minimum asset requirement. This will often result in including significantly more assets in the required minimum asset calculation than it would take to pay off the debt. This is intentional. Borrowers wishing to exclude a liability from the minimum asset calculation must pay off the liability unless the account is eligible for exclusion under another established rule. For example: contingent liabilities, business paid debt, court order, less than 10 months remaining, etc. Paying down a liability to less than 10 months in order to exclude it from the calculation is not permitted. The liability must be paid in full to be excluded on the Asset Utilization program.

Example: An auto loan with a balance of \$10,000 and 12 monthly payments remaining at \$1,000 per month, results in \$60,000 being added to the minimum asset calculation, even though the debt is only \$10,000. The borrower could choose to pay off the debt with \$10,000 and would lower the required assets by \$60,000. The borrower cannot pay \$2,000 to pay the debt down to 10 remaining payments to exclude it from the minimum asset requirement.



7.8.1.2 Asset Utilization - Impact of Other Real Estate Owned

For properties other than the subject with no rental income, the full PITIA of the property must be added to the total monthly debt and considered in the minimum assets required calculation.

For properties with verifiable rental income, if they have positive cash flow, the PITIA expense for that property may be excluded from the minimum assets required calculation. If the cash flow is negative, the amount of the negative net rental income must be included in the total monthly debt calculations.

To evidence rental income, the file must contain a copy of a lease and the most recent 2 months proof of rental receipt. 75% of the rental amount may be used to offset the PITIA of the other property.

Recently rented properties without 2 months rental receipt, and properties using short-term rental income are not eligible to offset PITIA from other properties using rental income.

7.8.2 Asset Utilization - Seasoning & Documentation Requirements

Each Star Series has varying requirements regarding seasoning for the Asset Depletion program. Assets must be seasoned for the time period shown in the table below and full consecutive account statements covering this period are required. VODs and online printouts are not permitted.

The recent sale of real estate or of a business or other asset held longer than the seasoning period shown in the table meets eligibility criteria and may be used for utilization once the asset is liquidated to cash. Additionally, inheritance or proceeds from a legal settlement or divorce may be used for utilization and are not subject to the seasoning requirement.

If funds from the sale of an asset are to be used in calculating a qualifying income for Asset Utilization, the file must contain proof those assets were owned by the borrower(s) for at least the time period shown in the table prior to closing. See [Net Proceeds from Sale of Real Estate or Other Assets](#).

At closing, the most recent asset account information must be no more than 31 days old. If a full account statement dated within 31 days of closing is not available, an online printout or VOD may be used to supplement the required full account statements, showing the asset values have not declined.

Star Series Specific Requirements Asset Utilization Seasoning	
Star Series	Seasoning Requirement
Series 1	120 days

7.8.2.1 Asset Utilization - Large Deposits

For asset accounts included in the utilization calculation, large deposits are defined as deposits exceeding 25% of the account balance used to qualify. If the underwriter is able to determine the source of the large deposit from information in the file, no additional documentation is required. When the underwriter is unable to determine the source of the large deposit, its source must be documented to verify it was neither a gift nor borrowed funds.



7.8.3 Asset Utilization - Eligible Asset Types and Allowable Percentages

The following asset types are eligible to be used for Asset Utilization:

STG Mortgage Standard Requirements/Restrictions (All Star Series) Asset Utilization - Eligible Asset Types and Discount Percentages	
Asset Type	Allowable Percentage
CDs	100%
Checking	
Life Insurance Cash/Surrender Value	
Money Market Accounts	
Savings	
Short-Term U.S. Treasury Bond Funds	
US Treasuries & Savings Bonds with less than 1 year until maturity	
Annuity Surrender Value	80%
Bonds (other than U.S. Treasuries)	
Mutual Funds	
Stocks	
US Treasuries & Savings Bonds with greater than 1 year until maturity	
Retirement Accounts (401K, IRA, 403B, SEP IRA, Thrift Savings Plan TSP)	70%

The percentage and type of assets which may be used in qualifying are different for Asset Utilization than for other programs. When qualifying with Asset Utilization, the above allowable percentages supersede those from the Assets section of this guide.

The following asset types are not eligible to be used for Asset Utilization:

STG Mortgage Standard Restrictions (All Star Series) Asset Utilization - Ineligible Asset Types	
Asset Type	
Business Assets	
Cryptocurrency	
Foreign Assets	
Funds Secured by an Asset (secured-borrowed funds)	
Gift Funds	
Life Insurance (face value/death benefit)	
Non-liquid assets (automobiles, artwork, business net worth etc.)	
Non-Vested Stock	
Proceeds from the Subject Transaction (Cash-Out Proceeds)	
Restricted Stock	
Stock in any Publicly Traded Company with less than a \$100,000,000 market cap	
Stock in any Privately Traded Company	
Trust Assets (including Living Trusts)	
1031 Exchange Funds	



7.8.4 Asset Utilization - Residual Income Calculation

Each Star Series has a specific residual income requirement.

Star Series Specific Requirements Asset Utilization Residual Income	
Star Series	Requirement
Series 1	\$1,500

To calculate Asset Utilization residual income:

1. Determine the account balances for each eligible asset and multiply each balance by its allowable percentage (see table above).
2. Add up all the allowable amounts.
3. Subtract all down payments, reserves and cash to close to arrive at assets eligible for utilization.
4. Divide the remaining qualified assets by 60.
5. Subtract PITIA for the subject and all other monthly debts to arrive at the residual monthly income.

Example: For a \$500k loan amount with \$200k in a checking account, \$1 million in stocks, \$250k required to close and \$50k in required reserves, with a subject PITIA of \$3k and other monthly debts of \$1k, the residual monthly income calculation for a Star Series 1 loan (which has a residual income requirement of \$1,500), would be calculated as follows:

1. \$200k checking X 100% allowed = \$200k, \$1 million stocks X 80% allowed = \$800k.
2. \$200k + \$800k = \$1 million in total allowable assets.
3. \$1 million - \$250k cash to close - \$50k reserves = \$700k in assets eligible for utilization.
4. \$700k / 60 = \$11,666.67.
5. \$11,666.67 - \$3k - \$1k = \$7,667.67 in residual monthly income (which exceeds the \$1,500 minimum requirement).

7.8.5 Asset Utilization - Credit Score Requirements

To determine the qualifying credit score for the loan, use the lowest representative credit score of all borrowers.

To determine each borrower's representative credit score, select the mid-score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

All borrowers must have a valid score from at least 2 of the following 3 agencies:

- Experian.
- Trans Union.
- Equifax.



7.8.6 Asset Utilization - Restrictions

Non occupant co-borrower(s) are not permitted.

Cash-Out Refinances are permitted on a limited number of Star Series as outlined in the table below, however cash-out from the subject transaction is not permitted to be used in the qualifying income for Asset Utilization. Borrowers must have sufficient funds pre-close to meet the minimum asset requirements and residual income threshold.

Only personal funds held in the borrower's name are permitted. If any other parties are listed on the assets being utilized, they must be borrowers on the loan. For example: a joint account with a spouse is not acceptable for utilization unless both account holders are borrowers on the loan. This applies even in community property states.

The following asset types are not permitted to be used to meet the minimum assets requirement or residual income threshold. However, they may be used for down payment, closing costs, and reserves as outlined in other sections:

- Business Assets.
- Cryptocurrency.
- Foreign Assets.
- Funds Secured by an Asset (Secured-Borrowed Funds.)
- Gift Funds (when permitted in table below).

Assets used in the utilization calculation cannot be used for any other purposes such as reserves, cash to close, etc.

Foreign assets cannot be used for Asset Utilization. To be eligible for use for Asset Utilization, assets held in foreign accounts must have been transferred to a U.S based account and seasoned in the U.S. Upon meeting this requirement, they would no longer be considered Foreign Assets.

Cryptocurrencies cannot be used for Asset Utilization unless they have been seasoned in a licensed U.S. cryptocurrency exchange and have been converted to cash at a U.S. licensed financial institution (bank, credit union, or stock brokerage firm).

Privately traded or restricted stocks or non-vested stocks cannot be used for Asset Utilization. For publicly traded stocks, the company must have at least a \$100 million market capitalization for the stock to be used in Asset Utilization.

Certain Star Series contain additional restrictions regarding Occupancy, Loan Purpose & Gift Funds. Reference the table below for details.

Star Series Specific Restrictions Asset Utilization Program			
Star Series	Permitted Occupancy	Permitted Loan Purpose	Gift Funds Permitted for Down Payment/Closing Costs
Series 1	• Primary • Second Home • Investment	• Purchase • Rate/Term Refi • Cash-Out Refi	• No



7.8.7 Asset Utilization - Special Requirements - ATR Compliance

The file must contain an attestation signed by EACH borrower that affirms ALL of the following:

- Borrower has fully disclosed their financial obligations.
- Borrower has reviewed and understands the loan terms.
- Borrower has the ability to repay the loan.

Each borrower must provide their own attestation document.

The underwriter should request this attestation as a prior to doc underwriting condition. This must be Wet Signed before closing (e-sign is not permitted).

An approved attestation which may be used can be found at [Borrower Attestation for ATR Compliance \(Asset Depletion & Asset Utilization\)](#).

7.9 Debt Service Coverage Ratio Program (DSCR)

The Debt Service Coverage Ratio (DSCR) program permits investors to qualify with the subject property's cash flow instead of traditional DTI qualifying methods.

7.9.1 DSCR - General Requirements (All Scenarios)

- The property must be used for investment occupancy. The occupant must be someone completely unaffiliated with the borrower or their business. Properties which are occupied by the borrower, any of their family members, or any of their business associates are not permitted, regardless of whether rental income can be documented. 2-4 Unit Properties where the borrower occupies any of the units are ineligible for DSCR transactions.
- The loan must meet all business purpose requirements, and no proceeds may be used for personal or consumer purposes. See [Business Purpose Loans](#) for full details.
- A business purpose and occupancy affidavit must be signed by all borrowers. See [Business Purpose & Occupancy Affidavit](#).
- DSCR transactions must all be ARM's Length. The purchase of a property from a family member, affiliated business, business associate, or similar is not permitted.
- Properties where the tenant, or expected tenant is a family member, business associate, or similar related party are ineligible.
- To prevent builder/home flipper bailouts, refinance transactions where the home has been listed for sale by the borrower in the last 6 months must be actively tenant occupied and cannot be vacant. This includes recently built and remodeled homes. The file must be documented with a lease, proof of rent receipt, and the appraisal must clearly show the property is actively occupied by the tenants. Short-term rental income may not be used in these scenarios.
- Professional home builders may not purchase or refinance a home out of their own recently built inventory or from their company. See [Properties in Builder Inventory](#). Individuals, who have contracted to build a new home solely for the purpose of renting are acceptable, provided they have landlord experience.



7.9.2 DSCR - Fraud Prevention (Reverse Occupancy)

Reverse occupancy fraud is when borrowers claim investment occupancy in order to qualify without a standard DTI calculation. DSCR loans are a common target for this type of fraud.

STG Mortgage has a zero tolerance policy towards any type of misrepresentation.

After closing, STG Mortgage may, in its discretion, perform an occupancy certification to verify the investment occupancy of the subject property. If the post-close occupancy certification finds that the property is not being used for investment occupancy, STG Mortgage may call the loan due in full. If a loan is called due early as a result of misrepresentation, the borrower will have 30 days to pay off the loan in full.

Common signs which may indicate reverse occupancy fraud:

- Borrowers with little or no experience managing residential rental properties.
- Borrowers without a primary housing expense (rent-free situations).
- Properties which do not cash-flow (DSCR is below 1).
- The size/style/type/location of the rental indicates likely use as a primary residence or second home.

The underwriter must investigate any situation in which the investment occupancy is not well supported by the file documentation.

7.9.3 DSCR - Licensing Requirements

DSCR loans operate under different regulatory guidelines than other types of residential loans. Many states consider these to be commercial loans and permit individuals without Mortgage Loan Originator NMLS licenses in those states to originate loan applications.

The state requirements change frequently. Please visit <https://stgmortgage.com/licenses/> for the latest information on licensing requirements and a comprehensive list of states where STG Mortgage will permit an unlicensed loan officer to originate DSCR loans.

7.9.4 DSCR - Qualifying Method

While traditional programs qualify the borrower by calculating an income and a DTI ratio, DSCR loans only calculate the cash flow of the subject property. The Debt Service Coverage Ratio (DSCR) is calculated by dividing the Gross Monthly Rent by the Qualifying Monthly Payment of the proposed new loan.

A DSCR ratio greater than 1 indicates the property is cash-flow positive. Higher DSCR ratios are indicators of better quality loans due to more available cash flow remaining after covering the subject mortgage loan payment.

A DSCR ratio below 1 indicates the property is cash-flow negative. This indicates a higher level of risk as the borrower will have to contribute money each month to pay the subject mortgage, above what they are able to obtain in rental income.

For example: a property with \$2,000 in Gross Monthly Rental Income and \$1,500 PITIA has a DSCR ratio of 1.33, and a property with \$1,000 in Gross Monthly Rental Income and \$1,500 PITIA, has a DSCR ratio of 0.67.



7.9.4.1 DSCR - Qualifying Monthly Payment

For fully amortized (principal & interest) loans, use the PITIA for the subject property to calculate the DSCR ratio.

For interest-only loans, use the interest-only (ITIA) payment for the subject property to calculate the DSCR ratio.

7.9.4.2 DSCR - Gross Monthly Rent

The method for calculating the gross rental income will differ based upon the loan purpose and whether the subject property has a history of receiving rental income. In all cases, a Market Rent Analysis (Form 1007/1025) must be provided.

7.9.4.2.1 DSCR - Long-Term Gross Monthly Rent (Purchase)

For purchase transactions, the Market Rent from Form 1007/1025 may be used.

Vacant properties are permitted without any restrictions, and no vacancy factor is required to be used. Vacant properties must qualify with the Market Rent from Form 1007/1025.

In cases where the subject property is currently leased and the seller will be transferring the lease to the borrower, the current lease rent may be used, provided the lease rent is not greater than 120% of the Market Rent from Form 1007/1025. In instances where the lease rent exceeds 120% of the Market Rent from Form 1007/1025, the underwriter may only use 120% of the Market Rent from Form 1007/1025 in qualifying.

Examples:

Scenario 1: Market Rent from Form 1007/1025 is \$1,000, and the transferred lease rent is \$1,100. The full \$1,100 from the lease may be used because it is not greater than 120% of the \$1,000 Market Rent from Form 1007/1025.

Scenario 2: Market Rent from Form 1007/1025 is \$1,000, and the transferred lease rent is \$1,300. Only \$1,200 of the \$1,300 from the lease may be used because \$1,300 is greater than 120% of the \$1,000 Market Rent from Form 1007/1025 ($\$1,000 \times 1.20 = \$1,200$).

In order to use a transferred lease from the seller in qualifying, the following requirements must be met:

- Documentation showing the transfer of deposits, first month or current collected rents is required.
- Lease must be valid at least through closing (leases which have converted to month-to-month are not acceptable).
- Seller must provide evidence of 3 months of recent receipt from the tenant to support the rent amount. Newly established arrangements without a 3-month receipt history are not permitted to use a lease rent that is higher than the Market Rent from Form 1007/1025.

While it is customary to transfer the tenant's deposit to the new landlord/home purchaser, those funds may not be counted as assets in qualifying.



7.9.4.2.2 DSCR - Long-Term Gross Monthly Rent (Refinance)

For refinance transactions where the subject property is leased, the higher of the Market Rent from Form 1007/1025 or the current lease may be used, provided the lease rent is not greater than 120% of the Market Rent from Form 1007/1025. In instances where the lease rent exceeds 120% of the Market Rent from Form 1007/1025, no more than 120% of the Market Rent from Form 1007/1025 may be used in qualifying.

Examples:

Scenario 1: Market Rent from Form 1007/1025 is \$1,000, and the lease rent is \$1,100. The full \$1,100 from the lease may be used because it is not greater than 120% of the \$1,000 Market Rent from Form 1007/1025.

Scenario 2: Market Rent from Form 1007/1025 is \$1,000, and the lease rent is \$1,300. Only \$1,200 of the \$1,300 from the lease may be used because \$1,300 is greater than 120% of the \$1,000 Market Rent from Form 1007/1025 ($\$1,000 \times 1.20 = \$1,200$).

In all cases, a copy of the current lease is required. The lease must be for at least 12 months (leases under 12 months should be considered under short-term rental guidelines). Leases which have expired and are now month-to-month are acceptable if the appraisal shows the property as tenant occupied and confirms the monthly rental amount on the Market Rent Analysis (Form 1007/1025). Additionally, if using a monthly rental amount that is higher than the Market Rent from Form 1007/1025, proof of 3 months of recent receipt is required. Newly established arrangements without a 3-month receipt history are not permitted to use a lease rent that is higher than the Market Rent from Form 1007/1025.

Properties with no lease, or informal legal documents, are acceptable if the appraisal indicates the property is tenant occupied, confirms the monthly rental amount on the Market Rent Analysis (Form 1007/1025) and the file contains proof of rental receipt for the most recent 3 months (newly established arrangements without a 3-month receipt history are not permitted).

For unleased (vacant) properties that have been owned for less than 120 days or have just undergone major construction/repairs/renovation and have not yet been leased, use the Market Rent from Form 1007/1025.

For unleased (vacant) properties that were previously tenant occupied and have been vacated within the last 60 days and are currently seeking new tenants, provide a copy of the previous lease, proof of last month's rental receipt, as well as evidence the home is listed for rent and use the Market Rent from Form 1007/1025.

Unleased (vacant) properties which have been owned for more than 120 days must have a qualifying circumstance (major repairs, renovation, construction, or other circumstances which left the property unable to be rented) that explains the vacancy in order to use rental income in qualifying. The file must document these circumstances in order to use the Market Rent from Form 1007/1025. The recent conversion of a second home to investment occupancy is not a qualifying circumstance.

Unleased (vacant) properties which have been marketed for rent for 120 days or more and have been unable to secure a tenant are ineligible for financing.



7.9.4.2.3 DSCR - Short-Term Gross Monthly Rent (Purchase)

A Market Rent Analysis (Form 1007/1025) must be completed using Short-Term Rents.

Appraisal must indicate that short-term rentals are common for the area. If the appraiser is not willing to complete the Market Rent Analysis (Form 1007/1025) using Short-Term Rents, then only long-term rents may be used in qualifying. As certain appraisers specialize in the evaluation of the short-term rental market, the Market Rent Analysis (Form 1007/1025) may be completed by a different appraiser than the one which completed the full appraisal report.

Market Rent from Form 1007/1025 must be discounted by 20% to account for management, marketing, & booking fees unless the appraiser has already accounted for this in their calculations. Alternatively, if the borrower is able to provide a contract with a short-term rental property management company at an amount less than 20%, the actual percentage may be used, but in no case less than 10%.

For borrowers who manage their own properties, Gross Rents must be discounted by 20% to account for management, marketing, and booking fees.

In cases where the subject property is currently producing short-term rental income and the seller is able to provide a complete 12-month history of rental income receipt from a third-party (Airbnb statements, Local Property Management Company statements, etc.), the underwriter may use the higher of the Actual Short-Term Rents received over the last 12 months or the Short-Term Market Rent from Form 1007/1025. If the Gross Rental Amount provided does not indicate deductions for expected expenses such as Management, Marketing, & Booking Fees, then it must be discounted by 20% to account for these expenses. If the seller is unable to provide a full 12 months of short-term rental history, then Market Rent from Form 1007/1025 must be used.

Vacant properties are permitted without any restrictions, and no vacancy factor is required to be used as the appraiser should account for seasonal vacancy in the short-term rental analysis market-rent.

As it is common for short-term rentals to be out of service for frequent periods due to repairs and maintenance, the underwriter may not gross up income to account for these periods. For example: if a short-term rental was out of service for 2 months of the year due to one-time repairs, the underwriter would still divide the full year income by 12 months and may not give any consideration to the time rental was out of service.



7.9.4.2.4 DSCR - Short-Term Gross Monthly Rent (Refinance)

In order to use Short-Term Rental Income in qualifying for refinance transactions, the property must have been used as a short-term rental for the most recent 12 month period. Properties with less than 12 months' history as short-term rentals must use long-term rental income in qualifying.

The actual rents received must be documented and shall be used in qualifying. A Market Rent Analysis (Form 1007/1025) must be completed using Short-Term Rents and must support the actual rents received within 20%. If the actual rents exceed the Short-Term Market Rent from Form 1007/1025 by more than 20%, no more than 120% of the Short-Term Market Rent from Form 1007/1025 may be used.

Examples:

Scenario 1: Short-Term Market Rent from Form 1007/1025 is \$2,500 per month, and actual rents received for the previous 12 months average \$2,800 per month. The full \$2,800 per month average received may be used because it is not greater than 120% of the \$2,500 Short-Term Market Rent from Form 1007/1025 which is $\$2,500 \times 1.20 = \$3,000$.

Scenario 2: Short-Term Market Rent from Form 1007/1025 is \$2,500 per month, and actual rents received for the previous 12 months average \$3,500 per month. Only \$3,000 of the \$3,500 per month average received may be used because the full \$3,500 is greater than 120% of the \$2,500 Short-Term Market Rent from Form 1007/1025 which is $\$2,500 \times 1.20 = \$3,000$.

Appraisal must indicate that Short-Term Rentals are common for the area. If the appraiser is not willing to complete the Market Rent Analysis (Form 1007/1025) using Short-Term Rents, then only long-term rents may be used in qualifying. As certain appraisers specialize in the evaluation of the short-term rental market, the Market Rent Analysis (Form 1007/1025) may be completed by a different appraiser than the one which completed the full appraisal report.

The gross rent figure being used must be after all management, marketing, and booking fees have been deducted. If the underwriter is unable to determine the management, marketing, and booking fees, the gross rent must be discounted by 20% to account for these expenses.

Borrowers using a third-party (Airbnb statements, Local Property Management Company statements, etc.), may provide statements and invoices from those organizations to verify actual rents and their booking expenses. The underwriter may use the actual management, marketing, and booking expenses incurred, but in no case less than 10%.

Borrowers who manage their own properties must provide documentation of rental income that can be directly identified as short-term rental income for the subject property. Credit card receipts, invoices, booking receipts, and similar may be required. The underwriter may request additional documentation such as bank statements to cross-reference documentation. If the actual rents are commingled or received in a way that prevents the underwriter from being able to directly ascertain the actual rents for the subject property, then short-term rental income may not be used in qualifying. For borrowers who manage their own properties, the underwriter must discount the gross rent by 20% to account for management, marketing, and booking expenses.

As it is common for short-term rentals to be out of service for frequent periods due to repairs and maintenance, the underwriter may not gross up income to account for these periods. For example: if



a short-term rental was out of service for 2 months of the year due to one-time repairs, the underwriter would still divide the full year income by 12 and may not give any consideration to the time rental was out of service.

7.9.5 DSCR - Short-Term Rental Restrictions

When using Short-Term Rental Income on the DSCR program, the following standard restrictions apply:

STG Mortgage Standard Restrictions (All Star Series) DSCR - Short-Term Rental	
• Min DSCR 1.0 • 5% LTV reduction from program matrix maximum • Delayed Financing Not Permitted • First-Time Investors Not Permitted • First-Time Home Buyers Not Permitted • Must Have A 12-month Housing History (Rent-Free Situations are not permitted unless living rent-free with spouse) • Property must not have been listed for sale by the borrower in the previous 6 months.	

Certain Star Series contain additional requirements/restrictions when using Short-Term Rental. Reference the table below for details.

Star Series Specific Requirements/Restrictions DSCR - Short-Term Rental	
Star Series	Requirements/Restrictions
Series 1	• Standard DSCR - Short-Term Rental Requirements/Restrictions

7.9.6 DSCR - Completing the Loan Application

Borrowers should not disclose employment or any sources of income other than the rental amounts for the subject property.

The application should contain a list of all assets needed to cover closing costs, reserves, and prepaid items.

The REO section should list all properties owned, and any private mortgages should be properly listed with their associated property.

The liabilities section should be completed in its entirety.



7.9.7 DSCR - Housing History for DSCR Transactions

The file must document a mortgage/housing history for the borrower's primary residence and the subject property (if refinance) evidencing no late payments within the previous 12 months (0x30x12). Properties owned free & clear are acceptable in lieu of a housing history. Housing/Mortgage history information may be no more than 31 days old at the time of closing. Proof that property is owned free & clear may be no more than 90 days old at the time of closing.

All expenses for both the subject property (for refinances) and the borrower's primary residence (including mortgages, taxes, insurance, HOA dues) and rental payments must be current (most recent payment has not been due for more than 30 days) at time of closing. If the credit report or VOR/VOM reflects a past due status, updated documentation is required to verify account is current and at least 12 months have passed since any late payment.

While only the housing payment history for the subject property and the borrower's primary residence is required to be verified for DSCR transactions, the credit report will often include data for mortgages attached to additional properties. All mortgages and HELOCs shown on credit must reflect 0 late payments in the most recent 12 months, even if those properties were not required to have their housing history verified. Additionally, the fraud report will provide information on notices of default and lis pendens (pre-foreclosure) actions. When provided, negative housing history may not be disregarded.

For additional information on documenting housing history & properties owned free and clear, see [Documenting Housing History](#) and [Documenting Free & Clear Status](#).

7.9.8 DSCR - No Housing History or Less than 12 Months Verified or Rent-Free Situations

A 12-month primary residence housing history is required for all DSCR transactions.

Borrowers who live rent-free with a non-borrowing spouse are acceptable without further restrictions when the rent free living situation can be documented and rent-free letters from the borrower and the non-borrowing spouse are provided. All other rent-free scenarios are not permitted.

Borrowers who own their primary residence free & clear are acceptable subject to the provisions of [Documenting Free & Clear Status](#).

Borrowers who have recently vacated a primary residence in the most recent 120 days and are living with family or friends are acceptable if the file supports their current primary housing situation is temporary, common and customary. The file must demonstrate proof that borrowers have secured another primary residence for occupancy in the near future. The file must also contain the 12 months of housing history prior to their rent-free situation and be 0x30. The underwriter should take caution to ensure the borrower will not attempt to occupy the subject property as a primary residence.

Files which otherwise contain no primary housing history are unacceptable for DSCR transactions.



7.9.9 DSCR - Credit Score Requirements

The method for determining the qualifying credit score for DSCR transactions differs between the Star Series products. To determine the qualifying credit score for the loan, use the table below and select the appropriate representative credit score.

To determine each borrower's representative credit score, select the mid-score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

All borrowers must have a valid score from at least 2 of the following 3 agencies:

- Experian.
- Trans Union.
- Equifax.

Star Series Specific Requirements DSCR - Credit Score Used for Qualifying	
Star Series	Score Used
Series 1	Highest Representative Score

7.9.10 DSCR - Credit Inquiries

The DSCR program only requires mortgage inquiries to be addressed. The underwriter must verify that a simultaneous mortgage application for the subject property does not exist. A letter from the borrower is sufficient to address that concern unless the fraud report or other information raises additional concerns. Other types of inquiries and new mortgages on other properties do not need to be addressed under the DSCR program.

7.9.11 DSCR - Gift Funds

Gift funds are permitted when all of the following requirements are met:

- Purchase transactions only.
- Borrower must contribute 10% of purchase price of own funds.
- Gift funds may not be used to meet reserve requirement.
- Gifts of Equity are not permitted.

For additional Gift Funds requirements applicable to all loans, see [Gift Funds](#).



7.9.12 DSCR - Experienced Investors

The DSCR program is designed for experienced investors.

In order to meet investor experience requirements, at least one borrower must show investment property ownership or landlord experience managing residential or commercial rental real estate for a minimum of 12 months within the most recent 36 month period from the note date.

Professional realtors and property managers may meet the requirement by demonstrating that they have managed rental property on behalf of themselves or others for at least 12 months in the most recent 36 month period. Real Estate professionals and/or home flippers who are unable to specifically demonstrate rental management experience do not meet this requirement.

The file should contain a brief letter detailing the relevant property management experience.

Those loans in which no borrower meets the above investor experience requirements are considered First-Time Investors and subject to additional restrictions. See [DSCR - First-Time Investors](#).

7.9.13 DSCR - First-Time Home Buyer

First-Time Home Buyer transactions are those in which none of the borrowers have owned residential real estate in the most recent 36 months.

First-Time Home Buyers are not eligible for the DSCR program.

No exceptions are permitted to allow First-Time Homebuyers when the program matrix does not allow for them.



7.9.14 DSCR - First-Time Investors

Loans in which no borrower meets the definition of experienced investor above are considered First-Time Investor Loans and the standard restrictions below must be met.

First-Time Home Buyer transactions are not permitted on DSCR transactions where the borrowers are also considered First-Time Investors.

Borrowers must be able to provide primary housing history, document Free & Clear Ownership, or live with spouse rent-free. See [DSCR - Housing History for all DSCR Transactions](#) for further details.

STG Mortgage Standard Restrictions (All Star Series) DSCR - First-Time Investor	
• Minimum DSCR of 1.0 • Minimum Credit Score 700 • Maximum LTV/CLTV 75% • 12 Months Reserves Required • Short-Term Rental Income not permitted	

Certain Star Series either have additional requirements/restrictions or do not permit First-Time Investors. Reference the table below for details.

Star Series Specific Requirements/Restrictions DSCR - First-Time Investor	
Star Series	Requirements/Restrictions
Series 1	Standard First-Time Investor Requirements/Restrictions

7.9.15 DSCR - Insurance (Rent Loss Coverage)

In addition to standard insurance requirements, all DSCR loans require 6 months of rental loss protection (rent loss insurance). Blanket/Master policies covering the subject property are permitted.



7.9.16 DSCR - Subordinate Financing

Any subordinate financing on a DSCR loan must meet the following requirements:

STG Mortgage Standard Requirements (All Star Series) Subordinate Financing	
New Subordinate Financing	Only permitted when the subordinate financing is also a DSCR qualifying loan (i.e. new subordinate loans that qualify with DTI are not permitted)
Existing Subordinate Financing	May be resubordinated and must be considered in the PITIA used to qualify the subject property for the DSCR ratio

For additional subordinate financing requirements applicable to all loans, see [Subordinate Financing](#).

Certain Star Series do not permit Subordinate Financing on DSCR programs. Reference the table below for details.

Star Series Specific Restrictions DSCR - Subordinate Financing	
Star Series	Restrictions
Series 1	Not permitted

7.9.17 DSCR - Interest-Only Restrictions

Interest-only DSCR loans have the following standard restrictions:

STG Mortgage Standard Restrictions (All Star Series) DSCR - Interest-Only	
- MIN 700 Credit Score - DSCR $\geq$ 1.0 - MAX LTV/CLTV 80%	

Each Star series has varying requirements based upon Credit Score, LTV, DSCR ratio and Reserves for Interest-only loans. Reference the table below for details.

Star Series Specific Requirements/Restrictions DSCR - Interest-Only			
Star Series	Credit Score	LTV/CLTV Restrictions	Reserves
Series 1	MIN 700	No additional LTV/CLTV restriction	Standard

For Interest-only restrictions for all program other than the DSCR program see [Interest-Only Qualifying - Restrictions - DTI Qualifying Loans and Asset Utilization](#).



7.9.18 DSCR - Less Than 1.0 Restrictions

Loans qualifying with a DSCR less than 1.0 use a separate qualifying matrix.

Loans with a DSCR of less than 1.0 are subject to the following standard restrictions:

STG Mortgage Standard Restrictions (All Star Series) DSCR Less Than 1.0	
• Minimum DSCR is 0.80 • Minimum Credit Score - 700 • Maximum Loan Amount - \$2,000,000 • Condotels not permitted • Interest-Only loans not permitted • First-Time Investors not permitted • Gift Funds not permitted • Short-Term Rental Income not permitted	

7.9.19 DSCR - Ineligible Transactions

STG Mortgage Standard Restrictions (All Star Series) DSCR - Ineligible Transactions	
• Rural Properties. • Non-Arm's Length Transactions. • Transactions where the Tenant is an affiliate, relation, or business associate of the Borrower. • Builders/Flippers buying or refinancing properties out of their own inventory. • Properties marketed for rent for 120+ days without a Tenant under contract. • Vacant properties listed for sale in the last 6 months. • First-Time Home Buyers without Investor Experience. • Borrowers with no primary housing history who don't meet exception requirements in DSCR - Housing History for all DSCR Transactions or DSCR - No Primary Housing History or Less Than 12 Months Available.	



7.9.20 DSCR - Entity Vesting

For business purpose loans, STG Mortgage permits title to be vested in the name of an entity, subject to the following restrictions:

STG Mortgage Standard Requirements/Restrictions (All Star Series) DSCR - Entity Vesting	
- Entity must be based in the U.S. - The entity may have a maximum of 4 members/owners. - Purpose and activities are limited to ownership and management of real property. - Loans without recourse (non-recourse loans) are not permitted. - Powers of Attorney (POA) are not permitted. - Personal Guarantees and the final loan security instruments must be signed by all entity members whose credit or income is used in qualifying. - Anyone signing as a guarantor for the entity must provide a loan application and credit report.	

Certain Star Series either have additional restrictions or do not permit Entity Vesting. Reference the table below for details.

Star Series Specific Requirements/Restrictions DSCR - Entity Vesting				
Star Series	Eligible Doc Types	Eligible Entity Types	Entity Members Required to be Guarantors on the Loan	Layered Entities
Series 1	All	- LLC - LP - GP - CORP - S CORP	Each Entity Member who qualifies for the loan and signs as an Entity Member - Guarantors must represent a minimum of 25% Entity Ownership	Not permitted



7.9.20.1 DSCR - Documentation Signature Requirements for all Entities

The following documents must be completed by each borrower or guarantor and signed as follows:

STG Mortgage Standard Requirements (All Star Series) Documentation Signatures for all Entities	
Signature Type	Document with Requirements
Signed as an individual	Loan Application (Fannie Mae Form 1003). - Must be completed for each member of the entity providing a guarantee. - Section labeled "Title will be held in what Name(s)" should be completed with only the business name.
	Personal Guarantee: - Must be completed for each member of the entity providing a guarantee. - The Personal Guarantee should be executed at loan closing and dated the same date as the note. See Personal Guarantee. - Personal Guarantees from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with the Spousal Consent Form.
Signed by the authorized signer for the entity	All required Disclosures (e.g., GFE, TIL, ECOA).
	Any state or federally required settlement statement.
	The Note, Deed of Trust/Mortgage, and all Riders.

7.9.20.2 DSCR - Limited Liability Company (LLC) Vesting Documentation Requirements

- Articles of Organization & Operating Agreements.
- Tax ID Number (When a SSN is being used in lieu of a Tax-ID, the underwriter must certify this is the case. Multi member LLCs using an SSN instead of an EIN are limited to husband-wife ownership. All other multi-member LLCs must have an EIN. When using an EIN, the file must contain documentation to verify the EIN. This may be an IRS letter or similar. A W-9 form is not acceptable verification.).
- Evidence of Good Standing for the State where the entity is based.
- LLC Borrowing Certificate. See [LLC Borrowing Certificate \(Single Member\)](#) or [LLC Borrowing Certificate \(Multiple Member\)](#).
- Resolution/Certificate from the LLC granting authority to an individual/guarantor to execute all loan documents on behalf of the entity. Must reference the property address, and STG Mortgage loan. For a sample, see [LLC Certificate of Authorization Sample](#).

The above documentation must include a list of the current owners and their percentage owned. In the event the documents do not clearly outline this information, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.

Certain states do not require operating agreements for single-members LLCs. In the event an operating agreement does not exist, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.



7.9.20.3 DSCR - Corporation Vesting Documentation Requirements

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent).
- By-Laws and all amendments.
- Evidence of Good Standing for the State where the entity is based.
- EIN/Tax Identification Number (The EIN must be validated with an IRS letter or similar. A W-9 form is not acceptable verification.).
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation.
- Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment.

The above documentation must include a list of the current owners and their percentage owned. In the event the documents do not clearly outline this information, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.

7.9.20.4 DSCR - Partnership Vesting Documentation Requirements

- Filed Partnership Certificate (if a general partnership, a filing with the Secretary of State may not be required).
- Partnership Agreement and all amendments.
- Evidence of Good Standing for the State where the entity is based.
- EIN/Tax Identification Number (The EIN must be validated with an IRS letter or similar. A W-9 form is not acceptable verification.).
- Limited partner consents (where required by partnership agreement).

The above documentation must include a list of the current owners and their percentage owned. In the event the documents do not clearly outline this information, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.

7.10 Documentation Standards (Alt Doc)

7.10.1 Allowable Accountant Types (Alt Doc)

When accountant letters or documentation are required, either due to the program type or to support the underwriting decision, the accountant letter must come from an accountant with acceptable credentials.

Acceptable accountant types are, Certified Public Accountant (CPA), Enrolled Agent (EA), California Tax Education Council (CTEC), Licensed Tax Attorneys, and Chartered Tax Advisors. Financial Advisors without a tax preparation license are not acceptable. The accountant must be independently verifiable through state licensing and online databases.

7.10.1.1 AFSP Tax Preparers/Accountants (Alt Doc)

Annual Filing Season Program (AFSP) tax preparers without a higher level certification are not permitted to provide written statements, letters of explanation, certifications or P&Ls.



7.10.1.2 PTIN Tax Preparers (Alt Doc)

Tax preparers without a more advanced certification (such as CPA, EA, CTEC) are called PTIN Tax Preparers. Unlike tax preparers with advanced certifications, PTIN Tax Preparers are only permitted on a limited number of Star Series programs.

For Star Series programs that explicitly allow PTIN tax preparers, or allow them by exception, the PTIN tax preparer is only permitted if they work for a verifiable tax preparation or bookkeeping firm that has been in business 24+ months and has multiple tax preparers. One-person PTIN accounting firms require an exception from STG credit management.

Certain Star Series restrict PTIN Tax Preparers. Reference the table below for details. No exceptions are permitted to allow the use of a PTIN Tax Preparer when the program matrix does not allow for them.

Star Series Specific Restrictions PTIN Tax Preparers	
Star Series	Permitted/Not Permitted
Series 1	Permitted by exception only (never permitted for P&L documentation)

7.10.2 IRS Form 4506-C (Alt Doc)

The 1099 program requires an IRS Form 4506-C to be completed for the borrower's 1099 Forms.

Bank Statement, Profit and Loss, Asset Depletion, Asset Utilization, WVOE, and DSCR loans do not require an IRS Form 4506-C to be completed. However, when any of these doc types is combined with other income sources which are documented with Full Doc standards (i.e. W-2s, 1099s), then the income that was documented to Full Doc standards must be supported with a signed 4506-C.

When required, the IRS Form 4506-C must be wet signed (e-sign is not permitted) both at application and closing. The form must request the appropriate documentation type to validate the type of document provided (W-2s, 1099s, etc.).

Alt Doc income may be combined with other income sources that are documented as Full Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Alt Doc, a tax return is not required for the Full Doc income. If the 4506-C form is provided, the appropriate box should be checked to obtain a transcript of W-2 earnings.

Documentation received from executing the 4506-C must be reviewed and compared to the qualifying income to confirm consistency. Results from processing the 4506-C should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the 4506-C results and qualifying income should be addressed by the underwriter.

The presence of a signed 4506-C or Tax Transcripts within a loan file negates the need for tax returns to be signed by the borrower.



7.10.3 Verbal Verification of Employment (Alt Doc, VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all of the following criteria:

- Completed within 10 business days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of the person processing the VVOE at the Lender or Originator.
- Include the name, position and phone number of the person providing the verification at the employer.
- Business Name and telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 10 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau.
- Secretary of State listing reflecting current year registration.
- Verification of a phone and address listing using the internet.

If the documentation is over 30 days old, a processor's certification verifying employment with the CPA is acceptable. An updated Secretary of State listing or phone and address listing from the internet are also acceptable.

7.10.4 Written Verification of Employment (Alt Doc)

Income and employment for wage-earners or salaried borrowers may be obtained via direct written verification from the borrower's employer (Fannie Mae Form 1005). The verification should be signed by a member of the company's human resource department or one of the business owners or officers. At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary.

The Written Verification of Employment (WVOE) Program has additional requirements. See [Written Verification of Employment \(WVOE\) Program](#) for further information.



7.11 Income Calculation Considerations (Alt Doc)

7.11.1 Declining Income (Alt Doc)

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. The underwriter should carefully evaluate the file to ensure the decline has no material impact on the borrower's ability to repay the mortgage. Minor income declines of less than 10% typically do not need to be addressed if they are insignificant to qualifying ratios.

Income declines exceeding 10%, or that are significant to qualifying ratios, should be investigated and documented within the file. A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2 year period must be used and may not be averaged. Documentation should be present in the file to assure the underwriter that further decline is unlikely.

Income showing a decline of 20% or more over the prior period should generally not be considered as stable or usable income for qualification purposes. STG Senior Credit Management may accept income declines of more than 20% with an exception and significant evidence that further income decline is unlikely.

7.11.2 Non-Taxable Income (Alt Doc)

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the underwriter may use an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

Certain income sources such as social security are only partially taxable. The underwriter is responsible for verifying the percentage of any income that is non-taxable and grossing up the portion that is non-taxable.

See [Social Security Income](#) for additional details regarding non-taxable social security income.

7.11.3 Rental Income (Alt Doc, DTI Qualifying Loans Only)

For Bank Statement Documentation types, rental income (long-term or short-term) may be included when the rents received are deposited into a separate account from the accounts used to determine the qualifying income. Rental deposits co-mingled with bank accounts used to determine the qualifying income are not eligible to be counted separately unless the rental deposits can be positively identified and removed from the bank statement income calculation.

For all other alternative documentation types, Rental income (long-term or short-term) may be included when the underwriter is able to determine that rental income has not already been counted elsewhere on the application. For example: on a P&L loan, the underwriter would need to ensure that the P&L did not already include income from rental activities.

To document rental income on departure residences, see [Departure/Departing Residence](#).

The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.



7.11.3.1 Rental Income for the Subject Property (Alt Doc, Purchase)

For rental income on 2-4 Unit Primary Residences or 1-unit Primary Residences with an ADU, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.

Rental Income is never permitted on second homes.

For investment properties, when using rental income on a property being acquired, the subject PITIA may be offset by the rental income. However, should that calculation result in a profit, a positive income may not be used for the subject property.

7.11.3.1.1 Documenting Income from Long-Term Leases (Alt Doc, Purchase, Subject Property)

Rental income from a new property being acquired through a purchase transaction can be used to qualify, using the lesser of:

- 75% of the lease amount minus the full PITIA (evidence of rent receipt by the current owner must be obtained). OR
- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

If the subject property is not currently rented (vacant), has a month-to-month tenant, or has a lease that is not transferring to the new owner, then 75% of the Market Rent from Form 1007/1025 shall be used.

The transaction must be arm's length. Neither the existing tenant nor the property seller may have a relationship with the borrower.

STG Mortgage Standard Restrictions (All Star Series)	
Rental Income for the Subject Property (Purchase) - Occupancy Restrictions	
Primary Residences	• Rental income may be used on a 2-4 unit Primary Residence, provided the file contains documentation as to which units will be owner occupied, and the appraisal Market Rent Analysis (Form 1007/1025) lists the expected market rents for each unit. The underwriter must use discretion in determining if the borrower's intent to occupy certain units is reasonable for their family size and financial situation. For example: the square footage and bedroom count is sufficient to house the number of people in their household. • For the purchase of a 1-unit primary residence with an accessory dwelling unit (ADU), the rental income from the ADU may not be used. • For rental income on the purchase of 2-4 Unit Primary Residences, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.
Second Homes	• Not permitted to use any rental income in qualifying.
Investment Properties	• No additional restrictions.

The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.



7.11.3.1.2 Documenting Income from Short-Term Rentals (Alt Doc, Purchase, Subject Property)

To use short-term rental income all of the following must be met:

- Borrower owns a primary residence.
- Subject property is investment occupancy.
- Property is in an area where short-term rentals are common (Beach, Theme Park, Ski Resort, Mountain Lodge, Lake, etc.).
- Short-Term rentals are not prohibited by the PUD/CONDO/HOA as applicable.
- The appraiser must produce a Market Rent Analysis (Form 1007/1025) using short-term rents.
- The current owner must be able to provide short-term rental history for the most recent 12 month period via account statements or reports from an institutional property manager or service such as Airbnb or VRBO.

The underwriter will calculate the short-term rental income as 75% of the lesser of:

- The Short-Term Market Rent from Form 1007/1025.
- The 12 month actual short-term rents received.

2-4 unit primary residences and primary residences with an ADU are not permitted to use short-term rental income. Only investment properties may use short-term rental income in qualifying.

Certain Star Series contain additional restrictions when using Short-Term Rental Income. See [Short-Term Rental Restrictions \(Alt Doc\)](#) for more information.

The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.

7.11.3.2 Rental Income for the Subject Property (Alt Doc, Refinance)

For rental income on 2-4 Unit Primary Residences or 1-unit Primary Residences with an ADU, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.

Rental Income is never permitted on second homes.

For investment properties, use of rental income has no additional restrictions and is calculated as outlined below.



7.11.3.2.1 Documenting Income from Long-Term Leases (Alt Doc, Refinance, Subject Property)

Rental income from the subject property shall be documented and calculated as follows:

- 75% of the current lease amount minus the full PITIA.

When using a lease to document rental income, the file must contain one of the following:

- Market Rent Analysis (Form 1007/1025).
- A copy of the security deposit and first month's rent.
- Proof of 2 most recent month's rent receipt.

If the lease is from a family member or interested party to the transaction, the file must contain 3 months of rental receipt documentation prior to the loan application.

For unleased (vacant) properties that have been owned for less than 120 days or have just undergone major construction/repairs/renovation and have not yet been leased, use:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

For unleased (vacant) properties that were previously tenant occupied and have been vacated within the last 60 days and are currently seeking new tenants, provide a copy of the previous lease and proof of last month's rental receipt. Calculate income as:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

Unleased (vacant) properties which have been owned for more than 120 days must have a qualifying circumstance (major repairs, renovation, construction, or other circumstances which left the property unable to be rented) that explains the vacancy in order to use rental income in qualifying. The file must document these circumstances in order to use the Market Rent from Form 1007/1025. The recent conversion of a second home to investment occupancy is not a qualifying circumstance.

Unleased (vacant) properties which have been marketed for rent for 120 days or more and have been unable to secure a tenant are ineligible to use rental income in qualifying.

The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.



7.11.3.2.2 Documenting Income from Short-Term Rentals (Alt Doc, Refinance, Subject Property)

For properties rented on short-term basis such as Airbnb or VRBO, the gross monthly rental will be determined by using a 12-month look back period to account for seasonality.

To use short-term rental income all of the following must be met:

- Borrower owns a primary residence.
- Subject property is investment occupancy.
- Property is in an area where short-term rentals are common (Beach, Theme Park, Ski Resort, Mountain Lodge, Lake, etc.).
- Short-Term rentals are not prohibited by the PUD/CONDO/HOA as applicable.
- Property must not have been listed for sale by the borrower in the previous 6 months.

2-4 unit primary residences and primary residences with an ADU are not permitted to use short-term rental income. Only investment properties may use short-term rental income in qualifying.

For properties owned for more than 12 months without a qualifying circumstance:

- Obtain the full 12-month rental history from the on-line service (e.g. Airbnb) or realty management company. OR, for self-managed properties, provide 12 months of bank statements showing rental deposits.
- Document that property is actively listed as a short-term rental either via on-line search or confirmation with real estate management company.

The underwriter will calculate rental income as the net income received after deducting all credit card fees, booking commissions, service charges, and other fees for the most recent 12-month period and dividing by 12. As short-term rentals require regular unavailability due to maintenance, the underwriter will not adjust the rental calculation to account for out-of-service periods throughout the year.

For properties owned less than 12 months, OR owned greater than 12 months with a qualifying circumstance:

- Obtain a Market Rent Analysis (Form 1007/1025) with the short-term rents listed.
- Document that property is actively listed as a short-term rental either via on-line search or confirmation with real estate management company and is not currently leased long-term.

When owned less than 12 months, OR owned greater than 12 months with a qualifying circumstance, the underwriter will calculate the short-term rental income as 75% of the Short-Term Market Rent from Form 1007/1025.

Properties owned more than 12 months without a qualifying circumstance, that have recently been converted to short-term rentals may only use long-term rents in qualifying (Market Rent from Form 1007/1025 x 75%) and must document that property is actively listed as a short-term rental and has had at least 1 short-term tenant previously.

Qualifying circumstances are defined as major repairs, renovation, or construction which left the property unable to be rented for 90 days in the most recent 12 months. The file must document these circumstances in order to use the Market Rent from Form 1007/1025 for properties owned 12 months or more. The recent conversion of a second home to investment occupancy is not a qualifying circumstance. In these instances, short-term rental income may not be used in qualifying.



Certain Star Series contain additional restrictions when using Short-Term Rental Income. See [Short-Term Rental Restrictions \(Alt Doc\)](#) for more information.

The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.

7.11.3.3 Rental Income from Other Real Estate Owned (Alt Doc)

For rental income on 2-4 Unit Primary Residences or 1-unit Primary Residences with an ADU, the rental income must be added to qualifying income and may not be used to offset the PITIA of the subject property.

Rental Income is never permitted on second homes.

For investment properties, use of rental income has no additional restrictions and is calculated as outlined below.



7.11.3.3.1 Documenting Income from Long-Term Leases (Alt Doc, Other REO)

Rental income from other REO shall be documented and calculated as follows:

- 75% of the current lease amount minus the full PITIA.

When using a lease to document rental income, the file must contain one of the following:

- Market Rent Analysis (Form 1007/1025).
- A copy of the security deposit and first month's rent.
- Proof of 2 most recent month's rent receipt.

If the lease is from a family member or interested party to the transaction, the file must contain 3 months of rental receipt documentation prior to the loan application.

For unleased (vacant) properties that have been owned for less than 120 days or have just undergone major construction/repairs/renovation and have not yet been leased, use:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

For unleased (vacant) properties that were previously tenant occupied and have been vacated within the last 60 days and are currently seeking new tenants, provide a copy of the previous lease and proof of last month's rental receipt. Calculate income as:

- 75% of the Market Rent from Form 1007/1025 minus the full PITIA.

Unleased (vacant) properties which have been owned for more than 120 days must have a qualifying circumstance (major repairs, renovation, construction, or other circumstances which left the property unable to be rented) that explains the vacancy in order to use rental income in qualifying. The file must document these circumstances in order to use the Market Rent Analysis (Form 1007/1025). The recent conversion of a second home to investment occupancy is not a qualifying circumstance.

Unleased (vacant) properties which have been marketed for rent for 120 days or more and have been unable to secure a tenant are ineligible to use rental income in qualifying.

The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.



7.11.3.3.2 Documenting Income from Short-Term Rentals (Alt Doc, Other REO)

For properties rented on short-term basis such as Airbnb or VRBO, the gross monthly rental will be determined by using a 12-month look back period to account for seasonality.

To use short-term rental income all of the following must be met:

- Borrower owns a primary residence.
- Subject property is investment occupancy.
- Property is in an area where short-term rentals are common (Beach, Theme Park, Ski Resort, Mountain Lodge, Lake, etc.).
- Short-Term rentals are not prohibited by the PUD/CONDO/HOA as applicable.
- Property must not have been listed for sale by the borrower in the previous 6 months.

2-4 unit primary residences and primary residences with an ADU are not permitted to use short-term rental income. Only investment properties may use short-term rental income in qualifying.

For properties Owned for More Than 12 Months without a qualifying circumstance:

- Obtain the full 12-month rental history from the on-line service (e.g. Airbnb) or realty management company. OR For self-managed properties provide 12 months of bank statements showing rental deposits.
- Document that property is actively listed as a short-term rental either via on-line search or confirmation with real estate management company.

The underwriter will calculate rental income as the net income received after deducting all credit card fees, booking commissions, service charges, and other fees for the most recent 12-month period and dividing by 12. As short-term rentals require regular unavailability due to maintenance, the underwriter will not adjust the rental calculation to account for out-of-service periods throughout the year.

For properties owned less than 12 months, OR owned greater than 12 months with a qualifying circumstance:

- Obtain a Market Rent Analysis (Form 1007/1025) with the short-term rents listed.
- Document that property is actively listed as a short-term rental either via on-line search or confirmation with real estate management company and is not currently leased long-term.

When owned less than 12 months, OR owned greater than 12 months with a qualifying circumstance, the underwriter will calculate the short-term rental income as 75% of the Short-Term Market Rent from Form 1007/1025.

Properties owned more than 12 months without a qualifying circumstance, that have recently been converted to short-term rentals may only use long-term rents in qualifying (Market Rent from Form 1007/1025 x 75%) and must document that property is actively listed as a short-term rental and has had at least 1 short-term tenant previously.

Qualifying circumstances are defined as major repairs, renovation, or construction which left the property unable to be rented for 90 days in the most recent 12 months. The file must document these circumstances in order to use the Market Rent from Form 1007/1025 for properties owned 12 months or more. The recent conversion of a second home to investment occupancy is not a qualifying circumstance. In these instances, short-term rental income may not be used in qualifying.



The provisions of this section do not apply to DSCR loans. See [Debt Service Coverage Ratio Program \(DSCR\)](#) for more information.

7.11.3.4 Short-Term Rental Restrictions (Alt Doc)

Certain Star Series contain requirements/restrictions when using Short-Term Rental. Reference the table below for details.

Star Series Specific Requirements/Restrictions Short-Term Rental - Alt Doc	
Star Series	Requirements/Restrictions
Series 1	When using short-term rental income from subject property - 5% LTV/CLTV reduction from allowable limit per program matrix

The provisions of this section do not apply to DSCR loans. See [DSCR - Short-Term Rental Restrictions](#) for more information.

7.11.3.5 Maximum Financed Properties - Rental Income (Alt Doc)

The cumulative maximum number of financed properties for all borrowers on the loan is 10. The number of financed properties includes:

- All 1-4 unit residential properties where borrower is personally obligated on the mortgage (even if the monthly housing expense is excluded from DTI, such as a contingent liability)
- The borrower's principal residence

The following property types are not subject to the maximum financed property limitations:

- Commercial/Industrial real estate
- Multi-family properties that have 5 or more units
- Timeshares
- Any type of vacant lot, residential or commercial
- Mobile homes that have not been converted to real property with the local tax assessor

The maximum financed properties limitation does not apply to DSCR transactions.



7.11.4 Residual Income (Alt Doc)

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations.

Residual Income = Gross Monthly Income minus total ongoing monthly debt.

Income Taxes, Utilities, and other expenses which do not represent ongoing obligations are not required to be considered in residual income calculations.

For Interest-Only loans excluding the Asset Utilization program, the residual Income calculation uses the full PITIA payment.

Asset Utilization loans use an alternative calculation found in [Asset Utilization - Residual Income Calculation](#).

DSCR loans do not have a residual income requirement.

Each Star series has varying requirements based upon household size, and/or loan risk parameters. Reference the table below for details.

Star Series Specific Requirements Residual Income	
Star Series	Requirement
Series 1	\$1,500



8.0 ASSETS

8.1 General Asset Requirements

Star Non-QM programs qualify assets as outlined in this section. For any type of Asset not listed, refer to the Fannie Mae Selling Guide for documentation requirements and qualifying criteria.

8.1.1 Eligible Asset Accounts

For asset accounts used in qualifying which will not be liquidated, the following allowable qualifying percentages must be applied. For assets which will be liquidated at or prior to closing, 100% of the actual cash proceeds from liquidation may be used.

STG Mortgage Standard Restrictions (All Star Series) Eligible Asset Accounts and Qualifying Percentage	
Asset Type	Qualifying Percentage
Annuity Surrender Value	60%
Business Assets (limited to ownership percentage)	100%
Cryptocurrency/Virtual Currency Assets (must be liquidated to cash)	100%
Depository Accounts (Checking, Savings, Money Market, Certificate of Deposit)	100%
Funds Secured by an Asset	100%
Foreign Assets	100%
Gift Funds	100%
Life Insurance Cash Value	100%
Pension Cash Value	60%
Retirement Accounts (401K, IRA, 403B, SEP IRA, TSP) - Borrower under retirement age	80%
Retirement Accounts (401K, IRA, 403B, SEP IRA, TSP) - Borrower over retirement age	100%
Savings Bonds which have not matured (Face Value)	80%
Stock Options - Vested Value (RSU not permitted until vested)	80%
Stocks/Bonds/Mutual Funds	100%
Trust Accounts	100%
U.S. Treasuries & Matured Savings Bonds (Market Price)	100%
1031 Exchanges	100%

For any asset that falls into more than 1 category, use the lowest percentage of any category that applies. For example: Stock Options held by a Trust would fall into both the Stock Options and Trust categories. Since the 80% allowed for Stock Options is lower than the 100% allowed for Trust Accounts, only 80% of the balance may be used.



8.1.2 Ineligible Qualifying Assets

STG Mortgage Standard Restrictions (All Star Series) Ineligible Qualifying Assets	
Asset Type	
Assets held in the name of a Non-Profit, Charity or Church/Religious Organization	
Bridge Loans	
Cash Advances	
Cash-on-hand	
Down Payment Assistance Programs	
Gift or Grant Funds Which Must be Repaid	
Non-vested Restricted Stock Units (RSU)	
Non-vested Retirement Funds	
Non-vested Stock Options	
Proceeds of SBA/PPP Loan	
Rent Credit (Lease to Own Arrangements)	
Section 8 Voucher Assistance	
Security Deposits for Rental Properties Owned	
Sweat Equity	
Unsecured Loans	

8.1.3 Age of Asset Documentation

Unless otherwise indicated, all asset documentation may not be more than 120 days old at the time of closing.



8.1.4 Reserves

Reserves are measured by the number of months of housing expense (PITIA) for the subject property that a borrower can pay using his or her financial assets.

Star Series Specific Requirements Reserves		
Star Series	Doc Types	Requirements
Series 1	- Full Doc - Bank Statements 1099 - P&L - WVOE - Asset Depletion - Asset Utilization - DSCR	- Rate-Term Refi w/ LTV/CLTV $\leq$ 65% - No Reserves Required - All Others - Loan Amount < \$1MM = 3 months - Loan Amount $\geq$ \$1MM to \$1.5MM = 6 months - Loan Amount > \$1.5MM = 9 months
	FN - DSCR	12 months - Additional 2 months for each other property owned

Loan proceeds (i.e. Cash-in-Hand) may be used to meet reserve requirements at Loan Amounts $\leq$ \$3.5MM. For Loan Amounts > \$3.5MM, loan proceeds cannot be used to meet the reserve requirements.

Special Considerations:

- Reserves for a loan with an Interest-Only feature are based upon the Interest-Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.

Ineligible Reserves:

- Gift funds may not be used to meet reserve requirements.
- Proceeds from a 1031 Exchange may not be used to meet reserve requirements.



8.1.5 Verification of Assets

Assets must be seasoned for 30 days or sourced, and verified with one of the following:

- Most recent 1 month's account statement, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 30 days of asset verification. Account statements must provide ALL of the following information:
 - Clearly identify the institution.
 - Borrower as the account holder.
 - Account number (or at minimum the last 4 digits).
 - Statement date and time period covered.
 - Current balance in US dollars.
 - Transaction detail for the period. OR
- Written Verification of Deposit (VOD), completed by the financial institution. VOD must include:
 - The current and average balances for the most recent 1-month period (large disparities between the current balance and the opening balances requires additional verification or supporting documentation).

If the borrower does not hold the deposit account solely, all non-borrower parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds.

Foreign Assets have additional requirements and a 60-day seasoning requirement. See [Foreign Assets](#).

The Asset Depletion and Asset Utilization programs have additional requirements. See [Asset Depletion - Seasoning & Documentation Requirements](#) and [Asset Utilization - Seasoning & Documentation Requirements](#).

8.1.5.1 Online Asset Printouts

If an online printout is used in lieu of an asset statement, it must provide the same details as required of a full account statement and contain at minimum a portion of the account number sufficient to verify which account is being referenced. The underwriter may use multiple documents to corroborate data from an online printout. For Example: if the online printout contains an account number but not the account holder's name, another document from the institution which shows both the account number and the account holder's name would be sufficient.



8.2 Annuities

Net proceeds from the surrender of an annuity or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, borrower's receipt of the funds from the annuity company must be documented by obtaining either a copy of the check from the annuity company or a copy of the payout statement issued by the annuity company. If the cash surrender value of the annuity is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the annuity, payments on a loan secured by the cash value of a borrower's annuity do not have to be considered in the total DTI ratio. If additional obligations are indicated, the amount must be factored into the total DTI ratio or subtracted from the borrower's reserves.

Funds from the surrender or borrowing against an annuity do not need to be discounted and proof of receipt/liquidation is required when used for cash to close. When used for reserves, the surrender value or accumulated cash value minus any loans may be used at 60% in qualifying. The borrower must be the owner of the policy to use it in qualifying. Borrowers who are the beneficiary but not the owner of an annuity may not use those funds in qualifying.

8.3 Business Assets

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers.

Assets held in the name of a Non-Profit, Charity or Church/Religious Organization may not be used in qualifying.



8.3.1 Business Assets Documentation

The borrowers on the loan must have a minimum of 25% ownership of the business and must be owners on the business account. Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.

Business Assets should be documented according to the asset type, in compliance with other provisions of this guide.

All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account. The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction.

If the business income is not being used to qualify, no further documentation is required. For loans where the business income is being used to qualify, additionally provide:

- A signed letter from an accountant or the borrower verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If the letter is provided by the borrower, the underwriter must carefully review both the business income documentation and the asset documentation provided to determine if withdrawal of funds will impair the business's ability to operate. The underwriter may request at their discretion additional information to support the use of business assets will not impair the business income used in qualifying.

See [Verification of Assets](#) for documentation requirements.

8.3.2 Business Assets - Asset Analysis and Large Deposits

Business assets are subject to different large deposit thresholds than personal accounts. Any deposit that represents more than 50% of the total business deposits for the month and cannot be easily identified as business income, must be either sourced or excluded from asset calculations. The underwriter must evaluate business assets for any signs of non-secured borrowed funds such as credit card loans.

8.4 Cryptocurrency/Virtual Currency Assets (e.g. Bitcoin)

In order to be used for down payment, closing costs, and reserves, cryptocurrencies must be fully seasoned for 30 days and liquidated to cash.

Due to the difficulty in proving ownership and the legal source of cryptocurrencies held outside of licensed U.S. exchanges (e.g. cold storage, foreign exchanges), cryptocurrencies that have not been held at a licensed U.S. exchange must be liquidated and seasoned in a U.S. bank account for 30 days to be used in qualifying.

For cryptocurrencies held in a licensed U.S. exchange, 30 days of seasoning must be provided (which may include the time period held as cryptocurrency at the licensed exchange, supported by account statements). The liquidated assets used in qualifying must be held in a U.S. bank account for 10 days prior to closing to be used in qualifying.

Due to the heightened money laundering concerns with cryptocurrencies, the underwriter may request additional information regarding any unusual activity or asset transfers. Cryptocurrency assets are not eligible to be used to calculate income on either the [Asset Depletion Program](#) or the [Asset Utilization \(Asset Qualifier\) Program](#).



8.5 Depository Accounts (Checking, Savings, Money Market, Certificate of Deposit)

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts can be used for down payment, closing costs, and reserves.

See [Verification of Assets](#) for documentation requirements.

8.5.1 Depository Accounts - Asset Analysis and Large Deposits

Indications of borrowed funds must be investigated, including recently opened accounts, payments to creditors not shown on the credit report, recent large deposits, or account balances that are considerably greater than the average balance.

Large deposits within personal accounts are defined as single deposits exceeding 50% of the qualifying monthly income that cannot otherwise be identified with documents in the file. These may represent undisclosed liabilities and therefore should be investigated.

A signed, written explanation of the source of funds should be obtained from the borrower, and the source of the funds must be verified. Unverified funds are not acceptable and should be removed from qualifying asset totals.

8.6 Earnest Money

If earnest money is needed to meet the borrower's minimum contribution requirements, funds must be verified and from an acceptable source. Satisfactory documentation may be any of the following:

- Copy of the borrowers canceled check.
- Receipt from an institutional deposit holder, title, or realty company.
- VOD or bank statement showing the average balance was sufficient to cover the amount of the earnest money withdrawal and provide sufficient cash to close as well as reserves.



8.7 Foreign Assets

Borrowers using foreign assets to qualify, must explain their connection to the foreign country via letter of explanation or other means. Borrowers who currently or formerly reside abroad, have immigrated, live as ex-patriots, have family abroad, or own property in multiple countries, have reasonable cause to use foreign assets. Files with no clear connection to a foreign country or reason for using foreign based assets should be carefully evaluated for fraud or money laundering concerns.

Foreign assets may not be used in the income calculation for either the [Asset Depletion Program](#) or the [Asset Utilization \(Asset Qualifier\) Program](#).

All funds held or originating from outside the United States are required to be seasoned for 60 days.

Funds used only for reserves may remain in a foreign institution and be verified with account statements covering a 60-day period or equivalent documentation. For assets held in currencies other than U.S. dollars, see [Conversion or Exchange of Assets](#). For account statements not provided in English, a certified translation must be provided and signed and dated by the translator. Contact information for the translator or their company must be in the file. Artificial Intelligence (AI) or Online Dictionary translations are not acceptable. Fees for translation services must be paid for by the borrower or broker directly and are not reimbursable. These fees may never be included on the final Closing Disclosure.

Funds required for down payment and closing costs must be transferred to a U.S. depository institution or sent to the closing/escrow agent prior to the note date. Reference the table below for the amount of time funds must be held in a U.S. based account prior to closing. The funds for down payment and closing costs must be seasoned a total 60 days, which may represent a combination of time at a U.S. institution and a foreign bank. Documentation must evidence the funds were in the name of the borrower prior to being transferred to the U.S. unless documented in accordance with [Gift Funds](#).

Borrowers selling foreign assets or real estate to qualify may document their asset ownership time and the sale/settlement statement to support 60 days of seasoning. In all cases, the assets must be deposited in a U.S. financial institution or with the closing/escrow agent prior to the note date. Reference the table below for the amount of time funds must be held in a U.S. based account prior to closing.

The country of origin for foreign assets may not be on the OFAC sanctioned list. See [Sanctioned Borrowers & Entities \(OFAC\)](#) for a list of ineligible countries. Transfers which originate or traverse through an OFAC sanctioned country while being transferred to the United States are permanently ineligible for use in qualifying regardless of seasoning.

In all cases, the underwriter must be able to determine the foreign financial institution is verifiable and legitimate via internet search.

In calculating foreign assets, the underwriter must apply the same discount percentages based upon asset type as U.S. based assets. See [Eligible Asset Accounts](#) for details.

Certain Star Series contain additional requirements for Foreign Assets. Reference the table below for details.

Star Series Specific Requirements		
Foreign Assets		
Star Series	Foreign Assets Permitted	Minimum time in U.S Bank Account prior to closing
Series 1	Yes	30 days



8.7.1 Conversion or Exchange of Assets

Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either <https://www.xe.com/> or <https://www.wsj.com/market-data/currencies/exchangerates> within 30 days of closing. The file should contain a printout evidencing the exchange rate used in qualifying.

8.8 Funds Secured by an Asset

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Non-financial assets such as automobiles, watercraft, airplanes, artwork, cryptocurrency, jewelry, bullion, collectibles, and real estate may be used to secure borrowed funds. Additionally, financial assets such as stocks, mutual funds, bonds, life insurance, annuities, and/or 401(k) accounts may be used to secure borrowed funds. Funds secured against a borrower-owned business are not permitted.

The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.

The monthly payments for the loan secured by non-financial assets must be counted in the DTI ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).

If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

For borrowed funds secured by a life insurance policy, see [Life Insurance](#).



8.9 Gift Funds

Gift funds are only permitted on purchase transactions. Gift funds may be used for down payment, closing costs, and prepaid items (escrows). Gift funds may not be used to meet reserve requirements. The donor must be a relative or have an established personal relationship with the borrower.

Each Star Series has its own requirement/restriction on Gift Funds that are Occupancy, LTV and Program dependent. Reference the table below for details.

Star Series Specific Requirements/Restrictions Gift Funds			
Star Series	Ineligible Doc Types	Eligible Doc Types	Requirements/Restrictions
Series 1	- Asset Depletion - Asset Utilization - WVOE - FN - DSCR	- Full Doc - Bank Statements 1099 - P&L - DSCR	- Primary Residence - when LTV/CLTV > 75%, borrower must contribute 5% own funds - Second Home & Investment Properties - borrower must contribute 10% own funds

A signed and dated gift letter is required to provide ALL the following information:

- Donor's name, address, phone number, and relationship to borrower.
- Dollar amount of gift.
- Date funds were transferred.
- Donor's statement that no repayment is expected.
- Dated prior to the note date.

Non-borrowing titleholder or member of LLC/entity who is contributing funds to the transaction is not considered a gift, and no gift letter is required. The file should contain underwriter notes or a letter of explanation regarding the source of the assets contributed by a non-borrowing titleholder. A one-month asset statement is required to source funds.

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip.
- Copy of the donor's withdrawal slip and the borrower's deposit slip.
- Copy of the donor's check to the closing agent.
- Evidence of wire transfer from donor to borrower.
- Settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

Gift funds sourced from outside of the United States must adhere to the additional requirements of [Foreign Assets](#).

For requirements specific to DSCR programs, see [DSCR - Gift Funds](#).



8.10 Gift of Equity

Gifts of equity are permitted, and the entire down payment may come from the gift of equity.

The following standard requirements/restrictions must be met:

STG Mortgage Standard Requirements/Restrictions (All Star Series) Gift of Equity	
• Purchase transaction. • Primary residence transaction. • Gift of equity must be from an immediate family member or someone with established close relationship formed by blood, marriage, adoption, domestic partnership or legal guardianship. • Non-Arm's Length criteria met. See Non-Arm's Length Transactions. • Signed and dated gift letter provided. • The person(s) giving the gift may not remain on title. • Gift of equity is listed on the settlement statement. • Gifts of equity are not permitted on the following doc types: DSCR, Asset Depletion, Asset Utilization.	

The signed and dated gift letter is required to provide ALL the following information:

- Donor's name, address, phone number, and relationship to borrower.
- Dollar amount of gift.
- Donor's statement that no repayment is expected.

To verify the transaction is not a foreclosure bail out, the seller must provide a current mortgage statement (if applicable) to verify they are not more than 30 days delinquent on the mortgage being paid off through the transaction.

Certain Star Series contain additional requirements/restrictions or do not permit Gifts of Equity. Reference the table below for details.

Star Series Specific Requirements/Restrictions Gift of Equity	
Star Series	Restrictions
Series 1	Standard Gift of Equity Restrictions



8.11 Interested Party Contributions (IPCs)

STG Mortgage Standard Restrictions (All Star Series) Interested Party Contributions	
Occupancy	Limit
Primary Residence	6%
Second Home	6%
Investment Property (including DSCR loans)	3%

Percentages are based upon the property's sales price. When IPCs exceed the above limits, they are considered sales concessions and the IPC amount exceeding the permissible limit must be subtracted from purchase price and the LTV recalculated. This will often result in the need to lower the loan amount slightly to remain within LTV limits.

Additionally, Interested Party Contributions which exceed actual closing costs and/or prepaids for the transaction must be subtracted from the Sales Price, even if the IPC amount is within the above limits.

Lender credit from premium pricing is not considered an IPC and does not need to be considered in the above limits.

Example: On a loan where the maximum allowed IPCs are \$5,000 but the transaction contains \$6,000 in IPCs, the sales price must be lowered by \$1,000 and the LTV recalculated using this lower number.

8.11.1 Buyer's Agent Real Estate Commissions Paid by The Seller

In alignment with the Fannie Mae Selling Guide, should a seller choose to pay the real estate commission for the buyer's agent, those funds are not considered an IPC and do not have to be counted toward the above limits if the arrangement is a reasonable and common practice for the area.



8.12 Life Insurance

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, borrower's receipt of the funds from the insurance company must be documented by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total DTI ratio. If additional obligations are indicated, the amount must be factored into the total DTI ratio or subtracted from the borrower's reserves.

Funds from the surrender or borrowing against a life insurance policy do not need to be discounted and proof of receipt/liquidation is required when used for cash to close. When used for reserves, the surrender value or accumulated cash value minus any loans may be used at 100% in qualifying. The borrower must be the owner of the policy to use it in qualifying. Borrowers who are the beneficiary but not the owner of a life insurance policy may not use those funds in qualifying.

8.13 Net Proceeds from Sale of Real Estate or Other Assets

If part of the down payment, closing costs, or reserves is expected to be paid from the sale of the borrower's current property or other real estate, a final settlement statement verifying sufficient net proceeds must be obtained.

Proceeds from the sale of other tangible assets (e.g. autos, boats) is permissible to be used in qualifying and requires proof of sale and evidence the proceeds have been received.

If funds from the sale of an asset are to be used in calculating a qualifying income for either Asset Depletion or Asset Utilization, the file must contain proof those assets were owned by the borrower(s) for at least 120 days prior to closing. See [Asset Depletion Program](#) or [Asset Utilization \(Asset Qualifier\) Program](#).



8.14 Pension Cash Value

Net proceeds from the surrender of a pension or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, borrower's receipt of the funds from the pension company must be documented by obtaining either a copy of the check from the pension company or a copy of the payout statement issued by the pension company. If the cash value of the pension is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower. For non-liquidated pension funds to be used as reserves, the underwriter must ensure the borrower meets all requirements of the pension plan to withdraw funds immediately from the pension.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the pension, payments on a loan secured by the cash value of a borrower's annuity do not have to be considered in the total DTI ratio. If additional obligations are indicated, the amount must be factored into the total DTI ratio or subtracted from the borrower's reserves.

Funds from the surrender or borrowing against a pension do not need to be discounted and proof of receipt/liquidation is required when used for cash to close. When used for reserves, the cash value minus any loans may be used at 60% in qualifying. The borrower must be the owner of the pension to use it in qualifying.

8.15 Rent Credits (Rent to Own, Lease with Purchase Option)

Rent credits are not permitted to be used as a qualifying asset.

8.16 Retirement Accounts

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k), 403(b) or TSP accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Ownership of the account must be verified, and the account must be vested.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of [Stocks/Bonds/Mutual Funds](#) for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.

If the borrower intends to use the retirement account to also satisfy income requirements, the income calculation must subtract the amount of retirement funds being used for downpayment and closing costs.

See [Verification of Assets](#) for documentation requirements.

When using retirement accounts for reserves, borrowers of retirement age may use 100% of the account's current value, while those not of retirement age may use 80%.



8.17 Savings Bonds and U.S. Treasuries

U.S. Treasuries are bonds, bills, and notes which are highly liquid, trade on exchanges, and are guaranteed by the U.S. Government. These securities vary in duration and can be liquidated at any time, similar to selling a stock. Treasuries will have a face value that is payable at maturity and a current market price. When used in qualifying, the current market price shall be used and the face value disregarded. 100% of the current market price may be used in qualifying. Treasuries will generally be found inside of accounts held at Investment Brokerage Firms. The underwriter is not required to document the face value.

Savings Bonds are similar to U.S. Treasuries, however they do not trade on an exchange and are not able to be redeemed early without penalties and tax consequences. These will generally be found in paper form or in a Treasury Direct account directly with the U.S. Government. Savings Bonds will have a face value but no market price. Savings Bonds which have already matured may be redeemed at any time and may use 100% of face value in qualifying. Savings bonds which have not yet matured must use 80% of face value in qualifying.

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

8.18 Spousal Accounts

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements. The non-borrowing spouse must be a titleholder to the subject property.

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.

8.19 Stocks/Bonds/Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

If the investment account contains a margin loan, the amount of the margin loan must be subtracted from the total account value to arrive at eligible qualifying funds. Margin loans generally do not need to be counted in DTI. See [Secured Debt, Margin Loans, Retirement & Savings Plan Loans](#).

See [Verification of Assets](#) for documentation requirements.



8.20 Stock Options

Vested stock options are an acceptable source of funds for down payment, reserves, and closing costs when immediately available to the borrower. The value in stock options comes from the ability to purchase a stock at less than the current market price. A statement showing the stock options must be provided.

Some statements may reference “option contracts” instead of actual “options”. 1 option contract is equal to 100 stock options.

Stock Options can be classified into 2 categories as described below.

8.20.1 Category 1: Standard Options Purchased on an Exchange

Standard options will be found inside the borrower’s broker account alongside other stocks and bonds. These are automatically vested and no additional vesting documentation is required. Standard options will always be represented as Contracts, where 1 contract = 100 options. For standard options, the file must contain documentation of the current market value on a statement from the brokerage firm where the options are held. The current market value of the options must be multiplied by the 80% allowable percentage to be used in qualifying.

8.20.2 Category 2: Employer/Business Provided Options

Statements often provide the market value of the stock options. When a market value is provided directly on the statement, the underwriter may use this value (subject to the allowable percentage).

When the statement does not provide the market value of the options, the market value must be calculated. The market value of the stock options is determined by subtracting the strike price (i.e. the price at which the option can be exercised) from the current market price, then multiplying that amount by the number of options. If the current market price of the underlying stock is below the option strike price, the options have no value and cannot be used in qualifying.

When options are obtained from an employer or business arrangement, the underwriter must verify the options are vested. Options which vest in the future may not be used in qualifying. These types of options often come in uneven amounts such as 103 options, whereas exchange purchased options are always in even 100 option blocks.



8.20.3 Stock Options Calculations - Examples

Examples for Determining Market Value and Qualifying Amount:

Scenario #1: Market Value on Statement

The statement indicates a market value of \$100,000 for the stock options. The \$100,000 market value is multiplied by the allowed percentage of 80% to arrive at \$80,000 eligible for qualifying.

Scenario #2: Strike Price greater than Current Stock Price

The statement shows a strike price of \$50 for 300 stock options. The current market price of the stock is \$48. Since the current market price of \$48 is less than the strike price of \$50, the stock options have no value and cannot be used for qualifying.

Scenario #3: Current Stock Price greater than Strike Price

The statement shows a strike price of \$50 for 300 stock options. The current market price of the stock is \$75. The strike price of \$50 is subtracted from the current market price of \$75, equaling \$25. The \$25 is then multiplied by the number of stock options (300 in this example) to arrive at \$75,000 market value. The market value of \$75,000 is then multiplied by the allowed percentage of 80% to arrive at \$60,000 eligible for qualifying.

Scenario #4: Statement lists Option Contracts instead of Individual Options

The statement shows a strike price of \$50 for 3 option contracts. The current market price of the stock is \$75. The strike price of \$50 is subtracted from the current market price of \$75, equaling \$25. The \$25 is then multiplied by the number of stock options (where 1 option contract = 100 stock options, so 300 stock options in this example), to arrive at \$75,000 market value. The market value of \$75,000 is then multiplied by the allowed percentage of 80% to arrive at \$60,000 eligible for qualifying.

8.20.4 Stock Options - Allowable Percentage and Liquidation Requirements

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 80% of the value of the assets may be considered, and liquidation is not required.

8.20.5 Stock Options - Additional Restrictions

Stock options may either be purchased on an exchange or given by a company as compensation for employment.

Unvested or restricted stock options are not permitted to be used in qualifying. In order to use stock options in qualifying, the underlying stock upon which the option is based must be publicly traded and have a market capitalization of at least \$100 million.

Stock options should not be confused with Restricted Stock Units which are granted to employees who complete certain milestones. Once the milestone has been achieved, the Restricted Stock Unit will vest and become a regular unit of stock. Restricted Stock Units which have vested should be treated as normal stock shares.



8.21 Subordinate Financing as an Asset

Proceeds from new Subordinate Financing are acceptable assets. See [Subordinate Financing](#) for details.

8.22 Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, ALL of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee.
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage. This documentation must come from an institutional trustee, lawyer, financial advisor, or trust manager. If this cannot be provided, a copy of the full trust must be provided.

Persons creating trust documentation may not be interested parties to the transaction or relatives of the borrower.

8.23 1031 Exchanges

1031 Exchanges are part of an IRS recognized tax-minimization strategy to protect long-term investments from capital gains taxes while they are being converted from one asset to another. In these transactions, the borrower sells an investment property (may be either residential or commercial), places the proceeds from that sale with an independent asset custodian (Qualified Intermediary), and then locates another property to purchase with those funds. Funds to close on the new property will come directly from the Qualified Intermediary to the escrow agent for the transaction.

There is no seasoning requirement for funds originating from a 1031 exchange.

Funds from 1031 exchanges are permissible with the following requirements:

- Purchase only.
- Subject property must be investment occupancy.
- File must paper trail the sale of the previous property to the 1031 Qualified Intermediary holding the funds.
- Current account statement/asset statement from the 1031 Qualified Intermediary showing available funds.

Funds from a 1031 exchange may be used for down payment, closing costs, and prepaid items. 1031 funds may not be used as reserves. Surplus 1031 funds left over after the transaction may not be used as reserves.



9.0 APPRAISALS & PROPERTIES

9.1 Appraiser Qualifications

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

9.1.1 Appraiser Selection

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report.

All appraisals must be ordered through an Appraisal Management Company (AMC).

9.1.2 Appraiser Independence Requirements

Appraisers must have no direct or indirect interest, financial or otherwise in the subject property or with the involved parties

No one involved in the transaction may ask appraisers to report a predetermined value or withhold disclosure of adverse features.

Appraisers may not be employed by the originator, lender, borrower, or realtor on the transaction.

All appraisals must comply with Appraiser Independence Requirements as outlined by Fannie Mae at <https://singlefamily.fanniemae.com/media/4711/display>.

9.1.3 Junior/Apprentice Appraiser Requirements

In most states, to obtain licensure as an appraiser, the applicant must complete a significant period working as an apprentice under a fully licensed appraiser. Certain appraisal work may be completed by these unlicensed or uncertified appraisers who work as an employee or subcontractor of a licensed appraiser. Work from these appraisers is subject to the following requirements:

- The appraisal report is signed by a licensed or certified appraiser and is acceptable under state law.
- A supervisory appraiser or any licensed appraiser signing on the left-hand side of the appraisal report as the "Appraiser" must have performed the level of inspection of the subject property required by the assignment.



9.2 Appraisal Regulatory Requirements

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral. The following requirements apply to all appraisals:

- Appraiser provided with the ratified sales contract and other financing or sales concessions that are associated with the transaction.
- Appraiser Independence Requirements published by Fannie Mae/Freddie Mac adhered to.
- Federal Truth in Lending Act and Regulation Z with respect to valuation independence adhered to.
- Appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.
- Appraiser provides his or her license or certification on the appraisal report.
- Borrower has been provided 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.
- For HPML Transactions, a full appraisal is provided in all circumstances, and for flip transactions, 2 full appraisals must be ordered. See [Higher Priced Mortgage Loan \(HPML\) Transactions](#) for details.

9.3 Appraisal Forms

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used, when applicable:

- Uniform Residential Appraisal Form (Fannie Mae Form 1004).
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073).
- Appraisal Update and/or Completion Report, which is also used for Disaster Inspections (Fannie Mae Form 1004D).
- Single Family Comparable Rent Schedule for all 1-unit investment properties (Fannie Mae Form 1007).
- Small Residential Income Property Appraisal Report (Fannie Mae Form 1025).

Detached Condos (Site-Condos) may use either form 1004 or 1073 as the appraiser deems appropriate.



9.4 Appraisal Report Requirements

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs of the front, street, and rear views of the subject property.
- Interior color photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and statement assumptions and limiting conditions signed by the appraiser.
- If short-term rental income is being used to qualify, a short-term rental market analysis with market rent determination must be completed (if not completed by the appraiser, one completed by an Appraisal Management Company (AMC) is acceptable).
- If any of the following concerns exist, appraiser must address: Rapid property appreciation, property condition concerns, questionable comparables, unusual financing terms, market volatility, zoning or legal issues and or potential red-flags or appraisal inconsistencies.



9.5 Appraisal Review - Secondary Valuation Requirements

An appraisal review product is required on every loan file unless a full second appraisal is obtained. The appraisal review product should provide an “as is” value for the subject property as of the date of the subject loan transaction.

The following are available options for secondary valuation products:

STG Mortgage Standard Requirements (All Star Series) Appraisal Review Specifications	
Loan Amount ≤ \$2,000,000	Option #1 Provide a UCDP Submission Summary Report (SSR) with a score ≤ 2.5 from one of the following: - Fannie Mae Collateral Underwriter (CU) - Freddie Mac Loan Collateral Advisor (LCA)
	Option #2 If UCDP/SSR Score > 2.5 or the score is unavailable, provide one of the following: - Collateral Desktop Analysis (CDA) from Clear Capital - Appraisal Risk Review (ARR) from Pro Teck - Field Review Appraisal from a State Licensed Appraiser The review appraisal product must support the original appraised value within 10%. Review appraisal products which exceed the original appraised value are permissible regardless of percentage differential. If the review appraisal product is unable to support the original valuation within 10%, 2nd full appraisal required. CDA reports with a Risk Score of High are not eligible to be used, even when the valuation is within 10% of the original appraisal.
	Option #3 Provide a 2nd full appraisal, LTV calculated using the lower of the 2 appraisals.
Loan Amount > \$2,000,000	2 full appraisals required. LTV calculated using the lower of the 2 appraisals. No further valuation products required.

9.6 Age of Appraisal and Appraisal Updates

Appraisals and appraisal recertifications must be no older than 120 days at the time of closing. The effective date of the appraisal shall be used in determining the appraisal's expiration date.

For recertified appraisals, the original appraisal effective date may be no older than 12 months at the time of closing.



9.6.1 Appraisal Recertification

When the appraisal will be more than 120 days old at the time of closing, a recertification of value may be performed and should meet the following requirements:

- Completed on Form 1004D.
- Completed by original appraiser.
- Exterior inspection completed by appraiser.
- Appraiser categorically states that the value has not declined since the original appraisal.
- Original appraisal must be in the name of the borrower.

If the value has declined a new appraisal is required.

If original appraiser is not available a substitute appraiser may be used. When recertification is not completed by the original appraiser, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The file must be noted as to why the original appraiser was not used.

Appraisals being recertified may be no older than 12 months at the time of closing.

Transferred appraisals are not eligible to be recertified.

9.7 Transferred Appraisal Requirements

Transferred appraisals are permitted for loan amounts up to \$3.5MM. All transferred appraisals must meet ALL of the following requirements:

- Appraisal must be in the name of the borrowers.
- Appraisal must have been ordered through an Appraisal Management Company (AMC).
- Investment property appraisal transfers are only permitted when the appraisal was ordered by a well known nationwide lender.
- Originating lender must provide documentation stating that they have complied with all appraisal independence requirements.
- Transferring lender must provide a letter transferring the appraisal ownership and rights to STG Mortgage. See [Appraisal Transfer Letter Requirements](#) for additional requirements.
- Transferring lender or AMC letter must either state that a Reconsideration of Value disclosure was provided at the time of appraisal delivery or provide a copy of the Reconsideration of Value disclosure that was sent to the borrower at time of appraisal delivery. The disclosure is not required to be signed.
- File must contain both the PDF and XML versions of the transferred appraisal.
- File must contain a copy of the submission summary reports (SSR) from both FNMA and FHMLC.
- File must contain documentation proving the date the appraisal report was delivered to the borrower. If this cannot be obtained, STG Mortgage (or the originating correspondent) must provide a copy of the appraisal to the borrower at least 3 full business days prior to closing.
- Transferred appraisals may NOT be recertified and must be no more than 120 days old at the time of closing.
- Appraisals completed by staff, in-house, or lender/bank employed appraisers are not acceptable to be transferred.

For correspondent originations, the transfer letter may be addressed to the name of the STG Mortgage approved correspondent that is originating the transaction.



9.7.1 Appraisal Transfer Letter Requirements

A transfer letter must be provided on the letterhead of the transferring lender and contain the following:

- Current Date.
- Borrower Name.
- Property Address.
- A statement transferring appraisal to STG Mortgage (or the approved STG Mortgage correspondent originating the loan).
- The person signing transfer letter may not be a Loan Officer, Loan Officer Assistance, or Processor.
- The transferring lender must acknowledge that their appraisals are compliant with Appraisal Independence Requirements (The AIR policies may be provided on a separate letter from the transfer letter, provided the combination of the transfer letter and supplementary documentation confirms that the appraisal being transferred is fully AIR compliant.).

For correspondent originations, the transfer letter may be addressed to the name of the STG Mortgage approved correspondent that is originating the transaction.

9.8 Appraisal Review and Analysis

9.8.1 Appraisal - Subject Section

The appraiser must complete this section in its entirety.

In addition to standard appraisal review requirements, the following specific criteria must be met:

- The property address and city name must exactly match the loan application, final closing documents, and property insurance.
- The Assessor's Parcel # must match other documents from the file such as the title report and/or tax certification.

For refinances, any property that has been listed for sale within the previous 6 months must comply with either [Properties Listed for Sale \(Rate/Term Only\)](#) or [Properties Listed for Sale \(Cash-Out\) guidelines](#).

9.8.2 Appraisal - Contract Section

If the loan is a purchase transaction, this section should be completed in its entirety and analyze the current sales contract and the impact of any financial or other considerations listed in the contract.

Addendums to the sales contract that take place after the appraisal is completed do not require an update from the appraiser unless the underwriter determines the new terms have a material impact on the value or marketability of the subject. For example: altering interested party contributions to amounts that do not exceed program limits, the inclusion of minor furnishings, home appliances, & draperies and transfer of termite bonds would not require the appraisal to be updated. Alternatively, the inclusion of interested party contributions that exceed program limits, large seller concessions for major home repairs, or including significant tangible goods as part of the part of the transaction (major tools, autos, boats, etc.) would require the appraiser to review the contract addendums and update the appraisal accordingly.



9.8.3 Appraisal - Neighborhood Section

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. In addition to standard appraisal review requirements, the following specific criteria must be met:

- Properties marked as Rural are subject to requirements in [Rural Properties](#).
- Properties marked as Declining are subject to the requirements in [Declining Markets](#).

Properties marked as Over Supply, Declining Market, or have a marketing time over 6 months should be addressed with further details in the Marketing Conditions commentary of this section.

The Present Land Use % should support the neighborhood as residential in character. High percentages of Commercial and/or Other use must be carefully evaluated to ensure the property's desirability as residential real estate is not adversely impacted.

The appraised value of the subject property should generally fall within the Low and High values for the area.



9.8.4 Appraisal - Site Section

The underwriter should carefully evaluate the site section of the appraisal for the following concerns:

For properties marked as commercial, agricultural, or industrial zoning under the Specific Zoning Classification or Zoning Description, see [Zoning](#).

The appraiser must mark the box affirming that the highest and best use of the property is the present use as residential real estate.

Confirm that the property has a permanent source of electricity that is common for the area (Power Grid, Solar, Wind, Geothermal, etc.). Regardless of the primary source of electricity, all properties must be connected to the power grid as either a primary or backup source of electricity.

If Water & Sanitary Sewer are not marked as public utilities, the appraiser should comment on whether private water & sewer hookups are common for the area. The water source must be either a well, spring, or other permanent source. Properties that rely solely upon water storage tanks are not acceptable. See [Well Water, Septic System and Sewage Disposal System](#).

If the property is in a flood zone (Flood Zone A or V), flood insurance will be required. The final flood certificate will be used to determine the property's flood zone. The appraisal does not need to be updated to match the final flood certificate.

Any adverse conditions should be noted and reviewed. Conditions that affect health, safety, or usability of the property must be remedied prior to closing.

The utilities must be on at the time of inspection and available for cursory review by the appraiser to ensure they function adequately.

The property must be accessible for ingress and egress by streets that are constructed in a way which is reasonable and customary for the area. Properties on private roads do not require additional documentation if it can be shown that the property owner has the right to use the private road to access their property. This may be in the form of an appraisal commentary, title easement, private road agreement, or similar. See [Private Roads](#).



9.8.5 Appraisal - Improvements Section

The appraiser must complete the improvements section to include all applicable data regarding the physical and functional characteristics of the subject property. The underwriter should carefully review for any physical deficiencies, over-improvement, or functional obsolescence noted.

The property must meet the minimum square footage requirements in [Minimum Square Footage](#).

The property must be suitable for year-round occupancy. It must have a permanent source of heating unless it is in a designated area as shown below. Portable heating units, and units relying solely upon coal or wood are not acceptable heat sources. Permanently installed heaters using electricity, geothermal, natural gas, liquid propane or fuel-oil are acceptable. Any heat source using a combustible fuel must be externally vented.

Areas where permanent heating source is not required due to temperate climate are as follows:

- Hawaii: all areas.
- Florida: Broward, Charlotte, Collier, Dade, Glades, Hendry, Lee, Martin, Monroe and Palm Beach Counties.

Examples of properties which would NOT be acceptable are because they are not suitable for year-round occupancy are as follows:

- Properties on an island without a bridge or year-round ferry service.
- Properties in which weather or natural features makes them inaccessible or unusable part of the year.

The underwriter should evaluate any concerns of dampness, mold, water damage, water leaks, deferred maintenance, foundation settlement, infestation, wood destroying organisms, or other adverse property conditions that would be either health & safety concerns, or adversely affect the marketability and livability of the subject as a residential dwelling. Conditions that affect health, safety, or usability of the property must be remedied prior to closing. See [Dampness, Mold, Water Damage & Leaks](#), [Deferred Maintenance](#), [Foundation Settlement](#), [Infestations & Wood Destroying Organisms \(WDO\)](#) for more information.

A significant source of value must come from the property improvements and use as residential real estate. The underwriter should carefully evaluate properties where most of the value is attributable to the land, outbuildings, or non-residential features. Properties in which the underwriter determines the residential improvements do not represent a significant portion of total property value are ineligible.

Examples of acceptable and unacceptable properties:

Acceptable:

- An oceanfront property with a total value of \$5,000,000, including a \$1,000,000 residential home (which is similar in size, age & desirability to comparable properties) and land valued at \$4,000,000.
- A 10-acre farm property with a total value of \$1,000,000, including a \$300,000 residential home, other structures valued at \$100,000, and land valued at \$600,000.

Unacceptable:

- An oceanfront property with a total value of \$5,000,000, including a \$50,000 residential home (which is NOT similar in size, age & desirability to comparable properties) and a land value of \$4,950,000.
- A 10-acre farm property with a total value of \$1,000,000, including a \$75,000 residential home in poor condition, other structures valued at \$25,000, and land valued at \$900,000.
- Any property where the condition, size, layout, or utility of the property does not conform to the general characteristics of the market area.
- Homes which are only valuable as teardowns or ground-up renovations.



9.8.6 Appraisal - Sales Comparison Approach Section

Each appraisal must include an estimate of market value, defined as the most likely price a property would fetch in a competitive and open market. This assumes a fair sale where both buyer and seller act prudently and knowledgeably, without any undue influence on the price.

The Sales Comparison Approach section must be completed on all appraisals.

9.8.6.1 General Comparability

The square footage, age, features, amenities, desirability, and price of the subject property should generally be within the same ranges as other properties in the subject neighborhood as reported on the appraisal.

Other comparables should be reasonable substitutes for the subject property, in that the same type of buyer might consider any of the comparables as a viable alternative to the subject property.

A comparable may not be considered in the determination of value if the appraiser comments anywhere within the appraisal that it does not represent the highest and best use of the property.

For comparables used that do not generally conform to the requirements of the Appraisal - Sales Comparison Approach Section & corresponding sub-sections, the appraiser must clearly state the reasons for alternate comparables.

9.8.6.2 Comparables Section

The appraiser must fill out the comparable grid completely and make reasonable adjustments for features, amenities, location, and other property characteristics to arrive at an adjusted value for each comparable. The results in overall net adjustments, gross adjustments, and individual line items are reasonable and justified by the appraiser.

A minimum of 3 recently sold (i.e. closed) comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. For refinance transactions, the subject property can be used as a fourth comparable sale or as supporting data if it was previously sold within the past 12 months. Properties under contract and current listings can be used as additional comparables to support the appraiser's valuation, however, they may not be used to meet the requirement for 3 recently sold (i.e. closed) comparable sales.



9.8.6.3 Location of Comparables

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.

For properties in established subdivisions, condo projects or PUDs, comparables from within the same subdivision or project as the subject property should generally be used if the subdivision or project has recent resale activity. Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

For properties in newly established subdivisions, condo projects or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select 1 comparable from the subject subdivision or project and 1 comparable from outside the subject subdivision or project. The third comparable can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property. If a comparable within the subject subdivision or project is unavailable, the appraiser should address with a comment.

9.8.6.3.1 Comparable Distance - Urban & Suburban Properties

For properties in Urban or Suburban locations, comparables should generally be within 1 mile of the subject property. If necessary, the appraiser may use comparables located farther away, provided they offer commentary explaining the reason for this. In all cases, at least 2 of the recently sold (i.e. closed) comparables must be within 5 miles of the subject property. Property appraisals unable to meet these requirements are considered rural and subject to rural property guidelines regardless of the appraiser's designation. See next section for the rural property comparable distance requirements and reference [Rural Properties](#) for additional restrictions.

9.8.6.3.2 Comparable Distance - Rural Properties

For properties located in Rural locations, comparables should generally be within 5 miles of the subject property. If necessary, the appraiser may use comparables located farther away, provided they offer commentary explaining the reason for this. In all cases, the appraisal must contain at least 3 recently sold (i.e. closed) comparables within 10 miles of the subject property or the loan is ineligible. See [Rural Properties](#) for additional restrictions.

9.8.6.4 Age of Comparables

Generally, appraisals should contain comparable sales dated within 12 months from the report date. Comparables up to a maximum of 18 months old may be used with appraiser commentary, however at least 2 of the recently sold (i.e. closed) comparables must be less than 12 months old.



9.8.6.5 Over-Improvements

An over-improvement is an improvement that costs more than its contributory value within the marketplace or is out of place for the property type or area. The appraiser must comment on over-improvements and indicate their contributory value and their effect on marketability of the subject property.

Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range. For example: a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not feature these kinds of improvements.

The underwriter should carefully review the over-improvements to ensure they are not a detriment to marketability of the subject, and that the appraiser has not assigned excessive value to these improvements.

Possible indications of over-improvement are across-the-board adjustments, where the subject has a feature not present in any of the comparables, or the subject's purchase price is more expensive than all of the unadjusted comparables.

9.8.7 Appraisal - Reconciliation Section

The appraiser should list each of the valuations that were applicable and developed as part of the analysis. The appraiser must then reconcile these values and list a final determination of value, and the effective date of the appraisal, which is the date the property inspection occurred.

If the appraiser did not use the Sales Comparison Approach value as the final appraised value, then this section should contain commentary regarding the method used to arrive at the final appraised value. See [Cost Approach](#), [Income Approach](#), and/or [Sales Comparison Approach](#) for more details regarding each approach.

The appraiser must also mark that the property appraisal was completed either "as is" or "subject to" the completion of the construction or repairs.

9.8.7.1 Cost Approach

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the land value represents an unusually large percentage of the overall property value, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. Loans in which the residential living units provide a small percentage of the value, and nearly all value is derived from land, outbuildings, and/or non-residential features are ineligible. While the Cost Approach section is not required to be completed on each loan, the underwriter must use their best discretion in evaluating all loans to ensure the residential improvements are a significant source of the property's value. See [Appraisal - Improvements Section](#) for additional details as well as examples of acceptable and unacceptable properties.

If the appraiser lists a remaining economic life for the property, it must exceed the loan term.

The cost approach is required to be completed on appraisals for modular homes. It is not required for other property types.

Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.



9.8.7.2 Income Approach

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier.

The income approach is required to be completed on appraisals for 2-4 unit properties. It is not required for other property types.

Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

9.8.7.3 Appraisals Completed Subject To

For an appraisal marked as “subject to” completion of initial construction, the file must contain all of the following:

- A 1004D Appraisal Updated & Completion Report to evidence construction has been completed.
- A certificate of occupancy or equivalent from the local building authority.

For an appraisal marked as “subject to” completion of repairs/improvements/inspection, the file must contain either a 1004D evidencing completion of the repairs or provide other satisfactory evidence that the condition was corrected (inspection reports, photos, contractor receipts, etc.). Any improvements or repairs which require either a building permit or a licensed contractor must have been completed in accordance with local building codes and may not have been completed by the borrower unless appropriately skilled and licensed.

Minor items, as determined by the underwriter, and which do not require a building permit, may be resolved with receipts, photos, and/or other evidence provided by the property owner and do not require a 1004D. Any improvements or repairs must have been completed in a workmanlike manner as determined by the underwriter.

Examples of minor items:

- Installing a missing smoke detector or carbon monoxide detector to comply with local regulations.
- Removal of yard debris and trash.
- Filling an empty pool with water.
- Filling in a small hole with dirt.
- Repairing a fence.
- Tree trimming and minor landscaping.
- Cosmetic repairs to non-structural walls.

9.8.8 Appraisal - Signatures & Appraised Value Area

The final appraisal report must be signed by a state licensed appraiser. It must include the appraiser's contact and license information, as well as their final determination of value. The effective date of the appraisal shall be used in determining the appraisal expiration date. If Supervisory Appraiser section has been completed, see [Junior/Apprentice Appraiser Requirements](#).



9.9 Other Appraisal Considerations

9.9.1 Appraisal Condition & Quality Ratings

Appraisers must rate the quality and condition of the subject property and all comparables. Reasonable adjustments should be made to ensure the value of each comparable is adequately adjusted to account for differences in quality and condition.

Properties with significantly different quality and construction ratings should be carefully evaluated by the underwriter to ensure they represent true comparables and similar marketability.

Quality Ratings are on a scale from Q1 (custom, high-grade, fine workmanship construction) to Q6 (simple building methods, may be lacking basic amenities, low cost materials).

Property Condition Ratings are on a scale from C1 (new Construction, excellent condition) to C6 (substantial damage and deferred maintenance).

Subject properties with a C5 or C6 rating are not eligible under any Star Non-QM program.

If remaining economic life is mentioned either in the Cost Approach section or anywhere in the comments, it must exceed the term of the loan.

See [Deferred Maintenance](#) and [Ineligible Property Types](#) for additional information.

9.9.2 Adverse Property Conditions

Any condition affecting the livability, desirability, marketability, safety, or value of the property must be carefully scrutinized. At the time of loan closing, the property must be able to be occupied without impediment, restriction, or safety concern.

9.9.2.1 Dampness, Mold, Water Damage & Leaks

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem. Generally, an engineer's report is required prior to making a loan decision. If it is determined that the cause of the dampness is due to a structural deficiency, or will have a significant negative impact on value/marketability, it must be corrected prior to closing.

If the appraisal report indicates the presence of significant indoor mold, an active roof leak, or an indoor water leak, the file must contain an inspection from a qualified professional or evidence of repair/remediation.

Leaking faucets and/or toilets are not considered water leaks provided the leaking water is caught through a plumbed drainage basin.



9.9.2.2 Deferred Maintenance

Property must be in average or better condition. Properties in C5 or C6 condition are ineligible. Deferred maintenance issues are permitted to remain outstanding, provided the neglected item is not structural in nature, the issue does not represent a threat to health, safety, or habitability, and the issue may be cured for less than \$2000.

The underwriter is not required to obtain a cost-to-cure for deferred maintenance issues if they are able to determine the significance and likely cost to address the concerns through reasonable judgment and discretion. When the underwriter is unable to easily determine the extent, significance, or cost-to-cure an issue, they should request inspections, appraisal comments, and other information to determine whether a deferred maintenance item must be repaired prior to closing.

Typical deferred maintenance items which may generally be left unresolved without further investigation are as follows:

- Small holes or cracks in the finish (drywall) of non-structural walls.
- Peeling, faded, or aged paint.
- Worn carpet (note, carpets soiled with animal/bodily fluids must be properly cleaned or replaced prior to closing if noted as a concern by the appraiser).
- Missing door/window screens.
- Cracks in windows which do not permit water intrusion or airflow.
- Fogged windows.
- Small tile/flooring cracks which do not appear structural or a result of significant foundation settlement.
- Fences in need of repair (fencing in danger of collapse must be addressed).
- Small non-working appliances (built in microwaves, dishwasher, garbage disposal). HVAC units must be functional.
- Leaky faucet/running toilet (only if minor).

9.9.2.3 Foundation Settlement

If the appraisal report notes evidence of significant foundation settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

If the appraiser notes only minor foundation settlement, and it appears from property age and other characteristics that the settlement is not progressing and does not represent a structural concern or detriment to valuation/marketability, no further documentation is required.

Properties with evidence of sinkhole activity are ineligible for financing.



9.9.2.4 Infestations & Wood Destroying Organisms (WDO)

If the appraisal indicates evidence of infestation, such as wood destroying organisms (termites, carpenter-bees, etc.), vermin, or other pests, the appraiser must comment on the effect on the value and marketability of the subject.

When any signs of an active infestation are present, the file must contain either proof the infestation has been resolved or a professional inspection showing no further infestation concerns.

When a property shows indications of a previously remedied (non-active) infestation, the issue does not need to be addressed if the underwriter is able to reasonably determine that the damage caused by the previous infestation does not affect health, safety, habitability or structural soundness of the home.

If the property shows evidence of current or prior damage by wood destroying organisms, a WDO report is required. Both active and historic infestations will require the underwriter to determine that the wood destroying organism has not resulted in unrepaired structural damage to the home. Depending on the location and extent of the infestation and damage, the underwriter may be able to determine the WDO damage does not represent a structural concern through appraisal photos, appraisal commentary, professional inspection reports or similar. The underwriter may use discretion in determining when a current termite bond, pest control contract, or similar may be used in lieu of a WDO report.

9.9.3 Declining Markets

Properties located in a declining market, as indicated by the appraiser, will require additional review by the underwriter.

If the appraiser indicates the property is located within a declining market, the maximum allowable LTV/CLTV for the scenario is program dependent.

Each Star Series contains restrictions for Declining Markets. Reference the table below for details. Regardless of doc type or Star Series, the maximum LTV/CLTV for a property in a declining market may never exceed 80%.

Star Series Specific Restrictions Declining Markets		
Star Series	Doc Types	Restrictions
Series 1	All	- LTV/CLTV 65% or less - No restriction - LTV/CLTV greater than 65% - 5% LTV/CLTV reduction from the MAX allowed per program matrix

9.9.4 Electrical Systems

Properties must have a permanent source of electricity that is common for the area (Power Grid, Solar, Wind, Geothermal, etc.). Regardless of the primary source of electricity, all properties must be connected to the power grid as either a primary or backup source of electricity.

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.



9.9.5 Environmental Hazards

The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated.
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI).
- Properties located within designated Superfund Sites and Cleanup Areas.

If the underwriter discovers any indication of a potential environmental hazard affecting the subject property through their review of the appraisal, sales contract, or other documentation, the file must contain evidence the hazards have either been fully remediated or that no hazards exist.

Properties located within a superfund cleanup area that has not undergone full remediation must contain documentation to support that the property is either outside of the immediate affected area, has been remediated, or is not affected by the type of designated environmental hazard.

Example: Many properties within Maricopa County, AZ are part of a superfund site that relates to poor quality ground water. While these properties can't use well water due to the contamination, properties which are connected to city water services would be acceptable.

9.9.6 Flood Zone

Properties located in flood zones whose code contains either an A or a V will be required to obtain flood insurance.

When flood insurance is required, federal law (Code of Federal Regulations, Title 12- Chapter I, Part 22, Section 22.5) requires that it be escrowed, even if other tax and insurance items are not otherwise escrowed on the loan. STG Mortgage requires flood insurance escrows for any property where flood insurance is required.

9.9.7 Health and Safety Hazards

The following are examples of health and safety hazards which must be addressed prior to closing. Any repairs or updates to the property must be completed in a workman like manner.

- Open pits, holes which represent a trip & fall hazard.
- Pools without water.
- Doors to nowhere (doors above the first floor which lead to open-air without stairs or balcony).
- Balconies without railing.
- Porches and porch steps without railing with more than 24 inch fall to the ground below.
- Exposed wiring.
- Stairs without railing which would permit a person to fall off the side of the stairs.
- Bars on the windows without a quick release.

The above list is not intended to be comprehensive. Any health & safety concerns as determined by the underwriter must be addressed prior to loan closing.



9.9.8 Outbuildings

Outbuildings such as exterior garages, workshops, barns, and sheds must be ancillary to the primary use as residential real estate. Properties with significant commercial operations of any kind present on the property are not eligible for financing. Properties where a significant portion of the desirability or value is attributable to the outbuildings and their ability to support non-residential activities (such as a business, farming, or commercial operation) are not permitted.

Minor outbuildings are permissible and may positively contribute to the value, character, and desirability of the subject property but must not otherwise alter the predominate character of the property as a residential dwelling.

Examples of acceptable and unacceptable outbuildings:

Acceptable:

- Small Barns.
- Boat Houses.
- Pool Houses.
- Exterior Garage.
- Shed.
- Workshop.

Unacceptable:

- Commercial scale barns & stables.
- Stand-alone office building.
- Livestock/crop processing areas & equipment.

9.9.9 Redlining Prohibition

STG Mortgage is an equal housing lender and stands firmly against housing discrimination in all forms.

Appraisal values and lending decisions must not in any way consider the age, race, ethnicity, national origin, gender, sexual preference, or disability of the borrowers or the residents of the subject property neighborhood.

Appraisals must contain no references to the protected statuses listed above which might lead to potential discrimination.

For example: the following must not be present in the appraisal:

- Pictures of people which can clearly show their race/gender/age.
- References to certain ethnic groups (e.g. home is close to many Italian restaurants and grocery stores).
- References describing the neighborhood residents. (e.g. a community with a large Spanish speaking population).

The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

It is permissible for an appraiser to comment on restrictions regarding communities which contain legal age restrictions. For example: a 55+ community with deed restrictions which does not permit ownership to all age groups.



9.9.10 Zoning

The zoning of the subject property should be analyzed to determine if residential real estate represents its highest and best use. The following zoning types are not permissible:

- Any zoning which prohibits use as residential real estate.
- Any zoning which precludes the subject property from being rebuilt or repaired after damage to its current residential use and density.

Zoning by itself does not generally make a property ineligible, however the overall character and marketability of the subject property within the area must be considered to determine property eligibility.

9.9.10.1 Commercial & Industrial Zoning

Commercial and Industrial properties are ineligible for financing. Zoning by itself does not determine the classification of a property.

Properties with Commercial or Industrial zoning must be carefully evaluated to determine if the subject property generally conforms to the area and has broad marketability as residential real estate. If the predominate character of the neighborhood is commercial businesses or industrial operations, with only small amounts of residential development, the property is not eligible for financing.

The underwriter should carefully evaluate the appraisal to determine that the primary source of value is attributable to the property as residential real estate and is not derived from business potential and opportunities.

Properties which are currently being used primarily for business purposes, whether or not they are suitable for residential use, are not acceptable. For example: an urban residential condo being used as office-space.



9.9.10.2 Farm & Agricultural Zoning

Working farms and agricultural properties are ineligible. Zoning by itself does not determine the classification of a property.

Properties with farming, rural, agricultural, and no zoning should be carefully evaluated to determine if the residential subject property represents the highest and best use for the area. Properties in which the primary value is derived from their ability to produce income from farming and agricultural activities are not eligible.

Properties with only ancillary agricultural features such as gardens, orchards, small (non-commercial) animal barns/stables, and outbuildings are acceptable if the underwriter is able to determine the subject conforms to the area and the property is not suitable or likely to be used for income producing farming operations. The underwriter may also use additional data from the application, such as the borrower's employment to determine if farm use is likely to occur.

Properties which produce only minor agricultural income may be permitted when the income is not significant to the value or desirability as residential real estate. For example: small vineyards, orchards, gardens, horse barns may be acceptable. The underwriter should evaluate the acreage, market area, and suburban features of the neighborhood, such as access to shopping, employment, restaurants, and entertainment in determining the acceptability of a property with agricultural features.

Any property which is best suited to commercial farming operations, or on which commercial farming is taking place is ineligible.

Properties where cannabis is being grown (regardless of legality at the state level) are ineligible for financing. Additionally, properties with equipment suitable for cannabis growing are ineligible (hydroponic farm setups, grow lights, etc.).

All properties are limited to 10 acres.

9.9.11 Animals & Livestock

Properties with a very limited number of animals & pets, all of which are for personal enjoyment, are acceptable. The presence of a small number of animals (such as goats, donkeys, hens, horses, etc.) does not in itself require additional consideration. If these animals are not part of an income producing operation, limited in number, common, and within the character of the property and surrounding neighborhood, they are acceptable.

Properties with any of the following are ineligible for financing:

- Cows or Pigs in any number.
- Any type of herd, regardless of animal type.
- Animals tagged or branded (as it indicates they are working livestock).
- Animals used in a farming operation.

The presence of wild or naturally occurring outdoor animals does not require additional consideration unless they represent a health or safety concern which must be mitigated. For example: a wild buffalo or a flock of wild turkeys/birds transiting the property.

If the underwriter is unable to determine the purpose of any animals, they may request a LOE for clarification.



9.10 Property Types

9.10.1 Eligible Property Types

STG Mortgage Standard Requirements (All Star Series) Eligible Property Types	
2-4 Unit	Modular
Condos (Warrantable & Non Warrantable)	PUD (Attached or Detached)
Condotels	Rural - 10 acre max (Ineligible for DSCR programs)
Leaseholds (in areas where leaseholds are common)	Single Family Residence (Attached or Detached, including properties with up to 1 ADU)

Certain Star Series may not permit all Property Types. Refer to the program matrix for additional restrictions.

9.10.2 Ineligible Property Types

STG Mortgage Standard Restrictions (All Star Series) Ineligible Property Types	
2-4 Unit Properties with an ADU	Live-work Projects
Agricultural Properties	Log Homes/Log Cabins
Assisted Living/Continuing Care Facilities	Manufactured Homes
Barndominiums	Mixed Use Properties
Boarding Houses	Mobile Homes
Builder Model Leaseback	Office Properties
C5 or C6 Property Condition Grades	Properties Subject to Rent Control
Community Land Trusts	Properties Under Construction
Commercial Properties	Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
Cooperatives (Co-ops)	Properties with evidence of Sinkhole Activity
Dorm-Style Housing	Properties with more than 1 ADU
Farms	Properties with more than 4 units
Fractional Ownerships	Second Home with 2-4 units
Geodesic Domes	Tenants in Common Properties
Hawaii properties located in lava zones 1 and/or 2	Theme Park Resort Properties
Homes on Native American Land (Reservations)	Timeshares
Houseboats	Unique Properties
Industrial Properties	Vacant Lots



9.11 Minimum Property Standards

STG Mortgage Standard Requirements (All Star Series) Minimum Property Standards	
Must be improved real property	
Must be designed and available for year around residential use	
Must contain a kitchen and a bathroom	
Must have a permanent heat source unless in a designated temperate area	
Must be average or better than average condition	
Must represent the "highest and best" use of the property	
Must be free of all health and safety violations	
Must have a remaining economic life equal to or exceeding the term of the loan	
Must NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property	

9.11.1 Minimum Square Footage

STG Mortgage Standard Requirements (All Star Series) Minimum Square Footage		
Condominium/Condotel	2-4 Units	All Other Property Types
500 sq. ft.	500 sq. ft. per individual unit	700 sq. ft.

9.12 Property Considerations

9.12.1 Accessory Dwelling Units (ADU)

Properties with an accessory dwelling unit (ADU) are acceptable if all of the following are met:

- Property is typical, readily acceptable, and common in the subject market area.
- There is only 1 accessory unit on the property. Multiple accessory units are not permitted.
- Property is a Single-Family Residence (2-4 unit properties with ADUs not permitted).
- Property must conform to all zoning laws and/or regulations.
- Appraisal contains 1 comparable with similar additional accessory units.
- Accessory units must be smaller or otherwise inferior to the primary dwelling.
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property.

For Primary Residence transactions with an ADU, the borrower must occupy the larger unit and only the smaller ADU unit may be rented out. The borrower occupying the ADU unit and renting out the main unit is not acceptable. Transactions in which the borrower occupies the smaller ADU unit must be financed as Investment occupancy.

Properties with rented out ADUs are not permitted for Second Home occupancy and should be financed as Investment occupancy.



9.12.1.1 ADU Requirements

The ADU must have the following separate features from the primary dwelling:

- Means of ingress/egress.
- Kitchen.
- Sleeping area.
- Bathing area.
- Bathroom facilities.
- Permanent Heat Source unless in a temperate climate. See [Appraisal - Improvements Section](#).

The kitchen must have at minimum:

- Cabinets.
- A countertop.
- A sink with running water.
- A stove or stove hookup.

9.12.1.2 ADU Access

The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the interior of the primary dwelling, or the area is open to the primary dwelling with no expectation of privacy.

9.12.1.3 ADU Zoning

Some ADUs may predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code for the subject property. Some states have adopted statewide permissions allowing ADUs and local zoning ordinances have not yet been updated to reflect these changes.

If it is determined that the property contains an ADU that is not allowed under current zoning, the property is eligible if All of the following requirements are met:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property and that the ADU is covered under the insurance.
- The current use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal report states that the improvements represent a use that does not comply with zoning.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available.



9.12.2 Deed Restrictions

Deed restrictions must be reviewed to ensure all of the following requirements are met:

- Appraisal supports property restriction is common and typical for the market area.
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.
- Deed restriction may not violate any Fair Housing or Equal Credit Opportunity regulations (such as discrimination based upon race, national origin, etc.).
- Deed restrictions which impact the future transferability of a property are only permitted for Adult Living Communities (where permitted by law), where one or more occupants must be over the age of 55. Properties with Deed Resale Restrictions based upon income or other statuses are not permitted.
- Communities which contain outdated deed restrictions that limit property transferability based upon race, sex, gender, religion, national origin, or another protected class are only acceptable if the restrictions have either been repealed or nullified by Local, State or Federal law.

9.12.3 Disaster Areas

Underwriters are responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

Adverse events that receive a formal disaster declaration issued by local, state, or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at <https://www.fema.gov/disaster>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

STG Mortgage will cease funding loans when a property is in the path of a possible disaster event such as a hurricane, wildfire, or flood.

Damage to the subject property must meet requirements in [Deferred Maintenance](#).



9.12.3.1 Property Appraisal Completed Prior to a Disaster Incident

If the appraisal effective date is prior to the disaster incident, a post-disaster exterior inspection of the subject property is required. It may be from one of the following:

- 1004D or DAIR (Disaster Area Inspection Report) from Appraiser.
- Clear Capital Post Disaster Inspection Report (PDI or equivalent).
- Exterior inspection completed by a licensed-third-party professional (home inspector, contractor, etc.).

The post disaster inspection report must:

- Clearly comment on the condition of the subject property and identify any damage, impact to habitability or marketability.
- Provide photographs of the front, street view, and any damage to subject property.

If using a licensed third-party to perform the inspection, the file must contain a copy of their license.

When an inspection report indicates that the subject property sustained damaged, any issues which affect the safety or habitability of the property must be repaired and reinspected. Additionally, all other types of damage must meet the requirements and cost thresholds of [Deferred Maintenance](#).

For properties which sustained disaster damage, the underwriter must use discretion in determining if an interior-inspection is also necessary to determine the extent of the damage. Examples: Flooding, Standing Water, Blown in Windows, etc.

The above disaster inspection reports may not replace a 1004D that is otherwise required for other reasons, such as appraisals which were done subject-to completions or repairs.

9.12.3.2 Property Appraised After a Disaster Incident

When the appraisal effective date is after the disaster incident, no additional documentation is required.

9.12.3.3 Disaster Incident Post-Closing, Prior to Funding or Purchase

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent).
- Appraisal Update and/or Completion Report (Fannie Mae Form 1004D).

9.12.3.4 Post Disaster Verification of Employment

If a disaster event occurs after the Verbal Verification of Employment (VVOE) has been completed, an update must be obtained to ensure the borrower is still employed and with the same income.

9.12.4 Escrows for Work Completed & Escrow Holdbacks

Escrows for work completed & escrow holdbacks are not permitted.

9.12.5 Hawaii Specific Restrictions

Hawaii properties located in lava zones 1 and/or 2 are ineligible.



9.12.6 Improvements & Additions without Permits (Unpermitted Work)

Unpermitted improvements which do not adversely impact the marketability, safety, or soundness of the property are acceptable if typical and common for the area. If the appraiser identifies work or addition(s) that do not have the required permit, the appraiser must comment on the quality and appearance of the work, confirming that the improvement appears to have been completed in a workman like manner and does not negatively impact the marketability, safety, soundness or value of the property. The underwriter may in their discretion require a professional inspection to determine the quality of the improvement.

9.12.7 Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the Seller's title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

Leaseholds must meet all Fannie Mae Selling Guide eligibility requirements.

- The term of the leasehold estate must run for at least five years beyond the maturity date of the loan, unless fee simple title will vest at an earlier date in the borrower.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times, either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowner's association.
- The lease must provide that, in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowner's association dues (if applicable), related to the land in addition to those they are paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or terminations of the lease, except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- At closing, all lease rents, other payments, or assessments that have become due must be paid.
- At closing, the borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor.

9.12.8 Live-Work Projects

Live-work Projects are not eligible. Live-work Projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. For example: a small retail storefront at ground level with an owner's apartment upstairs.



9.12.9 Mandatory Memberships (Recreational Leases)

Properties with mandatory memberships/recreational leases (such as golf memberships, beach clubs and dining memberships) are eligible. The following requirements/restrictions must be met:

- The membership fees can be no greater than 10% of the Purchase Price.
- The ongoing membership fees must be included in the DTI.
- The Mandatory Membership must not affect the marketability of the property.
- A minimum of 2 or more similar sales comps are required.
- If the membership requires an upfront initiation fee, the cost of the upfront fees must be considered in the assets required.

9.12.10 Multiple Dwellings on 1 Lot

Properties with 2 or more detached single-family homes on a single lot are ineligible for financing.

Single-family properties containing additional residential structures which are not considered second units or ADUs are eligible when they comply with local zoning regulations and are common within the subject's market area. For example: a guesthouse, carriage house, mother-in-law suite, etc. is acceptable.

Typically, the additional dwelling is smaller than the main dwelling. The subject property should be appraised as a single-family residence. Any value for additional structures should be supported by comparable sales.

9.12.11 Multiple Parcels

When a property consists of more than 1 parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other, unless they comply with the following exception:
 - Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot. Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning.
- The entire property may contain only 1 dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. An improvement that has been built across lot lines is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

Examples of acceptable multi-parcel properties:

- Waterfront properties with parcels on both sides of a road, where the parcel without the residence provides access to the water (evidence that the lot is non-buildable must be included in the loan file).
- Multiple parcels all zoned as residential.
- An adjoining parcel that does not contain an additional dwelling unit.
- A home built across two parcels where the lot line runs under the home.



9.12.12 Private Roads

Properties on private roads are acceptable subject to the following:

- The private road must provide ingress/egress to the property from a public street.
- The file must contain reasonable documentation that use of the private road for access to the subject property cannot be revoked or rescinded.

A private road maintenance agreement is not required.

Example: it would be acceptable if a PUD or HOA governing the subject property owns or controls the private road. Alternatively, a permanent easement granting use of the road, a long-term lease or other agreement which guarantees access to the private road through at least the term of the mortgage, or statutory provisions that ensure continued access to the private road would be acceptable. Private roads located entirely within the boundaries of the subject property are acceptable.

9.12.13 Properties in Builder Inventory

Professional home builders (and/or any affiliated companies) may not purchase or refinance a home out of their own recently built inventory or from their company.

Borrowers who are employees of the property seller are only permitted to purchase from builder inventory when the seller/employer is a recognized large-scale builder. Other types of seller/employee relationships are not permitted to purchase from builder inventory.

Borrowers participating in an arm's length transaction and purchasing from an unaffiliated builder have no restrictions on buying homes from builder inventory.



9.12.14 PUD

A Planned Unit Development (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.

The monthly HOA fee must be included in the qualifying ratios. PUDs without HOA fees must be documented and explained with information from the association and/or recorded documents. HOA dues from voluntary associations which are either not legally recorded or where membership is optional do not have to be counted in qualifying ratios.

For properties where the HOA is providing some or all of the required insurance for the subject dwelling, obtain a master policy and ensure that sufficient insurance coverage is provided. When units located within a PUD are covered by a master property insurance policy maintained by the HOA, the underwriter must verify that the insurance provides coverage for both the common elements and residential structures.

For properties where the HOA either does not provide the required insurance, or the insurance provided by the HOA is insufficient, an individual policy covering the dwelling is required. When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), the underwriter is not required to verify master property insurance coverage on PUD common elements.

The underwriter is not required to review the PUD documents, obtain a PUD questionnaire, or complete a PUD warranty unless the appraiser notes something of concern that would potentially impact the marketability of the subject. For example: if the appraiser notes an on-going lawsuit, significant unrepaired damage, safety & soundness issues, or other serious concerns affecting the PUD, the underwriter must investigate further.

9.12.15 Rural Properties

Properties are considered rural if ANY of the following exists:

- The appraiser marks the property location as Rural (an appraisal which is marked as suburban but comments on rural elements is not considered rural). OR
- Property is not located close to or within a major city, suburb, or population center and the distance to most basic services (such as police & fire stations, gas stations, grocery stores, shopping, restaurants, schools) exceeds 20 miles. OR
- Appraisal contains fewer than 2 comparables within 5 miles of the subject property.

Properties considered rural must meet ALL of the following requirements:

- Primary Residence and Second Home only (Investment Properties are not allowed).
- Less than or equal to 10 acres.
- Maximum LTV/CLTV 75%.
- Lot size and acreage must be typical for the area for Residential Use.
- Appraisal must contain at least 3 recently sold (i.e. closed) comparables within 10 miles of the subject property. See [Comparable Distance - Rural Properties](#).

As rural properties are not permitted with investment occupancy, DSCR programs are not permitted.

Certain Star Series do not permit Rural properties. Refer to the program matrix for details.



9.12.16 Well Water, Septic System and Sewage Disposal System

For properties not served by city water & sewage services, the home should contain an adequate system for running water & sanitary sewage services. The water source must be either a well, spring, or other permanent source. Properties that rely solely upon water storage tanks are not acceptable. Sanitary sewage services may be in the form of a septic tank, drain field, cesspool, or similar.

When water & sewage services are not provided by a local utility, the appraiser must comment that private water systems & sewage hookups are typical and common for the area. For properties in which the private water & sewage systems are noted as typical and common by the appraiser, and no concerns regarding the systems are present, inspections and additional documentation is not required.

If the appraiser notes any concerns with the water or sewage system, including concerns that they may not comply with health or environmental regulations, an appropriate water and/or sewage system inspection must be provided.



10.0 CONDOMINIUMS (CONDOS)

10.1 Condominium Definition

A Condominium (Condo) is a form of ownership in which the interior space is individually owned, and the balance of the property (including land, buildings, common grounds and amenities) is owned collectively with the other unit owners.

Some properties may contain elements of both PUDs and Condos. In all cases, the title report shall be governing, in determining whether a property should be treated as a condominium. If a property is not located in a legally established and incorporated condominium that has been properly recorded in the official title records, it shall not be considered a condominium for qualifying purposes.

10.1.1 Warrantable Condo - Definition

A Warrantable Condo is a condominium project that conforms to the property guidelines set by government-sponsored enterprises (GSEs) Fannie Mae or Freddie Mac.

10.1.2 Detached Condo (Site-Condo) - Definition

A Detached Condo (Site-Condo) is a type of warrantable condominium project where the dwellings are individual buildings and there are no multi-unit buildings. These properties will have the same general characteristics of a Single Family Residence, however they are part of a legally recorded condominium project.

10.1.3 Non-Warrantable Condo - Definition

A Non-Warrantable Condo is a condominium project that does not conform to the property guidelines set by government-sponsored enterprises (GSEs) Fannie Mae or Freddie Mac.

10.1.4 Condotel (Condominium Hotel) - Definition

A Condotel (Condominium Hotel) is a type of non-warrantable condominium that is managed or operated like a hotel, motel, resort, or lodge. These projects are generally designed to provide short-term rental amenities. They may include things like a concierge desk, on-site rental managers, and can share amenities with hotel properties or resorts.



10.2 General Condo Requirements (All Projects)

Condo projects must meet ALL of the following requirements:

STG Mortgage Standard Requirements (All Star Series) General Condo (All Projects)
• Subject unit must have at least 500 square feet of living space. • The condition, sustainability, marketability, financial stability and viability of the project must be supported. • The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located as required by local regulations. • The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace. • The project must not have limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements. • Projects with issues concerning health/safety, structural soundness, habitability, functional use or marketability of the project are ineligible.

10.2.1 Ineligible Condo Projects

STG Mortgage Standard Restrictions (All Star Series) Ineligible Condo Projects
• Projects comprised of manufactured homes. • Projects with units used for "live-work." • Projects that restrict the owner's ability to occupy the unit. • Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy. • Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc.). • Common interest apartments. • Timeshare or segmented ownership projects. • Continuing Care Retirement Communities or Life Care Facilities. • Multi-unit dwelling condos that permit an owner to hold title to more than 1 dwelling unit, with ownership of all of the owned units evidenced by a single deed and financed by a single mortgage.

10.3 Warrantable Condo Projects

Warrantable condos must conform to all Fannie Mae or Freddie Mac Selling Guide condominium project eligibility requirements.

10.3.1 Warrantable Condo - Project Review Types

A condominium project may be warranted in several different ways. The characteristics of each condominium project will determine the review type required to warrant the project.



10.3.1.1 2-4 Unit Condo Project Warranties

In alignment with Fannie Mae and Freddie Mac, condominium projects which contain 2 to 4 total units do not require a condominium review.

The underwriter should note that no project warranty is required for 2-4 unit projects on either the 1008 Transmittal Summary or another document within the file.

10.3.1.1.1 2-4 Unit Condo Projects - Special Insurance Considerations

2-4 Unit Condo projects may either be insured by a traditional condominium master policy which covers all the project's buildings, or by individual policies which cover each individual dwelling. When a 2-4 Unit Condo is not covered by a single master policy, the file must contain documentation that each building which contains the subject property, or is attached to the subject property's building, is fully insured. This may require obtaining proof of insurance from other unit owners within the 2-4 Unit Condo project. The combined policy limits of all insurance policies must be sufficient to rebuild the building. The combined insurance amounts and deductibles must conform to all requirements for single family properties.

2-4 Unit Condo projects covered by a single master insurance policy have no additional requirements.

For example: in an attached 2 Unit Condo project without a single master policy that covers all buildings, the file must contain proof that both of the attached units are insured. This would require obtaining the insurance policy for the subject property as well as from the other unit owner. This is simply to verify that the building would be fully replaced in the event of a total building loss. The cost of the other unit's insurance should not be included in the DTI, and STG Mortgage should not be listed as a mortgagee for the other unit's insurance.

10.3.1.2 2-4 Unit Condo Projects - Underwriter Certification

The underwriter should note that no project warranty is required for 2-4 Unit Condo projects on either the 1008 Transmittal Summary or another document within the file.

10.3.1.3 Detached Condo (Site-Condo) Projects

In alignment with Fannie Mae and Freddie Mac, Detached Condo (Site-Condo) projects do not require a condominium review.

These properties may be appraised on either the Uniform Residential Appraisal Form (Fannie Mae Form 1004) or the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073).

If the appraisal or other file documentation indicates significant deferred maintenance, any type of lawsuit, unrepaired damage from a disaster, any safety/soundness issue regarding common property, or other concerns that affect the marketability or financial viability of the condominium project, a full review will be required.



10.3.1.3.1 Detached Condo (Site-Condo) Projects - Special Insurance Considerations

Detached Condos (Site-Condos) may either be insured by a traditional condominium master policy which covers all the project's buildings, or by individual policies which cover each individual dwelling. When insurance is provided under a master policy, it must conform to all coverage and deductibles for condominium projects. When insurance is provided by an individual homeowner's policy, the coverage and deductibles must conform to all requirements for single family properties.

10.3.1.3.2 Detached Condo (Site-Condo) Projects - Underwriter Certification

The underwriter should note that no project warranty is required for Detached Condo (Site-Condo) projects on either the 1008 Transmittal Summary or another document within the file.

10.3.1.4 Limited Condominium Review

Fannie Mae and Freddie Mac maintain records of attached condos for which they have reviewed documentation and approved projects. These systems will automatically expire approvals once the documentation received expires. For Fannie Mae the system is Condo Project Manager (CPM) and for Freddie Mac it is Condo Project Advisor (CPA). Additionally, the FHA maintains a small list of approved condos which is available for delivery to either agency. For eligible loans, the data from these services may be used to lower the documentation requirements needed to warrant a condo project. STG Mortgage will review documentation provided against Fannie Mae or Freddie Mac requirements to ensure the project meets all requirements of a limited project review.

10.3.1.4.1 Limited Condominium Review - Eligibility

In order to be eligible for a limited review, the property must not be a newly constructed or converted property (i.e. existing properties only) and must conform to the LTV/CLTV limits as follows:

- For properties located in all states except Florida.
 - Primary Residence : $\leq 90\%$ LTV/CLTV.
 - Second Home/Investment $\leq 75\%$ LTV/CLTV.
- For properties located in Florida.
 - Primary Residence : $\leq 75\%$ LTV and $\leq 90\%$ CLTV.
 - Second Home/Investment $\leq 70\%$ LTV and $\leq 75\%$ CLTV.

If the appraisal or other file documentation indicates significant deferred maintenance, any type of lawsuit, unrepaired damage from a disaster, any safety/soundness issue regarding the common property, or other concerns that affect the marketability or financial viability of the condominium project, a full review will be required.



10.3.1.4.2 Limited Condominium Review - Requirements

For loans eligible for a limited condominium review, one of the two following documentation options is required:

Option 1 - Provide all of the following:

- A printout from either Condo Project Manager (CPM) or Condo Project Advisor (CPA) or the FHA showing that either Fannie Mae, Freddie Mac, or the FHA has approved the condo project and the approval has not expired as of the closing date.
- Master Insurance for Buildings.
- Walls-In Coverage (HO-6 if not included on the master policy).

If the CPM or CPA indicates that the approval has expired or that a property is Unavailable, the lender may either submit documentation to CPM/CPA to have the system updated or proceed with Option 2. The file should never contain CPM/CPA documentation unless it is an unexpired approval. While a HOA form is not required for Option 1, if any documentation within the file indicates that the project is involved in any known or pending litigation/arbitration or that more than 15% of the total number of units are 60+ days delinquent in the payment of assessments, the project is not eligible for a limited review and a full review must be conducted.

Option 2 - Provide all of the following:

- The STG Mortgage [Limited Condo Review Form](#) (or equivalent).
- The [Condo - Building Safety, Soundness, Structural Integrity, and Habitability Addendum](#).
- Appraisal with all project information completed.
- Master Insurance for Buildings.
- Walls-In Coverage (HO-6 if not included on the master policy).
- HOA Balance Sheet within 90 Days to Demonstrate Reserves.
- Projects with current special assessments and/or loans will require separate documentation which shall include the reason for the special assessment or loan, the total amount assessed and total amount per unit, repayment terms, documentation to support no negative impact to the financial stability, viability, condition and marketability of the project.

When using option 2, the documentation above will be reviewed to confirm Fannie Mae/Freddie Mac requirements have been met. The abbreviated list below is provided for convenient reference (for full details please refer to the Selling Guides):

- Project must be complete with no additional phasing.
- All units, common elements, and facilities within the current legal phase of the project must be 100% complete and control of the project must have been turned over to the unit owners from the Developer and 90% of the units within this phase must be conveyed (closed).
- No single entity, other than units owned by developer still for sale, may own more than 25% of the units. If a project consists of 5-20 units, no one person/entity can own more than 2 units.
- The fidelity, hazard (including confirmation of wind), liability and flood insurance requirements must be met. If the master or blanket insurance policy does not provide coverage for the interior of the unit, the borrower will be required to obtain a "walls in" coverage policy (commonly known as HO-6 insurance policy).
- No more than 15% of the unit owners can be more than 60 days delinquent in payment of assessments.
- The budget must include an amount for reserves, which must be at least 10% of the total budget (this may be reduced when a reserve study is provided indicating a lower amount and supported with funded reserves).



- No more than 35% of the total square footage of the project can be used for non-residential purposes.
- The units in the project must be owned fee simple or in a leasehold. If the project is held as a leasehold, the leasehold must meet the leasehold requirements outlined in [Leasehold Properties](#).
- All facilities and amenities related to the project must be owned by the unit owners or the homeowner's association and not subject to a recreational lease. Mandatory club membership fees are not permitted unless amenities are owned exclusively by the HOA or Master Association.

10.3.1.4.3 Limited Condominium Review - Underwriter Certification

For files where the underwriter has warranted the project using a Limited Condominium Review, the underwriter must document their review approval in accordance with the Freddie Mac and/or Fannie Mae Selling Guide. This can be in the form of notes on the 1008 Transmittal Summary or in a separate letter within the file. The following language should be included "I certify that the loan is eligible for a limited review and the subject project is warrantable in accordance with the Fannie Mae/Freddie Mac limited review requirements." Language that is substantially similar is acceptable.

Alternatively, STG Mortgage will accept a limited condo project certification from InterIsland Condo Review Corporation. Files documented with a paid receipt and condo warranty from InterIsland do not require a separate certification from the underwriter. InterIsland may be contacted at: <https://condoreviews.com/>.

10.3.1.5 Project Eligibility Review Service (PERS) Condominium Review

PERS is a method of Condominium review usually completed by builders for new condominium projects where Fannie Mae reviews the project in detail and issues an 18 month approval.

10.3.1.5.1 Project Eligibility Review Service (PERS) Condominium Review - Requirements

When an unexpired PERS approval is available for a project, it is acceptable to warrant the condominium project. The PERS approval documentation may either be obtained through Condo Project Manager (CPM) or from the developer who commissioned it. If using CPM to document a PERS approval, a printout must be included in the file showing the PERS approved status.

The following additional documentation is required:

- Master Insurance for Buildings.
- Walls-In Coverage (HO-6 if not included on the master policy).



10.3.1.5.2 Project Eligibility Review Service (PERS) Condominium Review - Underwriter Certification

For files with a PERS condo warranty, the underwriter must document their review and project warranty in accordance with the Fannie Mae selling guide. This can be in the form of notes on the 1008 Transmittal Summary or in a separate letter within the file. The following language should be included "I certify that the subject project is warrantable in accordance with PERS requirements." Language that is substantially similar is acceptable.

Alternatively, STG Mortgage will accept a full condo project certification from InterIsland Condo Review Corporation. Files documented with a paid receipt and condo warranty from InterIsland do not require a separate certification from the underwriter. InterIsland may be contacted at: <https://condoreviews.com/>.

10.3.1.6 Full Condominium Review

Loans which do not qualify for a reduced type of condominium review or which cannot be warranted otherwise must complete a Full Condominium Review. STG Mortgage will review the condominium project to ensure it meets Fannie Mae or Freddie Mac full condo review requirements.



10.3.1.6.1 Full Condominium Review - Requirements

Provide all of the following:

- The STG Mortgage [Full Condo Review Form](#) (or equivalent).
- The [Condo - Building Safety, Soundness, Structural Integrity, and Habitability Addendum](#).
- Appraisal with all project information completed.
- Master Insurance for Buildings.
- Walls-In Coverage (HO-6 if not included on the master policy).
- Current Annual Budget.
- First 4 Pages of Declaration (CCR's).
- Reserve Study (if one was completed in the most recent 3 years).
- Balance sheet within Past 90 days.
- Projects with current special assessments and/or loans will require separate documentation which must include the reason for the special assessment or loan, the total amount assessed and total amount per unit, repayment terms, documentation to support no negative impact to the financial stability, viability, condition and marketability of the project.

If new construction, or recent conversions, provide the following additional documentation:

- Declaration of Condominium including amendments and Bylaws for subject and Master Association.
- Site Plan.
- Master Association current budget.
- Insurance for Master Association.
- The [New Condominium Pre-Sale Form](#).

The documentation above will be reviewed to confirm Fannie Mae/Freddie Mac requirements have been met. The abbreviated list below is provided for convenient reference (for full details please refer to the Selling Guides):

- Project must be complete with no additional phasing.
- All units, common elements, and facilities within the current legal phase of the project must be 100% complete.
- For newly established projects, 50% of units in the project or subject legal phase, together with all prior legal phases, must be conveyed or under contract to principal residence or second home buyers.
- No single entity, other than units owned by developer still for sale, may own more than 25% of the units. If a project consists of 5-20 units, no one person/entity can own more than 2 units.
- The fidelity, hazard (including confirmation of wind), liability and flood insurance requirements must be met. If the master or blanket insurance policy does not provide coverage for the interior of the unit, the borrower will be required to obtain a "walls in" coverage policy (commonly known as HO-6 insurance policy).
- No more than 15% of the unit owners can be more than 60 days delinquent in payment of assessments.
- The budget must include an amount for reserves, which must be at least 10% of the total budget (this may be reduced when a reserve study is provided indicating a lower amount and supported with funded reserves).
- No more than 35% of the total square footage of the project can be used for non-residential purposes.
- Investor Concentration - No more than 50% of units in project are Investment Occupancy



- The units in the project must be owned fee simple or in a leasehold. If the project is held as a leasehold, the leasehold must meet the leasehold requirements outlined in [Leasehold Properties](#).
- All facilities and amenities related to the project must be owned by the unit owners or the homeowner's association and not subject to a recreational lease. Mandatory club membership fees are not permitted unless amenities are owned exclusively by the HOA or Master Association.

10.3.1.6.2 Full Condominium Review - Underwriter Certification

For files with a Full Condominium Review, the underwriter must document their review and project approval in accordance with the Fannie Mae and/or Freddie Mac Selling Guide. This can be in the form of notes on the 1008 Transmittal Summary or in a separate letter within the file. The following language should be included "I certify that I have performed a full condo review in accordance with Fannie Mae/Freddie Mac requirements and the subject project is warrantable." Language that is substantially similar is acceptable.

Alternatively, STG Mortgage will accept a full condo project certification from InterIsland Condo Review Corporation. Files documented with a paid receipt and condo warranty from InterIsland do not require a separate certification from the underwriter. InterIsland may be contacted at: <https://condoreviews.com/>.



10.3.1.6.3 Full Condominium Review - Litigation or Pre-Litigation Activity

Projects in which the HOA or property seller is named as a party to pending litigation, or 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 are ineligible.

Projects with construction defect litigation in which the HOA or a group of homeowners within the project are the plaintiffs are ineligible unless the HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. Additionally, there must be no anticipated material adverse impact to the HOA if the funds are not recovered.

In accordance with Fannie Mae litigation policies, STG Mortgage may warrant condominiums with minor litigation, arbitration and/or mediation concerns. Concerns must be minor in nature, may not pose a financial risk to the project's viability, and may not adversely affect the marketability of the subject property. The concern must meet one or more of the following:

- Non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment, or litigation which solely asks for changes in HOA policy/procedure.
- Litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's insurance (such as slip and fall, minor property management disputes, etc.).
- The HOA is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project.
- The reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves.
- The HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered.
- Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project.
- The HOA is named in a typical foreclosure action, or as a plaintiff in an action for past due HOA assessments.

The file must contain evidence that the matter is covered by insurance, a copy of the legal complaint (lawsuit), and documentation from the attorney, HOA, or Insurer that the matter should be fully covered by the available policy limits. Additional documentation may be required.

STG Mortgage requires all warrantable condo files with litigation to be warranted by specialists at InterIsland Condo Review Corporation. The file must contain an InterIsland project approval and paid receipt from InterIsland. InterIsland may be contacted at: <https://condoreviews.com/>.

Non-warrantable condos must contain a note from the underwriter on the 1008 Transmittal Summary or other document which outlines the acceptability of any litigation concerns.

For projects where the litigation was reviewed directly by the final investor, the requirement for an InterIsland condo review may be waived and file must be documented with correspondence or approval from the final investor.



10.4 Non-Warrantable Condo Projects (Excluding Condotels)

Non-warrantable condominiums should obtain the same documentation as a Warrantable Condominium Full Review. When an item within the Full Condo Project Review is unable to be warranted within the scope of Fannie Mae or Freddie Mac guidelines, the deviations should be compared to the Non-Warrantable allowances below. For all areas not specifically mentioned, the standard Fannie Mae/Freddie Mac warranty guidelines apply.

To prevent risk layering, condominium projects which contain more than 2 deviations from warrantable guidelines are not permitted.



Characteristic	Warrantable Criteria	Non-Warrantable Allowance
Non-Residential Space (Commercial Space)	Up to 35%	Up to 49.99%
Completion Status (New Projects)	Building and Common Areas 100% Complete and at least 50% of Units Sold or Under Contract to Primary Residence/2nd Home Buyers.	Building and Common Areas 100% Complete and at least 50% of Units Sold or Under Contract (No Primary Residence/2nd Home requirement).
Delinquent HOA Dues	No more than 15% of total units in the project may be 60+ days past due on HOA Dues, Fees, Special Assessments (units on payment plans for special assessments are not considered delinquent).	No more than 25% of total units in the project may be 60+ days past due on HOA Dues, Fees, Special Assessments (units on payment plans for special assessments are not considered delinquent).
Investor Concentration	Up to 50%	Up to 70%
Single Entity Ownership	Up to 25%	Up to 30%
HOA Reserves	10% Minimum or Reserve Study Amount	8% Minimum or Reserve Study Amount
Litigation	Permitted for minor issues not affecting the marketability of the property or financial viability of the project. Damages must either be fully covered by insurance or not represent more than 10% of HOA Reserves. Structural/Health & Safety/Construction Defect litigation are Ineligible.	Permitted for minor issues not affecting the marketability of the property or financial viability of the project. Damages must either be fully covered by insurance or not represent more than 25% of HOA Reserves. Structural/Health & Safety/Construction Defect litigation are Ineligible.
Mandatory Memberships (Recreational Leases)	Not Permitted	Permitted. May not cost more than 10% of sales price. Must be included in DTI.
Shared or Leased Amenities	May only be shared or leased from another association.	The HOA may lease or share limited common amenities with another association or private business (such as pool or tennis court use from a country club or neighboring association). Any costs which are payable by the individual units or owners outside of their HOA dues must be included in the DTI. Amenities not owned by the HOA may not be considered in the appraised value.
Maximum Insurance Deductible	5% of Coverage Limits	Up to 10% of Coverage Limits (case by case, always requires exception from investor)



10.4.1 Non-Warrantable Condo Projects - Underwriter Certification

Each file should contain notes on either the 1008 Transmittal Summary or another document from the underwriter which states, "I have reviewed the documentation and this project is unable to meet warrantable condo requirements due to (list deviations from warrantable guidelines) and is warrantable under the guideline allowances of the Non-Warrantable condo program." Language that is substantially similar is acceptable.

The required underwriter notes may be supplemented or substituted with a review from InterIsland Condo Corporation. For projects where the condo documentation was reviewed directly by the final investor, notes and correspondence from the investor may be used as a substitute for the underwriter's attestation. InterIsland may be contacted at: <https://condoreviews.com/>.

Certain Star Series either have additional restrictions or do not permit Non-Warrantable Condominium Projects. Reference the table below for details.

Star Series Specific Restrictions Non-Warrantable Condominium Projects	
Star Series	Restrictions
Series 1	MAX LTV/CLTV 80%

10.5 Condotels (Condominium Resorts & Hotels)

Condotels are projects that are either operated like or have similar features to a hotel/motel/resort, even though the units are individually owned.

Condotels are not a distinct property classification but represent a type of non-warrantable condominium with features that support short-term rental use.

10.5.1 Condotel Characteristics

The following characteristics are indications that a property is a condotel:

- The name Motel/Hotel/Resort/Lodge or similar within the project name.
- The HOA or another firm provides Rental Management or Check-In Services for the entire project.
- The HOA or another firm hosts a website which markets available units for Short-Term Rental for the entire project.
- The property contains a Front Desk, Concierge, maid service, or other hotel-like amenities.

Properties with any of the above features must be underwritten to Condotel guidelines.



10.5.2 Condotel Requirements & Restrictions

Condotels must meet all requirements for Non-Warrantable Condos. Condotels have the following additional requirements and restrictions.

STG Mortgage Standard Requirements/Restrictions (All Star Series) Condotel	
MAX LTV/CLTV Purchase	75%
MAX LTV/CLTV Refinance	65%
MIN Loan Amount	\$150,000
MAX Loan Amount	\$1,500,000
MAX DTI	50%
MIN DSCR	1.00
MIN Size	500 square feet (must include 1 separate bedroom)
Kitchen	Unit must have a fully functioning kitchen with stove/oven (cooktop only not permissible)
Location	Property must be located in a resort, metropolitan, or high tourism area
Investor Concentration	Up to 100% of units may be tenant occupied (for Condotels, this less restrictive criteria supersedes the Non-Warrantable Condo restriction)
Single Entity Ownership	A single entity can own up to 20% of units
Fractional Ownership	Not permitted (including timeshares)
Mandatory Rental Pools and/or Rental Requirements	Not permitted (borrower must have exclusive use of the unit)
Occupancy Restrictions	Occupancy restrictions or black-out dates may not restrict the owner's ability to occupy the property at any time during the year
Rating	Project must have hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines such as Airbnb, VRBO, Expedia, Travelocity, Hotels.com, TripAdvisor, Google Travel Search, or similar. File should contain a printout showing the rating.

Certain Star Series either have additional restrictions or do not permit Condotels. Reference the table below for details.

Star Series Specific Restrictions Condotels	
Star Series	Restrictions
Series 1	Primary & Second Home Condotels permitted by exception only



10.6 Condo Insurance

Attached Condos are generally covered with a Master Insurance Policy provided by the HOA which covers the buildings and common amenities. These policies generally do not include coverage for the interior (Walls-In) of the unit. When Walls-In coverage is not included as part of the Master Insurance Policy, an individual Interior Coverage Policy (HO-6) policy is required to provide coverage for the interior of the unit. If a Master Insurance Policy provides for Walls-In coverage, then a separate HO-6 policy is not required.

Detached Condos (Site-Condos) are generally covered with a standard HO-3 Individual Homeowner's Insurance Policy. If coverage is provided with this type of policy, it must meet the insurance requirements for single family detached homes found in [Property Insurance](#). Detached Condos (Site-Condos) which are covered with a Master Insurance Policy must meet all the insurance requirements for Condominiums.

10.6.1 Master Insurance Policy (Hazard Insurance) - Condo

STG Mortgage requires condos to be insured to meet the requirements of the Fannie Mae/Freddie Mac Selling & Servicing Guide. The abbreviated list of requirements below is provided for convenient reference (for full details please refer to the Selling & Servicing Guides).

When required, a master insurance policy must be maintained with premiums paid as a common expense by the HOA. The policy must cover all insurable property elements.

Master insurance policies covering condominium project developments should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils covered by a commercial "Broad" coverage form, as listed in the following table:

STG Mortgage Standard Requirements (All Star Series) Master Insurance Policy Broad Coverage Form Required Perils	
• Fire • Lightning • Explosion • Windstorm (including named storms) • Hail • Smoke • Aircraft or Vehicles • Riot or civil commotion • Vandalism • Sprinkler leakage • Sinkhole collapse • Volcanic action • Falling objects • Weight of snow, ice or sleet • Water damage	

If a master insurance policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone property insurance policy which provides adequate coverage for the limited or excluded peril.



10.6.1.1 Required Coverage Amount - Condo

The lender or servicer must verify that the property insurance coverage amount is at least equal to 100% of the total insurable value or replacement cost value of the project improvements, including common elements and residential structures, as of the current property insurance policy effective date.

The source used to verify the total insurable value or replacement cost may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal completed within the past 3 years.

The master insurance policy must provide for claims to be settled on a replacement cost basis. Policies that provide for claims to be settled on an actual cash value basis are not acceptable. Policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are also not acceptable.

Policies which include language which changes coverage from Replacement Cost to Actual Cash Value coverage upon meeting certain age milestones are only acceptable when those provisions are not currently in force and will not go into effect within 12 months after the closing date. For example: certain policies call for roofs to be paid upon an Actual Cash Value Basis once the age of the roof reaches 12 years. If the roof is not yet 12 years old, and will not be within the next 12 months, this would be an acceptable limitation as the policy currently provides for Replacement Cost Coverage.

Policies which include guaranteed replacement cost or 125% extended replacement cost endorsements are acceptable to meet minimum coverage amount requirements when total insurable value or replacement cost cannot be determined.

Certain states prohibit insurance carriers and agents from providing replacement cost figures or calculators. In these jurisdictions, it is permissible for an insurance agent to state that a policy was written to cover 100% of the estimated replacement cost or the total insurable value of the property, without disclosing a specific value for those figures.

10.6.1.1.1 Insufficient Coverage for a Required Peril - Condo

If the Master Insurance Policy does not provide for sufficient coverage, the property is ineligible. No exceptions to this guideline are permitted. For example: a condominium association which carries \$100,000,000 in coverage, when the replacement cost of all buildings is \$125,000,000, would be an ineligible project. An individual unit owner may not purchase additional coverage to supplement the condominium master association having a deficiency in coverage amount. Unlike single family homes which use an HO-3 policy and are only required to cover the lesser of the loan amount or the replacement cost of the dwelling, Condominium Master Insurance Policies must always cover the replacement cost of the entire building regardless of loan amount.



10.6.1.2 Deductible Requirements - Condo

The following table describes the maximum allowable deductible for master property insurance policies covering condominium projects:

STG Mortgage Standard Requirements (All Star Series) Maximum Allowable Deductible - Condo	
Deductible Type	Maximum Deductible
Per occurrence	The maximum allowable deductible for all required property insurance perils is 5% of the master property insurance coverage amount.
Per occurrence, multiple deductibles	When a master property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the insurance coverage amount.

For Per Occurrence, Per Unit deductibles that exceed 5%, see below.

10.6.1.2.1 Excess Master Insurance Policy Deductibles (HO-6 Supplementation) - Condo

In alignment with Fannie Mae, STG Mortgage will allow a per occurrence, per unit master property insurance policy deductible when the sum of the applicable per unit deductibles is greater than 5% of the coverage amount and ALL of the following requirements are met:

- The master property insurance policy has a per unit deductible for named perils specific to a geographic area where such coverage is common and customary.
- The borrower's individual property insurance policy includes ALL of the following:
 - Coverage for the applicable peril(s).
 - Coverage for master property insurance policy deductible assessments levied on the unit owner by the HOA or co-op corporation for the applicable peril(s).
 - Loss assessment coverage in an amount sufficient to cover assessments in excess of 5% of the master property insurance policy coverage amount, divided by the number of units.

10.6.1.3 Builder/Developer Property Insurance Policies - Condo

When a project is under development, it may be covered by the builder/developer's property insurance policy if the policy provides equivalent coverage to the requirements for project developments in this topic. When property coverage ceases per the terms of the builder/developer's policy, the HOA must obtain a master insurance policy.

Separate projects under development by the same developer will be considered affiliated during the period when control of the project has not yet transferred from the builder/developer to the individual owners or related HOA. The affiliated status of the subject project ends when the property coverage ceases per the terms of the builder/developer's policy.



10.6.2 HO-6 Insurance Policy (Walls-In Hazard Insurance) - Condo

For properties which require a separate Walls-In insurance policy, an HO-6 insurance policy must provide coverage, as that is sufficient to repair the condominium unit to at least its condition prior to a loss claim event. This is typically 20% of the appraised value or an amount determined by the insurer sufficient to repair the condominium. A replacement cost estimator may also be used to determine the required insurable value. Policy effective date must be on or before closing date.

10.6.3 Flood Insurance - Condo

If the Condominium Project is located within a Flood Zone (Flood Zone A or V) then Flood Insurance Must be provided by the association. Condominium Projects in a flood zone with no master flood coverage are ineligible. Borrower may not provide an individual policy as a substitute for a project which does not carry Master Flood Insurance.

10.6.4 2-4 Unit Condo Projects - Special Insurance Considerations

2-4 Unit Condo projects may either be insured by a traditional condominium master policy which covers all the project's buildings, or by individual policies which cover each individual dwelling. When a 2-4 Unit Condo is not covered by a single master policy, the file must contain documentation that each building which contains the subject property, or is attached to the subject property's building, is fully insured. This may require obtaining proof of insurance from other unit owners within the 2-4 Unit Condo project. The combined policy limits of all insurance policies must be sufficient to rebuild the building. The combined insurance amounts and deductibles must conform to all requirements for single family properties.

2-4 Unit Condo projects covered by a single master insurance policy have no additional requirements.

For example: in an attached 2 Unit Condo project without a single master policy that covers all buildings, the file must contain proof that both of the attached units are insured. This would require obtaining the insurance policy for the subject property as well as from the other unit owner. This is simply to verify that the building would be fully replaced in the event of a total building loss. The cost of the other unit's insurance should not be included in the DTI, and STG Mortgage should not be listed as a mortgagee for the other unit's insurance.

10.7 California Condo Balcony Requirements - SB 326

California Law requires that buildings located in the state of California with 3 or more units and more than 1 story in height be inspected every 9 years to ensure wood framed elements are structurally sound, including decks, balconies, stairways, walkways, and their railings.

For buildings completed prior to January 1, 2020, evidence of the completed inspection is required. For any deficiencies found, evidence of completed remediation is required, unless less than 120 days have passed since the inspection.

For buildings completed on or after January 1, 2020, this inspection is not required until 6 years after issuance of the certificate of occupancy.



10.8 Florida Condo Requirements

Per Florida Statute 553.899, condominiums of 3 stories or higher are required to complete a Structural Engineering & Safety Report based upon its distance from the coastline along with its original construction completion date. Condominiums of 2 stories or less are not required to have this report completed, regardless of age or distance from the coastline. The table below outlines the age & coastline distance criteria that determine the date when the condominium is required to have this report completed. When the table indicates an inspection report has already become due or will become due before closing, then a copy of the inspection report must be included in the condo review.

STG Mortgage Standard Requirements (All Star Series) Inspection Requirements for 3+ Story Condominium Projects Within 3 Miles of Coastline	
Project Completion Date	Inspection Report Required by Date
Prior to July, 1997	12/31/2024
Between July 1, 1997 and December 31, 2000	12/31/2025
January 1, 2001 and later	December 31 of the year it becomes 25 years old

STG Mortgage Standard Requirements (All Star Series) Inspection Requirements for 3+ Story Condominium Projects NOT Within 3 Miles of Coastline	
Project Completion Date	Inspection Report Required by Date
Prior to July 1, 1992	12/31/2024
Between July 1, 1992 and December 31, 1995	12/31/2025
January 1, 1996 and later	December 31 of the year it becomes 30 years old

For any condominium building required to have the report completed prior to the loan closing date, provide:

- A Milestone Inspection Report (Structural Engineering Safety Report), which is required to evaluate key elements of the building's safety and soundness.
- For any elements found to be deficient, provide evidence the repairs/remediation have been completed and that the safety/soundness of the deficient element has been resolved.



11.0 PROPERTY INSURANCE

11.1 Hazard Insurance

Hazard insurance, commonly known as HO-3 insurance, must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement. STG Mortgage requires hazard insurance protection on all loans. Policy effective date must be on or before closing date. A declaration page is required prior to closing for all loans as proof of insurance. On all refinance transactions, if the coverage termination date is within 30 days of the closing, STG Mortgage will require evidence of continuing coverage. All borrowers must sign a fully completed loss payable endorsement on all loan transactions. Extended coverage must include, at a minimum:

- Wind.
- Civil commotion (including riots).
- Smoke.
- Hail.
- Damages caused by aircraft, vehicles or explosions.

Hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, or any other perils that would normally be included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless they have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

Condominiums have special/additional/separate insurance requirements. See [Condo Insurance](#) for details.



11.1.1 Required Coverage Amount

For homes covered by an individual HO-3 insurance policy, the insurance coverage amount must be at least equal to the lesser of:

- 100% of the total insurable value or replacement cost value of the property.
- The Unpaid Principal Balance of the Mortgages on the property (provided it equals no less than 80% of the replacement cost value).

The source used to verify the total insurable value or replacement cost may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal completed within the past 3 years. If the property appraisal report delivered with the file contains an estimated cost to replace the dwelling to new condition, that value may be used to verify the replacement cost.

The insurance policy must provide for claims to be settled on a replacement cost basis. Policies that provide for claims to be settled on an actual cash value basis are not acceptable. Policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are also not acceptable.

Policies which include guaranteed replacement cost or 125% extended replacement cost endorsements are acceptable to meet minimum coverage amount requirements when total insurable value or replacement cost cannot be determined.

Certain states prohibit insurance carriers and agents from providing replacement cost figures or calculators. In these jurisdictions, it is permissible for an insurance agent to state that a policy was written to cover 100% of the estimated replacement cost or the total insurable value of the property, without disclosing a specific value for those figures.

11.1.2 Deductible Amount

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss, named storm, or fire deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.



11.1.3 Evidence of Hazard Insurance

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy.
- Certificate of Insurance (COI).
- Insurance Binder.

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address for primary residences.
- Policy Number.
- Loan Number.
- Name of insurance company.
- Insurance Agent information.
- Effective and expiration dates of coverage.
- Premium Amount.
- Coverage amounts and deductible.
- Loss payee clause as applicable. See [STG Mortgage Loss Payee](#).

Minor variations in names are acceptable if it can be positively determined that they reference the same person or property. For example: John Q Smith vs. John Smith or 123 Oak Street N. vs 123 Oak Street North.

11.1.4 Rating Requirements

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

STG Mortgage Standard Requirements (All Star Series) Financial Ratings for Hazard Insurance Carriers	
Carrier Rated/ Sponsored By:	Requirement
A.M. Best Company, Inc.	• "B" or better Financial Strength Rating in Best's Insurance Reports. - OR • "A" or better Financial Strength Rating and a Financial Size Category of "VIII" or greater in Best's Insurance Reports Non-US Edition.
Demotech, Inc.	• "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings.
Kroll's Bond Rating Agency	• "BBB" or better rating in Kroll Bond Rating Agency's Insurance Financial Strength Rating (IRSR).
Standard and Poor's	• "BBB" or better Insurer Financial Strength Rating in the Standard and Poor's Ratings Direct Insurance Service.
State Sponsored Insurance	• State Sponsored Insurance, which may not have a rating, is acceptable. For example: Florida Citizens Insurance Company, Texas Fair Plan, California Fair Plan, etc.



11.2 Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing.

When flood insurance is required, federal law (Code of Federal Regulations, Title 12- Chapter I, Part 22, Section 22.5) requires that it be escrowed, even if other tax and insurance items are not otherwise escrowed on the loan. STG Mortgage requires flood insurance escrows for any property where flood insurance is required and the policy effective date must be on or before closing date.

11.2.1 Flood Insurance Deductible Amount

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condo project is \$25,000.

11.2.2 Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone. The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V. OR
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard.

11.2.3 Minimum Flood Insurance Coverage

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

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

11.3 Earthquake Insurance

Earthquake Coverage is not required.



12.0 TITLE/VESTING REQUIREMENTS

12.1 Title Policy Requirements

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae or Freddie Mac Selling Guide requirements.

12.1.1 Attorney's Opinion Letters (AOL)

Attorney's Opinion Letters are a type of title search and guarantee from a title attorney designed to be used in lieu of traditional title insurance. Loans originated with an Attorney's Opinion Letter (AOL) are ineligible for all Star Non-QM programs. All loans must contain a standard or short form title policy.

12.1.2 Title Policy Forms

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form.
- ALTA short form.
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac.

12.1.3 Title Policy Underwriting

A title insurer must be:

- Duly authorized and licensed, as required, to issue title insurance in the state where the property is located.
- Further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as:
 - An acceptable rating from a rating agency.
 - Financial strength of the title insurer.
 - Adequate reserves.
 - Record related to satisfactory title claim resolution.

Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa.



12.1.4 Gap Coverage

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy.
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

12.1.5 Borrower Information

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than in 1003, the discrepancy must be addressed. The property seller's name must be cross-referenced to the purchase agreement and valuation chain of title.

12.1.6 Coverage Amount

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

12.1.7 Insured Name

For wholesale and retail loans, the title policy must reference STG Mortgage Inc., ISAOA ATIMA. For correspondent loans, the title policy must reflect the originator's legal name as its name appears in the security instrument.

12.1.8 Age of Report

The preliminary title report/title commitment should be dated no later than 120 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing. Texas loans must have a report within 90 days.

When a report exceeds the allowable age, the title company must update the commitment with either gap coverage or an updated commitment.

12.1.9 Chain of Title

All files must contain a 24-month title history for the subject property. This may be provided directly on the title report, on a supplemental letter from the title company, or via copies of previous deeds showing the title transfers.



12.1.10 Minor Exceptions on Title

Minor exceptions to title are acceptable in accordance with Fannie Mae and/or Freddie Mac guidelines. Examples of minor title exceptions which may be acceptable are:

- Minor fence encroachments.
- Common and customary utility easements.
- Mutual easement agreements (i.e. shared driveway or party wall).
- Neighborhood covenants and restrictions.

Full details may be found in the Fannie Mae or Freddie Mac Selling Guide.

12.1.11 Oil & Gas Leases, Water Rights, Mineral Rights

Exceptions for outstanding leases related to oil & gas, water rights, and mineral rights are acceptable when in compliance with all Fannie Mae and/or Freddie Mac Selling Guide requirements. Additionally, the file must contain evidence that there is no active drilling/mining/pumping/extraction activity on the property and that the lease does not provide surface rights.

12.1.12 Survey Exceptions

All survey exceptions must be cleared on the final title policy. States have varying requirements and STG Mortgage defers to the title company for requirements to remove those exceptions.

12.1.13 Properties with Unexpired Redemption Periods

Some states allow for recently foreclosed properties to be redeemed by the recently foreclosed homeowner if they are able to pay all mortgages and court costs in full. The length of time properties may be redeemed varies from state to state, and not all states offer this option.

Properties with unexpired (open) redemption periods, which would allow a previous homeowner to reclaim the property are not eligible.

12.1.14 Tax Liens

If any borrower or non-borrowing title holder has open/active tax liens against them or the subject property, they are not eligible for financing unless those liens are released or paid at closing. Subordination of tax liens is not permitted.



12.2 Vesting Requirements

Eligible forms of vesting are:

- Individuals.
- Joint Tenants.
- Inter Vivos Revocable Trust.
- Limited Liability Companies, Partnerships, Corporations, and S Corporations.

Ineligible forms of vesting are:

- Irrevocable Trusts.
- Life Estates.
- Land Trusts.
- Blind Trusts.
- Tenants in Common.

12.2.1 Inter Vivos Revocable Trust

Title vesting in an inter vivos revocable trust is permitted when Fannie Mae requirements are met. Refer to the Fannie Mae Selling Guide for full details. For an inter vivos trust checklist, see [Inter Vivos Trust Checklist](#).

When vesting in a Inter Vivos Revocable Trust, title must be taken in the name of only 1 trust. Multiple trusts and trusts combined with individuals are not permitted.



12.2.2 Entity Vesting

For business purpose loans, STG Mortgage permits title to be vested in the name of an entity, subject to the following restrictions:

STG Mortgage Standard Requirements/Restrictions (All Star Series) Entity Vesting	
- Entity must be based in the U.S. - The entity may have a maximum of 4 members/owners. - Purpose and activities are limited to ownership and management of real property. - Loans without recourse (non-recourse loans) are not permitted. - Powers of Attorney (POA) are not permitted. - Personal Guarantees and the final loan security instruments must be signed by all entity members whose credit or income is used in qualifying. - Anyone signing as a guarantor for the entity must provide a loan application and credit report.	

Certain Star Series either have additional requirements/restrictions or do not permit Entity Vesting. Reference the table below for details.

Star Series Specific Requirements/Restrictions Entity Vesting				
Star Series	Eligible Doc Types	Eligible Entity Types	Entity Members Required to be Guarantors on the Loan	Layered Entities
Series 1	All	- LLC - LP - GP - CORP - S CORP	- Each Entity Member who qualifies for the loan and signs as an Entity Member - Guarantors must represent a minimum of 25% Entity Ownership	Not permitted



12.2.2.1 Documentation Signature Requirements for all Entities

The following documents must be completed by each borrower or guarantor and signed as follows:

STG Mortgage Standard Requirements (All Star Series) Documentation Signatures for all Entities	
Signature Type	Document with Requirements
Signed as an individual	Loan Application (Fannie Mae Form 1003). - Must be completed for each member of the entity providing a guarantee. - Section labeled "Title will be held in what Name(s)" should be completed with only the business name.
	Personal Guarantee: - Must be completed for each member of the entity providing a guarantee. - The Personal Guarantee should be executed at loan closing and dated the same date as the note. See Personal Guarantee. - Personal Guarantees from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with the Spousal Consent Form.
Signed by the authorized signer for the entity	All required Disclosures (e.g., GFE, TIL, ECOA).
	Any state or federally required settlement statement.
	The Note, Deed of Trust/Mortgage, and all Riders.

12.2.2.2 Limited Liability Company (LLC) Vesting Documentation Requirements

- Articles of Organization & Operating Agreements.
- Tax ID Number (When an SSN is being used in lieu of a Tax-ID, the underwriter must certify this is the case. Multi-member LLCs using an SSN instead of an EIN are limited to husband-wife ownership. All other multi-member LLCs must have an EIN. When using an EIN, the file must contain documentation to verify the EIN. This may be an IRS letter or similar. A W-9 form is not acceptable verification.).
- Evidence of Good Standing for the State where the entity is based.
- LLC Borrowing Certificate. See [LLC Borrowing Certificate \(Single Member\)](#) or [LLC Borrowing Certificate \(Multiple Member\)](#).
- Resolution/Certificate from the LLC granting authority to an individual/guarantor to execute all loan documents on behalf of the entity. Must reference the property address, and STG Mortgage loan. For a sample, see [LLC Certificate of Authorization Sample](#).

The above documentation must include a list of the current owners and their percentage owned. In the event the documents do not clearly outline this information, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.

Certain states do not require operating agreements for single-member LLCs. In the event an operating agreement does not exist, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.



12.2.2.3 Corporation Vesting Documentation Requirements

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent).
- By-Laws and all amendments.
- Evidence of Good Standing for the State where the entity is based.
- EIN/Tax Identification Number (The EIN must be validated with an IRS letter or similar. A W-9 form is not acceptable verification.).
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation.
- Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment.

The above documentation must include a list of the current owners and their percentage owned. In the event the documents do not clearly outline this information, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.

12.2.2.4 Partnership Vesting Documentation Requirements

- Filed Partnership Certificate (if a general partnership, a filing with the Secretary of State may not be required).
- Partnership Agreement and all amendments.
- Evidence of Good Standing for the State where the entity is based.
- EIN/Tax Identification Number (The EIN must be validated with an IRS letter or similar. A W-9 form is not acceptable verification.).
- Limited partner consents (where required by partnership agreement).

The above documentation must include a list of the current owners and their percentage owned. In the event the documents do not clearly outline this information, accountant letters, IRS documentation, or similar may be provided to demonstrate the current owners and ownership percentage for the organization.

12.3 Power of Attorney

Limited Power of Attorney (POA) is acceptable for executing closing documents when accompanied by a letter of explanation from the borrower, is specific to the transaction and meets all requirements and restrictions below.

STG Mortgage requires all POA transactions to be in compliance with state law and acceptable to the title insurer. POAs which create title exceptions are not permitted.

12.3.1 Power of Attorney Letter of Explanation

In addition to the POA, the file must contain a letter of explanation from the borrower documenting the reason the POA is required to complete the transaction.

If the underwriter has reason to believe that any party is incapacitated, being coerced, or not competent to understand the terms and obligations of the transaction, the POA may be rejected. Files using a POA that also contain title transfers should be evaluated for signs of elder abuse.



12.3.2 Power of Attorney Requirements

A power of attorney must meet the Fannie Mae Selling Guide, title company, and state legal criteria:

STG Mortgage Standard Requirements (All Star Series) Power of Attorney	
• The names on the POA must exactly match names on title and/or loan documents. • The POA must be Notarized. • The POA must reference the address of the subject property and be specific to the transaction. • The Agent is not an interested party to the transaction or an employee of an interested party. • The Title Company has reviewed and accepted the POA and no exceptions will appear on title policy. • The POA must be Wet-Signed (e-sign is not permitted). • The POA must contain an expiration date and be unexpired at time of closing. • The POA must be used only to execute the final loan documents. • Initial 1003 must be signed by the Borrower executing the POA. • The POA must have been executed no earlier than 90 days prior to closing (exceptions may be made for military borrowers who are deployed if the POA is to a verified family member).	

12.3.3 Power of Attorney Restrictions

A POA is not permitted for the following scenarios:

STG Mortgage Standard Restrictions (All Star Series) Power of Attorney	
• Cash-out transactions. • Vesting in Trusts or business entities. • Non-Arm's Length transactions. • An interested party to the transaction (such as seller, broker, loan officer, realtor, title agent, lender, or any employee of these entities) may not act as the Power of Attorney signing agent. • Durable & Medical Powers of Attorney are not permitted.	



13.0 RATIOS & QUALIFYING METHODS

13.1 Ratio Calculations

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.

The Debt Service Coverage Ratio (DSCR) is calculated by dividing the Gross Monthly Rent by the Qualifying Monthly Payment of the proposed new loan.

The loan-to-value ratio (LTV) is generally calculated by dividing loan amount by the lower of the appraised value or the sale price for the subject property. For refinances, special requirements exist depending upon transaction type. For more details, see [Determining the LTV \(Rate/Term Only\)](#), [Properties Listed for Sale \(Rate/Term Only\)](#), [Determining the LTV \(Cash-Out Only\)](#), [Delayed Financing](#), and/or [Properties Listed for Sale \(Cash-Out Only\)](#).

The subject property qualifying payment is defined as all long-term obligations necessary to own the subject property and maintain good financial standing, including PITIA as well as any ancillary costs such as mandatory memberships or required service fees. PITIA includes the principal and interest for any subordinate lien financing.

The property taxes, Homeowner's Insurance (HOI), Flood Insurance, and HOA dues of a primary residence that is owned free and clear will be considered in the borrower's housing history determination and must remain current throughout the transaction.

Each Star Series contains varying restrictions regarding LTV/CLTV limits, DTI ratio and/or DSCR ratio. Reference the program matrix for details.

13.1.1 Rounding of Ratios

Rounding down for qualification of LTV or DTI is not permitted (i.e. 50.02% does not round down to 50%).

Rounding up of the DSCR value is not permissible for determining eligibility.



13.2 Anti-Steering & Best Interest of the Borrower

All Star Non-QM programs require that the loan program be reasonably suitable for the borrower's financial situation. For 24-Month Full-Doc loans at loan amounts which appear eligible for Fannie Mae or Freddie Mac financing, the file should contain evidence that the loan is either ineligible for agency financing or that better fees, pricing, or loan terms are available with the Star Non-QM program.

Loans with any of the following characteristics do not require any proof of being agency ineligible as Fannie Mae/Freddie Mac do not offer these loan options:

- Alt-Doc Income.
- 12-Month Full-Doc Income.
- DSCR Qualifying.
- Interest-Only.
- 40 year Amortization.
- Loan Amount Exceeds Agency Limits.
- Non-Warrantable Condo (including Condotel).

Proof of agency ineligibility may be provided with an AUS which shows Ineligible or a Letter of Explanation describing which Agency Guideline the loan is unable to meet. Alternatively, proof that Star Non-QM program Fees, Pricing or Loan Terms are superior to those available from Fannie Mae/Freddie Mac is acceptable to document Anti-Steering.

13.3 Adjustable-Rate Mortgage (ARM) Qualifying

For all ARM loans, the greater of the note rate or the fully indexed (Margin + Index) rate is used to determine the qualifying PITIA.

13.4 Adjustable-Rate Index

30-day average SOFR index as published by the New York Federal Reserve.



13.5 Interest-Only Qualifying

13.5.1 Interest-Only Qualifying - Restrictions - DTI Qualifying Loans and Asset Utilization

Interest-only loans for all DTI Qualifying Programs and Asset Utilization have the following standard restrictions:

STG Mortgage Standard Restrictions (All Star Series) Interest-Only - DTI Qualifying Loans and Asset Utilization	
• MIN 700 Credit Score • DTI $\leq$ 50% • MAX LTV/CLTV 80%	

Each Star series has varying requirements/restrictions based upon Credit Score, LTV, DTI ratio and Reserves for Interest-only loans. Reference the table below for details.

Star Series Specific Requirements/Restrictions Interest-Only (All Doc Types Except DSCR)			
Star Series	LTV/CLTV Restrictions	DTI Ratio	Reserves
Series 1	• > \$2.0MM to \$2.5 MM - MAX LTV/CLTV 75% • > \$2.5MM to \$3.0MM - MAX LTV/CLTV 70%	• Standard	• Standard

For restrictions specific to the DSCR program see [DSCR - Interest-Only Restrictions](#).

13.5.2 Interest-Only Qualifying - DTI Qualifying Loans and Asset Utilization

Interest-only loans must be qualified using the fully amortized PITIA calculated over the fully amortized period of the loan (excludes the interest-only period).

Example: Interest-only loans with a 10 year interest-only period and a 30 year term would qualify using a fully amortizing payment over 240 months.

13.5.3 Interest-Only Qualifying - DSCR Qualifying Loans

For Interest-only loans, use the interest-only (ITIA) payment for the subject property to calculate the DSCR ratio and required reserves.



13.5.4 Interest-Only Qualifying - Residual Income

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations. The residual Income calculation uses the full PITIA payment.

Residual Income = Gross Monthly Income minus total ongoing monthly debt.

Income Taxes, Utilities, and other expenses which do not represent ongoing obligations are not required to be considered in residual income calculations.

Asset Utilization loans use an alternative calculation found in [Asset Utilization - Residual Income Calculation](#).

DSCR loans do not have a residual income requirement.

Each Star series has varying requirements based upon household size, and/or loan risk parameters. Reference the table below for details.

Star Series Specific Requirements Residual Income	
Star Series	Requirement
Series 1	\$1,500



14.0 PROGRAM FEATURES & CHARACTERISTICS

14.1 Automated Underwriting Systems (AUS)

All Star Non-QM programs require manual underwriting. AUS underwrites are not permitted.

14.2 Business Purpose Loans

All business purpose loans must be investment occupancy, however not all investment property loans meet the additional requirements to be considered business purpose loans. In order to be considered business purpose, the file must meet ALL of the following requirements:

- The borrower has signed a business purpose affidavit. See [Business Purpose & Occupancy Affidavit](#).
- The details of the transaction support that the loan proceeds are being used exclusively for business purposes as outlined below.

Prepayment penalties are only permitted on Investment Property loans that are able to be classified as Business Purpose Loans. See [Prepayment Penalties](#) for more information.

14.2.1 Business Purpose Purchase Transactions

Purchase transactions may be considered business purpose when the borrower is bringing funds to close and intends to rent out the property to an unrelated party. Loans in which the borrower is classifying the property as investment occupancy to allow a relative to reside there are not considered business purpose, despite the investment occupancy.

If a personal debt must be paid to qualify, the borrower must pay it using their own funds and not transaction proceeds.

Whether the borrower is using personal or business funds to close does not impact the business classification. However, if the borrower is receiving a refund of excess deposit, the proceeds may not be used for a non-business purpose, such as paying off a personal credit card. Paying off a business debt with excess funds from the transaction would be permitted.

14.2.2 Business Purpose Rate & Term Refinance Transactions

Rate & Term Refinance transactions may be considered business purpose when the borrower is currently using or intending to use the property within 60 days as a rental to an unrelated party. Properties occupied by family members are not considered business purpose.

If a personal debt must be paid to qualify, the borrower must pay it using their own funds and not transaction proceeds.

Whether the borrower is using personal or business funds to close does not impact the business classification. No proceeds from the transaction may be used for personal reasons, such as paying off a personal debt.



14.2.3 Business Purpose Cash-Out Refinance Transactions

Cash-Out Refinance transactions may only be considered business purpose when 100% of the cash-out proceeds are used for business purposes. The file must contain a letter attesting that all cash out proceeds will be used for business purposes.

14.2.4 Business Purpose Use of Proceeds Examples

Examples of acceptable business purpose use of proceeds:

- Paying off the subject property lien, closing costs, prepaids.
- Paying off or paying down a mortgage on another investment property or a property used for business (i.e. office building).
- Paying business debts.
- Downpayment on another investment property or property used for business.
- Investing in a new or existing business.
- Paying off delinquent property taxes or liens on the subject property or another investment property.
- The payoff of mortgage loans in the borrower(s)' personal name(s) is acceptable provided the liens only secure investment property.

Examples of use of proceeds which do NOT qualify as business purpose:

- Paying off subject property liens that are a result of the borrower's personal obligations. For example: income tax liens against the subject property or judgments for the borrower's personal debt.
- Paying off any non-business related liability.
- Paying off personal debts of the borrower or another party.
- Paying off or paying down mortgage &/or obligations related to a primary residence or second home.
- Funding education expenses.
- The payoff of non-mortgage debts in the borrower's personal name is never acceptable, even if those accounts are used exclusively for business purposes. For example: a personal credit that the borrower uses only for business purposes could not be paid through the transaction.

14.3 Manual Underwriting

All Star Non-QM programs require manual underwriting. AUS underwrites are not permitted.

14.4 Mortgage Insurance

Mortgage insurance is not required for any Star Non-QM program regardless of LTV.

14.5 Prepayment Penalties

A prepayment penalty is a fee that can be charged in certain circumstances when a loan is paid down or paid off early.



14.5.1 When Prepayment Penalties are Permitted

To comply with applicable regulations from the Consumer Financial Protection Bureau (CFPB), prepayment penalties are only permitted for Investment occupancy loans that also meet the requirements to be considered Business Purpose loans.

Second Homes & Primary Residences may never have a prepayment penalty.

On all loans with a prepayment penalty, the borrower must sign an affidavit indicating the proceeds of the loan will be 100% used for business purposes. The details of the transaction must also support that the loan proceeds are being used for business purposes. For example: cash-out proceeds cannot be used to pay off a personal debt in the borrower's name on a business purpose transaction.

For more information regarding business purpose classification, see [Business Purpose Loans](#).

For state specific restrictions see, [State Specific Prepayment Penalty Restrictions](#).

14.5.2 Prepayment Penalty Permitted Products

A prepayment penalty may be added to any Star Non-QM loan that is investment occupancy and meets the definition of business purpose, regardless of income documentation type.

For more information, see [Business Purpose Loans](#).

14.5.3 Prepayment Penalty Terms & Lengths

STG Mortgage offers prepayment penalty lengths of:

- 1 year
- 2 years
- 3 years
- 4 years
- 5 years

All Star Non-QM program prepayment penalties are "hard", meaning they must be paid regardless of the reason for early prepayment. STG Mortgage does not offer any "soft" prepayment penalties which allow the borrower to sell the home without paying a prepayment penalty.



14.5.4 Prepayment Penalty Amounts & Calculations

For loans with a prepayment penalty, up to 20% of the original principal balance may be prepaid without penalty within any 12 month period. This is known as the Allowable Prepayment Amount. Any prepayments which exceed this amount are subject to the prepayment penalty calculation.

Multiple prepayments can be made without penalty as long as no more than 20% of the original loan balance is paid in any 12 month period. The principal portion of regular monthly payments is included in the 20% prepayment maximum.

Any prepayments exceeding the Allowable Prepayment Amount are subject to a penalty of 6 months of interest at the current interest rate prescribed in the note.

Example: For a loan balance of \$1,000,000, at 6% interest. In year 1, the borrower could pre-pay up to 20% (\$200,000) before incurring any prepayment penalty. Amounts exceeding this 20% would begin to incur the prepayment penalty as shown below.

Full Payoff:

If the borrower were to pay off the \$1,000,000 balance, the prepayment penalty would be calculated as follows: \$1,000,000 loan balance minus \$200,000 (20% of loan balance) equaling \$800,000. This first 20% is the portion for which no prepayment penalty applies. The remaining \$800,000 paid off is subject to the prepayment penalty. \$800,000 multiplied by the 6% annual interest rate resulting in \$48,000, then multiplied by 1/2 to adjust to the 6 month (1/2 a year) prepayment penalty required, resulting in a \$24,000 prepayment penalty being added to the payoff.

Partial Payoff:

If the borrower were to pay off \$500,000 of the balance, the prepayment penalty would be calculated as follows: \$1,000,000 loan balance minus \$200,000 (20% of loan balance) equaling \$800,000. This first 20% is the portion for which no prepayment penalty applies. The remaining \$300,000 paid off is subject to the prepayment penalty. \$300,000 multiplied by the 6% annual interest rate resulting in \$18,000, then multiplied by 1/2 to adjust to the 6 month (1/2 a year) prepayment penalty required, resulting in a \$9,000 prepayment penalty being added to the remaining loan balance.



14.5.5 State Specific Prepayment Penalty Restrictions

Certain states place restrictions on which loans may have prepayment penalties as well as the permissible structure for the prepayment penalty terms.

See tables below for detailed information regarding allowable prepayment penalties.

STG Mortgage Standard Restrictions (All Star Series) States with No Prepayment Penalty Restrictions (All Prepayment Penalties Are Allowed)						
AL	CT	HI	MA	NV	TN	WV
AZ	DE	KS	MT	NY	UT	WY
CA	FL	ID	NC	OR	VA	
CO	GA	LA	NH	SD	WI	

STG Mortgage Standard Restrictions (All Star Series) States That Do Not Allow Prepayment Penalties						
AK	MD	MI	NJ	OH	VT	
DC	ME	ND	NM	RI		

STG Mortgage Standard Restrictions (All Star Series) States With Prepayment Penalty Restrictions			
State	PPP Allowed When:	PPP Structures	No PPP Allowed When:
AR	Maximum of 3 years	Max Rates: 3-2-1, Principal Loan Amount	No Restriction
IA	Maximum of 5 years	Max Rates: 5-4-3-2-1	No Restriction
IL	All counties except Cook: Loan must be below 8% APR. Cook County: Loan must be below 8% APR and loan amount must be > \$250K.	No Restriction	Any loan with Interest rate above 8%, and any loan in Cook County where loan amount is < \$250K.
IN	Fixed Rate Loans	No Restriction	ARM Loans
KY	No Restriction	Max Rates: 3-2-1	No Restriction
MN	DSCR loan	No Restriction	Non-DSCR loan
MO	No Restriction	Max Rates: 2-2-2-2	No Restriction
MS	Interest Rate < 8%, Maximum of 5 years	Max rates: 5-4-3-2-1, Unpaid Principal Balance	Interest Rate ≥ 8%
NE	Maximum of 2 years	No Restriction	No Restriction
OK	Interest Rate ≤ 8%, Maximum of 2 years	Max Rates: 2-1, Loan Amount Prepaid	Interest Rate > 8%
PA	Loan Amount > \$329,411 and 1-2 Unit, or any 3-4 Unit	No Restriction	Loan Amount ≤ \$329,411 and 1-2 Unit
SC	Loan Amount > \$810,000	No Restriction	Loan Amount ≤ \$810,000
TX	Purchase, or Non-Homestead Refinances	No Restriction	Homestead Refinances
WA	Fixed Rate Loans	No Restriction	ARM Loans





14.6 Recasting

Borrowers who make large principal reductions via early prepayments to the loan balance after closing often wish to have the loan re-amortized to lower their required monthly payment for the remainder of the loan. This process is known as recasting.

Recasting is not permitted on any Star Non-QM program.



15.0 DOING BUSINESS WITH STG MORTGAGE

15.1 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 and where STG Mortgage is permitted to originate DSCR loans without a license.

For all Non-DSCR transactions, 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.

For DSCR Transactions, STG Mortgage complies with all state laws and requires MLOs to be licensed if state law mandates it. For states which do not require MLO licensure on DSCR transactions, STG Mortgage will permit non-licensed individuals to originate DSCR transactions in compliance with state law. Visit <https://stgmortgage.com/licenses/> for a comprehensive list of state licensing requirements and exemptions.

15.2 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 you have the capacity to enter into a binding contract), because all or part of your income may be derived from any public assistance program, or because you have, 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.

15.3 STG Mortgage Loss Payee

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

15.4 Taxes & Insurance Due at Closing

STG Mortgage requires that any property tax bills or insurance bills which will become due within 60 days of closing be paid as part of the transaction.

If taxes on the subject property are due and payable within 60 days but the county or city will not accept payment yet, then an escrow account is required to be set up by the title company to avoid any exceptions on the final title policy.

If a title company requires an escrow account when the due date is beyond 60 days, then all parties must adhere to the title company's requirements.

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.

15.7 Escrow Accounts

Escrow/Impound accounts are required for any of the following loan scenarios:

- LTV greater than 80%
- Properties located in flood zones (excluding Condos and PUDs covered by a master flood policy)
- Higher Priced Mortgage Loans (HPML). For details, see [Higher Priced Mortgage Loan \(HPML\) Transactions](#)



16.0 PROGRAM FORMS

16.1 Self-Employed Business Narrative Form



SELF-EMPLOYED BUSINESS NARRATIVE FORM

Borrower Name: Date: Business Name: Website:

Business Address: Bus. Start Date: Legal Structure (Partnership, Corp., LLC):

Business Ownership (%): If less than 100%, who owns the remaining portion, and what percent?

Does the business have a physical location? ☐ Yes ☐ No
If more than 1 location, please specify. Business Description:

Does Business Provide Sales of Goods, Services, or Both? Location Type: ☐ Commercial ☐ Residential

Number of Employees: Any special considerations you would like to communicate to STG Mortgage, Inc. regarding your bank statements, including source of deposits, wires, or withdrawals?

Full Time

Part Time

Contractors

I/We hereby certify that the information provided in this form is true, accurate and complete. I/We understand that any misrepresentation made in this document may result in the loan application being declined.

Title: Name: Date: Signature:

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Rev. 10/2023



16.2 Business Purpose & Occupancy Affidavit



BUSINESS PURPOSE & OCCUPANCY AFFIDAVIT

Loan Number:

Borrower(s):

Property Address:

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. I have applied for this Loan and am seeking financing for the Property for business purposes only. I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. The proceeds of the loan will be used to purchase, improve, or maintain the Property, and I intend to operate the Property as one or more rental units for profit. If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will, use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. I understand that Lender originating the Loan in reliance upon this Affidavit. If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an Event of Default under my Loan Documents and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. I understand that the agreements and covenants contained herein shall survive the closing of the Loan.
6. I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by nonowner-occupied real property. I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the federal Truth-in-Lending Act (15 U.S.C. §§ 1601-1607) and its implementing Regulation Z (12 C.F.R. Part 1026), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.
7. I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.

Initial(s):

The Property is not and will not be occupied by me or any member of the LLC or any family member.

Borrower(s) / Borrowing
Entity Members:Borrower(s) / Borrowing
Entity Members:

NOTARY PUBLIC

Date:

Date:

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16.3 Personal Guarantee



PERSONAL GUARANTY AGREEMENT

In consideration of _____ having its principal place of business at _____ agreeing to lend the sum of (loan amount) to _____ (the Guarantor), does hereby unconditionally guarantee to _____ its successor or assignee, as their interest may appear (the "Mortgagee"), jointly and severally with other guarantors, the payment of the loan when due (at maturity, by acceleration or otherwise), and any and all attorney's fees, costs, damages and expenses suffered or incurred by _____ rising out of the making of said mortgage, in the amount of _____ and interest, plus attorney's fees, costs, damages and expenses, and any and all extensions and renewals thereof. The liability of the undersigned shall exist and continue to exist whether or not the signature or name of the undersigned appears on any evidence of indebtedness from the borrower to the Mortgagee. The undersigned hereby waives notice of the acceptance of this guaranty and of any demand for payment hereunder, presentment, demand, protest, dishonor, or default or notice thereof with respect to the above transaction. The undersigned agrees to be liable and pay for any deficiency if the note holder forecloses the mortgage securing the note pursuant to the terms of the mortgage and the proceeds received under a foreclosure proceeding, after deduction for expenses, are not sufficient to satisfy the indebtedness of the Borrower. No extension of time or forbearance on the part of the Mortgagee with respect to the mortgage or modification of the terms and provisions of the mortgage shall operate to release any of the Guarantor's obligations hereunder nor shall any delay on the part of the Mortgagee in exercising any of its options, powers or rights under the mortgage or hereunder or a partial or single exercise thereof constitute a waiver of any other rights hereunder. This guaranty shall be construed as an absolute, continuing and unlimited guaranty of payment without regard to the regularity, validity, or enforceability of any liability of and obligation of the Borrower hereby guaranteed; and the Mortgagee shall not be required to proceed first against the Borrower or any other person, firm or corporation or any collateral Security held by the Mortgagee to be deemed cumulative and the availing of one remedy or another not to be deemed an election of remedy.

Borrowing Entity:

By Guarantor:

Print Name:

Date:

(State of):

(Country of) ss:

On the _____ (date) before me, the undersigned, a Notary Public in and for said State, personally appeared, personally known to me or proved to me on the basis of satisfactory evidence to be the Individual(s) whose name(s) is(are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public Signature:

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Rev. 10/2023



16.4 Borrower Contact Consent Form

BORROWER CONTACT CONSENT FORM

To ensure we have the correct contact information for servicing your loan, please provide the following information.

By signing, I authorize my mortgage servicer, its transfers and/or assigns, to contact me regarding the servicing of my loan using the following contact information.

Mailing address for your mortgage statements and other correspondence:

_____ Same as the subject property.

_____ Please use this mailing address instead:

Address Line 1 _____

Address Line 2 _____

City/State/Zip _____ Country _____

Cell phone number:

I understand that by providing a cell phone number and by signing this form, I am giving the holder of my mortgage Note and its designated servicer permission to use the cell phone number to contact me regarding my loan.

Within the United States

If you reside outside the United States

Borrower (_____) _____ - _____ (_____) _____

Co-Borrower (_____) _____ - _____ (_____) _____
(area code) phone number (country code) phone number

Email address:

I understand that by providing an email address, I am giving the holder of my mortgage Note and its designated servicer permission to use this email to contact me regarding my loan.

Borrower _____

Co-Borrower _____

Signature(s):

Borrower _____ Date _____

Co-Borrower _____ Date _____



16.5 Florida Foreign Interest Affidavit - SB 264 Compliance

Affidavit

[Part III, Ch. 692 F.S. - Conveyances to Foreign Entities - By Individual Buyer]

BEFORE ME, the undersigned authority, duly authorized to take acknowledgments and administer oaths, personally appeared _____ ("Affiant"), who deposes and says under penalties of perjury that:

(When used "Affiant" includes singular or plural as context so requires or admits.)

1. Affiant is purchasing or acquiring an interest in the following described real property:

[Insert Legal Description]

2. Affiant has read the attached Notice and has been given the opportunity to consult with an attorney.
3. Affiant is (Initial which is applicable):

____ Not a Foreign Principal as defined in §692.201, F.S. and as such is in compliance with the requirements set out in §692.202-205, F.S.

OR

____ A Foreign Principal as defined in §692.201, F.S. and is in compliance with the requirements set out in §692.202-205, F.S.

4. Affiant acknowledges the foregoing representations will be relied upon to establish compliance with the law.

(Affiant)
Print Name: _____
Address: _____

STATE OF _____
COUNTY OF _____

Sworn to (or affirmed) and subscribed before me by means of ☐ physical presence or ☐ online notarization this ____ day of ____, 20__, by _____ who ☐ is personally known or ☐ has produced _____ as identification.

[Notary Seal]

Notary Public
Printed Name: _____
My Commission Expires: _____

The attached affidavits and notice were drafted as suggestions to the Florida Real Estate Commission to be adopted by Rule pursuant to Laws of Florida Chapter 2023-33. That process will likely not be finalized prior to the July 1, 2023 effective date of the law.

Publication of this form is not legal advice, guidance, or an endorsement of its use, however the Florida Land Title Association is providing it as a possible form of the Buyer's affidavit required under Chapter 2023-33 for use until the Florida Real Estate Commission adopts official forms for use under this law.

After the official form(s) is finalized by the Florida Real Estate Commission, only that form(s) should be used.



16.6 Accountant Letter Sample 1

The sample below is only intended for use with the following programs:

- Business Bank Statement Program for Expense Factor Option 1: Accountant Letter
- Business Bank Statement Program for Expense Factor Option 3: Standard Expense Ratio
- Personal Bank Statement Program

[Firm's Letterhead]

[Firm's Name]

[Address]

[City, State, ZIP Code]

[Phone Number]

[Email Address]

[Website]

[Date Prepared]

I attest that I am not related to or affiliated with [Borrower Name] or [Business Name], apart from a professional accounting relationship. I have reviewed the business records and/or financial working papers for [Business Name] to arrive at my conclusions.

[Borrower Name] has owned ____% of [Business Name] for ____ months.

[Business Name] has existed for ____ months.

The expense ratio for [Business Name] is: ____%.

Sincerely,

["Wet" Signature]

[Printed Accountant Name]

[Accountant License Type] [License Number]

For Allowable Accountant Types see, [Allowable Accountant Types \(Alt Doc\)](#).



16.7 Accountant Letter Sample 2

The sample below is only intended for use with the following programs:

- Business Bank Statement Program for Expense Factor Option 2: Accountant Prepared Profit and Loss (P&L)
- P&L Program

[Firm's Letterhead]

[Firm's Name]

[Address]

[City, State, ZIP Code]

[Phone Number]

[Email Address]

[Website]

[Date Prepared]

I attest that I have prepared the most recent tax returns for (business name).

I attest that I am not related to or affiliated with [Borrower Name] or [Business Name], apart from a professional accounting relationship. I have reviewed the business records and/or financial working papers for [Business Name] to arrive at my conclusions and prepared the profit and loss dated [Date].

I attest that [Business Name] has existed since [Date] and borrower [Borrower Name] has owned ____% of this business since [Date].

Sincerely,

["Wet" Signature]

[Printed Name]

[Title] [Accountant License Type] [License Number]

For Allowable Accountant Types see, [Allowable Accountant Types \(Alt Doc\)](#).



16.8 P&L Sample

Company Name

For the period ended May 31, 2024

	June 2023 - May 2024
Revenue	
Net revenues	\$ 1,319,652
Cost of sales	(85,639)
Gross Profit	1,234,013
General and administrative	
Amortization	5,137
Bank fees	200
Contracted labor	1,403
Education / training	27
Office supplies	5,959
Postage	2,188
Professional fees	2,954
Software	9,821
Taxes	391
Travel	991
Total General and administrative	(29,071)
Income from operations	1,204,942
Net Income	\$ 1,204,942

Accountant Signature: _____

Accountant Name: _____

Borrower Signature: _____

Borrower Name: _____



16.9 Borrower Attestation for ATR Compliance (Asset Depletion & Asset Utilization)**Borrower Attestation for ATR Compliance (Asset Depletion & Asset Utilization)**

Regarding STG Mortgage loan application # _____ for \$ _____ secured by the real property located at

_____ (Property Street Address).

I, _____ (Borrower Name) attest to the following:

I have fully disclosed all my financial obligations.

I have fully reviewed the terms of the loan and understand them.

I acknowledge that I have requested a loan which relies all or in part upon my financial assets to qualify. I attest that I have the ability to repay the loan.

Borrower Signature

Date

ATTENTION: Do not sign this form unless you completely understand all the terms and obligations of the mortgage loan referenced above.

You have applied for a mortgage which uses your financial assets to qualify in lieu of traditional income verification. If you are concerned that you cannot make the payments or if you wish to apply for a loan which uses traditional income verification methods, please do not sign this form and contact your loan officer.



16.10 Minimum Assets Required Worksheet (Asset Utilization)

Loan Amount	\$
Tax, Insurance, HOA for Subject x 60	+ \$
All monthly liabilities x 60	+ \$
Neg Cash Flow from other REO x 60	+ \$
Required Reserves	+ \$
Cash to Close	+ \$
Minimum Assets Required	= \$

16.11 Spousal Consent Form**CONSENT OF SPOUSE**

I, _____ [Name of Spouse], spouse of
 _____ [Name of Guarantor], acknowledge that I have read the
 _____ [Guarantee], dated as of _____ [Closing Date], by
 _____ [Name of Guarantor] (the "Guarantee"), and that I know the
 contents of the Guarantee. I am aware that the Guarantee contains provisions guaranteeing amounts for the benefit of
 _____ [Name of Borrower] ("Borrower") and in support of that certain
 promissory note incurred by Borrower and payable to the order of _____
 [Name of Seller] ("Seller"), as well as other obligations under the Guarantee:

I hereby expressly approve of the Guarantee in its entirety, including, but not limited to, that my spouse guarantees to
 Seller the full and prompt payment when due, whether at the Maturity Date or earlier, the entire amount due under the
 promissory note (as defined in the Guarantee).

I am aware that the legal and related matters contained in the Guarantee are complex and that I have been advised to
 seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or
 counsel or determined after reviewing the Guarantee carefully that I will, and hereby do, waive such right.

Spouse Signature: _____

Spouse Printed Name: _____

Spouse Address: _____

State of _____

County of _____

The foregoing instrument was acknowledged before me on this _____, 20__ by
 _____ (spouse).

(Notary Seal)

Signature of Notary Public: _____

Printed Name: _____

My Commission Expires: _____



16.12 LLC Borrowing Certificate (Single Member)**LIMITED LIABILITY COMPANY BORROWING CERTIFICATE**TO: STG Mortgage [SELLER LEGAL NAME]

The undersigned, being the sole member of _____ [LLC LEGAL NAME], a limited liability company ("Borrower"), does hereby certify that they are the sole and only member of Borrower and, under the Borrower's ☐ Operating Agreement or ☐ Limited Liability Company Agreement and by these presents, the undersigned is authorized and empowered for and on behalf of and in the name of Borrower and without any requirement for consent or approval by any other person or party, as Borrower's act and deed:

1. To borrow money from STG Mortgage [SELLER LEGAL NAME] ("Seller") and to assume any liabilities of any other person or entity to Seller, in such form and on such terms and conditions as shall be agreed upon by those authorized above and Seller, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as Seller shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any member, manager, employee or agent of Borrower so long as the advances are deposited into any deposit account of Borrower with Seller; Borrower shall be bound to Seller by and Seller may rely upon any communication or act, including telephone communications, purporting to be done by any member, manager, employee or agent of Borrower, provided that Seller believes, in good faith, that the same is done by such person.

2. To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of Borrower's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments and other evidences of indebtedness authorized hereby, and to execute and deliver to Seller such deeds of trust, mortgages, pledge agreements and/or other security agreements as Seller shall require.

3. To perform all acts and execute and deliver all documents described above and all other contracts and instruments which Seller deems necessary or convenient to accomplish the purposes of this certificate and/or to perfect or continue the rights, remedies and security interests to be given to Seller, including, without limitation, any modifications, renewals and/or extensions of any of Borrower's obligations to Seller, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this certificate shall not at any time exceed the sum of \$ _____ [MAXIMUM AUTHORIZED LOAN AMOUNT] outstanding and unpaid.

The authority hereby conferred shall be deemed retroactive, and any and all acts authorized herein which were performed prior to the execution of this certificate are hereby approved and ratified. The authority hereby conferred is in addition to that conferred by any other certificate heretofore or hereafter delivered to Seller and shall continue in full force and effect until Seller shall have received notice in writing from Borrower of the revocation hereof, and such revocation shall be effective only as to credit which was not extended or committed to Borrower by Seller prior to Seller's receipt of such notice.

The undersigned further certifies that the activities covered by the foregoing certifications constitute duly authorized activities of Borrower; that said certifications are now in full force and effect; and that there is no provision in any document pursuant to which Borrower is organized and/or which governs Borrower's continued existence limiting the power of the undersigned to make the certifications set forth herein, and that the same are in conformity with the provisions of all such documents.

IN WITNESS WHEREOF, the undersigned has hereunto executed this Certificate as of _____, 20____ [DATE EXECUTED].

By (Signature): _____

Name (Printed): _____

Title: _____



16.13 LLC Borrowing Certificate (Multiple Member)**LIMITED LIABILITY COMPANY BORROWING CERTIFICATE**TO: STG Mortgage [SELLER LEGAL NAME]

The undersigned, being all of the members of _____ [LLC LEGAL NAME], a limited liability company ("Borrower"), do hereby certify that they are, respectively, all of the managers and members of Borrower and, under the Borrower's ☐ Operating Agreement or ☐ Limited Liability Company Agreement and by these presents, the undersigned are each authorized and empowered for and on behalf of and in the name of Borrower and without any requirement for consent or approval by any other person or party, as Borrower's act and deed:

1. To borrow money from STG Mortgage [SELLER LEGAL NAME] ("Seller") and to assume any liabilities of any other person or entity to Seller, in such form and on such terms and conditions as shall be agreed upon by those authorized above and Seller, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as Seller shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any member, manager, employee or agent of Borrower so long as the advances are deposited into any deposit account of Borrower with Seller; Borrower shall be bound to Seller by and Seller may rely upon any communication or act, including telephone communications, purporting to be done by any member, manager, employee or agent of Borrower, provided that Seller believes, in good faith, that the same is done by such person.

2. To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of Borrower's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments and other evidences of indebtedness authorized hereby, and to execute and deliver to Seller such deeds of trust, mortgages, pledge agreements and/or other security agreements as Seller shall require.

3. To perform all acts and execute and deliver all documents described above and all other contracts and instruments which Seller deems necessary or convenient to accomplish the purposes of this certificate and/or to perfect or continue the rights, remedies and security interests to be given to Seller, including, without limitation, any modifications, renewals and/or extensions of any of Borrower's obligations to Seller, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this certificate shall not at any time exceed the sum of \$ _____ [MAXIMUM AUTHORIZED LOAN AMOUNT] outstanding and unpaid.

The authority hereby conferred shall be deemed retroactive, and any and all acts authorized herein which were performed prior to the execution of this certificate are hereby approved and ratified. The authority hereby conferred is in addition to that conferred by any other certificate heretofore or hereafter delivered to Seller and shall continue in full force and effect until Seller shall have received notice in writing from Borrower of the revocation hereof, and such revocation shall be effective only as to credit which was not extended or committed to Borrower by Seller prior to Seller's receipt of such notice.

We further certify that the activities covered by the foregoing certifications constitute duly authorized activities of Borrower; that said certifications are now in full force and effect; and that there is no provision in any document pursuant to which Borrower is organized and/or which governs Borrower's continued existence limiting the power of the undersigned to make the certifications set forth herein, and that the same are in conformity with the provisions of all such documents.

IN WITNESS WHEREOF, the undersigned have hereunto executed this Certificate as of _____, 20____ [DATE EXECUTED].

By (Signature): _____

By (Signature): _____

Name (Printed): _____

Name (Printed): _____

Title: _____

Title: _____

By (Signature): _____

By (Signature): _____

Name (Printed): _____

Name (Printed): _____

Title: _____

Title: _____



16.14 LLC Certificate of Authorization Sample**LIMITED LIABILITY COMPANY CERTIFICATE OF AUTHORIZATION**

The undersigned, being the duly elected, qualified and active (member/manager) of _____, a Limited Liability Company (hereinafter "the Company")

Does Hereby Certify that:

1. The Articles of Organization of the Company were duly filed with the Office of the Secretary of State of the State of _____ [STATE ORGANIZED] on _____ [DATE ORGANIZED], and the Articles of Organization have not been (further) amended.

2. The transaction described is a mortgage loan for the property located at _____ [STREET ADDRESS] to STG Mortgage, in an amount not to exceed \$_____ [MAXIMUM AUTHORIZED LOAN AMOUNT].

3. The company is a:

☐ a Single-Member LLC.

or

☐ a Multi Member LLC, and Operating Agreement of the Company exists, and the said Operating Agreement has not been amended or repealed, and remains in full force and effect as of this date.

4. Neither the Articles of Organization nor the Operating Agreement (as amended) require any further act to be taken or a meeting to be held by its members other than as follows:

5. All said requirements, whether as contained in the Articles of Organization or in the Operating Agreement or by operation of law as to the transaction of _____, 20____ have been met.

6. The following person has been duly authorized by the Company to execute all documents in connection with said transaction and that the signature appearing below his/her name is his/her genuine signature.

Name of Designated Signer (Printed): _____

Signature: _____

Title: _____

Signatures of other members authorizing the signer above.

By (Signature): _____

By (Signature): _____

Name (Printed): _____

Name (Printed): _____

Title: _____

Title: _____

By (Signature): _____

By (Signature): _____

Name (Printed): _____

Name (Printed): _____

Title: _____

Title: _____



16.15 Inter Vivos Trust Checklist

INTER VIVOS TRUST CHECKLIST

Required Trust Documentation

- If permitted by the subject property state, a complete, signed copy of the Trust Agreement along with a Certification of Trust compliant with state statute which must have been signed and notarized at closing; OR
- In lieu of the entire Trust Agreement, obtain a copy of a compliant Trust Certificate prepared and signed when the trust was created, along with a Certification of Trust compliant with state statute which must have been signed and notarized at closing.

If more than one trustee, number of trustees required to act/sign documents: _____.

The trust must meet Fannie Mae Selling Guide requirements. All answers to the following questions must be YES for the trust to be eligible.

Eligibility																																				
YES	NO																																			
	At least one person on the loan meets ALL of the following criteria: • Borrower signing the Note (for a Primary Residence, at least one borrower who established the trust must occupy the property). • Trustee. • Settlor/Grantor/Trustor. • Beneficiary.																																			
	Loan is not a TX 50(a)(6).																																			
	Power of Attorney is not required to close the transaction.																																			
Trust Agreement																																				
YES	NO																																			
	The individual(s) who established the trust ("Grantor") is/are alive at the time of loan application and closing/funding.																																			
	The trust was established in writing by a natural person(s) and is effective during their lifetime (The trust was not created in a will or codicil).																																			
	The Grantor(s) have the right to revoke or alter the trust at any time.																																			
	The primary beneficiary of the trust is the Grantor(s) (the interest and principal of the trust estate is applied for their benefit) and the mortgage has been underwritten as if the Grantor (or at least one of the Grantors) is the borrower or the co-borrower if there are additional individuals whose income or assets will be used to qualify for the mortgage.																																			
	The trust does not contain an unusual risk or impairment of the lender's rights (i.e. distributions required to be made in specified amounts from amounts from other than net income).																																			
	None of the following terms are used in the Trust Agreement/Trust Cert: • Irrevocable Trust. • Qualified Personal Residential Trust. • Institutional Trust (not to be confused with institutional trustees). • Corporate Trust. • Trust established under the laws of any entity other than one of fifty states. • Notification that one of the settlors has died (the trust is no longer revocable). • Blind Trust.																																			
Trust Cert																																				
YES	NO																																			
	Trust Certifications are acceptable provided it contains sufficient information to determine the Trust meets all agency requirements. A trust cert can be used in lieu of the complete Trust Agreement in the states listed below. The complete Trust Agreement or Trust Certification is signed by at least one trustee unless otherwise specified below: <table border="1" data-bbox="354 1360 1386 1562"> <tbody> <tr> <td>Arizona</td> <td>California^{1 2}</td> <td>Delaware¹</td> <td>District of Columbia</td> <td>Florida²</td> </tr> <tr> <td>Georgia¹</td> <td>Idaho</td> <td>Illinois</td> <td>Indiana</td> <td>Iowa¹</td> </tr> <tr> <td>Kansas¹</td> <td>Kentucky</td> <td>Massachusetts</td> <td>Mississippi^{1 3}</td> <td>Minnesota^{1 2 3}</td> </tr> <tr> <td>Montana</td> <td>Nevada</td> <td>New Hampshire</td> <td>New Jersey</td> <td>North Carolina</td> </tr> <tr> <td>Ohio</td> <td>Oregon¹</td> <td>Pennsylvania</td> <td>South Carolina</td> <td>South Dakota^{1 2 3}</td> </tr> <tr> <td>Tennessee</td> <td>Utah</td> <td>Virginia</td> <td>Washington</td> <td>Wisconsin</td> </tr> <tr> <td>Wyoming</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> ¹ Trust Cert must be signed by all trustees. ² Trust Cert must be notarized. ³ Trust Cert must be recorded.	Arizona	California ^{1 2}	Delaware ¹	District of Columbia	Florida ²	Georgia ¹	Idaho	Illinois	Indiana	Iowa ¹	Kansas ¹	Kentucky	Massachusetts	Mississippi ^{1 3}	Minnesota ^{1 2 3}	Montana	Nevada	New Hampshire	New Jersey	North Carolina	Ohio	Oregon ¹	Pennsylvania	South Carolina	South Dakota ^{1 2 3}	Tennessee	Utah	Virginia	Washington	Wisconsin	Wyoming				
Arizona	California ^{1 2}	Delaware ¹	District of Columbia	Florida ²																																
Georgia ¹	Idaho	Illinois	Indiana	Iowa ¹																																
Kansas ¹	Kentucky	Massachusetts	Mississippi ^{1 3}	Minnesota ^{1 2 3}																																
Montana	Nevada	New Hampshire	New Jersey	North Carolina																																
Ohio	Oregon ¹	Pennsylvania	South Carolina	South Dakota ^{1 2 3}																																
Tennessee	Utah	Virginia	Washington	Wisconsin																																
Wyoming																																				
Title and Title Insurance Requirements																																				
YES	NO																																			
	Property is vested to: • One Trust. • One Trust and an individual(s). • Two Trusts (both trust agreements must be approved).																																			
	Title has accepted the trust and there are no exceptions. Property is vested in the trust's name or in the trustee's names on behalf of the trust.																																			



16.16 Limited Condo Review Form



LIMITED REVIEW FORM

PROJECT LEGAL NAME: _____

CITY AND STATE: _____

1. Are there short-term rentals? ☐ Yes ☐ No If yes, what is the minimum rental period? _____
2. Does the project have any of the items listed below? Please mark all which apply. ☐ Yes ☐ No

- | | |
|---|---|
| ☐ Hotel Services
☐ Licensed as a hotel, motel, resort or hospitality entity
☐ Rentals handled through the management company
☐ Occupancy limits or blackout dates
☐ Legal documents require owners to share profits from rentals of units with HOA, Management Co. or resort/Hotel rental company
☐ Project contains non-incidental business operations (restaurant, spa, etc.)
☐ Project is listed as an investment security with the SEC | ☐ Hotel or Resort ratings through hotel booking websites or agencies
☐ Managed by a hotel/resort management company
☐ Rental pooling
☐ Interior decorating or furnishing restrictions
☐ Project is a common interest apartment or community apartment
☐ Multi-dwelling Unit (more than one unit on deed and/or mortgage) |
|---|---|

3. Total number of units in the project. _____
4. Total number of units sold and closed. _____
5. Total number of units owned by the Developer. _____
How many of the Developer owned units rented? _____
6. Largest number of units owned by a single person/entity. (The lowest number would be at least 1.) _____
7. Is there any additional phasing or annexation? ☐ Yes ☐ No
8. Are units owned fee simple (FS) or leasehold (LH)? ☐ FS ☐ LH
9. Are all units, common areas, and amenities completed? ☐ Yes ☐ No
10. Date Association turned over to unit owner control (Month/Year). _____
11. Is the project subject to a recreational or land lease? ☐ Yes ☐ No
12. Are the units subject to recurring transfer fees paid to the developer upon the sale of a unit? ☐ Yes ☐ No
13. Does the project have a mandatory club membership? ☐ Yes ☐ No
If yes, who owns the club? _____
14. Is the association subject to any lawsuits or pre-litigation activity (e.g., mediation, arbitration, etc.)? ☐ Yes ☐ No
If yes, provide the complaint(s) for the lawsuit(s) and/or details of the pre-litigation activity. _____
15. Does the project contain commercial space? ☐ Yes ☐ No
If yes, what percentage of the project is commercial? _____ %
16. Has the HOA or Developer retained any right of first refusal? ☐ Yes ☐ No
If yes, are mortgagees excluded from this right of first refusal? ☐ Yes ☐ No
17. If a unit is foreclosed or taken back by deed in lieu of foreclosure, is the mortgagee (lender) responsible for HOA dues? ☐ Yes ☐ No
If yes, for how long? ☐ 0-6 months ☐ 7-12 months ☐ more than one year



Limited Condo Review Form (Continued)**LIMITED REVIEW FORM****SPECIAL ASSESSMENTS**

18. How many special assessments are ongoing or planned? _____

What is the purpose of each special assessment?

What is the total amount of each special assessment? _____

When does the special assessment begin and end? _____

If the special assessment(s) are related to critical repairs, have all repairs been completed? ☐ Yes ☐ No

How many unit owners are more than 60 days delinquent in their special assessment? _____

DEFERRED MAINTENANCE19. Does the association have any reports regarding deferred maintenance? ☐ Yes ☐ No

If yes, please provide copy of the report. _____

20. Have there been any inspections done within the past three years? ☐ Yes ☐ No

If yes, please provide copy of the inspection report. _____

21. Has the project failed to pass state or other jurisdictional inspections or certifications related to structural soundness, safety, or habitability? ☐ Yes ☐ No22. Is the project subject to evacuation orders? ☐ Yes ☐ No23. Does the project have material deficiencies that would result in critical elements or system failures within 1 year? ☐ Yes ☐ No

If yes, what elements are impacted? _____

24. Is there mold, water intrusion, or damaging leaks that have not been repaired? ☐ Yes ☐ No

If yes, please explain. _____

25. Is there any advanced physical deterioration? ☐ Yes ☐ No

If yes, what elements are impacted? _____

26. Are there any unfunded repairs costing more than \$10,000 per unit that should be repaired within the next 12 months? ☐ Yes ☐ No

If yes, please explain. _____

Acceptable sources include an officer of the condominium association or a qualified employee of the association's management company.

Source of Information _____

Signature _____

Title _____

Date _____

Phone Number _____

Email Address _____

Website Address of Association _____



16.17 Full Condo Review Form



FULL REVIEW FORM

PROJECT LEGAL NAME: _____

CITY AND STATE: _____

Total # of Units	# of Units conveyed	# of Developer owned	# of Owner Occupied	# of Second Homes	# of Investors

1. Are there short-term rentals? ☐ Yes ☐ No If yes, what is the minimum rental period? _____2. Does the project have any of the items listed below? Please mark all which apply. ☐ Yes ☐ No

- | | |
|---|---|
| ☐ Hotel Services
☐ Licensed as a hotel, motel, resort or hospitality entity
☐ Rentals handled through the management company
☐ Occupancy limits or blackout dates
☐ Project is listed as an investment security with the SEC
☐ Project contains non-incidental business operations (restaurant, spa, etc.)
☐ Legal documents require owners to share profits from rentals of units with HOA, Management Co. or resort/hotel rental company | ☐ Hotel or Resort ratings through hotel booking websites or agencies
☐ Managed by a hotel/resort management company
☐ Rental pooling
☐ Interior decorating or furnishing restrictions
☐ Project is a common interest apartment or community apartment
☐ Multi-dwelling Unit (more than one unit on deed and/or mortgage) |
|---|---|

3. Largest number of units owned by a single person/entity. (The lowest number would be at least 1.) _____

4. No. of units over 60 days delinquent and dollar amount of delinquency. _____ / \$ _____

5. Is there any additional phasing or annexation? ☐ Yes ☐ No6. Are units owned fee simple (FS) or leasehold (LH)? ☐ FS ☐ LH7. Are all units, common areas, and amenities completed? ☐ Yes ☐ No

8. Date Association turned over to unit owner control (Month/Year). _____

9. Is the project a conversion? ☐ Yes ☐ No

If yes, is the project a gut rehab with renovation of property down to the shell replacement of all

HVAC & electrical components? ☐ Yes ☐ No Year converted _____10. Does the project contain any low or moderate-income housing units (aka inclusionary zoning)? ☐ Yes ☐ NoIf yes, is the subject unit designated as a low to moderate income unit? ☐ Yes ☐ No11. Is the project subject to a recreational lease? ☐ Yes ☐ No12. Are the units subject to recurring transfer fees paid to the developer upon the sale of a unit? ☐ Yes ☐ No13. Does the project have a mandatory club membership? ☐ Yes ☐ No

If yes, who owns the club? _____

14. Is the association subject to any lawsuits or pre-litigation activity (e.g. mediation, arbitration, etc.)? ☐ Yes ☐ No

If yes, provide the complaint(s) for the lawsuit(s) and/or details of the pre-litigation activity. _____

15. Does the project contain commercial space? ☐ Yes ☐ No

If yes, what percentage of the project is commercial? _____

16. Has the HOA or Developer retained any right of first refusal? ☐ Yes ☐ NoIf yes, are mortgagees excluded from this right of first refusal? ☐ Yes ☐ No17. If a unit is foreclosed or taken back by deed in lieu of foreclosure, is the mortgagee (lender) responsible for HOA dues? ☐ Yes ☐ NoIf yes, for how long? ☐ 0-6 months ☐ 7-12 months ☐ More than a year18. Is the project located in a Master Association? ☐ Yes ☐ No19. Does the HOA or management co. maintain separate accounts for operating & reserve funds? ☐ Yes ☐ No20. Are the monthly account statements being sent directly to the HOA? ☐ Yes ☐ No21. Does the management company have the authority to draw checks against or transfer funds from the reserve account? ☐ Yes ☐ No22. Are 2 or more members of Board of Directors required to sign checks from the reserve account? ☐ Yes ☐ No

23. What is the balance in the segregated reserve account? \$ _____



Full Condo Review Form (Continued)



FULL REVIEW FORM

SPECIAL ASSESSMENTS

24. How many special assessments are ongoing or planned?

What is the purpose of each special assessment?

What is the total amount of each special assessment?

When does the special assessment begin and end?

If the special assessment(s) are related to critical repairs, have all repairs been completed?

☐

Yes

☐

No

How many unit owners are more than 60 days delinquent in their special assessment?

DEFERRED MAINTENANCE

25. Does the association have any reports regarding deferred maintenance?

☐

Yes

☐

No

If yes, please provide copy of the report.

26. Have there been any inspections done within the past three years?

☐

Yes

☐

No

If yes, please provide copy of the inspection report.

27. Has the project failed to pass state or other jurisdictional inspections or certifications related to structural soundness, safety, or habitability?

☐

Yes

☐

No

28. Is the project subject to evacuation orders?

☐

Yes

☐

No

29. Does the project have material deficiencies that would result in critical elements or system failures within 1 year?

☐

Yes

☐

No

If yes, what elements are impacted?

30. Is there mold, water intrusion, or damaging leaks that have not been repaired?

☐

Yes

☐

No

If yes, please explain.

31. Is there any advanced physical deterioration?

☐

Yes

☐

No

If yes, what elements are impacted?

32. Are there any unfunded repairs costing more than \$10,000 per unit that should be repaired within the next 12 months?

☐

Yes

☐

No

If yes, please explain.

Acceptable sources include an officer of the condominium association or a qualified employee of the association's management company.

Source of Information

Signature

Title

Date

Phone Number

Email Address

Website Address of Association



16.18 Condo - Building Safety, Soundness, Structural Integrity, and Habitability Addendum**Building Safety, Soundness, Structural Integrity,
and Habitability Addendum**

**This Addendum is applicable to both condominium and cooperative projects.
It must be completed by an authorized representative of the Homeowners' Association
(HOA) /Cooperative Corporation.**

Project Name:	
Project Address:	

Building Safety, Soundness, Structural Integrity, and Habitability

1	When was the last building inspection by a licensed architect, licensed engineer, or any other building inspector?	Date: _____	
2	Did the last inspection have any findings related to the safety, soundness, structural integrity, or habitability of the project's building(s)?	☐ Yes	☐ No
	2a. If Yes, have recommended repairs/replacements been completed?	☐ Yes	☐ No
	2b. What repairs/replacements remain to be completed?		
	2c. When will the repairs/replacements be completed?		
	Provide a copy of the inspection and HOA or cooperative board meeting minutes to document findings and action plan.		
3	Is the HOA/Cooperative Corporation aware of any deficiencies related to the safety, soundness, structural integrity, or habitability of the project's building(s)?	☐ Yes	☐ No
	3a. If Yes, what are the deficiencies?		
	3b. Of these deficiencies, what repairs/replacements remain to be completed?		
	3c. Of these deficiencies, when will the repairs/replacements be completed?		
4	Are there any outstanding violations of jurisdictional requirements (zoning ordinances, codes, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s)?	☐ Yes	☐ No
	If Yes, provide notice from the applicable jurisdictional entity.		
5	Is it anticipated the project will, in the future, have such violation(s)?	☐ Yes	☐ No
	If Yes, provide details of the applicable jurisdiction's requirement and the project's plan to remediate the violation.		
6	Does the project have a funding plan for its deferred maintenance components/items to be repaired or replaced?	☐ Yes	☐ No
7	Does the project have a schedule for the deferred maintenance components/items to be repaired or replaced?	☐ Yes	☐ No
	If Yes, provide the schedule.		
8	Has the HOA/Cooperative Corporation had a reserve study completed on the project within the past 3 years?	☐ Yes	☐ No
9	What is the total of the current reserve account balance(s)?	\$ _____	
10	Are there any current special assessments unit owners/cooperative shareholders are obligated to pay? If Yes:	☐ Yes	☐ No
	10a. What is the total amount of the special assessments?	\$ _____	
	10b. What are the terms of the special assessments?		
	10c. What is the purpose of the special assessments?		
11	Are there any planned special assessments that unit owners/cooperative shareholders will be obligated to pay? If Yes:	☐ Yes	☐ No

Fannie Mae Form 1076A/Freddie Mac Form 476A



Condo - Building Safety, Soundness, Structural Integrity, and Habitability Addendum (Continued)

	11a. What will be the total amount of the special assessments?	\$	
	11b. What will be the terms of the special assessments?		
	11c. What will be the purpose of the special assessments?		
12	Has the HOA obtained any loans to finance improvements or deferred maintenance?	☐ Yes	☐ No
	12a. Amount borrowed?	\$	
	12b. Terms of repayment?		

Additional Comments:

--

Name of Preparer:	
Title of Preparer:	
Preparer's Phone:	
Preparer's Email:	
Preparer's Company Name:	
Preparer's Company Address:	
Date Completed:	

Fannie Mae Form 1076A/Freddie Mac Form 476A



16.19 New Condominium Pre-Sale Form

New Condominium Pre-Sale Form

Date: _____

Project Name: _____

Total Number of Planned Units in Project: _____

Source of Information: _____

Telephone: _____ email: _____

COMPLETED PHASES				
Phase Number & Building Number	# of Units	Units Closed or Under Contract	Owner Occupied or Second Home	Investor

PHASES UNDER CONSTRUCTION				
Phase #	# of units under construction	Total Units Under Contract	Owner Occupied or Second Home	Investor

UNBUILT PHASES			
Unbuilt Phases	Total Units Under Contract	Owner Occupied or Second Home	Investor

RECREATIONAL FACILITIES AND AMENITIES	
Description	If not complete Anticipated Completion Date

PLEASE INCLUDE SITE PLAN WITH BUILDING DESIGNATIONS.

What amount of monies is being funded for a working capital contribution upon each closing? \$_____



16.20 Non-Occupant Co-Borrower Certification**NON-OCCUPANT CO-BORROWER CERTIFICATION**

Borrower: _____

Co-Borrower(s): _____

Property Address: _____

I/We the undersigned certify that:

___ I am/We are the co-borrower(s) of the Promissory Note associated with the first mortgage loan that is being made to the above Borrower(s).

___ I/We attest that my/our income is/are being taken into account for qualifying purposes only.

___ I/We attest that we do not currently, nor will ever occupy the above-mentioned Subject property.

___ I/We attest that we will sign the mortgage or deed of trust note at closing.

___ I/We understand that upon consummation of this transaction I/we will have joint liability for the note with the Borrower(s).

___ I/We do not have an interest in the property sales transaction, such as the property seller(s), the builder(s), or the real estate broker(s).

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to \$1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Seller to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower: _____ Date: _____

Co-Borrower: _____ Date: _____

Co-Borrower: _____ Date: _____

Co-Borrower: _____ Date: _____

