

LENDING GUIDELINES

CONSTELLATION PROGRAM

FULL DOC
ASSET UTILIZATION
BANK STATEMENT
1099
P&L
DSCR

11/24/2026

Contents

1.0 ELIGIBILITY 9
1.1 Ability to Repay and Qualified Mortgage Rule 9
1.1.1 Points and Fees 9
1.2 Net Tangible Benefit 9
1.3 Assumable Mortgage 10
1.4 Occupancy 10
1.4.1 Primary Residence 10
1.4.2 Military Owner Occupancy 10
1.4.3 Second Home 11
1.4.4 Investment Property 11
1.5 Entity Vesting Options 12
1.6 Excluded Parties 13
1.7 Loan Application 13
1.8 Documentation Age 14
1.9 Occupancy Types 14
1.9.1 Primary Residence 14
1.9.1.1 Primary Residence Exception 14
1.9.1.2 Military Owner Occupancy 15
1.9.2 Second Home 15
1.9.3 Investment Property 15
1.9.3.1 DSCR Program Occupancy Verification 15
1.10 Borrower Eligibility 16
1.10.1 U.S. Citizen 16
1.10.2 Non-U.S. Citizen 16
1.10.2.1 Permanent Resident Alien 16
1.10.2.2 Non-Permanent Resident Alien 17
1.10.2.3 Borrowers Without an Acceptable Visa 21
1.10.2.4 Ineligible Borrowers 22
1.11 First Time Homebuyer 22
1.12 Non-Occupant Borrower, Guarantor, and Co-Signer 23
1.12.1 Non-Occupant Borrower 23
1.12.2 Guarantor or Co-Signer 23
1.13 Multiple Financed Properties 23
1.13.1 Ownership Defined 23
1.13.2 Property Subject to Limitations 24

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1.13.3 Simultaneous Submissions....24
1.14 Ownership Interests....24
1.14.1 Life Estate....24
1.14.2 Leasehold Estate....25
1.15 Inter Vivos Revocable Trust (Living Trust)....26
1.15.1 Trust and Trustee Requirements....26
1.15.2 Certification of Trust....27
1.15.3 Title and Title Insurance Requirements....27
1.15.4 Legal Documents and Riders....27
1.15.5 Ineligible Trusts....28
1.16 Electronic Signatures....28
2.0 TRANSACTION TYPES....29
2.1 Purchase Mortgage....29
2.1.1 Non-Arm's Length Transactions....30
2.1.2 Conflict of Interest (Dual Capacity or Dual Agency)....30
2.2 Rate/Term Refinance Mortgage....31
2.3 Cash Out Refinance Mortgage....32
2.4 Texas Refinances....33
2.4.1 Texas Refinances - Occupancy....33
2.4.2 Texas Refinances - Definitions & Descriptions....33
2.4.3 Texas Refinances - Legal Review....33
2.4.4 Texas Refinances - Texas 50(a)(6), Texas 50(a)(4) and Texas 50(f)(2)....33
2.4.4.1 Texas 50(a)(6)....34
2.4.4.2 Texas 50(a)(4)....35
2.4.4.3 Texas 50(f)(2)....35
2.5 Refinances to Buy Out an Owner's Interest....36
2.6 Delayed Financing....36
2.7 Installment Land Contract....37
2.8 Property Flips....38
2.9 Construction-to-Permanent Financing....39
2.10 Buy Before You Sell – Intermediary Companies – Primary Residence Only....39
3.0 FINANCING....40
3.1 Calculating Loan-to-Value Ratios....40
3.1.1 Permanently Modified HELOC....40
3.2 Subordinate Financing....40
3.2.1 Acceptable Subordinate Financing Terms....40
3.2.2 Required Documentation....41

STG MORTGAGE INC | (833) 784-5626 | 18401 Von Karman Avenue, Suite 440, Irvine, CA 92612 | NMLS #2091912. www.nmlsconsumeraccess.org. For Mortgage Professional use only and not for consumer distribution. Not all applicants are eligible for or qualify for all products offered. All loans must satisfy STG MORTGAGE INC underwriting guidelines. All market data and other information is not warranted as to completeness or accuracy. Information, rates and pricing are subject to change without prior notice at the sole discretion of STG MORTGAGE INC. Licensing: https://stgmortgage.com/licenses. Equal Housing Lender.

3.2.3 Home Equity Line of Credit (HELOC) Subordinate Lien 41
3.2.4 Closed End Subordinate Lien 41
3.3 Temporary Interest Rate Buydowns 41
3.3.1 Buydown Agreement 42
3.3.2 Terms of the Buydown 42
3.3.3 Buydown Account and Funds 42
3.4 Property Assessed Clean Energy (PACE) and PACE-like Obligations 43
3.5 Premium Pricing/Lender Credits 43
3.6 Principal Curtailment/Principal Reduction 43
3.7 Escrow for Impounds 44
3.7.1 Escrow/Impounds 44
3.7.2 Escrow Waivers 44
4.0 ELIGIBLE PROPERTY TYPES 45
4.1 Eligible Property Types 45
4.1.1 Single-Family Residence 45
4.1.2 Modular Home 45
4.1.3 Two- to Four-Unit Property 45
4.1.4 Condominium 45
4.1.4.1 Maximum Non-Warrantable Condo Exposure 45
4.1.4.2 Warrantable Condominium Project 46
4.1.4.3 Non-Warrantable Condominium Project 47
4.1.4.3.1 Maximum Non-Warrantable Condo Exposure 48
4.1.4.3.2 Condotel 48
4.1.4.4 California Condo Balcony Requirements - SB 326 49
4.1.4.5 Florida Condo Requirements 49
4.1.5 Cooperative Units (Co-ops) 50
4.1.6 Planned Unit Development (PUD) 50
4.1.7 Accessory Dwelling Units (ADU) 51
4.1.8 Mixed Use Property 52
4.2 Deed and Resale Restrictions 52
4.3 Properties with Solar Panels 53
4.3.1 Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement 55
5.0 CREDIT 56
5.1 Documentation Standards 56
5.2 Credit Report Standards 56
5.2.1 Credit Report Red Flags 56

STG MORTGAGE INC | (833) 784-5626 | 18401 Von Karman Avenue, Suite 440, Irvine, CA 92612 | NMLS #2091912. www.nmlsconsumeraccess.org. For Mortgage Professional use only and not for consumer distribution. Not all applicants are eligible for or qualify for all products offered. All loans must satisfy STG MORTGAGE INC underwriting guidelines. All market data and other information is not warranted as to completeness or accuracy. Information, rates and pricing are subject to change without prior notice at the sole discretion of STG MORTGAGE INC. Licensing: https://stgmortgage.com/licenses. Equal Housing Lender.

5.2.2 Frozen Credit 56
5.3 Inquiries and Undisclosed Liabilities 57
5.4 Credit Scores 57
5.5 Selection and Validation of Credit Scores 57
5.5.1 Selection of Credit Score 58
5.5.2 Traditional Tradeline Requirements 58
5.5.2.1 Alternative Minimum Tradeline Requirements 58
5.5.3 Non-traditional Tradelines 58
5.5.4 Authorized User Accounts 58
5.5.5 Foreign Credit Reports and Credit Scores 59
5.6 Housing Payment History 59
5.6.1 Verification of Mortgage 59
5.6.2 Verification of Rent 59
5.7 Significant Derogatory Credit 59
5.7.1 Waiting Periods 59
5.8 Re-established Credit 60
5.9 Delinquent Credit 61
6.0 ASSETS 63
6.1 Minimum Down Payment and Cash to Close 63
6.1.1 Minimum Borrower Contribution 63
6.2 Reserve Requirements 63
6.3 Interested Party Contributions 64
6.3.1 Financing Concessions 64
6.3.2 Sales Concessions 65
6.3.3 Payment Abatement 65
6.4 Asset Sources 65
6.4.1 Financial Institution Accounts 66
6.4.2 Large Deposits 67
6.4.3 Business Assets 68
6.4.4 Credit Card Financing 69
6.4.5 Cryptocurrency 69
6.4.6 Earnest Money Deposit 70
6.4.7 Foreign Assets 70
6.4.8 Gift Funds 71
6.4.9 Gift of Equity 72
6.4.10 Life Insurance-Cash Value 73
6.4.11 Loans Secured by Financial Assets (i.e. Secured Borrowed Funds) 74

STG MORTGAGE INC | (833) 784-5626 | 18401 Von Karman Avenue, Suite 440, Irvine, CA 92612 | NMLS #2091912. www.nmlsconsumeraccess.org. For Mortgage Professional use only and not for consumer distribution. Not all applicants are eligible for or qualify for all products offered. All loans must satisfy STG MORTGAGE INC underwriting guidelines. All market data and other information is not warranted as to completeness or accuracy. Information, rates and pricing are subject to change without prior notice at the sole discretion of STG MORTGAGE INC. Licensing: https://stgmortgage.com/licenses. Equal Housing Lender.

6.4.12 Notes Receivable/Repayment of Loans 74
6.4.13 Real Estate Commission 75
6.4.14 Sale of Other Assets 75
6.4.15 Retirement Accounts 75
6.4.16 Sale of Real Estate 76
6.4.17 Section 1031 Exchange 76
6.4.18 Stocks, Bonds, Mutual Funds 76
6.4.18.1 Stocks and Mutual Funds Documentation & Liquidation Requirements 77
6.4.18.2 Stock Options 77
6.4.18.3 Government Bonds 77
6.4.19 Trust Funds 77
6.4.20 "In Trust For" Accounts 78
6.5 Assets from Non-Borrowers 78
6.6 Unacceptable Asset Sources 79
7.0 LIABILITIES AND DEBT RATIO 80
7.1 Monthly Housing Expense 80
7.1.1 Real Estate Tax Payment 80
7.2 Qualifying Housing Payment 81
7.3 Debt-to-Income Ratios 81
7.4 Monthly Obligations 81
7.4.1 Alimony and Child Support Payments 81
7.4.2 Authorized User Accounts 81
7.4.3 Balloon Payment Notes 82
7.4.4 Bridge Loans 82
7.4.5 Business Debt 82
7.4.6 Co-signed Loans (i.e. Contingent Liabilities) 83
7.4.7 Court-ordered Assignment of Debt 83
7.4.8 Debts Paid by Others (i.e. Contingent Liabilities) 83
7.4.9 Federal Income Tax Installment Agreements 84
7.4.10 Garnishments 84
7.4.11 Home Equity Lines of Credit (HELOC) 84
7.4.12 Installment Debt 84
7.4.12.1 Pay Off or Pay Down of Debt 85
7.4.13 Lease Payments 85
7.4.14 Loans Secured by Financial Assets (i.e. Secured Borrowed Funds) 85
7.4.15 Mortgage Assumptions 85
7.4.16 Non-Borrower Accounts 85

STG MORTGAGE INC | (833) 784-5626 | 18401 Von Karman Avenue, Suite 440, Irvine, CA 92612 | NMLS #2091912. www.nmlsconsumeraccess.org. For Mortgage Professional use only and not for consumer distribution. Not all applicants are eligible for or qualify for all products offered. All loans must satisfy STG MORTGAGE INC underwriting guidelines. All market data and other information is not warranted as to completeness or accuracy. Information, rates and pricing are subject to change without prior notice at the sole discretion of STG MORTGAGE INC. Licensing: https://stgmortgage.com/licenses. Equal Housing Lender.

7.4.17 Other Real Estate Owned 86
7.4.17.1 Current Primary Residence Pending Sale (i.e. Departure/Departing Residence) 86
7.4.17.2 Conversion of a Primary Residence 86
7.4.18 Property Settlement Buyout 87
7.4.19 Revolving Charges/Lines of Credit 87
7.4.20 Student Loans 88
7.4.21 Undisclosed Liabilities 88
7.4.22 Voluntary Recurring Debts 88
7.5 Monthly Obligations Not Included in Liabilities 88
8.0 EMPLOYMENT AND INCOME 89
8.1 Income Documentation 89
8.1.1 IRS Form 4506-C 89
8.1.1.1 General Requirements 89
8.1.1.2 Alternatives to Record of Account 89
8.1.1.3 At Closing Requirements 89
8.1.1.4 Tax Transcripts 89
8.1.2 Paystubs 90
8.1.3 W-2 Form 90
8.1.4 Written Verification of Employment (WVOE) 91
8.1.5 Verbal Confirmation of Employment 92
8.1.6 Tax Returns 93
8.1.7 Allowable Age of Income Tax Returns 95
8.2 Stable Monthly Income 97
8.2.1 Continuity of Income 97
8.2.2 Variable Income 98
8.3 Base Pay, Bonus, Overtime, and Commission 99
8.3.1 History of Receipt 99
8.4 Base Pay (Salary or Hourly) 99
8.4.1 Military Income 99
8.4.2 Second-Job Employment 100
8.4.3 Bonus and Overtime 100
8.4.4 Commission Income 100
8.5 Self-Employed Income 100
8.5.1 Non Profit Organizations 101
8.5.2 Full Doc Program only 101
8.6 Rental Income 102

STG MORTGAGE INC | (833) 784-5626 | 18401 Von Karman Avenue, Suite 440, Irvine, CA 92612 | NMLS #2091912. www.nmlsconsumeraccess.org. For Mortgage Professional use only and not for consumer distribution. Not all applicants are eligible for or qualify for all products offered. All loans must satisfy STG MORTGAGE INC underwriting guidelines. All market data and other information is not warranted as to completeness or accuracy. Information, rates and pricing are subject to change without prior notice at the sole discretion of STG MORTGAGE INC. Licensing: https://stgmortgage.com/licenses. Equal Housing Lender.

8.6.1 Rental Income for the Full Doc Program 102
8.6.1.1 Rental Income Documentation (Full Doc) 102
8.6.1.2 Rental Income Calculation (Full Doc) 102
8.6.2 Rental Income for the Bank Statement, 1099 and P&L Programs 102
8.6.2.1 Rental Income Documentation (Bank Statement, 1099 and P&L Programs) 102
8.6.2.2 Rental Income Calculation (Bank Statement, 1099 and P&L Programs) 103
8.6.3 Conversion of a Primary Residence to a Rental Property (i.e. Departure/Departing Residence) 103
8.7 Other Income Sources 103
8.7.1 Alimony and Child Support Payments as Income 104
8.7.2 Asset Based Qualification/Income 105
8.7.2.1 Asset Utilization 105
8.7.2.2 Asset Depletion Income 105
8.7.2.3 Eligible and Ineligible Assets for Asset Depletion and/or Asset Utilization 106
8.7.2.4 Asset Depletion Income Calculation 107
8.7.3 Automobile Allowance 108
8.7.4 Boarder Income 108
8.7.5 Capital Gains/Losses 109
8.7.6 Disability – Long-Term Income 110
8.7.7 Employment by a Relative or Any Interested Party to the Transaction 110
8.7.8 Employment Offers/Recent Employment 111
8.7.9 Foreign Income 112
8.7.10 Foster Care Income 112
8.7.11 Housing or Parsonage Allowance 112
8.7.12 Interest and Dividend Income 113
8.7.13 Non-taxable Income 113
8.7.14 Notes Receivable 114
8.7.15 Public Assistance 114
8.7.16 Restricted Stock Units and Stock Options 115
8.7.17 Retirement Income 115
8.7.17.1 Retirement, Annuity, and Pension 115
8.7.17.2 Distributions from Retirement Accounts Recognized by the IRS (e.g., IRA or Keogh) 116
8.7.18 Royalty Payments 116
8.7.19 Seasonal Income 116
8.7.20 Social Security Income 117
8.7.20.1 Social Security Retirement Income 117
8.7.20.2 Survivor and Dependent Benefits 117

STG MORTGAGE INC | (833) 784-5626 | 18401 Von Karman Avenue, Suite 440, Irvine, CA 92612 | NMLS #2091912. www.nmlsconsumeraccess.org. For Mortgage Professional use only and not for consumer distribution. Not all applicants are eligible for or qualify for all products offered. All loans must satisfy STG MORTGAGE INC underwriting guidelines. All market data and other information is not warranted as to completeness or accuracy. Information, rates and pricing are subject to change without prior notice at the sole discretion of STG MORTGAGE INC. Licensing: https://stgmortgage.com/licenses. Equal Housing Lender.

8.7.20.3 Verification of Social Security Disability 117
8.7.20.4 Supplemental Security Income 117
8.7.21 Temporary Leave 118
8.7.22 Tip Income 119
8.7.23 Trust Income 119
8.7.24 Union Members 120
8.7.25 VA Benefits 120
8.8 Unacceptable Sources of Income 121
9.0 APPRAISAL REQUIREMENTS 122
9.1 Owner of Record 124
9.2 Appraisal Methods 124
9.3 Transferred Appraisal Requirements 125
9.3.1 Appraisal Transfer Letter Requirements 125
9.4 Junior/Apprentice Appraiser Requirements 126
9.5 Hobby Farm 126
9.6 Rural Properties 126
9.7 Agricultural Use 127
9.8 Escrow Holdback 127
10.0 CLOSING FUNCTIONS 128
10.1 Power of Attorney (POA) 128
10.1.1 Power of Attorney Letter of Explanation 128
10.1.2 Power of Attorney Requirements 128
10.1.3 Power of Attorney Restrictions 128
10.2 Prepaid Interest 129
10.3 NY Consolidation Extension and Modification Agreement (CEMA) 129
10.4 Mortgage Recast 129
11.0 DOING BUSINESS WITH STG MORTGAGE 130
11.1 Prevailing Document 130
11.2 Licensing 130
11.3 Equal Housing Lender 130
11.4 STG Mortgage Loss Payee 130
11.5 Taxes & Insurance Due at Closing 131
11.6 Homeowners Association Dues 131
11.7 Fraud Reviews 131
12.0 PROGRAM FORMS 132
12.1 Solar Panel Checklist 132

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1.0 ELIGIBILITY

1.1 Ability to Repay and Qualified Mortgage Rule

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

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

For any loan that is designated as a (i)"Non-Qualified Mortgage Loan" or a (ii) "Qualified Mortgage Loan" having a rebuttable presumption of compliance with the "Ability to Repay" requirement under the Qualified Mortgage Rule, STG Mortgage's underwriting determination must show that the borrower has sufficient residual income or assets to meet living expenses after considering the borrower's income and debt obligations.

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

DSCR loans are not subject to Ability to Repay requirements.

1.1.1 Points and Fees

The maximum allowable points and fees threshold is 5% unless otherwise restricted by applicable state law.

Fees included in the test are the same fees required to be included in the QM points and fees test.

1.2 Net Tangible Benefit

All refinance transactions that require a Net Tangible Benefit (NTB) must pass the Company NTB test or State specific NTB test.

Full Doc, Asset Utilization, Bank Statement, 1099, and P&L Programs	STG Mortgage NTB Worksheet must be completed for all refinance transactions in the following states: • IL MN, NC, OH, and WA
	State specific NTB Test must be completed on refinance transactions in the following states: • CO, MA, MD, ME, RI, SC, VA, and WV ○ CO also requires NTB state specific forms for purchase transactions
	Remaining States • A NTB Test is not required
DSCR Program	Net Tangible Benefit is not required for DSCR

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1.3 Assumable Mortgage

Adjustable-rate mortgages may be assumable to a qualified customer after the initial fixed rate period has expired or until a specified event has occurred and is thereafter not assumable. Adjustable-rate mortgages are not convertible. The Note holder must give consent and may be subject to a full credit review.

Fixed rate loans are not assumable.

1.4 Occupancy

1.4.1 Primary Residence

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

The subject property can be considered a primary residence without the borrower occupying the property when:

- The borrower is purchasing/refinancing a primary residence for a parent or legal guardian that is not able to work or has limited income; or
- The borrower purchasing/refinancing a primary residence for a disabled or handicapped adult child.

1.4.2 Military Owner Occupancy

A military service member borrower currently on active duty and temporarily absent from their primary residence because of military service is an owner occupant. Verify the borrower's temporary absence from the subject property by obtaining a copy of the borrower's military orders. The military orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument.

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1.4.3 Second Home

A second home is a property that the borrower occupies for some portion of the year in addition to their primary residence.

All of the following applies:

- 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).
- The 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.

Reporting rental income on the borrower's individual income tax returns does not contradict second home status but must be minimal and may not be used for qualification.

Transactions where the property is being purchased for occupancy by someone other than the borrower will be considered an investment property.

1099 Program
Second homes are not permitted.

1.4.4 Investment Property

An investment property is owned but not occupied by the borrower, regardless of revenue generation. The property must be suitable for year-round rental and occupancy.

1099 and P&L Programs
Investment properties are not permitted.

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1.5 Entity Vesting Options

- Only permitted on investment properties.
- Vesting in the name of an LLC is permitted.
- The loan application must reflect the appropriate vesting.
- Borrowers on the application must represent no less than 51% ownership of the business entity. All borrowers making up the 51%+ ownership of the business entity must be listed as borrowers on the transaction.
- All owners of the borrowing business entity must be natural persons.
- Provide a full recourse guarantee by one or more individual(s) and the managing member, if applicable, which are the largest percentage owners and in aggregate own at least 51% of the borrowing entity.
- The guarantor(s) on the loan application must be a managing member(s) with documented authority to sign on behalf of the entity which includes joint and several liability as to the debt obligation of the borrowing entity.
- Loan must be disclosed to all borrowers and the borrowing business entity.
- All owners, that are borrowers, of the borrowing business entity must sign the closing documents.
- Transaction is limited to no more than four (4) borrowers and the borrowing business entity (for a max total of 5 applicants).
- When vesting in the name of an LLC, the following documentation must be provided:
  - Business formation document filed with the applicable state.
  - Verification of the LLC's Federal Employer Identification Number (EIN) using one of the following sources:
    - EIN verification letter issued by the IRS, or
    - Completed IRS form W-9 (Request for Taxpayer Identification Number and Certification).
  - Verification of the borrower's ownership percentage with one of the following:
    - Letter from CPA or licensed tax preparer (with PTIN), or
    - Operating Agreement, or
    - EIN verification letter issued by the IRS confirming the borrower as sole owner/member.
  - Verification that the LLC is in good standing with the applicable state registration.

Vesting is only permitted to be in the name of an LLC, regardless of how the LLC files with the IRS (Corporation, Partnership, and S-Corporations). Vesting in the name of a Corporation, Partnership, and S-Corporations which is not an LLC is not permitted.

Non-LLC owners are not permitted to be borrowers on the loan.

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1.6 Excluded Parties

STG Mortgage prohibits loans where any company, lender, vendor, individual, or lender employee (loan originator, loan processor, or loan underwriter) who are material parties to the transaction are listed on STG Mortgage's Exclusionary List, HUD's Limited Denial of Participation list or the Federal General Services Administration (GSA) Excluded Party list found in the System for Award Management (SAM).

STG Mortgage's Exclusionary List, HUD's LDP list, and SAM must be checked to confirm eligibility for all participants involved in the transaction and must be evidenced in the loan file.

Borrower	A borrower is not eligible if they appear on the STG Mortgage Exclusionary List.
Other Parties to the Transaction	This may include but is not limited to: • Seller (except when selling the primary residence) • Listing and selling real estate agent • Builder • Developer • Loan originator • Loan processor • Underwriter • Appraiser • Closing agent • Title company • Notaries • Insurance agents • Trustees on deed All other licensed professionals contracted to provide certifications for the transaction (wood infestation and mechanical certifications such as termite companies, heating, plumbing, roofing, and electrical companies)

1.7 Loan Application

The loan application must be complete, including a full two (2) year history of residency and all personal information for each borrower (social security number, date of birth, address, and education), if required by the product. All declaration questions must be marked indicating the method of taking the application: face-to-face, by telephone, or by mail.

There may be no more than four (4) borrowers on the transaction.

Asset Utilization & DSCR Programs
Do not list borrower employment, income sources, or income amount on loan application.

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1.8 Documentation Age

Age of Credit Documentation	All documents must not be more than 120 days from the Note date. Documents whose validity for underwriting purposes is not affected by time, such as a divorce decree, are not subject to a document expiration date.
Appraisal	Not to exceed 120 days old as of the Note date.
Appraisal Update	When the effective date of the appraisal report is more than 120 days prior to the Note, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D/442). The appraisal update must occur within 120 days prior to the Note date and Mortgage. After 180 days, a new appraisal is required. An Appraisal Update is not permitted in a declining market.

Current Lease Agreement	• Existing Lease
	  ○ Must be in effect as of the date of the Note.
	• New Lease
	  ○ Must be in effect as of the date of the first payment due date.

Re-use of an Appraisal for a Subsequent Transaction	Not permitted

1.9 Occupancy Types

1.9.1 Primary Residence

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

At least one (1) borrower must occupy the property within 60 days of closing and continue to occupy the subject property for at least one (1) year.

1.9.1.1 Primary Residence Exception

The subject property can be considered a primary residence without the borrower occupying the property when:

- The borrower is purchasing a primary residence for a parent or legal guardian that is not able to work or has limited income; or
- The borrower is purchasing a primary residence for a disabled or handicapped adult child.

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1.9.1.2 Military Owner Occupancy

A military service member borrower currently on active duty and temporarily absent from their primary residence because of military service is an owner occupant. Verify the borrower's temporary absence from the subject property by obtaining a copy of the borrower's military orders. The military orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument.

1.9.2 Second Home

A second home is a one-unit property that the borrower occupies for some portion of the year in addition to their primary residence.

- The property must be suitable for year-round occupancy;
- The borrower must have exclusive control over the property;
- The property must not be subject to any timesharing or other shared ownership arrangement;
- The property cannot be subject to any agreements that give a management firm control over the occupancy of the property; and
- If the borrower receives rental income from the property, the income may not be used for qualifying.

1.9.3 Investment Property

An investment property is owned but not occupied by the borrower, regardless of revenue generation. The property must be suitable for year-round rental and occupancy.

1.9.3.1 DSCR Program Occupancy Verification

Validation of investment property occupancy must be completed. Red Flags related to occupancy include:

- Verify borrower’s current primary residence.
- Was the Non-Owner-Occupied Certification signed by all required borrowers?
- Does the signature on the application match the signature on the Non-Owner-Occupied Certification?
- Does the application show the subject property as the address of the current or previous residency?
- Does the appraisal show the property is tenant-occupied or vacant?
- Is the mailing address on first payment letter different than the subject property?
- Is the borrower address on the insurance different than subject property?
- Is the borrower mailing address on the purchase contract, escrow instructions, or Closing Disclosure different than subject property?
- Has the purchase contract been transferred or assigned to current borrower?
- Has the property been in escrow for less than 60 days?
- Will the subject property be “rented back” for a period less than 60 days, if applicable?
- Is the distance from borrower’s current residence to place of employment reasonable, if disclosed?
- Does the borrower address on the mortgage statements or servicing information differ from the subject property address?
- Is the borrower address on the tax bills, property profiles, or fraud reports different than subject property address?
- Is the borrower address on the business and/or trust documents different than subject property address?
- Is there a lease for the subject property (if refinance)?
- Is there landlord insurance (hazard coverage plus liability coverage) on the subject property?
- Is credit report address different from the subject property?

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1.10 Borrower Eligibility

All borrowers must sign the Note. All borrowers must have a Social Security Number. An Individual Tax Identification Number (ITIN) is not permitted.

All borrowers must have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S.

Non-U.S. citizens without lawful residency in the U.S. are not eligible.

1.10.1 U.S. Citizen

A citizen of the United States is an eligible borrower.

1.10.2 Non-U.S. Citizen

1.10.2.1 Permanent Resident Alien

A permanent resident alien is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. Document legal residency with one (1) of the following:

- A copy of a valid, current, unexpired Permanent Resident card, INS Form I-551, Green Card/Alien Registration Receipt; A copy of INS Form I-551, Conditional Alien Registration Receipt, with an unexpired date of the front. I-551 Forms due to expire within three (3) months must be accompanied with a copy of United States Citizenship and Immigration Services (ISCIS) Form I-751 (Petition to Remove Conditions on Residence) or USCIS Form I-829 (Petition to Remove Conditions) filing receipt; or
- Passport with unexpired stamp reading “processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [date]. Employment authorized.” This evidences the holder has been approved for, but not issued, a Permanent Residence Alien card.

See United States Citizenship and Immigration Services (USCIS) for more information.

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1.10.2.2 Non-Permanent Resident Alien

Primary Residence Only.

A Non-Permanent Resident Alien is a non-U.S. citizen who lawfully enters the U.S. for specific time-periods under the terms of a Visa. All non-permanent resident aliens must provide evidence of an acceptable Visa showing them to be legally present and eligible to work in the US.

Expiring Visas/EAD: Visas and Employment Authorization Documents (EAD) must be unexpired at the time of loan closing or provide acceptable evidence of pending renewal or extensions.

All Non-Permanent Resident Aliens must meet the same employment/income history and continuity guidelines that apply to all borrowers.

The borrower may be eligible with verification of one (1) of the following Visas and Employment Authorization Document (EAD), when applicable, no exceptions outside the below are permitted:

Eligible Visa Types			
Visa Category	**Visa Type**	**Visa Description**	**EAD Required?**
Official Government Travel(1)	A-1	Diplomats and foreign government officials such as ambassadors, public ministers, career diplomats, or consular officers and family.	No
	A-2	Other foreign government officials or employees and their families	No
	A-1 & A-2	Spouse or child of A-1, A-2	Yes EAD – C01
	A-3	Employee of A-1 or A-2	No
Trade Treaty Work Visa	E-1, E15	Treaty Trader – employee and/or spouse	N/A Note: An EAD is still required for spouses: 1) When the spouse's I-94 was issued prior to 1.30.2022, the customer must provide proof of employment authorization (EAD or notice from the USCIS/CBP 2) Of employees of the Taipei Economic and Cultural Representative Office (TECRO)
	E-2, E-25	Treaty Investor – employee and/or spouse	
	E-3, E-3S, E-3D, E-3R	Specialty Occupation – Australia – employee and/spouse	

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			and Taipei Economic and Cultural Offices (TECO) 3) Of long-term investors in the Commonwealth of the Northern Mariana Islands (E-2 CNMI Investors)
Employees of International Organizations and NATO(1)	G-1	Principal or other representative designated international organization, organization employees and immediate family members.	No
	G-2	Representative of a recognized or member foreign government	No
	G-3	Representative of non-recognized or nonmember government	No
	G-4	Appointment – designated international organization	No
	G-5	Employee of G-1, G-2, G-3, or G-4	No
	G-1, G-3, G-4	Spouse or child of G-1, G-3, or G-4	Yes EAD – C04
Temporary Work Visa	H-1B	Specialty Occupation	No
	B-1B1	Specialty Occupation - Chile or Singapore	No
	B-1B2	Specialty Occupation - U.S. Department of Defense	No
	H-1B3	Fashion model of distinguished merit and ability	No
	H-1C	Registered nurse - U.S. Department of Labor	No
	H-4	Spouse or child of H-1B	Yes EAD – C26
Media Work Visa	I	Foreign media outlet (press, radio, film, or other)	No
Immigrant Visa for Spouse	IR1	Spouse of a U.S. Citizen – married two (2) years or more Provided while waiting for Green card/Permanent Resident Card	No
	CR1/CR6	Spouse of U.S. Citizen – married for less than two (2) years Provided while waiting for Green card/Permanent Resident Card	No
Non-Immigrant Visa for Spouse	K-3	Spouse of a U.S. Citizen	Yes EAD-A09
Temporary Employment	L-1A	Intracompany transfer - managerial or executive	No
	L-1B	Intracompany transfer - specialized knowledge	No

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Visa	L-2, L-2S	Spouse L-1A or L-1B	Yes EAD – A18
Employees of International Organizations and NATO(1)	NATO-1	Official Staff – NATO	No
	NATO-2	Adviser – NATO	No
	NATO-3	Clerical Staff – NATO	No
	NATO-4	Member - NATO	No
	NATO-5	Expert - NATO	No
	NATO-6	Civilian – NATO – Status of Forces	No
	NATO 1 – NATO-6	Spouse or child of NATO 1 through NATO6	Yes EAD – C07
	NATO-7	Employee of NATO-1 through NATO-6	No
Temporary Employment Visa	O-1A & O-1B	Extraordinary ability in analysis, business, education, entertainment	No
	O-2	Assistant to O-1	No
	P-1A	Internationally recognized athlete	No
	P-1B	Internationally recognized entertainer (artist)	No
	P-2	Performer (artist) – reciprocal exchange program	No
	P-3	Entertainer (artist) – culturally unique program	No
Temporary Religious Worker Visa(2)	R-1	Religious occupation	No

(1) Diplomatic Immunity must be officially waived in writing by the holder's country

(2) Eligible with letter from religious organization employing the borrower confirming that they will be sponsoring the Visa holder for a Green Card.

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The following Visa Types are ineligible.

Ineligible Visa Types	
Visa Type	**Visa Description**
B-1	Business visitor
B-2	Pleasure, tourism, medical treatment visitor
BCC	Border crossing card: Mexico
C-1	Transit to the United States
C-2	Transit to the United Nations
C-3	Transit to the United States (Foreign Government officials)
C-4	Transit - Department of Homeland Security
C-1/D	Transit - Certified crew member combination
D-1	Certified crew member - sea or air
D-2	Certified crew member - fishing vessel
F-1	Academic student Academic study at a private elementary school, high school, college or university, seminary, conservatory, academic institution including language training program
F-2	Spouse or child of F-1
F-3	Academic commuter - Canada or Mexico
H-2A	Temporary or seasonal agricultural worker
H-2B	Temporary non-agricultural worker
H-3	Trainee other than medical or academic
J-1	Student - exchange visitor
J-2	Spouse or child of J-1
K-1	Fiancé(e) - purpose of marriage
K-2	Child of K-1
K-4	Child of K-3
M-1	Vocational student
M-2	Spouse or child of M-1
M-3	Vocational student - Canada or Mexico
O-3	Spouse or child of O-1 or O-2
P-4	Spouse or child of P1A, P-1B, P-2, or P-3
Q-1	International cultural exchange program
S-1/S-2 (also coded as S-5 and S-6)	Informant
S-7	Spouse or child of S-5 or S-6
TD	Spouse or child of TN
WB	Business visitor - visa waiver program
WT	Tourist visitor – visa waiver program

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1.10.2.3 Borrowers Without an Acceptable Visa

If the borrower does not have an acceptable Visa from the above list, one (1) of the following valid and unexpired Employment Authorization Documents (EAD) may be used to establish lawful residency:

- EAD must be unexpired at the time of loan closing or provide acceptable evidence of pending renewal or extensions.

Notes:
- Automatic extensions ended as of October 30, 2025, if not applied for prior to October 30, 2025.
- No exceptions outside the below are permitted.

Eligible Employment Authorization Document (EAD)	
EAD	**Description**
A02	A lawful temporary resident pursuant to sections 245A or 210 of the INA
A03	Refugee
A05	Asylee (granted Asylum)
A07	• N-8 Parent of international organization employees granted permanent residence • N-9 Dependent Child of international organization employees granted permanent residence
A08	Citizen of Micronesia, the Marshall Islands or Palau admitted as a non-immigrant
A09	K-3 Non-immigrant spouse of USC
A12	Temporary Protected Status (TPS) granted
A13	IMMACT Family Unity beneficiary (Section 301 of the Immigration Act of 1990)
A14	LIFE Act Family Unity beneficiary (Section 1504 of the Legal Immigrant Family Equity (LIFE) Act Amendments)
A16	T-1 Non-immigrant (victims of severe form of trafficking)
A17	• Spouse of E-1/E-2 Treaty Trader/Investor • E-3 specialty occupation professional from Australia, including Spouse and Children
A18	L-2 Spouse of an L-1 intracompany transfer (L-1: Individuals in the U.S. who have been transferred from a subsidiary, affiliate, or branch office overseas to the U.S. to work in an executive, managerial or specialized knowledge capacity
A19	U-1 Non-immigrant (victims of certain criminal activity)
A20	• U-2 spouse of U-1 aliens • U-3 children of U-1 aliens • U-4 parents of minor U-1 aliens (16 or under) • U-5 unmarried sibling under age 18 of U-1 alien under age 21
C01	Dependent of A-1 or A-2 foreign government official
C02	Dependent of TECRO (Taipei Economic and Cultural Representative Office) E-1 non-immigrant
C04	Spouse or unmarried dependent child of G-1, G-3 or G-4 non-immigrant (Representative of International Organization and their dependents)
C07	Dependent of NATO-1 through NATO-7 non-immigrant
C08	Asylum applicant (with pending asylum application)
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
C12	Spouse of an E-2 Commonwealth of the Northern Mariana Islands (CNMI) Investor, eligible for employment in the CNMI only

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C14	Alien granted deferred action (Alien has filed for a U-Visa)
C16	Registry applicant based on continuous residence since January 1, 1972
C20	Alien who has filed a completed legalization application for special agricultural workers
C22	Alien who has filed a completed legalization application under INA 245A
C24	LIFE legalization applicant (Stepchild of a lawful permanent resident alien)
C25	• T-2 Spouse of T-1, victim of trafficking • T-3 Child of T-1 • T-4 Parent of T-1 (if T-1 is under age 21)
C26	Spouses and children of a principal H visa holder. EAD is given for H4 visa holders
C31	• The principal beneficiary of an approved VAWA (Violence Against Woman) self-petition • Qualified child of a beneficiary of an approved VAWA self-petition

The following Employment Authorization Documents (EAD) are Ineligible:

Ineligible Employment Authorization Document (EAD)	
EAD	**Description**
A04	Paroled as Refugee
A06	• K-1 Nonimmigrant fiancé' of a U.S. citizen • K-2 child of K-1
A10	Granted withholding of Deportation or Removal
A11	Deferred Enforcement Departure (DED)
A15	• V-1 Spouse of Lawful Permanent Resident • V-2 Minor unmarried child of Lawful Permanent Resident • V-3 minor unmarried child of V-1 or V-2
C03	• C03A: Pre-completion OPT F-1 students • C03B: Post-completion OPT F-1 students • C03C: 24-month extension for Science, Technology, Engineering, or Mathematics OPT Students

1.10.2.4 Ineligible Borrowers

The following borrowers are ineligible for financing:

- Foreign Nationals;
- Borrowers with diplomatic immunity;
- Borrowers with ownership in a business that is federally illegal;
- Borrowers with Deferred Action for Childhood Approval (DACA);

1.11 First Time Homebuyer

A First Time Homebuyer (FTHB) is defined as a borrower who had no ownership interest (sole or joint) in a residential property during the three-year period prior to loan application. Only one (1) borrower must meet the homeownership requirements to meet standard guidelines and not be considered a first time homebuyer loan.

Refer to Program Matrix for FTHB eligibility.

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1.12 Non-Occupant Borrower, Guarantor, and Co-Signer

1.12.1 Non-Occupant Borrower

Non-occupant borrowers are credit applicants on a primary residence transaction who:

- Do not occupy the subject property;
- May or may not have an ownership interest in the subject property as indicated on the title;
- Sign the Mortgage or Deed of Trust;
- Have joint liability for the Note with the occupant borrower; and
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

Refer to Program Matrix for non-occupant co-borrower eligibility.

1.12.2 Guarantor or Co-Signer

Guarantors or co-signers are credit applicants who:

- Do not have ownership interest in the property as indicated on the title;
- Sign the Mortgage or Deed of Trust;
- Have joint liability for the Note with the occupant borrower; and
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

1.13 Multiple Financed Properties

When the borrower has multiple financed properties Refer to Program Summaries for limits.

1.13.1 Ownership Defined

Ownership is defined as:

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

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1.13.2 Property Subject to Limitations

Type of Property Ownership	Subject to Limitations
Ownership in 1–4-unit residential properties where borrower is personally obligated on the Note	Yes
Ownership of a manufactured home and the land on which it is titled as real property	Yes
Ownership in commercial real estate	No
Ownership of a multi-family property consistency of more than four (4) dwelling units	No
Ownership in a timeshare	No
Ownership of a vacant (residential or commercial) lot	No
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home)	No

Examples

1. The borrower is personally obligated on mortgages securing two (2) investment properties and the co-borrower is personally obligated on mortgages securing three (3) other investment properties, and they are jointly obligated on the primary residence mortgage. The borrower is refinancing the mortgage on one (1) of the two (2) investment properties. In this example, the borrowers have six (6) financed properties.

2. The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five (5) other investment properties. In addition, they each own their own primary residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property.

3. The borrower is purchasing and financing two (2) investment properties simultaneously. The borrower does not have a mortgage lien against the primary residence but does have a financed second home and is personally obligated on the mortgage, two (2) existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this example, the borrower will have five (5) financed properties because the financed building lot does not need to be included in the property count.

1.13.3 Simultaneous Submissions

All new loans submitted for the same borrower must be underwritten simultaneously as the impact of each transaction upon the other needs to be evaluated.

1.14 Ownership Interests

The borrower must hold title to the property as a fee simple estate. However, mortgages secured by a Leasehold Estate as described in the Leasehold Estates section below may be eligible.

1.14.1 Life Estate

A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs. Properties vested in a life estate are not permitted.

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1.14.2 Leasehold Estate

A Leasehold Estate is an estate or interest in real property held by virtue of a lease or sublease.

Leasehold properties are permitted where this type of ownership is common and has received market acceptance. The mortgage must be secured by both the property as well as the leasehold interest in the land.

Leasehold Estate Requirements	Review the lease to ensure that the lease meets all of the following requirements: • The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land; • The leasehold estate and the improvements must constitute real property; • The leasehold estate must be insured by a title policy; • The term of the lease must run for at least five (5) years beyond the maturity date of the mortgage, unless fee simple title will vest in borrower or HOA association at an earlier date; ○ An automatic renewal clause is acceptable if it verifies the terms will extend at least five (5) years beyond the maturity date of the loan. • The leasehold estate and mortgage is not impaired by any merger of title between the lessor and lessee or by any default of a sublessor; • All rents, other payment, or assessments that have come due must be paid; and • 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.
Lease Provisions	The lease must: • Not contain default provisions allowing forfeiture or termination of the lease, except for nonpayment of the lease rents; • 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; • Be valid, in good standing, and in full force and effect in all respects; • Give the lender the right to receive at least 30 days' notice of any default by the borrower, and

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	give the lender the option to either cure the default or take over the borrower's rights under the lease; • The lease must include provisions to protect the lender or its assigns interests in the event of a property condemnation; • Provide that the borrower must pay all taxes, insurance and homeowners' association dues and any taxes on improvements; and • The lease must provide for the borrower to retain voting rights in any homeowners' association.
Ineligible	The following are ineligible: • Manufactured housing • Leaseholds secured by Indian/Tribal land are not eligible. • Condominiums

Note: When warranted, an acceptable Attorney Opinion Letter, in addition to the Ground Lease, may be obtained to assist in the review and acceptability of the Ground Lease.

1.15 Inter Vivos Revocable Trust (Living Trust)

It is unacceptable to instruct the borrower to deed the subject property out of a trust into his/her personal name for the purposes of obtaining financing and avoiding STG Mortgage Trust approval.

An inter vivos revocable trust (living trust) is a trust that:
- An individual creates during his or her lifetime;
- Becomes effective during its creator's lifetime; and
- Can be changed or canceled by its creator at any time, for any reason, during his or her lifetime.

1.15.1 Trust and Trustee Requirements

Review the trust agreement (or the summary or certification of the trust agreement if applicable) to ensure that the living trust meets all of the requirements below:
- The trust is established by one (1) or more natural persons, solely or jointly. The person establishing the trust is known as the "Settlor," "Trustor," or "Grantor" (referred to below as "Settlor");
- The Settlor (borrower) is the primary beneficiary of the Trust. If there is more than one (1) Settlor, there can be more than one (1) primary beneficiary;
- The trustee(s) must include either:
  - The individual establishing the trust (or at least one (1) of the individuals, if there are two (2) or more); or
  - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee has the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the borrowers on the Note; and
- The trust is valid under law.

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1.15.2 Certification of Trust

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

Trust Certifications are acceptable in all states when all of the following requirements are met:

- The borrower(s) must be the creator of the trust (settlor, grantor, trustor).
- The borrower(s) must be the trustee of the trust.
- The borrower(s) must be the primary beneficiary of the trust during her lifetime.
- The trust must be revocable.
- The trustee must have the authority to buy/hold, sell and encumber trust property.
- The trust must have been created during the lifetime of the borrower.
- The trust certificate must be fully executed.

Should any portion of the trust certificate be found inaccurate or in disagreement with the title report, this exception cannot be applied, and the complete trust documents must be provided.

1.15.3 Title and Title Insurance Requirements

The title insurance policy for the subject property may not list any exceptions arising from the trust ownership of the property. Full title to the property must be vested either:

- In the trustee of the inter vivos revocable trust;
- Jointly in the trustee of the inter vivos revocable trust and in the name of an individual borrower; or
- In the trustee of more than one (1) inter vivos revocable trust.

If title will be vested in the trustees of more than one (1) inter vivos revocable trust, the terms of the two (2) revocable inter vivos trust documents must complement each other and may not be in conflict with one another.

1.15.4 Legal Documents and Riders

See the Fannie Mae Selling Guide for the following Riders and documents:

- Revocable Trust Rider (Sample Language)
- Signature Requirements for Mortgages to Inter Vivos Revocable Trusts
  - Signature Requirements for California
  - Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts
  - Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who is Not Both a Settlor and a Credit Applicant
  - Form of Signature Requirement on Mortgage Note for an Individual Trustee Who is Both a Settlor and a Credit Applicant
  - Form of Signature Required on Security Instrument for All Trustees
  - For of Settlor/Credit Applicant's Signature Acknowledgment Required on Security Instrument
  - Optional Limitation on Trust Liability

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1.15.5 Ineligible Trusts

- Blind Trusts
- Community Land Trusts
- Irrevocable Trusts
- Land Trusts

1.16 Electronic Signatures

When signatures are required on initial disclosures and/or closing documents, STG Mortgage allows the use of electronic signatures in most cases. However, STG Mortgage always requires wet signatures on the following documents:

- Note
- Note Riders (if applicable)
- Deed of Trust/Mortgage
- Deed of Trust/Mortgage Riders (if applicable)
- Notice of Right to Cancel
- Any other transaction related documents that require a Notary acknowledgement or will be recorded; e.g. Patriot Act, Power of Attorney, State Specific Documents such as Texas 50(a)(6) loans

When electronic signatures are used appropriately, e-Consent documentation must be provided.

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2.0 TRANSACTION TYPES

2.1 Purchase Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property;
- Convert an interim construction loan or term note into permanent financing; or
- Pay off the outstanding balance on the installment land contract or contract for deed (for all doc types except DSCR).

Purchase transactions do not allow for cash back to the borrower at closing other than the following:

- Reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The Closing Disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund;
- Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees); and
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.

Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction.

Foreclosure bailouts of any kind are not permitted (an arm’s-length purchase of a short sale is not deemed a foreclosure bailout.)

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2.1.1 Non-Arm's Length Transactions

A non-arm's length transaction is a purchase transaction where this is a relationship or business affiliation between the seller and the buyer of the property. Such relationships with the borrower may be (but are not limited to):

- Family member;
- Loan officer;
- Originating lender (owner, employees, or family members;
- Real estate broker (including listing and selling agents);
- Employer;
- Builder/developer;
- Trading properties with the seller; and
- Foreclosure bailouts.

Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs	DSCR Program
Non-arm's length transactions are permitted subject to all of the following requirements: • Family member transactions permitted on owner occupied and second home properties only; • Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, realtor, etc.); • Borrower may not be an owner of a business entity selling the subject property; • When tenant is buying from landlord/seller, a Verification of Rent (VOR) from a third-party management company is acceptable. If there is no third-party management company, provide the most recent 12 months cancelled rent checks or 12 months bank statements; and • Purchase of a newly constructed property is permitted for a primary residence if the borrower has a relationship with the builder/developer or seller.	Non-arm's length transactions are not permitted

Exception: Borrower is allowed to be the selling agent in the transaction where borrower is the purchaser so long as borrower is not also the listing agent.

2.1.2 Conflict of Interest (Dual Capacity or Dual Agency)

Parties acting in multiple roles in a single mortgage transaction are not eligible. For example, the real estate agent (selling agent or buyer's agent) for the subject property may not function as the loan officer for the borrowers purchasing the same subject property or a loan officer may not take their own application.

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2.2 Rate/Term Refinance Mortgage

A rate/term refinance transaction represents a loan that is used to pay off an existing loan by obtaining a new first mortgage secured by the same property.

Title must be held in the name of at least one (1) borrower at closing.

Rate/Term refinance transactions must meet the following:

- Paying off the unpaid principal balance of the existing first mortgage (including prepayment penalties or an existing HELOC in first lien position) plus per diem interest;
- Paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. Documentation must be provided to evidence that all proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property.
    - If the purchase money second lien was refinanced with a new second lien, it may be paid off. The balance of the existing second lien must be less than or equal to the outstanding principal balance of the purchase money second at the time of previous payoff.
    - If the existing second lien is a HELOC, the HELOC may not have been used for any reason except to pay off the purchase money second lien. If the HELOC has been paid down since the refinance of the purchase money second lien, funds cannot have been redrawn. The draw history and Closing Disclosure must be provided from both transactions; purchase money transaction and refinance of the purchase money second lien transaction.
- Payoff of a non-purchase money subordinate lien provided the subordinate lien is seasoned at least 12 months. If the non-purchase money lien is a home equity line of credit it must have zero draws within the past 12 months;
- Payoff of a construction-to-permanent financing;
- Financing the payment of closing costs, points, and prepaid items; and
- Incidental cash back not to exceed the greater of 1% of the unpaid principal balance of the new mortgage or $2,000.

Short payoffs where a new loan is originated resulting in a forgiveness of a portion of principal and/or interest on the first or second mortgage is not permitted.

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2.3 Cash Out Refinance Mortgage

Cash out refinance transactions must meet the following:

- Pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that has no mortgage lien secured against it;
- Pay off any outstanding subordinate mortgage liens of any age;
- One (1) borrower must have held title to the subject property for at least six (6) months preceding the Note date of the new loan, with the following exceptions:
  - There is no waiting period with documentation and verification that the borrower was legally awarded the property (divorce, separation, dissolution of a domestic partnership) or acquired the property through an inheritance.
  - If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six (6) month ownership requirement if the borrower is the primary beneficiary of the trust.
  - Time held in a limited liability company (LLC) or Corporation that is controlled, or majority owned by the borrower(s) may be counted towards the borrower's six-month ownership requirement. Ownership must be transferred out of the LLC / Corporation and into the name of the individual borrower(s) in order to close the transaction, unless permitted by product.
- Finance reasonable and customary loan costs or fees, including prepaid items within limitations imposed by applicable laws.

Refer to Program Summaries for use of cash out proceeds requirements.

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2.4 Texas Refinances

2.4.1 Texas Refinances - Occupancy

This section covers the details of Texas Refinance Transactions for 1-unit Primary Residences.

2-4 unit properties, second homes and investment properties have no special requirements and are not covered under this guidance.

2.4.2 Texas Refinances - Definitions & Descriptions

Texas 50(a)(6)
Any refinance where cash is taken out of the property or where non-mortgage debt is paid off is a Texas 50(a)(6), known as a Texas Cash Out Refinance.

Texas 50(a)(4)
Any refinance where NO cash (not even a single dollar) is taken out of the property and only original purchase liens or previous rate/term refinance mortgages are being paid off is a Texas 50(a)(4), known as a Texas Rate/Term or No Cash Out Refinance.

Texas 50(f)(2)
Any refinance where NO cash (not even a single dollar) is taken out of the property and a Texas 50(a)(6) mortgage is being paid off is a Texas 50(f)(2).

2.4.3 Texas Refinances - Legal Review

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 Texas attorneys Blackman and Graham to complete the legal review.

2.4.4 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. Delayed financing is not permitted.

All Texas Refinances for Primary Residences require a 12 month waiting period since the recording date of the most recent mortgage.

Primary Residence Refinances fall into 1 of 3 categories below.

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2.4.4.1 Texas 50(a)(6)

STG Mortgage Standard Requirements/Restrictions Texas 50(a)(6) Refinance
Requirements/Restrictions
50(a)(6) is known as a Texas Cash Out Refinance and has the following requirements/restrictions: • Maximum LTV/CLTV 80%. • Interest-only not permitted. • Limited to 1 every 12 months. • 1-year seasoning of prior Texas 50(a)(6) loan required. • A property may only have a single Texas 50(a)(6) loan at any time, including all first & second liens. • Must be homesteaded property, which can be verified through either the tax cert or a signed borrower affidavit. All borrowers must occupy property as their homestead. • Borrower-paid fees cannot exceed 2% of loan amount (fees do not include bona-fide discount points, appraisal, survey, title search, title insurance). • Full Interior/Exterior Appraisal Required (Appraisal Waivers & AVMs not permitted). • Title insurance coverage must be the T-2 Mortgagee Policy of Title Insurance and include both of the following endorsements, which must also expressly show on the Closing Disclosure: T-42 Equity Loan Mortgage Endorsement and T-42.1 Supplemental Coverage Equity Loan Mortgage Endorsement. • The loan must close in the office of a Texas Attorney or Title Company (at home closings not permitted). • The Notice Concerning Extensions of Credit (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. • Non-borrowing spouses must sign initial disclosures. • 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. • Paying off a second mortgage is considered cash out if it was not used to acquire the subject property (seasoned second mortgages are still considered cash-out in Texas if they were not purchase money). • FHA, VA, & USDA not permitted. • Non-Occupant Co-Borrowers not permitted. • Co-Signers not permitted. • Prepayment Penalites not permitted. • Temporary Buydowns not permitted. • STG Mortgage overlay: Max 10 acres for Texas 50(a)(6)

In addition to the standard requirements/restrictions above, the Constellation program does not permit the following on Texas 50(a)(6) loans:

- Power of Attorney
- Subordinate Financing
  - New subordinate financing
  - HELOCs
  - Third liens

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2.4.4.2 Texas 50(a)(4)

STG Mortgage Standard Requirements/Restrictions Texas 50(a)(4) Refinance
Requirements/Restrictions
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).

In addition to the standard requirements/restrictions above, the Constellation program restricts Texas 50(a)(4) loans as follows:

- Max 80% LTV/CLTV

2.4.4.3 Texas 50(f)(2)

STG Mortgage Standard Requirements/Restrictions Texas 50(f)(2) Refinance
Requirements/Restrictions
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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2.5 Refinances to Buy Out an Owner's Interest

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.

All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.

The current appraised value is used to calculate the LTV/CLTV.

2.6 Delayed Financing

Borrowers who purchased the subject property within the past six (6) months (measured from the date on which the property was purchased to the disbursement date of the new mortgage) are eligible for a rate/term refinance if all of the following are met:

- No longer than six (6) months has elapsed since the original cash acquisition of the property; measured from disbursement date of the new mortgage;
- Must be underwritten as a Rate/Term Refinance;
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for a rate/term refinance based on the lesser of the purchase price or the current appraised value);
- Property must have been purchased using the borrower(s) own funds; and
- Settlement Statement/Closing Disclosure from the original purchase and documentation to show the down payment and closing costs used for the purchase were from the borrower's own funds.

If the source of funds used to acquire the property was an unsecured loan or loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

Note:

- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- Proceeds from Delayed Financing may not be used as reserves.

Delayed Financing is not permitted on a primary residence in Texas.

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2.7 Installment Land Contract

A land contract is an agreement to transfer title to a property once conditions of the contract have been fulfilled. A copy of the executed land contract must be in the loan file.

Contract Execution	> 12 months	≤ 12 months
LTV Calculation	Appraised value	Lower of appraised value or total acquisition cost
12 Month Pay History Documentation	• Canceled checks, bank statements or money order receipts • If the land contract was executed less than 12 months prior to the date of the loan application, the borrower's previous housing payment history (covering 12 months) must also be verified in addition to all payments made on the land contract.	
Financing	Rate & Term Refinance	Purchase

Total acquisition costs are those costs incurred by the borrower for rehabilitation, renovation, refurbishment, or energy conservation improvements.

The following requirements apply:

- Purchase or Rate/Term Refinance;
- Primary residence;
- Condos not permitted;
- Land sale contracts must be recorded or notarized; a copy of the of contract and notice of payoff(s) are required; must not be a foreclosure bail-out or distress sale;
- The seller under a land sale contract must deed to the purchaser at or prior to closing;
- The Closing Disclosure at closing must indicate that all liens on title have been paid in full;
- The estate or interest insured in the title insurance policy is fee simple;
- The title insurance policy ensures full title protection to the lender;
- The title insurance policy states that title to the security property is vested in the purchaser under the land sale contract; and
- The title insurance policy must not list any exceptions arising from the land sale contract.

Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs
Installment land contracts are eligible.

DSCR Program
Installment land contracts are not permitted.

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2.8 Property Flips

When two (2) appraisals are required regardless of the transaction type the lesser of the two (2) values will be used for qualification purposes.

Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs
For a purchase transaction the flip time period is determined by subtracting the date the seller became the legal owner of the property from the date the purchaser signed the purchase contract. If the seller and purchaser signed the purchase agreement on two (2) separate days, the latter of the two (2) dates is to be used.

Purchase Transactions (HPML ONLY)	• Appreciation greater than 10% in the past 90 days requires two (2) full appraisals; • Appreciation greater than 20% in the past 91-180 days requires two (2) full appraisals; • The cost of the second appraisal must be paid for by the lender; and • Waiver of second appraisal is not permitted when the transaction is HPML.

DSCR Program
For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, the following requirements apply:

- Second full appraisal is required;
- Property seller on the purchase contract is the owner of record;
- Increases in value should be documented with commentary from the appraiser and recent paired sales; and
- The above requirements do not apply if the property seller is a bank that received the property as a result of foreclosure or deed-in lieu.

All Constellation Loan Programs
Additionally, a second appraisal is not required when the loan is used to acquire a flipped property from:

- A local, state, or federal government agency;
- A person who acquired the title from the holder of a defaulted mortgage on the property via foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedures through exercise of the holder's rights in the defaulted loan;
- A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedures;
- A person who inherited the property or acquired it through a court-ordered dissolution of a marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets;
- An employer or relocation agency in connection with an employee relocation; or
- A service member who received a deployment or permanent change of station order after purchasing the property.

In addition, a second appraisal is not required when the loan is used to acquire a flipped property if the property is:

- Located in a presidentially declared disaster area during any time period during which the federal financial institutions regulatory agencies waive the requirements in Title XI of FIRREA and any implementing regulations; or
- Located in a rural county located in the U.S. Department of Agriculture's Economic Research Service Urban Influence Codes 4, 6, 7, 8, 9, 10, 11, or 12. The CFPB has published a list of these counties

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2.9 Construction-to-Permanent Financing

Constellation does not offer construction loans. The permanent financing out of a construction loan is permitted and considered a rate-term refinance.

Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs

- The subject property must be a primary or second home only
- The borrower cannot receive cash back at closing that is not a direct verifiable reimbursement of expenses

DSCR Program

- The borrower cannot receive cash back at closing that is not a direct verifiable reimbursement of expenses
- The property must have a current long term lease agreement signed prior to the application date

2.10 Buy Before You Sell – Intermediary Companies – Primary Residence Only

Buy Before You Sell also known as Intermediary Companies (IC) are entities that generally provide cash-offer assistance programs for the sale of the borrower's departing primary residence and/or the purchase of the borrower's new primary residence. An IC may be identified through the purchase agreement or through a separate contract.

Typical Intermediary Company Offerings

- The IC purchases the borrower's departing primary residence for cash. This allows the borrower to make a cash offer on the new primary purchase transaction. All standard departing residence guidelines apply including a CD or HUD-1 to document the sale, including payment of liens and net proceeds.
- The IC guarantees the borrower that they will purchase the departing residence for cash if buyers, using financing, cannot meet the required closing date.
    - Document the terms of the guaranteed buyout and receipt of proceeds.
    - Proceeds received from the IC can be utilized as funds for closing.
    - The payment from the departing residence can be excluded from qualification.

Examples of Intermediary Companies programs:

- Homeward
- Knock
- RibbonCash Offers
- Zoom Casa
- HomeLight

Requirements and Documentation

- All funds for the down payment, closing costs, reserves, etc. must be documented and sourced per standard program guidelines.

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3.0 FINANCING

3.1 Calculating Loan-to-Value Ratios

3.1.1 Permanently Modified HELOC

- If a HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the modified HELOC amount must be used when calculating the CLTV.
- The permanently modified HELOC must be documented with the one (1) of the following:
  - Modified and recorded Note;
  - Recorded subordination agreement stating the credit line was permanently reduced; and
  - Letter from the subordinate lien holder indicating a HELOC has been permanently reduced, in lieu of a recorded modification agreement. The letter must:
    - Be on the lien holder's letterhead;
    - State the permanently reduced HELOC amount; and
    - Include the date of the HELOC reduction.

A comment on the credit report stating that the HELOC is permanently modified is not sufficient.

3.2 Subordinate Financing

Mortgages subject to subordinate or secondary financing have guidelines for LTV/CLTV ratios, terms, and disclosures of the second mortgage. Subordinate financing terms must be disclosed to STG Mortgage and the appraiser. Refer to Program Matrix for LTV/CLTV guidelines and eligibility. Any secondary lien must be subordinate to the STG Mortgage first mortgage and be recorded as such.

3.2.1 Acceptable Subordinate Financing Terms

The following requirements apply to the terms of the subordinate financing:

- The subordinate financing must be recorded and clearly subordinate to the new mortgage; title must indicate the lien is in second position;
- Subordinate financing must be reviewed to ensure that there are no terms that restrict prepayment. Terms that restrict prepayment are not permitted as acceptable subordinate financing. Terms that require payment of certain closing costs that were waived upon origination of the subordinate lien loan are not considered a restriction of prepayment;
- The subordinate financing must not be a natural person, with the exception of a seller second mortgage and must be an arm's length transaction;
- Subordinate financing must have regular monthly payments and be at a market interest rate (eligible forgivable Community 2nd mortgages with zero interest and/or monthly payment are acceptable;
- Must be included in the DTI, if applicable;
- Negative amortization is not allowed. The scheduled payments must be sufficient to cover at least the interest due.

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3.2.2 Required Documentation

The following documentation is required for all subordinate financing

- A copy of the signed subordinate note or direct verification from the lien holder verifying all items detailed above must be obtained;
- A copy of the unsigned subordination agreement prior to closing, if applicable; and
- A copy of the executed subordination agreement at closing, if applicable.

3.2.3 Home Equity Line of Credit (HELOC) Subordinate Lien

- The CLTV ratio is calculated by adding full credit limit of the HELOC to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the mortgaged premises;
- The terms of a HELOC may not provide for a balloon or call option within the first five (5) years after the note date of the new first mortgage; and
- A monthly payment based on the HELOC full credit line must be included in the DTI ratio.

3.2.4 Closed End Subordinate Lien

If the second is a closed end subordinate lien:

- Maturity date or amortization basis of the junior lien must not be less than five (5) years after the Note date of the first lien mortgage, unless the junior lien is fully amortizing;
- The loan cannot have a balloon or call option within five (5) years of the date of the Note; and
- The monthly payment on the credit report or other documentation must be included in the DTI ratio.

3.3 Temporary Interest Rate Buydowns

Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicer draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

Temporary buydowns may be permitted for certain products. See Program Matrix for eligibility.

Temporary Buydowns are not permitted on loans within age restricted communities.

The borrower must be qualified based on the Note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note rate.

The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage Note.

The terms of the buydown must be disclosed to the MI provider and the property appraiser, if applicable.

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3.3.1 Buydown Agreement

The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement.

- The buydown plan must be a written agreement between the party providing the buydown funds and the borrower.
- All of the terms of the buydown plan must be disclosed to all participating parties.
- The buydown agreement must provide that the borrower is not relieved of his or her obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available.
- A copy of the buydown agreement must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment.

3.3.2 Terms of the Buydown

There is no limit placed on the total dollar amount of an interest rate buydown. The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.
An interest rate buydown plan must provide for:

- A buydown period not greater than 36 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

3.3.3 Buydown Account and Funds

- Buydown may only be funded by:
  - The seller;
  - Borrower;
  - Builder; and
  - Interested Party (seller contribution limits apply).
- A split buydown is permitted when the buydown funds are paid by the lender, seller and/or third parties. A split buydown is not permitted when any portion of the funds are paid by the borrower;
- Buydown accounts must be established and fully funded by closing;
- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower’s only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

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3.4 Property Assessed Clean Energy (PACE) and PACE-like Obligations

PACE (or PACE-like) programs are energy retrofit lending programs made by localities to finance residential energy improvements. PACE financing enables homeowners to install energy efficiency, renewable energy, and water efficiency upgrades. In general, the loans are repaid through the homeowner's real estate tax bill.

PACE loans must be satisfied prior to or at closing. If the PACE lien is paid off at closing, transaction is considered a cash out refinance.

3.5 Premium Pricing/Lender Credits

Premium pricing exists when a borrower elects to pay a higher interest rate on a mortgage loan in exchange for a lender credit provided at closing.

Lender credit may be used provided all of the following are met:

- The amount of the lender credit must:
  - Be derived from an increase in the interest rate (premium pricing); or
  - Be funded directly by the lender.
- The lender credit must not require repayment;
- The lender must not use funds from a third party to provide a lender credit;
- Lender credit may only be used as a credit towards the borrower's closing costs, including prepaids. In the event the lender credit exceeds the amount of the closing costs:
  - The lender credit must be reduced so it does not exceed the amount of the closing costs; or
  - The amount of lender credit that exceeds the closing costs must be applied as a principal curtailment and must be clearly reflected on the Closing Disclosure.
- The lender credit cannot be used to fund any portion of the borrower's down payment or be used to meet reserve requirements.

A lender credit derived from premium pricing is not considered an interested party contribution even if the lender is an interested party to the transaction.

Any STG Mortgage-serviced loan that closes with premium pricing/lender credits are not eligible for a refinance within 180 days of the Note date.

3.6 Principal Curtailment/Principal Reduction

A principal curtailment/principal reduction is the application of funds that are used to reduce the unpaid principal balance of the loan.

On transactions where the loan originator is paid by the lender, a principal curtailment may be permitted. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment.

If the curtailment is applied at closing, the amount must be documented on the Closing Disclosure. If the curtailment is applied after closing, but prior to delivery, the loan file (or servicing file) must be documented with the amount of the curtailment and the reason or source of the curtailment.

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3.7 Escrow for Impounds

Escrow for impounds is defined as all funds collected by STG Mortgage to cover expenses of the borrower that are required to be paid under the Security Instrument. The funds may include, but are not limited to, taxes, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the loan, as well as property, and mortgage insurance premiums.

Non-supplemental states have taxing authorities that wait to revise tax amounts due until the normal billing cycles. In the case of supplement tax states, taxes are based on the reasonable estimate of the improvement value, not the supplemental value.

3.7.1 Escrow/Impounds

An escrow of funds for the payment of property taxes, property insurance, wind, earthquake, and HO-6 premiums are required.

An escrow of funds for the payment of flood insurance is always required. Property tax and/or property insurance, including hazard, wind, earthquake, and HO-6 insurance escrows may be waived.

3.7.2 Escrow Waivers

Primary Residence	Second Home	Investment Property
Max LTV ≤ 80% • CA: LTV ≤ 90%	Max LTV ≤ 80%	Max LTV ≤ 80%
HPML loans require escrows to be held for a minimum of five (5) years.		

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4.0 ELIGIBLE PROPERTY TYPES

4.1 Eligible Property Types

4.1.1 Single-Family Residence

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

4.1.2 Modular Home

A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems.

Upon completion, the modular home is transported to the property site and then joined together on a permanent foundation. A modular home may be transported on a steel undercarriage, but that is not a permanent structural component of the improvements, and it is usually removed at the time the house is attached to the foundation. The modular home assumes the characteristics of a site-built home.

4.1.3 Two- to Four-Unit Property

A two-to-four-unit property is a residential structure with more than one (1) unit but not more than four (4) units.

4.1.4 Condominium

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

A condominium project is created according to local and state statutes. The structure is two (2) or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

4.1.4.1 Maximum Non-Warrantable Condo Exposure

The maximum Non-Warrantable Condo total exposure for the Constellation Program to any condo project is based on the number of units in the project:

- Projects with ≤ 10 units: the Company will finance one (1) unit.
- Projects with > 10 units: the Company will finance a maximum of 20% of the total units in the project.
- Exposure limits apply to projects across all borrowers and loans

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4.1.4.2 Warrantable Condominium Project

All warrantable condo projects must comply with Fannie Mae or Freddie Mac condominium warranty guidelines.

Alternatively, STG Mortgage will accept a 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/.

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4.1.4.3 Non-Warrantable Condominium Project

Note: All non-warrantable condos require investor approval. Please allow 3 business days.

Condo projects must follow Fannie Mae or Freddie Mac condo warranty guidelines; however, the following non-warrantable characteristics will be considered, with no more than two (2) characteristics on any single transaction:

- Minimum 500 square feet with at least one (1) separate bedroom and fully functioning kitchen (including sink, refrigerator, range/cooktop, and oven)
- Single-Entity Ownership
  - Maximum 49%
  - Non-gut conversions: maximum 65%
    - Vacated units may not be released (must be listed for sale)
    - Existing leases may not be extended
    - No bulk sales over 10%
- Maximum 25% of total units may be 60 days or more past due on either common expense assessments (dues) and/or each special assessment
- Mandatory memberships/recreational leases are eligible if there are no joining and/or annual membership fees and the monthly fee is not greater than 25% of monthly HOA dues
- Non-incidental income may not make up more than 35% of total HOA budgeted income
- No more than 50% of the condo project may be commercial space (parking is not included in the calculation)
  - Must be typical for the market
  - Compatible with the use of the subject project
- HOA Replacement Reserves (for loans funded by December 31, 2026)
  - < 10% and > 7.5% if current reserve balance exceeds 10% of operating expenses
  - < 7.5% and > 5.0% if current reserve balance exceeds 20% of operating expenses
  - < 5.0% if current reserve balance exceeds 50% of operating expenses
  - Project balance sheet must be provided within 120 days of Note date
- HOA Replacement Reserves (for loans funded on or after January 1, 2027)
  - < 15% and > 10% if current reserve balance exceeds 10% of operating expenses
  - < 10% and > 7.5% if current reserve balance exceeds 20% of operating expenses
  - < 7.5% if current reserve balance exceeds 50% of operating expenses
  - Project balance sheet must be provided within 120 days of Note date
- Presale Requirements
  - Primary Residence
    - 30% of the units must be sold or under contract in the subject project or phase; or
    - 50% of the units must be sold or under contract in the subject building.
  - Second Home or Investment Property
    - 30% of the units must be sold or under contract in the subject project or phase.
- Litigation will be considered on case-by-case basis
  - Litigation involving structural integrity will not be considered

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4.1.4.3.1 Maximum Non-Warrantable Condo Exposure

The maximum Non-Warrantable Condo total exposure for the Constellation Program to any condo project is based on the number of units in the project:

- Projects with ≤ 10 units: the Company will finance one (1) unit.
- Projects with > 10 units: the Company will finance a maximum of 20% of the total units in the project.

Exposure limits apply to projects across all borrowers and loans

4.1.4.3.2 Condotel

Note: All condotels require investor approval. Please allow 4 business days.

A condotel is a condominium project located in a resort or hospitality area that is transient in nature with vacation rentals. Condotels offer hotel type services or characteristics such as registration desk, cleaning service, and more. The units are typically individually owned but often advertised and managed by resort management companies that facilitate unit rentals to guests. Condotels are typically sold as investment or secondary homes rather than as primary residences.

Condotels must meet all Fannie Mae or Freddie Mac warrantable condo project guidelines, existing or new construction, with the following exceptions:

- Must be in a resort area or metropolitan area with a project associated with a nationally recognized high-end hotel brand (Hilton, Ritz Carlton, Four Seasons, etc.);
- Minimum 500 square feet with at least one (1) separate bedroom and fully functioning kitchen (including sink, refrigerator, range/cooktop, and oven);
- Borrower must have exclusive use of the unit with no primary occupancy limitations;
- Occupancy restrictions or black-out dates are not permitted; must permit year-round occupancy;
- Non-incidental income may not exceed 10% with warrantable exceptions to 15%;
- No more than 15% of HOA dues may be 60 or more days delinquent;
- No more than 50% of the condo project may be commercial space (parking is not included in the calculation)
  - Must be typical for the market
  - Compatible with the use of the subject project
- Mandatory memberships and/or recreational leases may be eligible if there are no joining and/or annual membership fees and the monthly fee is not greater than 25% of monthly HOA dues;
- No maximum investor concentration on investment property transactions;
- New projects:
  - 50% presale required
  - No owner occupancy requirements
- Single entity ownership: maximum 25%
- A minimum of 15% HOA reserves are required (Freddie Mac working capital requirements in lieu of reserves are acceptable on new construction); and
- No rental pooling, mandatory or voluntary.
- May not be converted from hotels/motels.

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4.1.4.4 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.

4.1.4.5 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.

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

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.

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4.1.5 Cooperative Units (Co-ops)

Cooperative units (co-ops) are not permitted.

A co-op is a unit in a cooperative project.

A cooperative project is a residential or mixed-use building wherein a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.

4.1.6 Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner holds title to the lot and the improvements on the lot;
- The HOA holds title to the common elements;
- The unit owners have a right to the use of the common elements; and
- The unit owners pay a fee to the HOA to maintain the common elements for their benefit.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects.

These projects

- have no common property and improvements;
- do not require the establishment of and membership in an HOA; and
- do not require payment of assessments.

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4.1.7 Accessory Dwelling Units (ADU)

Accessory Dwelling Unit is an additional finished area that contains the following:
- Kitchen, bathroom and separate entrance
- Is independent of the primary dwelling unit
- Is smaller in size than the primary dwelling unit and the finished area is less than the primary dwelling unit's finished area, and
- Contributes less to the value of the property than the primary dwelling unit.

Examples of eligible ADU configurations include:
- A 1, 2 or 3-unit dwelling with an ADU that is either above a garage or is a separate outbuilding,
- A 1 unit dwelling with an attached or detached ADU, or
- A 1 unit dwelling with an ADU in the basement

Ineligible properties with ADUs
- Manufactured Homes (neither the main dwelling nor the ADU may be a manufactured home)
- A multi-unit property with an ADU that does not comply with zoning and land use requirements (illegal zoning)
- Properties with two or more ADUs
- A 4-unit property with an ADU

Appraisal Requirements:
The appraiser must determine whether the subject property has an ADU and report the appraisal on the appropriate form. When determining whether the subject property has an ADU, the appraiser must consider zoning and land use requirements and all property characteristics, specifically the unit's utility and the property's highest and best use.

If the appraiser determines the subject property has an ADU, the appraisal report must include:
- A detailed description of the ADU
- Any effect the ADU has on the market value or marketability of the subject property
- Specific information about the ADU, including but not limited to its general condition, its room count (including the number of bedrooms and baths) and the finished square footage area

Properties with legal or legal non-conforming zoning compliance or locations without zoning:
- At least one comparable sale with an ADU, when available, is required to demonstrate the property's conformity and marketability to its Market Area
    - If a recent comparable sale with an ADU is not available in the subject's Market Area, the appraiser can use an older sale with an ADU from the subject's Market Area or a sale with an ADU from a competing Market Area as a comparable sale or as supporting market data
    - The appraiser may always use more than three comparable sales, including contract sales (pending sales) and/or current listings, to justify and support his or her adjustments and opinion of market value, as long as at least three are actual closed (settled) sales
    - If a comparable sale with an ADU is not available, the appraiser can use a comparable sale in the subject's Market Area without an ADU as long as the appraiser can justify and support such use in the appraisal report.

Comparable requirements for properties with illegal zoning compliance:
If the subject property ADU does not comply with the zoning and land use requirements (illegal zoning), the Mortgage is eligible if:
- The subject property is a 1-unit property with an ADU

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- The appraisal contains at least two (2) comparable sales with an ADU that is non-compliant with the zoning and land use requirements (illegal zoning) to demonstrate the marketability of the subject property to its Market Area.

Note: 2- or 3-unit properties with an ADU that do not comply with the zoning and land use requirements (illegal zoning) are not eligible.

In addition to the above, the following must be met when using rental income from an Accessary Dwelling Unit (ADU):

- Rental income from an ADU may only be used for long-term rental;
- Appraisal must include at least one comparable with an ADU; and
- Form 1007/1000 must include at least one rental comparable with an ADU receiving long-term rental income.

4.1.8 Mixed Use Property

Mixed-use properties are not permitted.

A mixed-use property is defined as a property primarily used as a residence, but is also being used for a small, commercial purpose, such as a property with space set aside for a day care facility, a beauty or barber shop, doctor's office, a small neighborhood grocery or specialty store.

4.2 Deed and Resale Restrictions

Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs
Age related deed restrictions and resale restrictions are the only eligible resale restrictions permitted. Eligible property types include 1-2 units, PUDs and Condominiums.

DSCR Program
Deed restrictions and resale restrictions are not permitted.

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4.3 Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are used to determining whether the panels are third-party owned, personal property of the homeowner, or a fixtured of the real estate. Common ownership or financing structures include:

- Borrower-owned panels;
- Leasing agreements;
- Separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- Power purchase agreements.

If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed, and repaid in full, or are secured by the existing first mortgage), standard requirements for appraisal, insurance, and title apply. Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing. Refer to Property Assessed Clean Energy (PACE) and PACE-like Obligations.

The underwriter is responsible for determining the ownership and any financing structure of the subject property's solar panels in order to maintain first lien position of the mortgage. The Solar Panel Checklist must be completed when reviewing solar panel eligibility.

When financing is involved:

- Evaluate the borrower's credit report for solar-related debt and by obtaining a copy of all related documentation for the loan; and
- Review the title report to determine if the related debt is reflected in the land records associated with the subject property.

If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless a UCC "personal property" search confirms the solar panels are not claimed as collateral by any non-mortgage lender.

Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC. The appraiser must have accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must comply with Energy Efficiency Improvements.

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The following table summarizes some specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

IF the solar panels are…	THEN the following is required…
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	• 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; • Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and • 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. Note: If a UCC fixture filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated or terminated.
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); • Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt; • Not include the panels in the LTV ratio calculation; and • 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.
*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.	

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

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4.3.1 Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement

Obtain and review a copy of the lease or power purchase agreement. All of the following are required:

- The value of the solar panels must not be included in the LTV, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.

Note: 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 the other debt secured by real estate in the CLTV because the documented lease or power purchase agreement takes priority.
- The lease or power purchase agreement must indicate:
  - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of 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); and
  - 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, 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:
  - Terminate the lease/agreement and require the third-party owner to remove the equipment;
  - Become, without payment of any transfer of similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
  - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

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5.0 CREDIT

5.1 Documentation Standards

A credit report must be obtained for each borrower who will be obligated on the Note.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the lender's address. The hand carrying of verifications is prohibited.

5.2 Credit Report Standards

The loan file must contain the following for each borrower:

- A merged in-file report including credit scores requested from all three (3) credit repositories. The 3 repositories must return a minimum of at least 2 credit scores for each borrower.

When a new or retyped credit report is provided, all prior credit reports must be included in the loan file. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

When the credit report shows a victim statement under the FACT Act, the originating entity must document in writing the steps taken to validate the loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be resolved with supporting documentation included in the loan file.

The borrower’s present address must be within the U.S., a U.S. territory, or an APO, FPO or DPO military address located within the U.S. Borrowers with foreign credit reports or foreign primary residence addresses are not eligible.

The credit report will indicate if a credit score could not be produced due to insufficient credit. The credit report must be in the loan file, whether the report includes traditional credit and a credit score or indicates that a credit score could not be produced due to insufficient or frozen credit.

5.2.1 Credit Report Red Flags

When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be explained, and questionable explanations researched. The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted.

5.2.2 Frozen Credit

Any borrower with one (1) or more repositories with frozen credit on their credit report must have their credit unfrozen and the loan must be re-underwritten.

If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.

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5.3 Inquiries and Undisclosed Liabilities

The underwriter must review file for any indications of a potential undisclosed liability. These indications can include credit inquiries, undisclosed properties on the FraudGuard report, recurring withdrawals on the bank statements to a financial institution or buy now pay later (BNPL) withdrawals to services such as Klarna or PayPal. If an undisclosed liability is discovered, it must be addressed by the borrower and included in the DTI.

Full Doc, Asset Utilization, Bank Statement, 1099, P&L Programs
All debt incurred during the application process and through loan closing must be disclosed on the final application and included in the loan qualification. When the credit report reveals a significant debt not listed on the application, a written explanation from the borrower addressing the omission may be required.

When the credit report indicates recent inquiries (excluding all utility company inquiries), confirm that the borrower has not been granted any additional debt that is not reflected on the loan application. If additional credit was applied for and/or approved or obtained, a verification of that debt must be provided, and the borrower must be qualified with the monthly payment. All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated.

DSCR Program
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 and evaluate any simultaneous mortgage applications for other properties to assess the impact on qualifying and reserves. 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 do not need to be addressed under the DSCR program.

5.4 Credit Scores

A credit score represents a comprehensive view of a borrower's credit history risk factors, and are required for all loans. The higher the score the lower the risk of default. The score in combination with the dates and severity of late payments should be considered.

Credit Enhancement process and/or credit services such as rapid re-score, credit enhancement or similar services are not permitted either for purposes of increasing a score for qualification and/or pricing improvement.

5.5 Selection and Validation of Credit Scores

Selecting the credit score for loan qualification is a two-step process.
- Select the credit score for each individual borrower; and
- Select the credit score used for loan qualification.

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5.5.1 Selection of Credit Score

Select the credit score for each borrower. Use the lowest selected credit score among all borrowers for loan qualification. All borrowers must have a credit score.

Number of Scores	Score
3	Middle Score
2	Lower of the two
1	Not permitted
If two (2) repositories report identical credit scores, use that score for qualification.	

5.5.2 Traditional Tradeline Requirements

All borrowers must meet the following tradeline requirements:

- Three (3) tradelines from traditional credit sources (such as a bank or other financial institution) that reported for a minimum of 12 months prior to the date of the application (may be opened or closed) with one (1) tradeline reporting for a minimum of twenty-four (24) months from the application date.

5.5.2.1 Alternative Minimum Tradeline Requirements

- Two (2) tradelines are acceptable if the borrower has a satisfactory mortgage rating for at least twelve (12) months (opened or closed) within the most recent twenty-four (24) months, and
- One (1) additional open tradeline for no less than 12 months

OR

- Two (2) open tradelines are acceptable if both tradelines are:
  - Open for the most recent twenty-four (24) months prior to the application date, and
  - Both tradelines have activity in the past twelve (12) months from the application date.

Notes:

- Joint accounts count as one (1) tradeline for each borrower.
- For Full Doc, Asset Utilization, Bank Statement, 1099, P&L Programs: Each borrower contributing income for qualifying must meet the minimum tradeline requirements; however, borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements.

5.5.3 Non-traditional Tradelines

Follow Traditional Tradeline Requirements above. Non-traditional credit is not permitted.

5.5.4 Authorized User Accounts

Authorized user accounts may be considered a tradeline if one (1) of the following is met:

- The owner of the account is a borrower on the transaction; or
- The borrower can provide written documentation (e.g., cancelled checks, payment receipts, etc.) that evidences the account has been paid by the borrower for the most recent 12 months preceding the application date.

If written documentation of the borrower's monthly payments on the authorized user tradeline is provided, then the payment history — particularly any late payments that are indicated — must be considered in the credit analysis.

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5.5.5 Foreign Credit Reports and Credit Scores

Foreign credit reports and credit scores are not permitted.

5.6 Housing Payment History

A mortgage payment is considered current if it is paid within the month due. A letter of explanation is required when payments are made beyond the month due within the most recent 24 months.

Payment histories on all mortgage tradelines, regardless of occupancy, including first and second mortgage liens, and HELOCs are considered mortgage debt.

Mortgage payment histories do not have to be independently verified provided the credit report includes a reference to the mortgage(s) and reflects the most recent 12 month payment activity.

5.6.1 Verification of Mortgage

Mortgage payment histories verified on the credit report do not have to be independently verified.

If the mortgage is not verified on the credit report it must be documented by one (1) of the following:
- Verification of Mortgage (VOM), by a professional management company and/or private party;
- A copy of the Note and 12 months' cancelled checks or bank statements; or
- Credit supplement verifying the housing payment history.

5.6.2 Verification of Rent

Rental history must be documented by one (1) of the following:
- Verification of Rent (VOR), by a professional management company and/or private party; or
- Copy of lease agreement and 12 months' cancelled checks or bank statement: or

Refer to our Program Summaries for housing payment history requirements.

5.7 Significant Derogatory Credit

Significant derogatory credit includes bankruptcies, deeds-in-lieu, foreclosures, pre-foreclosure sales, short sales, mortgage charge-off accounts, and mortgage delinquencies of 120 days or more.

If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

5.7.1 Waiting Periods

Waiting period is measured from the completion, discharge, or dismissal date (as applicable) of the derogatory credit event to the note date.

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5.8 Re-established Credit

A borrower with a significant derogatory credit event or other isolated lapse in their credit performance should evidence that they have re-established their credit history.

- Late payments on accounts following a credit event should be evaluated to determine a borrower's willingness to repay their obligations;
- A written explanation from the borrower(s) is required to explain the cause and significance of the derogatory information within the most recent four (4) years. Additional documentation to support the significant derogatory credit event's cause or completion may be required;
- Multiple delinquencies on accounts including collections or charge-offs may require additional explanations, documentation, or may result in ineligibility for the program; and
- No new public records, judgments, etc., since the event occurred are permitted.

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5.9 Delinquent Credit

Credit Event	Requirements
Forbearance	The borrower(s) may not have any mortgages in active forbearance.
Judgments	Judgments must be paid prior to or at closing. If judgment(s) are paid at closing, they must be reflected on the Closing Disclosure and disbursed by the closing agent.
Tax Liens	• Tax liens must be paid prior to or at closing. If tax lien(s) are paid at closing, they must be reflected on the Closing Disclosure and disbursed by the closing agent. • A letter of explanation is required.
Past Due Accounts	Accounts that are past due (and not yet reported as a collection account) must be brought current. Verification of sufficient funds to satisfy these obligations must be documented.
Collection and Charge-off of Non-Mortgage Accounts	• Collection(s)/charge-offs paid at closing must be reflected on the Closing Disclosure and be disbursed by the closing agent. • The following must be paid in full prior to or at closing: o Collection(s) and/or charge-off(s) < 24 months at the time of application AND have cumulative total of $2,000 or more. o Medical collection(s) and/or charge-off(s) are excluded regardless of amount.
Disputed Tradelines	• Disputed accounts are reviewed to determine current balance and payment history (30-day or more delinquency). • The following will determine whether or not the derogatory tradeline must be resolved, and a new credit report run prior to loan submission (credit supplements are not permitted to document disputed accounts): o No derogatory information: no action required. o Derogatory information: remove and pull new credit report when the disputed account has a Date of Last Activity (DLA) within the past 12 months of the credit report date. o Disputed medical collections do not need to be removed.
Consumer Credit Counseling	Borrowers who have entered consumer credit counseling must have completed the counseling prior to loan application. Non-warrantable condos not permitted in the past 24 months
Lawsuits and Pending Litigation	If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, the following is required: • A statement from the borrower's attorney that explains the circumstances of the lawsuit or litigation and discuss the borrower's personal liability and insurance coverage; • A copy of the complaint and response; and • The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of STG Mortgage's first lien position. May only be an owner occupied purchase or rate/term refinance.

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Delinquent Credit Belonging to an Ex-Spouse	Delinquent credit that belongs to an ex-spouse may be excluded from the credit evaluation of the borrower if the following are met: A copy of the divorce decree or separation agreement shows that the derogatory accounts assigned solely to the ex-spouse; The late payments can be verified to have occurred after the date of the divorce or separation; and **Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs** Debts that were delinquent prior to the court ordered divorce or separation are required to be included in the borrower's DTI ratio. **DSCR Program** If the delinquent payments in question relate to mortgage debt, evidence of transfer of title to the mortgaged property prior to the delinquency must be provided, and evidence of "buyout" as part of court proceedings must be provided.

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6.0 ASSETS

6.1 Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as required.

All down payment funds and cash to close must be documented and verified. Electronic Verifications are acceptable.

6.1.1 Minimum Borrower Contribution

Product	All Occupancy Types
All Products	• LTV/CLTV ≤ 80%: No Requirement • LTV/CLTV > 80%: Minimum of 5% of the lesser of the purchase price or the appraised value must be from the borrower's own funds.

6.2 Reserve Requirements

Reserves are eligible assets remaining after closing. Reserves are measured by the number of months of the qualifying payment for the subject mortgage that the borrower could pay using his or her financial assets. Reserves are used as an indication of the borrower's capacity to demonstrate a savings pattern.

When required, reserves must come from the borrower's own funds, unless otherwise stated in this section or Program Summaries.

The monthly housing expense includes:

- Principal and interest
- Property and flood insurance
- Mortgage insurance premiums
- Real estate taxes
- Ground rent
- Special assessments
- Homeowners' association dues (excluding any utility charges that apply to the individual unit)
- Subordinate financing payments on mortgages secured by the subject property

Refer to our Program Summaries for reserve requirements.

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6.3 Interested Party Contributions

Interested party contributions (IPC) are costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may never be applied to any portion of the down payment or reserve requirements.

Interested parties to the transaction include but are not limited to, the property seller, the builder/developer, real estate agent or broker, or any affiliate who may benefit from the sale of the property. Lender-paid fees are not factored into contribution limits.

A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.

Note: An affiliation exists when there is direct common ownership or control by the lender over the interested party or vice versa, or when there is direct common ownership or control by a third party of both the lender and the interested party. A typical ongoing business relationship–for example, the relationship between the builder and a lender that serves as its financial institution–does not constitute an affiliation.

Interested Party Contributions are either financing concessions or sales concessions. The following are considered IPCs:

- Funds that are paid directly from the interested party to the borrower or paid to another on the borrower's behalf;
- Funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower;
- Funds that flow to the transaction on the borrower's behalf from an interested party, including a third-party organization or nonprofit agency; and
- Funds that are donated to a third party, which then provide the money to pay some or all of the closing costs for a specific transaction.

All IPCs must be disclosed and be reflected in the Closing Disclosure.

Refer to Program Matrix for maximum Interested Party Contributions.

6.3.1 Financing Concessions

Financing concessions are financial contributions towards the loan transaction from interested parties. Financing concessions are acceptable when they are contributed towards:

- Borrower closing costs, including prepaids; or
- Borrower homeowners' association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months).

Financing concessions that are paid on the borrower's behalf are subject to Interested Party Contribution (IPC) limitations outlined in each Program Matrix.

Financing concessions that exceed the allowable limit published in the applicable Program Summary are considered sales concessions and must be deducted from the property's sales price. As a result, the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value. Additionally, financing concessions must be equal to or less than the sum of the borrower's closing costs.

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6.3.2 Sales Concessions

Sales concessions are IPCs that take the form of non-realty items and may be paid prior to, at, or after closing of the transaction. They include, but are not limited to:

- Contributions such as cash/cash-like gifts;
- Rebates, such as those from real estate agents or brokers, which are not credited towards the transaction;
- Furniture, automobiles, decorator allowances, moving costs, and other giveaways;
- Lender incentives from a lender who is, or is affiliated with, an interested party; such as cash, cash-like gift (gift card) or other item of value that is not a lender credit towards the loan transactions. The incentive may be offered on all loans as part of a promotion or lender program, provided that the incentive is not sourced from the loan transaction, for example premium pricing, the borrower qualifies without the incentive and no repayment is required; and
- Interested Party Contributions that exceed the maximum financing concessions.

Sales concessions must be deducted from the property's sales price and the lower of the reduced sales price or appraised value must be used to calculate LTV/CLTV ratios for underwriting and eligibility purposes.

6.3.3 Payment Abatement

A payment abatement is an incentive provided to the borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower's behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance, and other assessments. These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credit against the borrower's future obligations.

Loans with payment abatements are not eligible regardless of whether they are disclosed on the Closing Disclosure. This applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity, such as a nonprofit down payment assistance program.

The payment of no more than 12 months of HOA dues by an interested party is not considered an abatement, subject to the requirements of this section. The funds for the payment of the HOA dues must be collected at closing and transferred directly to the HOA, as documented in the Closing Disclosure.

6.4 Asset Sources

Acceptable asset sources are listed below. Not all asset sources are acceptable for down payment, closing costs and reserves. See each sub-section for asset source acceptability.

Funds awarded to the borrower (e.g., disaster relief funds, lottery winnings, court-awarded settlements) are also acceptable sources of assets provided the source is not an interested party to the real estate or mortgage transaction.

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6.4.1 Financial Institution Accounts

Financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits (CD), and money market accounts.

Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits income levels and sources are necessary to validate the documents.

Any indication of borrowed funds must be investigated. They include recently opened accounts, recent large deposits, or account balances that are greater than the average balance over the previous few months.

A written explanation of the source of the borrower's funds must be obtained and the funds must be verified.

Account Statements	Account statements may be obtained to document the borrower's assets.
	
	Obtain the most recent two (2) months account statements or the most recent quarterly account statement.
	• Monthly account statements must be dated within 45 days of application.
	  ○ Quarterly account statements are not required to be dated within 45 days of application but cannot be older than 120 days. If the statement is over 90 days old, verification that the funds are still available is required.
	• A Verification of Deposit (VOD) may be used to verify a CD when statements are not available.
	• Account statements must clearly identify:
	  ○ The financial institution;
	  ○ Borrower as the account holder;
	  ○ At least the last four (4) digits of the account number;
	  ○ Time period covered; and
	  ○ Ending balance.
	If a supplemental statement is necessary, any financial institution-generated printout or alternative verification of the asset (such as deposit or withdrawal slips) is acceptable if all of the required data above is supplied and documented. Supplemental information must be on an institution form with the name of the financial institution or on letterhead signed by a representative. ATM receipts are not permitted.
	
	Account statements may be online account statements obtained by the borrower. Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source.

Closing Disclosures	Closing Disclosures must: • Be computer-generated or typed; • Identify the borrower as the seller of the property; • Identify the property sold; • Show the proceeds to the property seller; • Show the disposition of all liens against the property; and • Be signed by the buyer and the seller, or their authorized agents.

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6.4.2 Large Deposits

Full Doc and Asset Utilization Programs	• For refinance transactions, an explanation or documentation for large deposits is not required, unless there is an indication that a deposit is from a new obligation that was not disclosed. • Large or irregular deposits must be evaluated to ensure they are not the result of any new undisclosed debt(s). • Large deposits are deposits greater than 50% of qualifying income.

Bank Statement, 1099 and P&L Programs	• For refinance transactions, an explanation or documentation for large deposits is not required, unless there is an indication that a deposit is from a new obligation that was not disclosed.
	• Large or irregular deposits must be evaluated to ensure they are not a result of any new undisclosed debt(s).
	• **Personal Bank Statements only**: Large deposits are deposits greater than 50% of the monthly average deposits.
	• **Business Bank Statements only**: Evaluate statements for patterns, size, and consistency of deposit. Examples include but are not limited to:
	  ○ One (1) month of statement's deposits have higher than usual amounts of deposits/amounts when compared to all other months;
	  ○ A single deposit that is different from most/all other deposits;
	  ○ Transfers that continually come from one (1) source and appear unusual; and
	  ○ Unverified funds are not acceptable sources for the down payment, closing costs and/or reserves.
	• **1099 and P&L Program only**: Large deposits are deposits greater than 50% of qualifying income.

DSCR Program	• For refinance transactions, documentation or explanation for large deposits is not required. • For purchase transactions, when the LTV is > 80%, large or irregular deposits must be evaluated to determine that the borrower did not receive any gift funds.

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6.4.3 Business Assets

Business funds may be eligible for use for down payment, closing costs and/or reserves.

Document the borrower's percentage of ownership with one (1) of the following:
- CPA letter;
- Individual income tax returns (Full Doc only); or
- Business formation documents (e.g., operating agreement, partnership agreement, bylaws).

Assets held in the name of a Non-Profit, Charity or Church/Religious Organization may not be used in qualifying.

Use of Business Assets when Business Income is Used in Qualifying
In order to use business assets from a business that has income used in qualifying, provide an accountant letter stating that the use of business assets will not negatively impact the business. Alternatively, the underwriter may perform a liquidity test according to FNMA guidelines based on a combination of tax returns, balance sheet and/or bank statements as applicable.

There is no accountant letter requirement when the business income is not used in qualifying.

Asset Utilization Program
Business Assets are not permitted.

DSCR Program
100% of Business Assets may be used. Borrower must own at least 25% of the business. If ownership is less than 100%, must obtain written approval from all other business owners.

Full Doc, Bank Statements, 1099 and P&L Programs
Business assets are permitted based on the borrower's percentage of ownership in the business:

Allowable Asset Percentages When Business Income Is Used In Qualifying	
Ownership	**Eligible Amount of Assets**
100%	May use 75% of the account balance.
≥25% and <100%	May use 75% of the account balance multiplied by the ownership percentage, but must obtain written approval from all other owner(s) that the assets are eligible to be used by the borrower for the transaction. For example: For a business account with a $100,000 balance. The maximum amount that can be used for a 100% owner is $100,000 x 75% = $75,000. For a 50% owner, the $75,000 is then multiplied by the ownership percentage. So, $75,000 x 50% = $37,500.
< 25%	Assets held in a business account are not eligible.

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Allowable Asset Percentages When Business Income Is NOT Used In Qualifying	
Ownership	**Eligible Amount of Assets**
100%	May use 100% of the account balance.
≥25% and <100%	May use 100% of the account balance multiplied by the ownership percentage, but must obtain written approval from all other owner(s) that the assets are eligible to be used by the borrower for the transaction. For example: For a business account with a $100,000 balance. The maximum amount that can be used for a 100% owner is $100,000 x 100% = $100,000. For a 50% owner, the $100,000 is then multiplied by the ownership percentage. So, $100,000 x 50% = $50,000.
< 25%	Assets held in a business account are not eligible.

Business Asset Transfers to Personal Accounts

For Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Program loans funds deposited from the business into the borrower's personal account prior to application are considered personal funds and excluded from the Eligible Amount of Assets above.

Large, irregular, and/or inconsistent deposits appearing on personal statements that are sourced from a business account should be further evaluated to determine if there is an impact to the business.

6.4.4 Credit Card Financing

Certain costs that may be paid early in the loan process may be paid via credit card. These costs include:

- Appraisal;
- Lock in fee;
- Commitment fee; and
- Credit report fee.
- Home inspections and surveys.

File must contain a copy of the paid invoice for any fees paid by credit card if those fees are included in the borrower's costs on the final closing disclosure.

6.4.5 Cryptocurrency

Cryptocurrency is not an eligible asset; however, proceeds from the liquidation of cryptocurrency may be used for down payment, closing costs, or reserves with proof of liquidation or the transfer of the cryptocurrency converted into U.S. dollars and deposited into a bank account.

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6.4.6 Earnest Money Deposit

The earnest money deposit(s) must be verified:

- When the borrower needs these assets to demonstrate sufficient funds to close; and
- The borrower receives a refund of the original cash deposit at closing.

When required to be verified, receipt of the earnest money deposit must be verified by one (1) of the following:

- A copy of the cancelled check;
- A copy of the deposit slip and proof the check was cashed;
- Evidence from the real estate broker (not agent) that the funds were deposited into the broker's trust account (i.e., copy of broker's trust account statement);
- Escrow agent/attorney's letter acknowledgement of receipt of funds; or
- Verification of sufficient funds on deposit in the depository account for the down payment, closing costs, etc.

The source of funds for the deposit must be verified (e.g., account statement) as well as the source of the deposit check. Ensure that the deposit is not counted twice in the file (deducted from the funds to close and counted in assets).

6.4.7 Foreign Assets

Foreign assets may be used for down payment, closing costs, and reserves. If the assets are derived from a sale of a foreign asset or from assets held in a foreign institution, the assets must be converted into United States currency by an independent third party and placed in a United States financial institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified. Reserves held in a foreign financial institution do not need to be placed in a U.S account, however, the funds must be properly documented.

Underwriters must verify all foreign assets, including reserves comply with the Office of the Asset Control (OFAC) sanctions program for funds originating from countries with OFAC sanctions at to determine if there are any restrictions on transferring funds into the United States. If so, the assets are not permitted for consideration.

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6.4.8 Gift Funds

The borrower may use funds received as a gift from an acceptable donor to satisfy part of the cash requirement provided the minimum borrower investment for the Loan Program is met. See Minimum Borrower Contribution. Gift funds may be used for closing costs and reserves. Gift funds are not permitted to be used on any Asset Based Qualification program. Gift funds used for reserves must be deposited into the borrower's account prior to closing.

Gift Funds Requirements/Restrictions by Program	
Full Doc, Bank Statement, 1099 and P&L Programs	• All occupancy types • Subordinate financing not permitted • Borrower must have a minimum of 5% of their own funds into the transaction unless the LTV/CLTV is 80% or less
Asset Utilization Program	• Gift funds not permitted
DSCR Program	• Investment Property • Subordinate financing not permitted • All funds for down payment and closing costs may be provided by Gift Funds

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Additional Gift Funds Requirements/Restrictions	
Gift Letter	A gift letter signed by the donor must: • Specify the actual or the maximum dollar amount of the gift • Include the donor's statement that no repayment is expected; and • Indicate the donor's name, address, telephone number, and relationship to the borrower.
Donor	A gift can be provided by: • A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or • A non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent. Regardless of family relationship, the donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, the mortgage loan originator, or any other interested party to the transaction.

Transfer of Gift Funds	Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower's account is required.
	
	When the funds are transferred prior to closing, transfer of funds from the donor's account to the borrower's account must include one of the following:
	• Copy of the donor's check and borrower's bank statement;
	• Copy of donor's withdrawal slip and borrower's deposit slip;
	• Evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent; OR
	• Copy of donor's check to the closing agent.
	
	When the gift funds are to be transferred from the donor directly to the closing agent, the following documentation is required:
	• Final Closing Disclosure must reflect the gift funds as funds paid on the borrower's behalf, and
	• Proof of receipt of the donor's gift funds by the closing agent with one of the following:
	  ○ Copy of the donor's certified check, or
	  ○ Wire confirmation verifying transfer of the funds from the donor to the closing agent.

6.4.9 Gift of Equity

A gift of equity:
- Is permitted for primary residence transactions;
- Maximum 75% LTV/CLTV;
- Can be used to fund all or part of the down payment and closing costs, including prepaid items;
- Must be reflected on the Closing Disclosure; and
- Must be clearly labeled as a gift of equity.

The acceptable donor and minimum contribution requirements for gifts apply to gifts of equity. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and is not subject to IPC requirements.

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6.4.10 Life Insurance-Cash Value

Net proceeds from a loan against the cash value or from the cash surrender value of the borrower's life insurance policy are an acceptable source of funds for down payment, closing costs and reserves.

Document all of the following:

- Borrower as policy owner;
- Period covered and current cash value;
- Receipt of the funds; and
- Any outstanding loans.

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.

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6.4.11 Loans Secured by Financial Assets (i.e. Secured Borrowed Funds)

Borrowed funds secured by an asset owned by the borrower are an acceptable source of funds for down payment, closing costs, and reserves. Examples that may be used to secure funds include certificates of deposit, savings plans, stocks, bonds, other real estate owned by the borrower and life insurance policies.

The following documentation is required:

- The terms of the loan;
- Verification that the party providing the secured loan is not a party to the sale;
- Evidence that the loan is secured by an asset owned by the borrower; and
- Evidence of transfer and receipt of the funds. The value of the asset must be reduced by the amount of the loan proceeds and any associated fees.

For Full Doc, Bank Statement, 1099 and P&L Programs, the monthly payment must be included in the DTI ratio unless excluded as outlined below. Additionally, for Asset Utilization, the monthly obligation must be included in the 60 month calculation.

Loans secured by a financial asset (life insurance policies, 401(k), IRAs, CDs, etc.) do not require the payment to be included in the DTI calculation if documentation is provided to show the borrower's financial asset as collateral for the loan.

Loans secured by artwork, collectibles, real estate, automobiles, etc. require the monthly payment to be included in the DTI ratio.

If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient assets liquidity remaining.

All of the following documentation must be provided:

- Evidence of value and ownership of the asset;
- Evidence the loan is secured by the asset; and
- Evidence of receipt of the loan proceeds.

6.4.12 Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the borrower, all of the following information must be provided:

- Written agreement between the borrower and the recipient of the loan;
- Verification the borrower had the ability to lend the funds;
- Provide evidence that the funds were withdrawn from the borrower's account;
- Verification that repayment has been made; and
- Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

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6.4.13 Real Estate Commission

Real estate commission is an acceptable source of funds for down payment and/or closing costs when the borrower is also the selling agent of the property. The Closing Disclosure must reflect the commission earned by the borrower and credited toward the transaction. Borrower's who are serving as their own buyer's agent may not use real estate commission from the subject transaction as an eligible asset. Real estate commissions and concessions from non-borrowers will be considered interested party contributions (IPCs) and not qualifying assets.

6.4.14 Sale of Other Assets

Funds derived from the sale of assets (other than real estate) are eligible provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction. The proceeds should not be more than the value of the asset.

Document all of the following:
- Proof of ownership;
- Support for the value of the asset from an independent and reputable source (published value estimates, appraisal);
- Signed bill of sale evidencing the transfer of ownership, or equivalent; and
- Evidence of receipt of the proceeds (e.g., deposit slip or account statement).

6.4.15 Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRA, and KEOGH) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as the source of funds for down payment, closing costs, and cash reserves.

All of the following is required:
- Most recent two (2) monthly or quarterly account statements;
- Verification of the ownership of the account;
- Confirmation that the account is vested; and
- Terms of withdrawal evidencing that the account allows withdrawals regardless of current employment status (employer retirement accounts only).

When Proof of Liquidation is Required
Receipt of funds, regardless of the borrowers age, must be verified to evidence the sale or liquidation unless the value of the asset is at least 20% more than the funds needed for the borrower's down-payment and closing costs, in which no documentation of liquidation is required.

Allowable Percentage for Retirement Assets
Cash, money market, stocks, bonds, mutual funds and other similarly liquid assets may be counted at full face value.

If the borrower is not at 59 ½ or older the value of the account should be reduced by 10% to account for an early withdrawal penalty. Borrowers whose current age is greater than 59 ½ may use 100%.

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6.4.16 Sale of Real Estate

The net proceeds that will be generated from the sale of an existing property must be established. Both the actual sale price and net proceeds must be documented with either a copy of the final Closing Disclosure or a fully executed buy-out agreement accompanying a Closing Disclosure that is part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceeds.

Net Proceeds Based on Sales Contract (i.e. Departure/Departing Residence)
Obtain a copy of the executed contract of sale and use the following calculation: sales price minus (sales costs plus all outstanding liens) = Estimated sales proceeds

Net Proceeds Based on Listing Price
Use 90% of listing price minus all outstanding liens = Estimated sales proceeds

The 10% adjustment factor must be adjusted depending on market conditions in the area.

Corporate Relocation Plans
When the borrower’s employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, obtain a copy of the executed buyout agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not an acceptable source of verification of proceeds from the sale.

6.4.17 Section 1031 Exchange

Assets for the down payment from a “like-kind exchange,” also known as a Section 1031 Exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

- Must be investment property;
- Copy of settlement statement from property being exchanged is required; and
- Copy of letter from 1031 Intermediary identifying the property and the amount of assets being held for the transaction.

1031 Exchange assets are not an acceptable source of funds for reserves.

6.4.18 Stocks, Bonds, Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for down payment, closing costs, and reserves provided their value can be verified and verification of the borrower's ownership of the account or asset is documented.

When used for reserves, 100% of the value of the assets may be considered and liquidation is not required.

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6.4.18.1 Stocks and Mutual Funds Documentation & Liquidation Requirements

When used for down payment or closing costs, the value of the asset must be determined at the time of sale or liquidation (net of any margin loans) by obtaining either:

- Most recent two (2) months or most recent quarterly statement from the depository investment firm; or
- A copy of the stock certificate accompanied by documentation to evidence the stock price as of the application date.

Receipt of funds must be verified to evidence the sale or liquidation unless the value of the asset is at least 20% more than the funds needed for the borrower's down-payment and closing costs, no documentation of liquidation is required.

When used for reserves the current documented value of stocks and mutual funds may be used.

Non-vested restricted stock is ineligible.

6.4.18.2 Stock Options

Vested stock options are an acceptable source of funds for down payment and closing costs if they are immediately available to the borrower.

Document the value of vested stock options with:

- A statement that lists the number of options and the option price; and
- Use the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.

Vested stock options are not an acceptable source for reserves.

Non-vested stock options are not an acceptable source of funds for the down payment, closing costs or reserves.

6.4.18.3 Government Bonds

Document the value of government municipal bonds based on their purchase price unless the redemption value can be documented.

6.4.19 Trust Funds

Funds disbursed from a trust are acceptable assets with a copy of the trust agreement or signed statement on letterhead from the trust manager or trustee that:

- Identifies the borrower as the beneficiary;
- Confirms that the borrower has access to all or certain specific amount of the funds; and
- Confirms that the trust has the assets to disburse funds to the borrower.

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6.4.20 "In Trust For" Accounts

"In trust for" or ITF accounts are generally revocable, where the funds are still owned by the trustee, but are payable on death to the beneficiary of the account. As a result, these funds are considered an acceptable source of funds provided there is documentation that the borrower owns and is able to withdraw the funds, regardless of any benefit the beneficiary received from the mortgage transaction.

6.5 Assets from Non-Borrowers

This section only applies to Primary Residence transactions. Asset Utilization transactions not permitted.

Non-Borrowing Purchaser (Spouse)

A non-borrowing spouse can be on title and the purchase contract and not be on the mortgage loan.

- The spouse can provide funds used for closing with the guidance below:
  - Provide letter from the spouse to indicate this is their contribution to the purchase transaction,
  - State it does not represent a loan to the borrower and no repayment is required,
  - Include on application as other assets,
  - Verify funds are available; do not need to source; and
  - Verify the money came from the spouse.
  - Funds received from the spouse are acceptable as funds to close

Note: The funds from the spouse are not considered gift funds.

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6.6 Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

- Anticipated savings
- Assets held in the name of a Non-Profit, Charity or Church/Religious Organization
- Cash advance on a revolving charge account
- Cash in hand for which the source cannot be verified (e.g., garage sales, mattress money)
- Credit card financing
- Donation from equities
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
- Employer assistance
- Funds from a down payment assistance program
- Funds in a Custodial Account (Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA)
- Health Spending Account (HSA)
- Individual Development Accounts (IDA)
- Labor performed by the borrower, also referred to as “sweat equity”
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- Mortgage credit certificates (MCC)
- Net proceeds from a Reverse 1031 Exchange
- Pooled funds
- Qualified Tuition Plan (529 Plan)
- Rent credits
- Restricted stock
- Personal unsecured line of credit or loan
- Salary advance
- Stocks held in an unlisted corporation
- Trade equity

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7.0 LIABILITIES AND DEBT RATIO

7.1 Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA.

- Principal and interest on the first mortgage loan (P&I)
- Interest payments
- Subordinate financing payments on mortgages secured by the subject property
- Property insurance premiums
- Flood insurance premiums
- Mortgage insurance premiums
- Real estate taxes
- Homeowners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)
- Leasehold payments
- Ground rent
- Special assessments with more than ten (10) months remaining

If the loan is secured by the borrower's primary residence, the monthly housing expense is based on the qualifying payment and is the monthly housing expense used to calculate the DTI ratio.

If the loan is secured by a second home or an investment property, the qualifying payment amount is considered one of the borrower's monthly debt obligations when calculating the DTI ratio. The monthly housing expense represents the housing payment (PITIA or rental payment) associated with the borrower's primary residence, including any HOA fees and subordinate liens.

7.1.1 Real Estate Tax Payment

Real estate calculation must be based on no less than the current assessed value.

- The actual amount of taxes must be included in the DTI ratio.
- For new construction when the actual real estate tax amount is not available, the borrower must qualify with the property tax payments based upon fully improved land. Use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.
- When the subject property is located in a jurisdiction where transfer of ownership causes or results in a recalculation of the amount of real estate tax, the monthly housing expense must include an estimate of the recalculated real estate amount.
- Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. Use the abated or reduced tax for loan qualification if the tax abatement on the subject property will last for at least five years from the Note date.

For example, for a municipality with a 10-year abatement, qualify with the reduced amount. For a municipality with a 10-year abatement and with annual real estate tax increases in years one through ten, qualify the borrower with the annual taxes that will be required at the end of year five after the first mortgage payment date.

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7.2 Qualifying Housing Payment

The principal and interest payment, based on the actual interest rate is used to determine the borrower's monthly housing expense.

Refer to the Product Summaries for qualification requirements.

7.3 Debt-to-Income Ratios

Debt-to-income (DTI) ratios compare the monthly housing expense and all debt payments to total monthly qualifying income.

7.4 Monthly Obligations

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry in the credit report must be included in the monthly debt obligation.

7.4.1 Alimony and Child Support Payments

When the borrower is required to pay alimony and/or child support payments under a divorce decree, separation agreement, or any other written legal agreement, the payment(s) must be included in the DTI ratio. The payments must be considered for qualifying purposes, even if it appears likely that these obligations will be satisfied within ten (10) months or less. If there are fewer than ten (10) payments remaining and the underwriter determines these payments will not impact the borrower’s ability to pay, payments may be excluded from the DTI with evidence of the remaining duration of support payments in the file.

For Alimony obligations and separate maintenance obligations, the option to reduce the qualifying income by the amount of the alimony obligation in lieu of adding it liability is allowed.

Voluntary support payments do not need to be taken into consideration.

One (1) of the following is required to document the payment and the number of remaining payments and that the alimony or child support will continue for at least three (3) years:

- A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it will be received; or
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

7.4.2 Authorized User Accounts

Authorized user tradelines do not need to be included in the DTI ratio, unless they are used for the minimum tradeline requirements.

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7.4.3 Balloon Payment Notes

Balloon Payment Notes scheduled to begin or come due within 12 months of closing must be included as an anticipated monthly obligation during the underwriting analysis unless the borrower can document one (1) of the following:

- Sufficient funds to pay off balloon payment after accounting for the costs associated with the loan transaction, including reserves; or
- Documentation evidencing the borrower is refinancing the balloon payment. The new payment must be included in the DTI ratio.

7.4.4 Bridge Loans

The monthly payment from a bridge loan must be included in the borrower's DTI ratio calculation. If payments are not scheduled monthly, at a minimum, use monthly interest payments.

7.4.5 Business Debt

All Doc Types
When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's DTI ratio if:

- The account in question does not have a history of delinquency,
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and

Full Doc Only (Additional Requirements)
The business debt payment amount may be excluded from the qualifying DTI when the above requirements have been met along with the following:

- The lender's income calculation of the business took payment of the obligation into consideration.

The account payment must be considered as part of the borrower's DTI ratio in the following situation:

- If the business provides acceptable evidence of its payment of the obligation, but the lender's income calculation of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.

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7.4.6 Co-signed Loans (i.e. Contingent Liabilities)

When a borrower co-signs for a loan to enable the primary obligor to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.

The contingent liability must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making payments for a minimum of 12 consecutive months and the account is current with no history of delinquency during those 12 months.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.

7.4.7 Court-ordered Assignment of Debt

A copy of the court order transferring liability for payments to another party is required. Debts required to be paid by someone other than the borrower pursuant to a court order do not need to be included in the DTI ratio.

The payment history of the debt need not be taken into consideration after the effective date of the assignment. The payment history of the debt prior to assignment must be reviewed and taken into consideration. If the debt which was court assigned to another party showed significant delinquency prior to the assignment date, it may not be excluded as a contingent liability.

7.4.8 Debts Paid by Others (i.e. Contingent Liabilities)

When the borrower is obligated on a debt that is being repaid by another party, the monthly obligation may be excluded from the DTI ratio subject to the following:

- The other party may not be an interested party to the transaction, such as the seller or realtor; and
- The most recent 12 months cancelled checks or bank statements from party paying the debt, documenting a 12-month satisfactory payment history evidencing no delinquent payments.

The debt may only be excluded if the other party is paying the entire monthly obligation for a minimum of 12 months. The borrowers on the subject transaction may not be joint account holders on the asset account which is paying the contingent liability.

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7.4.9 Federal Income Tax Installment Agreements

When the borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the monthly obligation must be included in the DTI ratio.

There must not be an indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.

The following documentation must be obtained:

- An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due;
- Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing; and
- The payment amount must be included in the DTI ratio regardless of the number of payments remaining.

If a Notice of Federal Tax Lien has been filed, the lien must be paid off.

7.4.10 Garnishments

Garnishments with more than ten (10) months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes. A garnishment is not required to be paid off prior to closing.

7.4.11 Home Equity Lines of Credit (HELOC)

When the credit report shows a home equity line of credit (HELOC) with an outstanding balance, a monthly payment must be included in the recurring monthly debt obligations.

- Use the payment on the credit report. When there is no payment on the credit report, document with the current billing statement; and
- The payment does not need to be included in the DTI ratio if the statement confirms a $0 payment unless using the HELOC for down payment or closing costs.

For new subordinate financing, the monthly payment must be based off the fully amortized, fully indexed term for the full amount drawn at or before consummation of the loan.

7.4.12 Installment Debt

Installment debt that is not secured by a financial asset, including student loans, automobile loans and timeshares, etc., must be included in the borrower's monthly debt obligations, if there are more than ten (10) months remaining. An installment debt with fewer than ten (10) monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her monthly obligations. A timeshare is considered an installment loan and not a mortgage debt, unless the borrower has a deed for the timeshare property, then the obligation is considered a mortgage.

When a monthly payment on an installment debt is not reported on the credit report, obtain documentation verifying the monthly payment amount.

For information about deferred student loans, see Student Loans below.

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7.4.12.1 Pay Off or Pay Down of Debt

Paying off or paying down of installment debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

The source of funds to pay off the installment debt must be documented.

Paying down installment debt to less than 10 payments for qualification is not permitted.

7.4.13 Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.

7.4.14 Loans Secured by Financial Assets (i.e. Secured Borrowed Funds)

See Loans Secured by Financial Assets (i.e. Secured Borrowed Funds) in the Assets Chapter.

7.4.15 Mortgage Assumptions

Contingent liability must be considered when the borrower remains obligated on an outstanding mortgage secured by a property that:

- Has been sold or traded within the last 12 months without a release of liability; or
- Is to be sold on assumption without a release of liability being obtained.

When a mortgage is assumed, contingent liabilities need not be considered if:

- The originating lender of the mortgage being underwritten, obtains from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months; or
- The value of the property, as established by an appraisal or the sales price on the Closing Disclosure from the sale of the property, results in a maximum 75% LTV ratio.

7.4.16 Non-Borrower Accounts

Credit reports may include accounts identified as possible non-borrower accounts (or similar notation). Non-borrower accounts may belong to the borrower, or they may belong to another individual.

Typical causes of non-borrower accounts include:

- Applicants who are Juniors or Seniors;
- Individuals who move frequently;
- Unrelated individuals who have identical names; and
- Debts that the borrower applied for under a different Social Security number of a different address. These may be indicative of potential fraud.

Non-borrower accounts may be excluded from the borrower's DTI ratio if the debt does not belong to the borrower and documentation is provided to validate.

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7.4.17 Other Real Estate Owned

Mortgage payments and related expenses on any real estate owned must be included in the borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property that is currently pending sale (not closing prior to subject transaction), or a property retained as a second home or investment property.

When the loan application reflects the borrower owns other real estate free and clear of mortgage liens or encumbrances, provide evidence such as a property data report or homeowner's insurance policy showing no mortgagee clause. The borrower must qualify with the applicable taxes, hazard insurance, homeowners' association dues/fees (if applicable), and any other related expenses, which must be documented.

7.4.17.1 Current Primary Residence Pending Sale (i.e. Departure/Departing Residence)

When the borrower's current primary residence is pending sale, but the sale will not close prior to the new loan closing, the PITIA of the current primary residence must be included in the DTI ratio. The property must be included in the list of Real Estate Owned and requires two (2) months PITIA reserves in addition to the program requirements.

7.4.17.2 Conversion of a Primary Residence

When the borrower's current primary residence is being converted to a second home or investment property, an explanation may be required when the property being purchased is of lesser value or in the same geographic location.

Borrower(s) must sign the Occupancy Affidavit Form at closing.

If the departure property is financed, 2 additional months reserves are required.

Converting to Second Home

- If the current primary residence is being converted to a second home, both the current and proposed mortgage payments must be used to qualify for the new loan and the home must meet the definition of a second home.

For additional guidance, see Second Home.

Converting to Investment Property

If using rental income to qualify the mortgage payment, the following requirements apply:

- Borrower must have documented equity in departure residence of 25% evidenced by one (1) of the following:
  - An exterior or full appraisal dated within six (6) months of subject transaction; or
  - The unpaid principal balance is less than or equal to 75% of the original documented purchase price.
- Copy of current lease agreement is required.
  - Use 75% of the rental income verified by the current lease agreement
- A copy of security deposit and evidence of deposit to borrower's account.

For additional guidance, see Investment Property.

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7.4.18 Property Settlement Buyout

When the borrower's interest in a property is "bought-out" by another co-owner of the property, the mortgage lender may not release the borrower from liability under the mortgage, thus creating a contingent liability for the borrower. This contingent liability does not need to be included in the DTI ratio provided there is documentation to evidence the transfer of title of the property.

7.4.19 Revolving Charges/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit.

Revolving Debt	If a revolving debt is provided on the loan application without a monthly payment amount, use the greater of $10 or 5% of the outstanding balance as the monthly payment when calculating the DTI ratio.
Open 30-Day Charge Accounts	Open 30-day charge accounts require the balance to be paid in full every month; it is not required that they be included in the DTI ratio. Open 30-day charge accounts with account balances that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, the borrower must have sufficient assets to cover the balance in addition to funds required for closing costs and reserves. If sufficient liquid assets are not verified, obtain evidence the account has been paid in full and exclude the reported monthly payment from the DTI ratio. If the account provides a monthly payment option other than the total outstanding balance, the account is not considered a 30-day charge account and these requirements do not apply.
Payoff or Paydown Revolving Debt for Loan Qualification	Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Revolving debt may be paid off to qualify and the monthly payment excluded from the DTI subject to all of the following: • Documentation must be provided to confirm the debt has been paid off; • Debts may be paid off at closing and reflected on the final CD; and • Evidence and documentation of source of funds must be provided. Paying down revolving debt for loan qualification is not permitted.

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7.4.20 Student Loans

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
- For deferred loans or loans in forbearance, the lender may calculate
  - A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
  - A fully amortizing payment using the documented loan repayment terms.

7.4.21 Undisclosed Liabilities

The underwriter must review file for any indications of a potential undisclosed liability. These indications can include credit inquiries, undisclosed properties on the FraudGuard report, recurring withdrawals on the bank statements to a financial institution or buy now pay later (BNPL) withdrawals to services such as Klarna or PayPal. If an undisclosed liability is discovered, it must be addressed by the borrower and included in the DTI.

For additional information refer to Inquiries and Undisclosed Liabilities.

7.4.22 Voluntary Recurring Debts

Voluntary recurring debts should not be considered in the underwriting analysis or subtracted from gross income (401(k) contributions, 401(k) loans, union dues, commuting expenses, open accounts with zero balances, federal, state, and local taxes, or other voluntary deductions). Specific circumstances in an individual file must always be analyzed.

7.5 Monthly Obligations Not Included in Liabilities

Obligations, often identified on the borrower's paystub, are not considered a liability, and will not be included as a debt or deducted from the borrower's gross income when calculating the borrower's DTI ratio. These obligations include

- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds)
- Commuting costs
- Union dues
- Voluntary deductions

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8.0 EMPLOYMENT AND INCOME

8.1 Income Documentation

8.1.1 IRS Form 4506-C

Refer to the Program Matrix for specific product requirements for IRS Form 4506-C and obtaining tax transcripts.

8.1.1.1 General Requirements

- All borrower(s) will complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, in order to obtain income information to validate income that is used for qualification.
- IRS Form 4506-C can be used to obtain wage transcripts for multiple years or tax periods, but only one tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution. Note: IRS Form 4506-C is valid for 120 days.
- The signed Form 4506-C must include authorization for transcripts to coincide with the years of income documentation obtained for qualification.
- Signature Requirements:
  - If filing jointly, each borrower (taxpayer) must sign the same IRS Form.
  - If separate filings, each borrower (taxpayer) must sign on separate forms.
  - The form must be signed exactly as the borrowers' name appears on the original return.
  - If a borrower's name changed, the borrower must sign with both the current name and changed name.

8.1.1.2 Alternatives to Record of Account

See Tax transcripts section in Program Summary.

8.1.1.3 At Closing Requirements

- Form 4506-C for each borrower whose employment income is used to qualify must be signed at closing; and
- Form 4506-C must be an original signature and cannot be e-signed.

8.1.1.4 Tax Transcripts

See Tax transcripts section in Program Summary.

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8.1.2 Paystubs

- The paystub must clearly identify the:
  - Borrower as the employee;
  - Gross earnings for the current pay period and year-to-date earnings;
  - Pay period;
  - Employer name and address; and
  - Date issued.
- Paystubs must be dated no earlier than 30 days prior to the loan application;
- Paystub must show the most recent 30 days year-to-date earnings;
- If the borrower is paid hourly, the number of hours must be noted on the paystub;
- Paystubs must be computer-generated or typed by the employer;
- Paystubs must not have any alterations;
- The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor; and
- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable. Documents must clearly identify the employer's name and source of information - for example, by including the information in the Internet banner.

8.1.3 W-2 Form

The W-2 must
- Clearly identify the borrower as the employee and the employer name;
- Be the employee copy provided by the employer;
- Be computer-generated or type by the employer;
- Not have any alterations; and
- Be the original source of the information from a third-party, such as the borrower’s human resources department, personnel, office, payroll department, company’s payroll vendor, or supervisor.

Year-end paystub as substitute for Form W-2
The following may be used in lieu of the W-2 form provided the documentation reflects the complete income earned in the previous calendar year:
- Year-end paystub(s); or
- Military Leave and Earnings Statement.

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8.1.4 Written Verification of Employment (WVOE)

A standard written verification of employment must contain all of the following and may not be used as standalone documentation:

- Borrower's name;
- Dates of employment;
- Position;
- Probability of continued employment, when available;
- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week;
- Year-to-date earnings;
- Most recent two (2) years' earnings; and
- Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable.

Electronic VOE as Standalone Income Documentation

In lieu of standard income documentation, an electronic verification of employment, for example the WorkNumber or TruWork, can be used as standalone income documentation.

The borrower may not request completion of the written verification of employment directly from his or her employer.

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8.1.5 Verbal Confirmation of Employment

A verbal verification of the borrower's current employment status is required for each borrower.

If verbal verification cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same period as verbal verification.

To comply with a verbal verification of employment requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau. In addition, the following must be met:

Wage Earner	Verbal verification of employment must be completed within ten (10) business days from the Note date (or funding date for escrow states) and documented with the following information: • Name and title of the person who confirmed employment; • Date of contact; • Name and title of associate contacting the employer; • Phone number and method and source used to obtain the phone number; and • Borrower's employment status. If using a third-party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.) the following applies: • Employment Verification between employer and third-party must be within 35 calendar days of the Note date.
Self-Employed Borrower	Verification that the borrower's business remains operational must be done within 20 calendar days of the Note date. The following verifications include, but are not limited to: • Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the self-employment is verified); • Evidence of current business receipts within 20 days of the Note date (payment for services performed); • Lender certification the business is open and operating (lender confirmed through a phone call or other means); or • Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

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8.1.6 Tax Returns

When tax returns are required by the Program Summary, they must meet the following criteria:

Individual and business income tax return must be signed by the borrower unless the income flows through to the individual income tax transcripts.

The following standards apply with using Income Tax Returns to verify income.

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Tax Return	Requirement
Individual Income Tax Return (Form 1040)	• Complete with all schedules and W-2s, 1099s, K-1s, etc. • Borrower's copy filed with the IRS
Business Income Tax Return (Form 1120, 1120S, 1065)	• Complete with all schedules and W-2s, 1099s, K-1s, etc. • Borrower's copy filed with the IRS
Amended Income Tax Returns Filed Prior to the Application Date	Both the original filed return and the amended return are required. Evidence of payment must be provided if the tax return was amended within 60 days of the application date. The underwriter must use due diligence when a tax return has been amended prior to the application.
Amended Income Tax Returns Filed After the Application Date	When amended tax returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted. The following documentation should be reviewed when income from the amended return is required: • A letter of explanation regarding the reason for the re-file; • Evidence of filing; and • Payment and the ability to pay the tax if the check has not been cancelled. The underwriter must provide justification and commentary regarding its use.
IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns	If IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two (2) years as a measure of income source, stability, and continuance. If the estimated tax liability that is inconsistent with previous years, the current year tax return may be necessary.
Use of IRS Forms to Obtain Individual Income Tax Information	Tax Returns Transcripts or Wage and Income Tax Transcripts may be used in lieu of obtaining the income tax returns as long as they contain all of the information that would be included on the tax return. In certain instances, copies of the actual returns, schedules, or forms may be needed because the tax transcripts will not provide the detail required to qualify the borrower. In addition, for loans underwritten by DU, Schedules B through F and Schedule K-1 are not required if: • The income reflected on the applicable schedule transcripts is positive; and • The income supported by the schedule or form is not being used for qualifying. If self-employment income from a sole proprietorship (Schedule C) is validated by DU validation service, tax returns may not be required. Document the loan per DU, which may permit a tax transcript rather than tax returns.

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8.1.7 Allowable Age of Income Tax Returns

Allowable age of Individual Tax Returns based on application date for borrowers whose income must be documented with tax returns (borrowers self-employed and non-self-employed).

- Self-employed income;
- Employment by a family member or an interested party to the purchase transaction;
- Rental income from an investment property; and
- Other income sources as identified in the section.

Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.)

See the table on the following page for requirements.

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Application Date	Note Date	Documentation
January 01, 2026 to April 14, 2026	January 01, 2026 to May 30, 2026	**2025 Tax Return Filed** Most recent two (2) year's tax returns • 2025 and 2024 **2025 Tax Return Not Filed** Most recent two (2) year's tax returns • 2024 and 2023
	May 31, 2026 to October 31, 2026	**2025 Tax Return Filed** Most recent two (2) year(s) tax returns • 2025 and 2024 **2025 Tax Return Not Filed** Most recent two (2) year(s) tax returns • 2024 and 2023 tax returns • Copy of Application for Automatic Extension of Time to File 2025 U.S. Individual Income Tax Return (IRS Form 4868) Tax transcripts confirming "No Transcripts Available" for 2025
	November 1, 2026 to December 31, 2026	Most recent two (2) year(s) tax returns • 2025 and 2024 Use of a Tax Extension is not permitted
April 15, 2026 to October 31, 2026	April 15, 2026 to October 31, 2026	**2025 Tax Return Filed** Most recent two (2) year(s) tax returns • 2025 and 2024 **2025 Tax Return Not Filed** Most recent two (2) year(s) tax returns • 2024 and 2023 tax returns • Copy of Application for Automatic Extension of Time to File 2025 U.S. Individual Income Tax Return (IRS Form 4868) Tax transcripts confirming "No Transcripts Available" for 2025
	November 1, 2026 to December 31, 2026	Most recent two (2) year(s) tax returns • 2025 and 2024 Use of a Tax Extension is not permitted
November 1, 2026 to December 31, 2026	November 1, 2026 to December 31, 2026	Most recent two (2) year(s) tax returns • 2025 and 2024 Use of a Tax Extension is not permitted
	January 01, 2027 to May 31, 2027	**2026 Tax Return Filed** Most recent two (2) year's tax returns • 2026 and 2025 **2025 Tax Return Not Filed** Most recent two (2) year's tax returns • 2024 and 2023
Refer to the applicable section of this section for complete income documentation requirements for all borrowers (self-employed and non-self-employed) whose income must be documented with tax returns.		

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8.2 Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the borrower's employment with any one employer. A borrower who changes jobs frequently to advance within the same line of work should receive favorable treatment if this advancement can be verified. Frequent job changes without advancement or in different fields of work should be reviewed carefully to ensure consistent or increasing income levels and the likelihood of continued stable employment.

Known economic conditions, such as plant closings, company bankruptcies, etc. that may affect the borrower's income, must be taken into consideration.

8.2.1 Continuity of Income

The continuity of receipt of qualifying income plays a critical role in determining a reliable flow of income. Unless there is knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented, it may be concluded that the income is stable and likely to continue. No additional information need be requested from the borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, document the likelihood of continued receipt of the income for at least three (3) years from the Note date.

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8.2.2 Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.

History of Receipt	Two (2) or more years of receipt of variable income is recommended, however variable income that has been received for 12 to 24 months may be considered acceptable income, as long as there are demonstrated positive factors that justify the use of the shorter income history. This does not mean that income received for a minimum of 12 months is eligible for use when qualifying the borrower. There must be documented justification with a written analysis to mitigate the use of the shorter history.
Frequency of Payment	Determine the frequency of the payment (weekly, biweekly, etc.) to arrive at an accurate calculation of the monthly income to be used in the trending analysis. <u>Example 1</u> If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three (3) months produces a much higher, inaccurate monthly average. <u>Example 2</u> If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, there are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical, such as landscapers, snowplow operators, etc. The difference between current period overtime and year-to-date earnings must be investigated. Document the analysis before using the income amount in the trending analysis.
Income Trending	After the monthly year-to-date income amount is calculated, it must be compared to the prior years' earnings using the borrower's W-2s or 1099s to determine if the income trend is stable, increasing, declining but stabilized or declining. • If the trend of the amount of income is stable or increasing, the income should be averaged. • If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used. • If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the decline occurred.

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8.3 Base Pay, Bonus, Overtime, and Commission

8.3.1 History of Receipt

A minimum history of two (2) years of receipt of income is recommended, however, income that has been received for 12 to 24 months may be considered acceptable income, as long as the borrower's employment profile demonstrates positive factors to offset the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history.

If the borrower has recently changed positions with their employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the future.

If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of the loan application, the following are examples that may support an employment history of less than two (2) years.

Gaps in Employment	• The borrower(s) must explain, in writing, any gaps in employment that span more than one (1) month; and • Indicate if they were in school or the military for the recent two (2) full years, providing evidence, such as transcripts or discharge papers.
Re-entering the Workforce	Borrowers who are returning to work after an extended absence, defined as six (6) months or more, must be at their current job for a minimum of six (6) months in order to consider that income for qualification purposes. • A two-year employment history from prior to the borrower's absence must be documented using traditional VOEs or copies of W-2s or paystubs; and • Three (3) months of additional reserves required.
Recent Graduates and Military Personnel	If the borrower indicates they were in school or the military in their two (2) most recent year's employment history, evidence must be provided (such as college transcripts and/or military discharge papers).

8.4 Base Pay (Salary or Hourly)

Obtain all of the following:
- Most recent paystub(s); and
- Most recent two (2) years' W-2s.

Borrowers scheduled for a work week of less than 40 hours may be permitted. A written VOE verifying the stability of the income as regular and on-going is required.

8.4.1 Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as the Client can establish that the particular source of income will continue to be received in the future. To verify military base pay and entitlements, the client must obtain the borrower's most recent Leave and Earnings Statement (LES).

Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

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8.4.2 Second-Job Employment

Second-job employment refers to employment that is not the borrower's primary employment. The second job is in addition to the borrower's primary employment.

Verification of a minimum history of two years secondary employment income is recommended. However, income that has been received for a shorter period of time (but, no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.

A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received.

Borrowers whose first job income is salaried or guaranteed hours: First job must have no gaps in prior 12 months. Borrower must have the same second job (employer & position) with no gaps for 1 year.

Borrowers using any type of variable income from their first job to qualify: Must have worked the same first and second jobs (same employer & position) with no gaps for at least 1 year.

8.4.3 Bonus and Overtime

Obtain all of the following
- A completed Written Verification of Employment and paystub(s); or
- Most recent paystub(s) and two (2) years' W-2s.

Qualifying income is calculated as an average over 24 months provided that the income is expected to continue.

8.4.4 Commission Income

Obtain all of the following:
- A written VOE showing year-to-date commission earnings;
- Most recent paystub(s) with commission earnings broken out; and
- Most recent two (2) years' W-2s.

Borrowers beginning employment with a new employer must have already received commission income from the new employer to use for qualifying, unless such commission income is guaranteed, in writing, as part of the borrower's employment agreement. Any guarantee must designate a specific dollar amount or percentage of income. Income must be received for at least 12 months.

8.5 Self-Employed Income

A self-employed borrower is an individual who has 25% or greater interest in a business or receives 1099s to document income.

Income from self-employment may be considered effective income if the borrower has been self-employed operating the same business for at least two (2) years.

Refer to the Program Summaries for self-employment documentation requirements.

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8.5.1 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.

8.5.2 Full Doc Program only

All of the following documentation is required to verify and document self-employed income:

- Most recent two (2) years' individual income tax returns, including all applicable schedules;
- Most recent two (2) years' business income tax returns, including all applicable schedules;
- Year-to-date (YTD) profit and loss statement and Balance Sheet;
  - YTD Q1 P&L and Balance Sheet for loans with Note dates 5/1 to 7/31
  - YTD Q2 P&L and Balance Sheet for loans with Note dates 8/1 to 10/31
  - YTD Q3 P&L and Balance Sheet for loans with Note dates 11/1 to 1/31
  - Full year P&L and Balance Sheet for loans with Note dates 2/1 to 4/30 and filed returns have not been provided

A written evaluation of the self-employed borrower's personal income, including the business income or loss, reported on the individual income tax returns is required. Analysis of current business activity through a review of the year-to-date financial statement and/or the most recent two (2) months business bank statements may provide support for this evaluation.

When Business Income is Not Used in Qualifying

Borrowers that own >25% of the business are not required to provide a profit and loss statement or balance sheet if the income is positive and is not being used in the income qualification for the loan.

One Year Tax Return Option (Borrowers with 5+ Years of Self-Employment)

Only one (1) year of personal federal and business tax returns are required if the application indicates the borrower is self-employed with an ownership share of 25% or more, and the Start Date for all self-employed businesses is at least five (5) years prior to the application. If any of the borrower's self-employed businesses have a Start Date less than five (5) years, two (2) years of personal and business tax returns are required. The above YTD P & L requirements apply whether using one (1) or two (2) years tax returns.

Refer to Allowable Age of Income Tax Returns and Tax Transcripts based on application date and available tax transcripts for borrowers whose income is based on tax returns (borrowers self-employed and non-self-employed), or allowable age of tax transcripts based on application date and available tax transcripts for borrowers whose income is not based on tax returns (borrowers not self-employed).

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8.6 Rental Income

Rental income may be used to qualify and must be disclosed on the loan application.

8.6.1 Rental Income for the Full Doc Program

8.6.1.1 Rental Income Documentation (Full Doc)

All of the following income documentation is required when using rental income to qualify from the subject property or other real estate owned:

- Most recent two (2) years' individual income tax returns, including all schedules;
- Current lease agreement(s). An expired lease agreement that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is permitted;
- Airbnb or similar short-term rentals are permitted with the most recent two (2) years' Schedule E, and a year-to-date income statement to support the rental payments received for the prior two (2) years; and
- Rent rolls are not acceptable.

8.6.1.2 Rental Income Calculation (Full Doc)

Individual Income Tax Returns Schedule E	• When using Schedule E is used to calculate net rental income (loss), any listed depreciation, interest, taxes, insurance, or homeowners' association dues must be added back in the cash flow. Non-recurring property expenses may be added back, if documented accordingly • The lesser of the rental income from the lease or Schedule E must be used to calculate net rental income unless satisfactory documentation is provided to support that the higher income on the tax returns will be continuing.
Lease Agreements	If rental income is not available on the borrower's tax returns (e.g., property owned less than 12 months or out of service due to rehabilitation), use 75% of the gross monthly rent or gross monthly market rent. Rental income from a property from a purchase transaction may be used to qualify using the lesser of: • 75% of the appraiser's opinion of rent on appraisal form 1007/216 minus the full PITIA when there is no lease; or • The lower of 75% of the lease that is being transferred with the purchase, minus the full PITIA or 75% of the 1007 minus the full PITIA.
• Net rental income must be added to the borrower's total monthly income. • Net rental losses must be added to the borrower's total monthly obligations.	

8.6.2 Rental Income for the Bank Statement, 1099 and P&L Programs

8.6.2.1 Rental Income Documentation (Bank Statement, 1099 and P&L Programs)

A current lease agreement(s) must be provided for all refinance transactions. An expired lease agreement that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is permitted. On purchase transactions, a Single-Family Rent Schedule (Form 1007/1000) is required to determine the monthly rental income that can be used to qualify.

Airbnb or similar short-term rentals and rent rolls are not acceptable.

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8.6.2.2 Rental Income Calculation (Bank Statement, 1099 and P&L Programs)

Use 75% of rental income based on the current lease(s) less PITIA for the property being rented to determine net rental income.

For a 2- to 4-unit owner occupied property, the PITIA of the subject property is treated as debt and the rental income will be treated as income. Rental Income may not be a direct offset of the mortgage payment.

8.6.3 Conversion of a Primary Residence to a Rental Property (i.e. Departure/Departing Residence)

This section is applicable to Full Doc, Asset Utilization, Bank Statement, 1099 and P&L Programs.

If the borrower is converting their current primary residence to an investment property and using rental income to qualify the mortgage payment, the following requirements apply:

- Borrower must have either an additional 6 months reserves OR documented equity in departure residence of 20% evidenced by one (1) of the following:
  - An AVM, exterior or full appraisal dated within six (6) months of subject transaction; or
  - The unpaid principal balance is less than or equal to 75% of the original documented purchase price.
- Copy of current lease agreement is required.
  - Use 80% of the rental income verified by the current lease agreement; and
  - A copy of security deposit and evidence of deposit to borrower's account.

Note: In order to use positive rental income, the borrower must document 20% equity in the departure residence. If using additional 6 months reserves, only PITIA offset is permitted.

Refer to our Program Summaries for additional reserve requirements.

8.7 Other Income Sources

The documentation required for each income source is described below. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of income. **Age of documentation requirements must be met unless otherwise excluded below.**

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8.7.1 Alimony and Child Support Payments as Income

The following provides verification requirements for alimony and child support payments.

Documentation	One (1) of the following is required: • A copy of a written legal agreement or court decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received; • Any other type of written legal agreement or court decree describing the payment terms for the alimony or child support; or • Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.
Current Receipt	Document evidence of receipt of the payments for the most recent 6 months with any of the following: • Court records; • Bank statements or deposit slips showing regular deposit of funds; or • Cancelled checks. Verification of receipt must be dated within 60 days prior to the Note date.
Continuance	The income must continue for at least three (3) years from the date of the application. The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined. • If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance; and • The duration of the alimony payments must be determined for continuance. For borrowers who receive child support or alimony as their primary source of income and there is a defined expiration date (even if more than three (3) years) additional analysis must be performed to determine if the legal agreement has other provisions that may allow for termination or reduction of the income. If this is the case, income may not be eligible to include in the monthly qualifying income.
Not Considered Stable Income	Income may not be considered stable when a borrower: • Has been receiving full, regular, and timely payments for less than 12 months or has been receiving full or partial payments on an inconsistent or sporadic basis; or • Does not have a court order that specifies alimony or child support; or • Is receiving family support as part of a voluntary agreement (i.e. not court ordered)

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8.7.2 Asset Based Qualification/Income

Constellation Programs allow for 2 separate methods of Asset Based qualification:

Asset Utilization
The Asset Utilization program allows eligible assets to be used in the determination of the Ability to Repay by performing a loan qualification calculation and a residual income calculation. No income calculation is performed and no DTI is calculated.

Asset Depletion
Asset Depletion is not a specific program, but is an income type that may be used to add asset based income to other income sources. Income and DTI are calculated when using this income type. There is no minimum asset requirement for Asset Depletion.

8.7.2.1 Asset Utilization

This program has a specific matrix and does not allow the assets to be combined with other types of income. Qualifying is based upon meeting a minimum asset threshold and a residual income calculation. See Program Matrix and Program Summary for full details. Gift funds are not permitted to be used on any Asset Based Qualification program. The borrower must meet the minimum asset requirement which is the greater of:

- $500,000 post closing, OR
- Down payment, closing costs, and prepaids plus five years (60 months) of monthly debt expenses including the PITIA of the subject.

8.7.2.2 Asset Depletion Income

Asset Depletion is a feature of the full and alt doc programs, which may be used by itself or as a to supplement other qualifying income types, and does not have a separate Program Matrix or Program Summary. The qualifying assets are divided by a specified number of months and the result is added to the monthly income. If Asset Depletion is used as a standalone income, the loan will be qualified under the Full Doc matrix. Gift funds are not permitted to be used on any Asset Based Qualification program. Assets held jointly with other individuals are considered the borrower's own assets.

The following requirements must be met:

- All assets must be in a U.S. financial institution (no foreign assets);
- The sum of eligible assets as defined are net of any discounts and minus any funds used for closing and/or minimum reserves;
- Other reported asset based earnings from capital gains or interest/dividend may not be used.
- If using retirement funds, the borrower must be within three (3) years of the 59 ½ retirement age (i.e. at least 56 ½ years old).

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8.7.2.3 Eligible and Ineligible Assets for Asset Depletion and/or Asset Utilization

All assets must be readily available to borrower(s) with no penalties or limitations.

Account Type	Allowance
Checking, savings, money market accounts	100%
Investment Account (Non-retirement) • May be comprised of publicly traded stocks, bonds and/or mutual funds; • May use 90% of the value; and • Value is determined based upon number of stock units at current market price	90%
Retirement Accounts (401(k)/403(b) plans or IRA, SEP or KEOUGH) • Borrower is at least 56 ½ years old (3 years of retirement age) • Confirm borrower currently has unrestricted access to the funds • If the borrower is between 56 ½ to 59 ½ years old, they must have other non-retirement assets in a sufficient amount to cover the number of months remaining until they reach 59 ½ years of age.	90%
Any outstanding loan or margin accounts should be backed out of the investment accounts balance.	
Ineligible Assets The following are ineligible assets for Asset Utilization Income: • Annuity • Business funds, including personal accounts used for self-employed income calculation • Cash Value of Life Insurance • Cryptocurrency (e.g., Bitcoin) • Equity in Real Estate • Foreign Assets • Funds Secured by an Asset (secured-borrowed funds) • Gift Funds • Life Insurance (face value/death benefit) • Non-regulated financial companies • Non-liquid assets (automobiles, artwork, business net worth, etc.) • Non-Vested Stock • Stock in any Privately Traded Company • Restricted stock • Stock in any Publicly Traded Company with less than a $100 MM market cap • Stock options • 1031 Exchange Funds	

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8.7.2.4 Asset Depletion Income Calculation

To arrive at Asset Depletion Income, subtract down payment, closing costs and required reserves from total qualifying assets and then divide by the number of months listed below.

Primary Residence & Second Home: 60 months
Investment Property: 240 months

Example 1

Borrower is 62 Years Old and Occupancy is Primary or 2nd Home		
Account Type	**Balance**	**Eligible Amount**
Savings Account	$200,000 (No Discount Required)	$200,000
Stock Fund	$100,000 (10% Discount Required)	$90,000
Mutual Fund	$ 20,000 (10% Discount Required)	$18,000
	Total Non-Retirement Assets	**$308,000**
Retirement Account	$200,000 (10% Discount Required)	$180,000
	Total Qualifying Assets	**$488,000**
Subtract Down payment, closing costs, and reserves to arrive at Net Eligible Assets		$100,000
	Net Eligible Assets	**$388,000**
Asset Depletion Calculation = $388,000÷ 60 = $6,467 monthly income		
Example Notes: Due to age, this example was able to use 90% of retirement. Due to non-investment occupancy, used 60 as divisor.		

Example 2

Borrower is 57 Years Old and Occupancy is Investment Property		
Account Type	**Balance**	**Eligible Amount**
Savings Account	$200,000 (No Discount Required)	$200,000
Stock Fund	$100,000 (10% Discount Required)	$90,000
Mutual Fund	$ 20,000 (10% Discount Required)	$18,000
	Total Non-Retirement Assets	**$308,000**
Retirement Account	$200,000 (10% Discount Required)	$180,000
	Total Qualifying Assets	**$488,000**
Subtract Down payment, closing costs, and reserves to arrive at Net Eligible Assets		$100,000
	Net Eligible Assets	**$388,000**
Asset Depletion Calculation = $388,000÷ 240 = $1,617 monthly income		
Time to 59.5 (retirement age) = 30 months		
Asset Depletion Income until Retirement Age Calculation: 30 x $1,617 = $45,810		
Example Notes: Borrower has not reached retirement age, but meets the 56 ½ threshold. There are 30 months remaining until the borrower reaches retirement age. In order to use the retirement assets, the borrower must demonstrate that they have sufficient non-retirement funds to cover the 30 months until reaching retirement age. The borrower has $308,000 in non-retirement assets, which is sufficient to cover the $51,000 needed to cover the monthly depletion amount prior to using retirement funds. The borrower has enough assets to use $1,617 monthly income. Due to investment occupancy, used 240 as divisor.		

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Example 3

Borrower is 55 Years Old and Occupancy is Investment Property		
Account Type	**Balance**	**Eligible Amount**
Savings Account	$200,000 (No Discount Required)	$200,000
Stock Fund	$100,000 (10% Discount Required)	$90,000
Mutual Fund	$ 20,000 (10% Discount Required)	$18,000
	Total Non-Retirement Assets	**$308,000**
Retirement Account	$200,000 (Not eligible due to borrower age)	$0
	Total Qualifying Assets	**$308,000**
Subtract Down payment, closing costs, and reserves to arrive at Net Eligible Assets		$100,000
	Net Eligible Assets	**$208,000**
Asset Depletion Calculation = $208,000 ÷ 240 = $867 monthly income		
Borrower has enough assets to use $867 monthly income		
Example Notes: Borrower has not reached retirement age and does not meet the 56 ½ threshold. Therefore, retirement funds cannot be used. Due to investment occupancy, used 240 as divisor.		

8.7.3 Automobile Allowance

Automobile Allowance is only permitted on the Full Doc Program.

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years. The lender must add the full amount of the allowance to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

8.7.4 Boarder Income

Rental income from a 1-unit primary residence may be used to qualify a borrower with a disability provided the rental income is from a live-in aide.

Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower.

Rental income may be considered in an amount up to 30% of the total gross income that is used to qualify the borrower. All of the following is required:

Primary residence;

- Evidence of receipt of the income for the most recent 12 months; and
- Documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statement, W-2s) that shows the live-in aide's address as the same the borrower.

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8.7.5 Capital Gains/Losses

Capital Gains/Losses are only permitted on the Full Doc Program.

A capital gain is a one-time transaction, and, therefore, should not be considered in determining income. However, if the borrower has a constant turnover of assets that produces regular gains, the capital gain may be considered for qualifying income (e.g., a person who buys old automobiles, restores them, and sells them for profit).

Capital losses identified on Schedule D of the borrower's individual income tax return DO NOT have to be considered when calculating income or liabilities, even if the losses are recurring.

Documentation	All of the following is required: • A minimum of the most recent two (2) years individual income tax returns with all schedules, including Schedule D. Additional years tax returns may be required; and • Sufficient assets remaining after closing to support continuance of the capital gain income, at the level used for qualifying for at least the next three (3) years.
Age of Documentation	• Documentation of asset ownership must follow age of documentation requirements. • Current receipt of the income need not comply with age of documentation requirements.
Income Calculation	• Develop an average income from the last two (2) years and use the amount as part of the borrower's qualifying income if the borrower provides current evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage payments. • If the trend of the amount of income is stable or increasing, the income should be averaged. If the trend is declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used. • If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the decline occurred.

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8.7.6 Disability – Long-Term Income

Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine

- The borrower's current eligibility for the disability benefits,
- The amount and frequency of the disability payments, and
- If there is a contractually established termination or modification date

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower.

See Verification of Social Security Disability requirement.

8.7.7 Employment by a Relative or Any Interested Party to the Transaction

A borrower employed by a family member or employed by a family-held business or any interested party to the transaction (e.g., property seller or real estate broker) may be eligible. In order to use income, when employed by a relative, the borrower must have been employed for a full 2 years.

Full Doc Program	All of the following is required: • Most recent paystub(s); • Most recent two (2) years' W-2s; • Most recent two (2) years' individual income tax returns; and • A letter from the CPA or legal counsel, or other documentation, confirming the borrower does not own more than 25% of the business (it is acceptable for them to be an officer, but not an owner).
Bank Statement, 1099 and P&L Programs	All of the following is required: • Most recent paystub(s); • Most recent two (2) years' W-2s; and • A letter from the CPA or legal counsel, or other documentation, confirming the borrower does not own more than 25% of the business (it is acceptable for them to be an officer, but not an owner).

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8.7.8 Employment Offers/Recent Employment

Borrowers who changed jobs within 30 days of application or will change jobs prior to the Note date may be eligible.

All of the following is required to document the borrower's employment and income:
- Copy of the offer;
- Minimum of one (1) paystub showing one (1) week's pay from their new job; and
- A written verification of employment.

When analyzing employment offers or future employment, the borrower's past employment history, qualifications for the position, as well as previous training and education must be taken into consideration.

Borrowers whose new employment will begin no later than 30 days after the Note Date may be eligible if all of the following are met.
- Primary Residence,
- One unit property,
- The borrower is not employed by a family member or by an interested party to the transaction, and
- The borrower is qualified using only salary or base guaranteed hourly income.

Obtain and review the borrower's offer or contract for future employment. The employment offer or contract must:
- Clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
- Clearly identify the terms of employment, including position, type and rate of pay, and start date; and
- Any conditions of employment or contingencies must be satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.

In addition to the amount of any required reserves for the transaction, one of the following must be met:
- Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
- Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.

Financial resources may include:
- Financial reserves, and
- Current income.

Current income refers to net income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used or is not eligible to be used for qualifying purposes, it can be documented by using income documentation, such as a paystub, but a verification of employment is not required.

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8.7.9 Foreign Income

Foreign Income is only permitted on the Full Doc Program.

Foreign Income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Copies of signed federal income tax returns for the most recent two years that include foreign income,
- The lender must satisfy the standard documentation requirements based on the source and type of income,
- All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.

Note: All income must be translated to U.S. dollars. If the borrower is not a U.S. citizen, refer to Non-U.S. Citizen section, for additional information.

8.7.10 Foster Care Income

Foster care income may be considered acceptable if it is verified that the borrower has a history of providing foster care services under a recognized state or county-sponsored program and is expected to continue for three (3) years.

A two (2) year history of receipt is required. Income must be averaged over the past two (2) years.

8.7.11 Housing or Parsonage Allowance

Non-military housing or parsonage allowance may be considered qualifying income if the income has been received for the most recent 12 months and likely to continue for the next three (3) years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

All of the following is required:

- Written Verification of Employment, letter from employee, or paystub(s) documenting the amount of the housing or parsonage allowance and the terms under which the housing or parsonage allowance is paid; and
- Proof of receipt of housing allowance for most recent 12 months.

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8.7.12 Interest and Dividend Income

Interest and dividend income is variable income that may be used to qualify. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

Interest and Dividend income may not be used with the Asset Utilization Program or when Asset Depletion is being used.

Interest and dividend income may be used if the income has been received for the most recent two (2) years.

Full Doc Program	All of the following is required: • Most recent two (2) years' individual income tax returns or 1099s; • Most recent account statement; • Year-to-date income is in line with previous earnings; • The investment is from a publicly traded company; and • Verification of stock asset values are no older than 90 days as of the Note date.
Bank Statement, 1099 and P&L Programs	All of the following is required: • Most recent two (2) years' 1099s; • Most recent account statement; • Year-to-date income is in line with previous earnings; • The investment is from a publicly traded company; and • Verification of stock asset values are no older than 90 days as of the Note date.

To include interest or dividend income from cash or marketable securities in qualifying income, all of the following apply:

- Verify that the borrower currently holds underlying cash deposits or securities;
- Subtract any funds required for closing on the subject transaction prior to the calculation of interest or dividend income; and
- Average the year-to-date interest and dividend income over the last two (2) years unless the income is declining.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next three (3) years from the date of the application.

8.7.13 Non-taxable Income

Non-taxable Income is only permitted on the Full Doc Program.

See the Fannie Mae Selling Guide, General Income Information for requirements using Non-taxable Income to adjust the borrower's gross income.

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8.7.14 Notes Receivable

Revenue received from Note income may be eligible for loan qualification. Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.
A copy of the Note is required to evidence the terms including the amount, frequency, and duration of payments and to verify that the income can be expected to continue for a minimum of three (3) years. If the borrower is not the original payee on the note, the creditor must establish that the borrower is able to enforce the note.

One (1) of the following must be provided to evidence receipt for the most recent 12 months:

- Bank statements showing regular deposits of funds cancelled checks;
- Cancelled checks; or
- Other account statements.

8.7.15 Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered as acceptable income. Verify that the income will continue for at least three (3) years.

Document public assistance income payment amount, frequency, and duration of benefit eligibility with benefit verification letter(s) or other equivalent documentation from applicable agency.
Verification of current receipt is required with one (1) of the following:

- The benefit verification letter, 1099, or third-party documentation showing type of income type, source, amount; or
- Most recent one (1) month bank statement or other equivalent documentation evidencing receipt of the income.

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8.7.16 Restricted Stock Units and Stock Options

Restricted Stock Units and Stock Options only permitted on the Full Doc Program.

Income derived from restricted stocks/stock options may be granted as a component of employee compensation and are subject to a restriction period during which recipients are not allowed access to granted shares until either performance-based or time-based vesting requirements are met. Restricted stocks/stock options may be used as qualifying income when the income has been consistently received for two (2) years and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as the prior two (2) years.

The following documentation requirements must be met:

- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income;
- Stock must be a publicly traded stock;
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify;
- Most recent paystub(s) documenting all year-to-date earnings, including restricted stock payout(s);
- Most recent two (2) years' W2s;
- Restricted stock agreement. If the employer does not provide a restricted stock agreement:
  - W-2s may be used if the W-2s clearly identify restricted stock income amounts; and
  - Written verification of employment documenting all year-to-date earnings, including restricted stock payouts may also be used.

A two (2) year average of prior income received from RSUs, or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the 52-week low. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule. For options or RSUs that have an initial strike price, the future vesting value is determined by the difference in the 52-week low and the strike price.

Restricted stock units are not permitted for non-warrantable condos.

8.7.17 Retirement Income

8.7.17.1 Retirement, Annuity, and Pension

Annuity and pension income may be used as qualifying income if it is expected to continue for at least three (3) years.

Evidence the income source and type, payment amount, and frequency must be documented with evidence of one (1) of the following:

- Most recent award letter or most recent two (2) years 1099; or
- Copy of the bank statement showing current receipt.

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8.7.17.2 Distributions from Retirement Accounts Recognized by the IRS (e.g., IRA or Keogh)

Existing distribution of assets from an IRA, 401(k) or similar retirement asset must be sufficient to continue for a minimum of three (3) years.

- Provide the most recent account statement for the asset being used for qualifying income to determine the three-year continuance of the income;
- Borrower(s) must have un-restricted access to funds without any penalties; and
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value must be used to determine the number of distributions remaining.

Document regular and continued receipt of income as verified by any of the following:

- Letter(s) from the organizations providing the income (distribution schedule);
- Most recent two (2) years' 1099s; or
- Proof of current receipt.

If any retirement income will cease within the first three (3) years of the loan, the income may not be used. If the borrowers has not yet retired but discloses plans to retire during the first three (3) years after the Note date, include the amount of documented retirement benefits, Social Security payments, other payments anticipated to be received to verify continuation of income from their current employment and future earnings.

8.7.18 Royalty Payments

Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible for loan qualification.

Full Doc Program	All of the following is required: • Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; • Most recent two years' individual income tax returns; and • Evidence of receipt of royalty income for the most recent 12 months and that the payments will continue for a minimum of three (3) years.
Bank Statement, 1099 and P&L Programs	All of the following is required: • Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and • Evidence of receipt of royalty income for the most recent 12 months and that the payments will continue for a minimum of three (3) years.

8.7.19 Seasonal Income

Seasonal employment may be acceptable if the borrower has worked uninterrupted in the same job or same line of seasonal work for the most recent two (2) years.

The following is required to document seasonal income:

- Most recent paystub(s);
- Most recent two (2) years' W-2s; and
- Written VOE that indicates that the borrower is expected to be rehired for the next season.

The borrower must be employed at time of closing.

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8.7.20 Social Security Income

If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three (3) years of loan origination, the income will be considered effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.

8.7.20.1 Social Security Retirement Income

Evidence the Income source and type, payment amount, and frequency must be documented with evidence of one (1) of the following:

- Social Security Award letter:
- Most recent individual income tax return:
- SSA-1099, or
- Evidence of current receipt

8.7.20.2 Survivor and Dependent Benefits

Survivor and dependent benefit income may be considered qualifying income with evidence of the type of survivor and/or dependent benefit income (e.g., Social Security Survivor benefits, Survivors' VA benefits, other similar benefits), source, payment amount, payment frequency, and current receipt. Survivor and Dependent Benefits must be expected to continue for a minimum of three (3) years.

Document with the following:

- A copy of the Social Security benefit verification letter; and
- Evidence of the benefit type and amount payable to/for dependents via one of the following:
  - Most recent individual income tax return:
  - SSA-1099, or
  - Evidence of current receipt

8.7.20.3 Verification of Social Security Disability

Obtain a copy of one of the following to evidence the borrower’s social security disability benefits.

- SSA Award letter,
- SSA-1099,
- Most recent signed federal income tax returns (or tax transcripts), or
- Proof of current receipt

Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

8.7.20.4 Supplemental Security Income

Document with a copy of the Social Security benefit verification letter.

Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

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8.7.21 Temporary Leave

Temporary leave from work is short-term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

During a temporary leave, a borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the borrower has the capacity to repay the mortgage and all other monthly obligations.

All of the following is required:

- Verification of pre-leave employment and income history;
- No evidence or information from employer indicating borrower does not have the right to return to work after leave period;
- Borrower's written confirmation of intent to return to work;
- Agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third party service designated by employer);
- Age of documentation compliance requirements not required;
- Verbal Verification of Employment, the borrower is considered employed if the employer confirms the borrower is currently on temporary leave;
- Amount and duration of borrower's temporary leave income;
- Amount of regular employment income the borrower received prior to leave; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verifiable.

Borrower Returning to Work Prior to First Mortgage Payment	Use the monthly pre-leave income.
Return to Work After First Mortgage Payment	Use the lesser of the monthly leave income or pre-leave income. If the monthly leave income is less than the pre-leave income: • Supplement with available liquid reserves; • Total qualifying income may not exceed the gross monthly income received upon return to work; and • Assets required to support the payment may not be counted towards available reserves.
Supplemental Income Amount	Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income: • **Available liquid reserves**: subtract funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount. • **Number of months supplemental income**: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income.
Qualifying Income	Total qualifying income = supplemental income plus the temporary leave income.

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8.7.22 Tip Income

Tip income is considered compensation in addition to an employee's regular wages and must be received for the past two (2) years.

All of the following is required:
- Written Verification of Employment and paystub(s); or
- Most recent paystub(s); and
- Most recent two (2) years' W-2s.

Income Calculation
- Develop an average for the most recent two (2) years.
- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend is declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the decline occurred.

8.7.23 Trust Income

See the Fannie Mae Selling Guide for guidance on Trust Income.

Trust account funds may be used for the required cash investment if the borrower provides documentation that the withdrawal of funds will not negatively affect income. The funds must be verified by a copy of the check or the trustee’s letter that shows the distribution amount.

See Trust Funds for requirements if also using the Trust Funds as an asset.

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8.7.24 Union Members

Union members may hold several jobs during a year that are organized by their union. Though there may be small gaps between jobs and many W-2/paystubs for each year, all of this income represents a single source of employment.

Documentation	Verification of income for a union member requires all of the following documentation: • Current paystub(s) from present employer. If there has been more than one employer in the current year, the last paystub from each employer will be required to reflect year-to-date earnings; and • Most recent two (2) years' W-2s from all employers. The loan application should reflect the borrower's current employer in the Employment Information and the Union information as the prior employer. All employers in the past two (2) years do not need to be reflected on the loan application.
Income Calculation	• Develop an average of the most recent two (2) years. • If the trend of the amount of income is stable or increasing, the income should be averaged. • If the trend is declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used. • If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the decline occurred.
Employment at Closing	The borrower does not have to be employed at the time of closing if all of the following are met: • The borrower works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, dock worker, or stagehand); • The borrower is in good standing with the union which provides an executed employment offer or contract for future employment; and • Verbal confirmation may be obtained through the union. All other requirements for Future Income above must be met.

8.7.25 VA Benefits

VA Benefits income (other than disability) may be used to qualify with verification that the income can be expected to continue for a minimum of three (3) years from the date of the loan application.
The following is required:

- A letter or distribution form from the Veteran's Administration is required to document VA benefits income and duration of payment; and
- Evidence of receipt for at least 12 months.

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8.8 Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to:

Alt-Doc (Bank Statement, 1099 and P&L)

- Automobile allowance and expense account reimbursement
- Self-Employment from a Non-Profit 501(c)(3)
- Foreign income

All Doc Types

- Boarder income (except as outlined in this section)
- Business Income from Non-Profits, Charities or Churches/Religious Organizations
- Expense account reimbursement
- Income derived from the subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- Incremental income derived from gambling
- Income that is not legal in accordance with all applicable federal, state, and local laws, and regulations, such as:
  - Foreign shell banks
  - Any business or activity related to Cannabis/marijuana, even if legally permitted under state or local law
  - Businesses engaged in any type of internet gambling
- Lump sum payments of lottery earnings that are not on-going
- Lump sum payment such as inheritances or lawsuit settlements
- Mortgage credit certificates (MCC)
- Mortgage interest differential (MID) income
- Non-incidental income received from farming/agricultural use from the subject property
- Refund of federal, state, or local taxes
- Retained earnings in a company
- Trailing co-borrower income
- Unemployment income (including seasonal unemployment income)
- Unverifiable income
- VA education benefits

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9.0 APPRAISAL REQUIREMENTS

The following must be validated:

- The property meets the Company eligibility criteria; and
- The appraiser has provided an accurate and reliable opinion of value that reflect the market value, condition, and marketability of the subject property in compliance with Company requirements.

The appraiser must comply with following appraisal requirements per Fannie Mae guidelines. Refer to the Fannie Mae Selling Guide for complete requirements with the guidelines not stated in this section.

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Appraiser Requirements
- Appraiser Trainees
- Unacceptable Appraisal Practices
- Uniform Collateral Data Portal (UCDP) Compliance
- Appraisal Report Forms and Exhibits

Subject Section
Contract Section
- Owner of Record

Neighborhood Analysis
- Neighborhood Boundaries
- Neighborhood Characteristics
- Factors that Affect Value and Marketability of Properties in the Neighborhood

Site Section
- Site Analysis
- Subject Property Zoning
- Highest and Best Use
- Multiple Parcel Requirements
- Adjoining Properties
- Site Utilities
- Off-site Improvements
- Gas, Oil, and Subsurface Mineral Rights

Improvements
- Conformity of Improvement to Neighborhood
- Actual and Effective Age
- Remaining Economic Life
- Energy Efficient Improvements
- Layout and Floor Plans
- Gross Living Area
- Gross Building Area
- Accessory Dwelling Units (ADU)

Selection of Condition, Qualify and Other Characteristic Rating
- Property Condition Requirements
- Identifying Property Condition
- Not Updated, Updated, and Remodeled
- Appraisal Completed “As Is”
- Identifying Quality of Construction
- Physical Deficiencies that Affect Safety, Soundness, or Structural Integrity of the Subject Property
- Infestation, Dampness, Settlement

Environmental Hazards
- Appraisal Requirements
- Disclosure Requirements

Sales Comparison Approach
- Data and Validation Sources of Comparable Sales
- Prior Sales History of the Subject and Comparable Sales

Comparable Sales
- Selection of Comparable Sales
- Minimum Number of Comparable Sales
- Age of Comparable Sales
- Additional Requirements for Detached Condominium Units
- Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs
- Use of Foreclosures and Short Sales
- Adjustments to Comparable Sales
- Analysis of Adjustments
- Sales or Financing Concessions
- Date of Sale and Time Adjustments
- Appraiser’s Comments and Indicated Value in the Sales Comparison Approach

Condo Appraisal Requirements
Leasehold Appraisal Requirements
Special Assessment or Community Facilities Districts Requirements
Cost Approach
Income Approach
Valuation and Final Reconciliation
- Reconciling Multiple Opinions of Market Value
- Changes to the Appraised Value
- Guidance on Addressing Appraisal Deficiencies

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9.1 Owner of Record

The property must be purchased from the owner of record and documentation to verify ownership must be obtained. Documentation may include, but is not limited to, one (1) of the following:

- A property sales history report;
- A copy of the recorded deed from the seller;
- A copy of the seller's Closing Disclosure;
- A 36-month sales history from the appraisal (provided the appraisal shows the most recent sale of the property occurred at least 1 year ago); or
- A property tax bill or title commitment/binder that demonstrates the seller's ownership of the property and the date it was acquired.

If there is any conflicting information reflected in the documentation, the discrepancy must be resolved, and the loan filed documented accordingly.

Transactions involving any sale or assignment of the sales contract are not permitted.

If the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject property.

When the transaction is part of a corporate relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract.

9.2 Appraisal Methods

A full interior/exterior appraisal is the only permitted valuation method.

AVMs, property inspection waivers (PIWs), appraisal waivers, desktop appraisals, hybrid appraisals, exterior only (drive by) appraisals, bifurcated appraisals and 1004D Alternatives are not permitted.

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9.3 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.
- 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.

9.3.1 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.

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9.4 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.

9.5 Hobby Farm

Properties that have an additional use as a "hobby farm." Examples include a semi-rural or rural property that is residential in nature, where some of the acreage is used to grow grapes, have a small orchard, or a small barn and riding rings, etc. The requirements for the property to be considered are:

- Property must be residential in nature;
- Single-family, owner occupied property;
- The market value of the subject property must be primarily a function of its residential characteristics and not the business use;
- Gross income should be minimal and cannot be included as qualifying income. Any loss must be considered in the DTI ratio;
- Commercial/agricultural use must be permitted by zoning and the subject property must conform to zoning; and
- Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm type animals may indicate that property is agricultural in nature and regardless of whether the appraiser assigns a value would be ineligible for financing.

9.6 Rural Properties

Definition of Rural Property (any of these characteristics results in property being considered rural)

- Appraiser marks property location as rural
- Neighborhood is less than 25% built-up;
- Area around the subject is zoned agricultural;
- The photographs of the subject show a dirt road;
- Comparable sales are more than five (5) miles away from the subject;
- Subject property is located in a community with a population of less than 25,000;
- Distances to schools and/or amenities are greater than 25 miles; and
- Subject property and/or comparable sales have outbuilding or large storage sheds.

Rural Property Requirements

- Appraisal must contain at least 3 recently sold (i.e. closed) comparables within 10 miles of the subject property.
- The lot size and acreage must be typical for the area and similar to the surrounding properties;
- The subject property must be within reasonable commuting distance to a metropolitan area;
- The subject property must be accessible by public roads and highways;
- The present use must be the "highest and best use" for the subject property;
    - The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information; and
    - Property cannot be subject to any idle acreage tax benefit or other tax incentive program.

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9.7 Agricultural Use

Properties with agricultural use are not permitted. Properties zoned agricultural that meet the following requirements are permitted:

- Property is residential in nature;
- Property does not have income producing attributes; and
- Maximum 10 acres.

9.8 Escrow Holdback

Escrow Holdbacks are not permitted.

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10.0 CLOSING FUNCTIONS

10.1 Power of Attorney (POA)

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.

10.1.1 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.

10.1.2 Power of Attorney Requirements

A power of attorney must meet the Fannie Mae Selling Guide, title company, and state legal criteria:

Power of Attorney Requirements
• 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).

10.1.3 Power of Attorney Restrictions

A POA is not permitted for the following scenarios:

Power of Attorney Restrictions
• Cash-out transactions. • Vesting in Trusts or business entities. • Non-Arm's Length transactions. • Foreign Nationals. • 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.

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10.2 Prepaid Interest

Up to seven (7) days of negative prepaid interest is allowed.

10.3 NY Consolidation Extension and Modification Agreement (CEMA)

Permitted. New York DSCR loans only. STG Mortgage only offers the DSCR program within the state of New York.

10.4 Mortgage Recast

Not permitted.

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11.0 DOING BUSINESS WITH STG MORTGAGE

11.1 Prevailing Document

In the event of any discrepancy between the Lending Guidelines and the Lending Summary, the terms and information contained in the Lending Summary shall prevail.

11.2 Licensing

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

11.3 Equal Housing Lender

STG Mortgage is an Equal Housing Lender. As prohibited by federal law, we do not engage in business practices that discriminate on the basis of race, color, religion, national origin, sex, marital status, age (provided 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.

11.4 STG Mortgage Loss Payee

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

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11.5 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.

11.6 Homeowners Association Dues

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

11.7 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.

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12.0 PROGRAM FORMS

12.1 Solar Panel Checklist

Solar Panels Leased or Covered by a Power Purchase Agreement Solar panels leased from or owned by a third party under a power purchase agreement (PPA) or other similar lease arrangement. Review copies of the lease or power purchase agreement.	
☐	**Conforming Loans** The monthly lease payment is included in the DTI ratio calculation unless the lease is structured to • provide delivery of a specific amount of energy at a fixed payment during a given period; and • have 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. Payments under PPA where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
☐	**FHA, VA, and USDA** The monthly lease payment is not included in the DTI ratio calculation
☐	The value of the solar panels is not included in the appraised value of the property.
☐	The value of the solar panels is not included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or PPA status takes priority.
☐	The value of the solar panels is not included in other debt secured by real estate in the CLTV ratio (because the documented lease or PPA status takes priority). 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 UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
☐	The property maintains access to an alternate source of electric power that meets community standards.
☐	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)
☐	In the event of foreclosure, the lender or assignee has the discretion to: • terminate the lease/agreement and require the third-party owner to remove the equipment;

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	• become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/ agreement with the third party; or • enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner
☐	The owner of solar panels is not named loss payee (or named insured) on property owner's insurance policy
Solar Panels Financed as a Fixture to Real Estate Solar panels are collateral for the separate debt used to purchase the panels and are fixed to the real estate because a UCC Fixture Filing has been filed in the real estate records. 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.	
☐	The UCC Fixture Filing is being terminated; nothing further is needed
☐	Include the debt obligation in the DTI ratio calculation • Do not include for FHA Non-credit Qualifying Streamline Refi, VA IRRRL and USDA Streamlined Assist
☐	**Conforming** • Fannie Mae DU: Include the solar panel debt in the CLTV • Freddie Mac LPA: o Do not include in CLTV if the UCC Financing Statement or lease agreement claim an interest in the solar panels and not the real property o If the UCC Financing Statement or lease agreement claims an interest in the real property, include in the real estate
☐	**FHA, VA, and USDA** Do not include the solar panel debt in the CLTV
☐	Provided that the panels cannot be repossessed for default on the financing terms, the appraiser considered the solar panels in the value of the property (based on standard appraisal requirements).
☐	The UCC Fixture Filing is being subordinated
Solar Panels Financed as Personal Property Solar panels are reported to be collateral for separate (non-mortgage) debt to purchase the panels, but do not appear on the title report. Obtain and review the credit report, title report, and/or UCC Financing Statement, related Promissory Note, and related Security Instrument.	
☐	**Conforming** Include the debt obligation in the DTI ratio calculation. **FHA, VA, and USDA** Not included for Non-Credit Qualifying Streamline Refi, VA IRRRL and USDA Streamlined Assist

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☐	Appraiser did not provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt.
☐	The panels are not included in the LTV ratio calculation.
☐	Did 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.

Solar Panels Owned Free and Clear

Borrower owns solar panels and has no related debt.

☐	There is no UCC1 Financing Statement or notice recorded against the subject property. In the event there is a UCC-1 Financing Statement, it must be released; and
☐	The appraiser has recognized the existence of the solar panels and considered the solar panels in the appraiser's opinion of the market value of the property.

Definitions

- 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 PPA, 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.
- A Fixture Filing is a UCC-1 Financing Statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

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