Prime Jumbo Guidelines

As of 04.04.2023

All GHMC overlays are written in BLUE
Newest updates are written in RED

Fixed Rate[1]

Primary Residence | Purchase, Rate and Term Refinance

Transaction Type	Units[2]	FICO[3]	Maximum LTV/CLTV/HCLTV[4]	Maximum Loan Amount	Max DTI	Reserves Required (months)[5]
Purchase or Rate and Term Refinance	1-2	720	80% / 80% / 80%	$1,000,000	43%	12
		720	75% / 75% / 75%	$2,000,000	41%	18
		760	70% / 70% / 70%	$3,000,000	41%	24
			75% / 75% / 75%			36
	3-4	720	70% / 70% / 70%	$2,000,000	43%	18
		760	65% / 65% / 65%	$3,000,000	41%	36

Primary Residence | Cash-Out Refinance

Transaction Type	Units[2]	FICO[3]	Maximum LTV/ CLTV/ HCLTV[4]	Maximum Loan Amount	Max DTI	Reserves Required (months)[4]	Max Cash-Out
Cash-Out Refinance	1-2	740	70% / 70% / 70%	$1,000,000	43%	18	$350,000
			65% / 65% / 65%	$1,500,000			

Second Home | Purchase & Rate and Term Refinance

Transaction Type	Units[2]	FICO[3]	Maximum LTV/CLTV/HCLTV[4]	Maximum Loan Amount	Max DTI	Reserves Required (months)[5]
Purchase or Rate and Term Refinance	1	740	70% / 70% / 70%	$1,500,000	43%	18

1. Minimum loan amounts is $1 over the baseline confirming loan limit established by FHFA
2. PUDS are only allowed on 1-unit properties
3. Please see *Credit Analysis* section for additional guidelines, including minimum tradeline amount.
4. Depreciating Markets policy applies to any MSA depreciating 5.01% or more per Exhibit 1 Depreciating Markets or if the appraiser/appraisal indicates that the property value is "declining". The above maximum LTV/CLTV/HCLTV should be reduced by 5% if the subject property is in a depreciating market.
5. An additional 2 months PITIA in reserves is required for each residential property with a lien.

GHMC Prime Jumbo Guidelines

Fair Lending Statement

Federal law prohibits discrimination in connection with the origination of 1-4 family mortgage loans. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income for a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. Also, the Fair Housing Act prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 19), and disability.

For scenarios not specifically addressed in the following guidance, please utilize the most recent Fannie Mae or Freddie Mac Selling Guide for assistance.

COVID-19 Temporary Guidelines

<u>All loans must meet agency COVID-19 temporary restrictions.</u>

Products Offered

This product description describes product guidelines and requirements for the following loan programs:

- Fully Amortizing Fixed Rate 15 year (J15P)
- Fully Amortizing Fixed Rate 30year (J30P).
- Adjustable Rate 5-year, 7-year, & 10-year terms.

ARM Information					
Term	ARM Type	Fixed Rate Period	Qualifying[1]	Adjustment Caps and Margin	Product Code
30 Year	5 yr /6 month	60 Month Initial	Greater of the Note Rate +2% or the Fully Indexed Rate	Initial 2% ; Subsequent 1% ; Life 5%; Margin 2.75%[2]	J5/6P
	7 yr / 6 month	84 Month Initial	Greater of the Note Rate or the Fully Indexed Rate	Initial 5%; Subsequent 1% ; Life 5%; Margin 2.75%[2]	J7/6P
	10 year / 6 month	120 Month Initial			J10/6P

[1] SOFR ARM index is the 30-day average of the SOFR index as published by the Federal Reserve Bank of New York

[2] The floor rate is the margin

SOFR ARM: Initial note rates may not be lower than 3% below the Fully Indexed Rate (FIR).

Ineligible Product Types, Transactions & Scenarios	• Temporary Buy Downs • Higher Priced Mortgage Loans • All Deed Restricted Properties, including Age Only • Single / One Time close Construction-to-Permanent transactions • Industrial, Commercial or Agricultural Zoned Properties. • Lease with Option to Purchase • Co-ops • Geodesic Domes, Earth Berms • New or newly converted Florida Condos • Community Land Trusts • Properties with Private transfer fees • Properties with condition ratings of C-5 or C-6 or quality ratings of Q-6 • Mixed Use Properties • Properties located on tribal land • Non-Arm's Length Transactions • Non-occupant Co-borrowers • Non-resident Applicants • Partial Release • Properties with unpermitted additions • Technical Refinance • Texas Cash-Out • Texas Section 50(a)(6) • Texas Section 50(f)(2) • Properties located in Idaho with more than 80 acres. • Properties located in Montana or South Dakota with more than 30 acres. • Work Completion Escrow/ Escrow Holdbacks
Eligible Property Types	• 1-Unit (including condominiums & PUDS) • 2-4 Unit ***Manufactured homes: Not permitted***
Occupancy / Property Usage	• Primary Residence • Second Home ***Investment properties are ineligible.***
Underwriting Type	• Manual Underwrite only
Borrower Eligibility	• U.S. Citizens • Permanent resident borrowers: Copy of the Permanent Resident Card (Front & Back) must be provided. ***Non-Resident Aliens and Non-Permanent Resident Applicants: Not Permitted.***
First Time Homebuyer	• Owner-occupied primary residence only.
Non-Borrowing Spouse	• If the non-borrower spouse is to be listed on the title as a co-owner, GHMC requires the non-borrower spouse to sign the Security Instrument – in all states. Note: We cannot require a non-borrower spouse who is a co-owner of the property to sign a quitclaim deed. • If the non-borrower spouse is not listed on the title, GHMC does not require the non-borrower spouse's signature on the Security Instrument, unless it is necessary under state law to obtain a valid security interest.

GHMC Prime Jumbo Guidelines

Appraisals

Appraisal Requirements	The number of appraisals required and the type of appraisal reviews required are based on loan size. **Loan amount > $2 million, two (2) appraisals are required.** • Ordering both reports from the same company, vendor, or agent is not allowed. If two appraisal reports are required, GHMC requires the two reports to be ordered from two different Appraisal Management Companies (AMC). **Note:** In some circumstances, that may not be possible, including in cases where a Correspondent Lender may only work with one AMC. In those instances, it may be necessary for one AMC to order the two appraisal reports. However, the independence of the appraiser/ appraisal process must be maintained at all times by all parties. • If two appraisals are required, the lesser of the two values should be used to underwrite the transaction and determine LTV/CLTV/HCLTV. All appraisal reports that are more than 120 days old as of the Note/Mortgage require a recertification of value/update that includes an exterior inspection of the property and review of current market data to confirm that the property has not declined in value since the date of the original appraisal.
Depreciating Markets	Depreciating Markets policy (Maximum LTV/ CLTV/ HCTLV reduced by 5%) applies when: • The subject property is located in a depreciating market, as shown on the *Prime Jumbo Guidelines Exhibit 1 – Depreciating Markets,* Or, • If the appraiser/appraisal indicates the property value is "declining" See Jumbo Exhibit 1 for the current list of depreciating markets.

<table>
<tr><td>Review Type</td><td>Full Review required</td></tr>
<tr><td>Eligibility Criteria: All</td><td>
The following are requirements for all new and established projects:

No more than 15% of the total units may be 60-days or more delinquent on a condominium/HOA fee payment.
The project must be located on one contiguous parcel of land, but may be divided by a public street. The structures within the project must be within a reasonable distance from each other.
Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.

Ownership of Project & Common Elements: Common elements must not be subject to a lease between the unit owners, the Homeowners Association, and any other party. Unit owners must have the sole ownership in and the right to the use of the common elements. A project with shared amenities is eligible if two or more HOAs share the amenities for the sole use of the unit owners, and the HOAs have an agreement specifying:

A description of the shared amenities and the terms of the unit owners' permitted use of the amenities,
How the shared amenities will be funded, managed, and maintained, and
The method for resolving disputes between the HOAs regarding the shared amenities. The developer must not retain any ownership interest in the common elements, except as unit owner.

Significant Deferred Maintenance: For projects with five or more attached units: If the project has significant deferred maintenance or has received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions, the project is not eligible. The project will remain ineligible until the required repairs have been made. Acceptable documentation may include, but is not limited to, a satisfactory engineering or inspection report, certificate of occupancy, or substantially similar document. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

Full or partial evacuation of the building to complete repairs is required for more than seven days or at an unknown period of time.
The project has deficiencies, defects, substantial damage, or deferred maintenance that:

Is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; or
The improvements need substantial repairs and rehabilitation, including many major components; or
Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

The postponement of normal maintenance, which cannot reasonably be resolve by normal operations or routine maintenance and which may result in any of the following:

Advanced physical deterioration,
Lack of full operation or efficiency,
Increased operating costs
Decline in property value
Any mold, water intrusions or potentially damaging leaks.

Projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible. Violations of any federal, state, or local law, ordinance or
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</table>

code relating to zoning, subdivision and use, building, housing accessibility, health matters or fire safety are not eligible. This includes failure by the HOA to schedule an inspection required by the applicable jurisdiction.

Note: The following repairs are not considered to be significant and include:
- Routine maintenance or repairs that a homeowner's association (HOA) undertakes to maintain or preserve the integrity and condition of its property.
- Work that is preventative in nature.
- Accomplished within the project's normal operating budget.
- Typically completed by on-site staff.
- Focused on keeping the project fully functioning and serviceable.
- If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements.
- Minor deficiencies with a cost of $3,000 or less to repair.

Project Budget Requirements: Review of the actual operating budget is required to determine if it:

- Includes appropriate allocations for line items pertinent to the type and status of the condo;
- Provides for the funding of replacement reserves for capital expenditures and deferred maintenance (at least 10% of the budget); and
- Provides adequate funding for insurance deductible amounts.

A Reserve Study in lieu of calculating the replacement reserve of 10% may be used provided the following conditions are met:
- A copy of an acceptable reserve study is retained in the project file.
- Completed within 3 years of project approval.
- Prepared by an independent 3rd party that has expertise in completing reserve studies.
- The study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to the standard reserve requirements.
- The study demonstrates that the project's funded reserves meet or exceed the recommendations included in the reserve study.
- Project financial statements must be obtained to demonstrate that the project is collecting sufficient funds necessary, as outlined in the reserve study. If the reserves are insufficient, the project is not eligible.
- If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner.
- "Gut rehabilitation" refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code).
- For a conversion that was legally created during the past three years for Fannie Mae (five years for Freddie Mac), the architect's or engineer's report (or functional equivalent), that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.

Note: If the project is a newly converted non-gut rehabilitation project with more than four residential units, it's ineligible for lender review.

	Utilities: The individual units should be separately metered, although not required. If they are not, having multiple units on a single meter must be common and customary in the local market and the budget must include adequate funding for utility payments. **Project Management.** The project must be well-managed and, if professionally managed, the contract should be for a reasonable term and the termination provision must not require a penalty payment or advance notice of more than 90 days. **Gut Conversions:** Require an engineer's report if the conversation took place in the last 3 years regardless of whether the definition of "new" or "established" is met. **Non-Gut Conversions** are considered "new" until all requirements for Established projects are met.

Documentation Requirements	**The following are requirements for all new and established projects:**
	• Completed Condo/PUD Project Questionnaire
	• Appraisal
	• Current budget.
	• Public Offering Plan or equivalent (e.g., the Declarations, CC&Rs, the Master Deed and Bylaws) and any amendments for new and newly converted projects
	• Engineer's or Architect's Report for newly converted projects.
	• Ground lease, if applicable.
	
	Projects consisting of five or more attached units have these additional requirements:
	• Project must be reviewed against Fannie's Condo Project Manager (CPM). A project with an "Unavailable" status for deferred maintenance/structural integrity is ineligible. Projects listed as "Unavailable" for any other reason, should be reviewed against standard guidelines for eligibility.
	• Project must not have any significant deferred maintenance or unsafe conditions. * These projects are not eligible until the required repairs have been made and documented. Documentation would include, but not be limited to, satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation.
	• Additional project documentation required:
	  ◦ Six months of the project's HOA meeting minutes. If meeting minutes are unavailable, financial statements for the project, either audited or prepared by a professional management company, should be reviewed to determine if there is deferred maintenance or repairs necessary due to unsafe conditions.
	  ◦ If there are any current special assessments, or planned special assessments, they must be reviewed to determine acceptability. Must document the reason for the special assessment, the total amount assessed and repayment terms, and documentation to support there is no negative impact to the financial stability of the project. To determine that the amount budgeted to be collected year to date has been collected, the financial statement should be dated within 90 days of the project review date and any shortfall between the budgeted and actual year to date amounts for the special assessment must not be more than 5%. The borrower must be qualified with any outstanding special assessment per the installment loan policy. Obtain the financial documents necessary to confirm the association can fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed, or the project is not eligible. Additionally, if the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

	*Deferred maintenance as outlined in Eligibility section above.

New or Newly Converted Projects	• Project must meet the General Project Eligibility Requirements (including the requirements for a New Project), and meet the Lender Full Review General Eligibility requirements indicated above.
	• The project must have been created and continue to exist in full compliance with applicable state, jurisdictional, and all other applicable laws and regulations.
	• **Assessments.** The HOA assessments must begin on a specific date, and once established, the developer must be responsible for the assessments attributable to the unsold units.
	• **Completion Status.** The project, or the subject legal phase, must be "substantially complete." This means that a certificate of occupancy (or other substantially similar document) has been issued by the applicable governmental agency for the project or subject phase and that all the units in the building in which the unit securing the mortgage is located are complete, subject to the installation of "buyer selection items" such as appliances. Individual units must be available for immediate occupancy at loan closing.
	
	• **Presales.** At least 50% of the total units in the project or subject legal phase must have been conveyed or be under a bona fide contract for purchase to owner-occupant principal residence or second home purchasers, not including the developer or its successor.
	  o For a specific legal phase (or phases) in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed (or be under contract to be sold) to owner occupant principal residence or second home purchasers, not including the developer or its successors.
	  o For the purposes of this review process, a project consisting of one building cannot have more than one legal phase, and any one building in a project comprised of multiple buildings cannot be subject to more than one legal phase.
	
	• Verify that all necessary repairs are complete and replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project. The appraiser or other licensed professional must state that the project is structurally sound, and the conditional and remaining useful life of the major project components (roof, elevators, mechanical systems, plumbing, electricity, etc.) are sufficient to meet the residential needs of the project.
	• **Project Legal Documents**. The project documents must state, or state law must provide, that:
	  o The project documents must state, or state law must provide, that: Amendments that have a material adverse impact on first lien mortgagees must be agreed to by mortgagees that represent 51% of the units subject to first lien mortgages.
	  o Any action to terminate the legal status of the project or use insurance proceeds for any purpose other than to rebuild must be agreed to by mortgagees that represent 51% of the units subject to first lien mortgages.
	Note: The documents may allow approval to be assumed when the mortgagee of record fails to submit a response to a written proposal for an amendment within 60 days of receipt of notice, provided it was sent via certified, registered or return receipt mail.
	  o The mortgagee/guarantor must have the right to timely written notice of condemnation, casualty loss, 60-day delinquencies in payment of assessments, lapse, cancellation or material modification of the HOA insurance policies, or any action that requires consent of a percent of the mortgagees.
	  o The project documents must not give a unit owner or any other party priority over any rights of the first mortgagee in the case of payment of proceeds from termination or insurance proceeds or condemnation awards for losses to or a taking of condo units or common elements.
	
	Waiver of Right of First Refusal: Any right of first refusal in the Condominium Project Documents may not adversely impact the rights of a mortgagee or its assignee to:

	○ Foreclose or take title to a Condominium Unit pursuant to the remedies in the Mortgage, or ○ Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or ○ Sell or lease a unit acquired by the mortgagee or its assignee.
Ineligible Project Characteristics	• Non-warrantable condominiums. • Hotel/Resort/Condotel Projects • Project is managed by a hotel or resort management company that also facilitates short term rentals for unit owners or projects with management companies that are licensed as a hotel, motel, resort or hospitality entity. • Hotel or motel conversions (or conversions of other similar transient properties) unless the project is an established project that meets all requirements for gut rehabilitation projects. • Houseboat projects • Timeshare; fragmented or segmented ownership projects • Projects subject to a recreational lease between the HOA and a third party for access to recreational facilities for a specified time period and payment. • Unit owners must have sole ownership in AND the right to the use of the common elements. • Manufactured Housing: Projects comprised of manufactured homes; the subject is manufactured housing or the project consists of any single-width manufactured homes. • Multi-Dwelling Units: A project that permits an owner to hold title to more than one unit, with ownership evidenced by a single deed and mortgage. • Non-Incidental Business Operations: Projects with nonincidental business operations owned or operated by the homeowners association such as, but not limited to, a restaurant, spa, health club. • A project is ineligible if the HOA is receiving more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the public. This includes, but is not limited to, businesses such as a restaurant or other food- and beverage-related services, health clubs, and spa services. • Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income: ○ Income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreements such as, but not limited to, a fitness facility, pool, community room or laundry facility; or ○ Income from the leasing of units in the project acquired by the HOA through foreclosure. • Projects with more than 35% of the total space used for nonresidential purposes are not permitted. Commercial parking facilities can be excluded from the commercial space calculation. Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature. For eligible projects, the appraisal must support that the excess in non-residential usage is common and customary for the area and the appraiser must provide comparables that strongly support that projects with the higher commercial/non-residential concentrations are common and customary for the area. • Excessive Single Entity Ownership: Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units within the project: ○ Projects with 5 to 20 units: 2 units ○ Projects with 21 units or more: 20% ○ Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements: ○ The following may be excluded from the single-entity ownership calculation:

- Units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or
- Units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.
- The single-entity ownership requirements may be waived when the transaction is a purchase transaction that will result in a reduction concentration of single-entity ownership. In such instances, the following requirements must be met and the project is no longer eligible for limited review:
- Units owned by the single entity represent no more than 49% of the units;
- Evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
- The single entity is current on all HOA assessments; and
- There are no pending or active special assessments in the project.

- Concentration Levels are Exceeded.
- Litigation or Pre-Litigation: Any project that the homeowners is named as a party to current litigation, arbitration, mediation or pre-litigation that is reasonably expected to proceed to formal litigation, or other dispute resolution process or, if the project has not been turned over to the homeowners association, the project sponsor or developer is named as a party to current litigation that relates to the project, unless the litigation involves minor matters that do not impact the safety, soundness, habitability, or functional use of the project, such as:
    - The litigation amount is known, the insurance company has committed to providing defense, and the litigation amount is covered by the association's insurance policy.
    - The HOA is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
    - The reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves. If the project's reserves are used to pay for litigation, it must not violate the applicable jurisdiction's laws and regulations;
    - The litigation involves a non-monetary neighbor dispute regarding rights of quiet enjoyment;
    - The HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA if funds are not recovered;
    - Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
    - The HOA is named as the plaintiff in a foreclosure action or as the plaintiff in an action for past due HOA dues.
- Common-Interest Apartment Projects: or community apartment projects where individuals have an undivided interest in a residential apartment building and the land on which the building is located, and have the right of exclusive occupancy of a specific apartment, often owned by several owners as tenants-in common or by a homeowners association.
- Excessive Contributions: Projects with excessive disclosed or undisclosed seller contributions offered by the builder, developer, or property seller that may affect the value of the subject; including rent-backs, leasebacks, payment of principal, interest, taxes and insurance or HOA fees for any period of time.
- Continuing Care Retirement Communities: or Life Care Facilities, where residents sign long-term contracts for housing, medical, assisted-living and other services.
- Continuing Care Retirement Community (CCRC) – a residential project designed to meet the health and housing needs of seniors as their needs change. Also known as Life-Care Facilities,

	they are distinguished from age-restricted facilities because the residents contract in advance for a lifetime commitment from the facility. • Special Housing Initiatives: such as Section 502 Guaranteed Rural Housing, HUD-guaranteed Section 184 Native American Mortgage, FHA or VA. • If the project is located in a jurisdiction that has enacted the Uniform Condo Act (UCA), the Uniform Common Interest Ownership (UCIOA) or other similar statutes that provide for regular common expense assessments, as reflected by the project's operating budget, to have priority over first mortgage liens, the agencies allow up to six months of regular common expense assessments to have limited priority over the first mortgage lien. If the title commitment reflects that the condo or PUD project is located in a jurisdiction that allows for more than six months of regular common expense assessments to have priority, unless the assessments are subordinated to the first mortgage, the project is not acceptable. • Projects located on land owned by community land trusts • Projects that were rejected by Fannie Mae • New or newly converted condominium projects in Florida. • Projects with "Unavailable" status in Fannie's Condo Project Manager. • Projects with upfront membership fees. • Newly converted non-gut rehabs

<table>
<tr><td>Investment Property</td><td>Not Eligible</td></tr>
<tr><td>Leasehold Estates</td><td>Eligible:
To be eligible, a leasehold estate must meet FHLMC requirements as well as all of the following requirements:
• For condo or PUDs, the homeowner's association must be the lessee under the ground lease. The fee simple owner must not bethe developer, an entity associated with the developer, or a hospitality entity.
• If the lessor's fee simple interest in the land is subject to any encumbrances or liens, or the lease requires the lessee to agree to the subordination of the lease to said liens or encumbrances, the fee simple lienholder has executed and recorded a Non-disturbance and Attornment Agreement that contains the provisions indicated below.
• Provide for the leasehold mortgagee to approve any amendments to the lease that relateto the provisions described herein, the modification of the leasehold estate, or the termination or cancellation of the lease.
• Provide for the leasehold mortgagee to exercise any renewal options that mayexist.
The lease must not:
• Contain provisions for termination of the lease in the event of damage to or destructionsof the mortgaged premises if the leasehold mortgageexists.
• Prohibit the leasehold mortgage from being insured under a hazard insurance policy or from receiving hazard insurance proceeds as either mortgagee or insurance trustee.
• Prohibit the leasehold mortgagee from exercising renewaloptions.
Sublease
• The sublease must be signed by both the fee owner and thesublessor.
• The sublease must contain a Non-disturbance and Attornment Agreement, by which the fee simple lienholder or the lessor agrees to accept the terms of the lease or sublease and notto interfere with the lessee's rights to use the leasehold estate.
• The amount of the sublease payments is at least equal to the amount of the lease payments and is due no less frequently than the leasepayments.
• The leasehold estate and the mortgage must not be impaired by a title merger betweenthe lessor and lessee, or by a sublessor's default.

Lease With Option to Purchase: Not permitted.

Appraisal Requirements: The use of leasehold estates for residential properties must be an accepted practice in the area where the subject property is located, and such properties must be readily marketable.

Ineligible:
• Hawaiian Homelands
• Texas 50(a)(6)
• Manufactured Homes

Title Requirements: ALTA Form 13.1 or equivalent for all leasehold mortgages. The title insurance policy must include the value of the lessee's leasehold improvements as part of the insured estate.</td></tr>
<tr><td>Multiple Financed Properties</td><td>Subject is Primary Residence: For loans secured by primary residences, borrowers may not own or be obligated on a combined total of more than 5 financed residential properties, including the subject property.</td></tr>
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Subject is Second Home: If the subject property is a second home, each borrower individually and all borrowers collectively may not own or be obligated on a combined total of more than 4 financed residential properties (including the subject property) at the time of application (applies to either a single lender or several different lenders).

Refer to the table below to determine if "other properties owned" should be included in limitation.

Joint ownership of residential real estate. (this is considered to be the same as total ownership of an individual property.)	Yes
Ownership of commercial real estate.	No
Ownership of multifamily property consisting of more than four dwelling units.	No
Joint or total ownership of a property that is held in the name of a corporation or S-corporation even if the borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation.	No
Joint or total ownership of a property that is held in the name of a corporation or S-corporation even if the borrower is the owner of the corporation; however, the financing is in the name of the borrower.	Yes
Ownership in a timeshare.	No
Obligation on a mortgage debt for a residential property (regardless of whether the borrower is an owner of the property on title).	Yes
Ownership of a vacant (residential) lot.	No
Joint or total ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of 2% or more, regardless of the entity (or borrower) that is the obligor on the mortgage.	Yes
Joint or total ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership I the LLC or partnership of less than 25% and the financing is in the name of the LLC or partnership.	No
Ownership of a manufactured home and the land on which it is situated that is titled as real property.	Yes
Ownership of a manufactured home on a leasehold estate not titled as real property.	no

Note: Properties owned or financed jointly by the borrower and co-borrower are only counted once.
In addition to the reserve requirements specified in the Prime Jumbo LTV Matrix, 2 months PITIA is required on each additional residential property with a lien.

Primary Residence

A primary residence is defined as:

- Occupied by the primary wage-earner for the major portion of the year;
- In a location relatively convenient to the owner's principal place of employment;

	• The address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar functions. Borrowers wanting to finance a home for a disabled adult child or an elderly parent who is unable to work or who may not have sufficient income to qualify for a mortgage on their own are allowed to have an additional "primary residence" subject to compliance with FNMA selling guide requirements.
Second Home	A second home is defined as: • A 1-unit property that the borrower occupies for some portion of the year in addition to their principal residence. A second home should not be in the same market as the borrower's primary residence. However, there are exceptions, such as: • Property located in a recreational area which is part of a metropolitan area (e.g., beach house), or • Property used to minimize commuting problems (e.g., a Manhattan condominium owned by a Connecticut resident working in New York City). There are no specific mileage requirements with regards to the distance between the primary and second home, however, good judgment must prevail. All of the following apply to Second Homes: • The property must be suitable for year-round occupancy. • Rental income received from the second home may not be used to offset the expense of a second home and cannot be used as qualifying income. • 2–4-unit properties are not eligible as second home. • The property must be occupied by the borrower for some portion of the year. • The borrower must retain exclusive control over the property. • The sales contract or appraisal must not reflect that there are timeshare arrangements or any other rental agreements that requires the property to be rented. • If the borrower utilizes a management company to assist in renting the unit when the borrower is not using it, the borrower may not give the management company complete control over the occupancy of the property.

Buyout of Spouse, Domestic Partner, or Affianced Interest	A refinance that results from a divorce settlement in which one of the spouses is required to buy out the other's interest in a property is considered a rate/term refinance provided the borrower who acquires sole ownership of the property does not receive any cash back. We may also consider a buyout of the interests of a domestic partner, fiancée, or fiancé as a rate/term refinance transaction if all the following conditions are satisfied: • Both parties owned the subject property jointly for at least 12 months preceding the date ofthe mortgage application. An individual who inherits an interest in the property does not have to satisfy this requirement. • Both parties can demonstrate that they occupied the property as their principal residence by providing an acceptable source of verification (e.g., driver's license, bank statement, credit card bill, utility bill, etc. that was mailed to the individual at the address ofthe mortgaged property). • Both 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. The borrower who acquires sole ownership of the property must not receive any cash back from the proceedsof the refinance. • The party who is buying out the other party's interest must be able to qualify for the mortgage under our standard underwriting guidelines. • **Texas Property:** The division of the homestead property pursuant to a court order or an award in a divorce proceeding is considered a Texas Non-Equity Loan that may be processed as a rate/term refinance. The borrower may not receive any cash backatclosing. • **Transaction Type:** All transactions may be originated as rate/term refinances, regardless of process type.
Construction – to – Permanent Financing	• Two-Closing Transactions Only (Single/ One-time close not permitted) • Borrower must have acquired title to the lot before applying for the construction loan • Borrower must be the primary obligor on the construction loan & current owner of the lot • All work must be complete as per plans/specs prior to closing- no escrow holdbacks allowed (no exceptions even due to weather) • Lots purchased <90 days prior to date of loan application- funds must be documented/sourced Loan may be done as a rate/term or cash-out refinance **Rate/Term:** • Must meet all other criteria of a rate/term refinance (Freddie Mac) • Cash back to the borrower may not exceed 1% of the principal amount of the new mortgage or $5,000 whichever is less **Cash-Out:** • Borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage • Loans where unsecured liens or construction costs paid by the borrower outside of the interim construction loan will be included in the new loan must be considered a cash-out refinance • Must meet all other criteria of a standard cash-out refinance **Additional Documentation required:** • Copy of current deed to document borrower is presently the lot owner, and was the owner of the lot prior to APPLYING FOR the Construction Loan • Copy of Construction loan agreement evidencing that the Borrower is the primary obligor • Copy of Build Contract and all change orders as applicable

	• Copy of Plans & Specs • Certificate of Occupancy or equivalent • Construction loan lender must provide proof that all work has been paid for; all mechanics liens, materialmen's liens and any other liens and claims that could become a lien relating to the construction have been satisfied
Continuity of Obligation	• At least one Borrower on the refinance mortgage was a Borrower on the mortgage being refinanced: or • At least one Borrower on the refinance Mortgage held title to and resided in the mortgaged premises as a primary residence for the most recent 12-month period and the mortgage file contains documentation evidencing that the borrower, either: o Has been making timely mortgage payment, including the payments for any secondary financing, for the most recent 12-month period; OR • At least one Borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises (for example), in the case of divorce, separation, or dissolution of a domestic partnership. *Refer to the Rate/Term Refinance: Other Purpose* topic below for additional requirements for adding or removing a borrower from a transaction, or the Buyout of Spouse, Domestic Partner or Affianced Interest topic for additional requirements.

Contract of Sale / Land Contract	A land contract, also known as an installment land contract, contract for deed, contract sale, or contract purchase, is a form of seller financing in which the seller retains title to the property while the buyer makes regular payments to the seller.
	An executed contract for deeds/land contracts must be seasoned for at least 12 months preceding the mortgage application date for the transaction to be eligible for financing.
	
	• **Purchase Transactions:**
	  o When the payoff will include the land contract only.
	
	• **Rate/Term Refinance Transaction:**
	  o Payoff will include the land contract and the documented costs incurred for rehabilitation, renovation, or energy improvements.
	
	• **Cash-Out Refinance Transaction:**
	  o Not Permitted.
	
	• The loan file must include third-party documentation evidencing payments were made in accordance with the terms of the land contract or contract for deed for the most recent 12-month period.
	• A new appraisal is required, and the LTV must be calculated using the appraised value of the new first mortgage transaction.

Lease-to-Own / Rent W/Option to Buy	Not Permitted.
Non-Arm's Length Transaction	Not Permitted.

<table>
<tr><td>Properties Listed for Sale</td><td>
If the subject property is currently listed for sale the loan is <u>not</u> eligible for a rate/term refinance or a cash-out refinance.
Properties that were listed for sale and taken off the market within the past 180 days are <u>eligible for a rate/term refinance only</u> on a primary or second home. These loans are not eligible for a cash out refinance.

Documentation evidencing the listing was cancelled, along with a letter of explanation from the borrower detailing the rationale for cancelling the listing, must be provided.
Every effort should be made to also verify that the property is no longer listed for sale and the underwriter should give additional scrutiny to these transactions to ensure that refinancing the loan provides a benefit to borrower.

This policy does not apply to the refinance of a property that was recently purchased within the past 180 days.
</td></tr>
<tr><td>Purchase</td><td>

The borrower may not be on title prior to the loan closing.
The seller that is on title (the vested owner of record) must be the individual who executes the sales contract.
Additionally, the seller must be on title prior to when the Closing Disclosure and closing docs are executed.

<u>Exceptions:</u>

Corporate relocation loan:

Third-party relocation company may sign the sales contract andthe Closing Disclosure as the seller.
A copy of the fully executed Relocation Agreement is required.

Purchase transaction of an REO property:

An individual representative of the “seller” may sign the sales contract and Closing Disclosure.
Title company to ensure that the individual is an authorized signer.

Purchase Transactions for Existing Properties:

The cost of a separate contract or bidfor improvements to be made may not be added to the contract purchase price to calculate the LTV.

<u>Cash Back to Borrower</u>
The borrower may not receive any cash back on a purchase transaction, unless the amount represents reimbursement of documented funds paid by the borrower in advance, not needed for the transaction.
<u>Tenant Rights</u>
If the purchase contract, appraisal, or title work indicates the subject property hasan existing lease in place, the lease must be reviewed to make certain it does not contain a tenant rights provision as it could adversely affect our securityinterest.
</td></tr>
</table>

Refinance: Cash-Out	A transaction that does not meet all of the criteria listed for a Rate/Term Refinance section below must be treated as a cash-out refinance and must meet all the LTV/loan amount restrictions. **Cash out transactions must meet the following requirements:** • At least one borrower must have owned the subject property for a minimum of 6 months prior to the application date. • The existing loan being refinanced may not be a restructured mortgage • Borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership) there are no other seasoning requirements. *Refer to "Inherited Property"* requirements below. • For properties in a leasehold estate, at least one borrower must have been a lessee on the ground lease or lease agreement of the subject leasehold estate for at least 6 months. • Continuity of Obligation must be met. *Refer to the Continuity of Obligation* topic in this section for complete information. • Properties listed for sale in the most recent 180 days preceding the application date are not eligible for a cash out refinance (does not apply to a recently purchased home) **Max Cash to Borrower:** Cash-out is limited to the maximum amounts stated in the Prime Jumbo LTV Matrix. **Power Of Attorney (POA):** • A POA may <u>not</u> be utilized to sign a security instrument or note except as required by applicable law. **<u>Delinquent Real Estate Taxes</u>** If real estate taxes are more than 60 days past due and are included in the new loan amount an escrow account must be established, unless prohibited by state law or regulation. **<u>Inherited Property</u>** If a mortgaged property was inherited within the last 6 months, the following restrictions apply: • Documentation evidencing the inheritance must be obtained. • The owner must have clear title. • Title cannot be held in probate. • Percentage of ownership by heirs must be demonstrated. • **A five percent (5%) LTV/CLTV reduction must be applied to LTV/CLTV /HCLTV.**

Refinance: Rate/Term	The transaction is not eligible as a rate/term refinance if the borrower completed a cash-out refinance transaction with a note date 30 days or less prior to the application date of a new refinance on the same property.
	
	<u>Loan Amount Calculation</u>
	• The new loan amount is limited to:
	  ○ Payoff the outstanding unpaid principal balance of the existing first lien, regardless of the loan originate date; and
	  ○ Financing of related closing costs and prepaid items
	    ▪ The loan must be treated as a cash-out refinance and is subject to all cash-out policies, LTV's, etc. if:
	      • The borrower finances the payment of real estate taxes for the subject property in the loan amount, but does not establish an escrow account, OR
	      • The borrower finances the payment of real estate taxes for the subject property in the loan amount and the real estate taxes are more than 60 days delinquent (with or without establishing an escrow account).
	However, if a particular state law prohibits a lender from requiring an escrow account, the loan is still eligible as a rate/term refinance without the escrow account.
	Note: Properties with transfer fees that are identified as exceptions on the title commitment may not be included.
	
	• Payoff of a subordinate loan that meets one of the following scenarios:
	  ○ The subordinate lien was made within the last 12 months and all proceeds were used to purchase the property.
	    ▪ A copy of the HUD-1/ Closing Disclosure signed by the borrower from the original sale must be obtained to verify that the entire amount being paid off was used to purchase the subject property.
	    ▪ The payoff may also include any prepayment penalty that may be associated with the subordinate lien.
	    ▪ If the subordinate lien is a home equity line of credit, the total amount of additional draws within the past 12 months may not exceed $2,000 (as documented by copies of home equity line statements).
	  OR

	◦ The subordinate lien was made more than 12 months ago: ▪ The payoff may also include any prepayment penalty that may be associated with the subordinate lien; and ▪ If the subordinate lien is a home equity line of credit, the total amount of draws against the line during the past 12 months does not exceed $2,000 (as documented by copies of home equity line statements). • Cash back to the borrower may not exceed 1% of the principal amount of the new mortgage or $5,000 whichever is less. **Note:** For Texas properties, a new refinance transaction that includes the payoff of an equity line of credit, the payoff of any loan that is a Texas Section 50(a)(6) loan or provides any cash to the borrower at closing makes the new loan subject to Texas Section 50(a)(6) requirements and is not eligible. **<u>Inherited Properties</u>** If a mortgaged property was inherited within the last twelve (12) months, the following restrictions apply: • Documented evidence of the inheritance must be obtained. • The owner must have clear title. • Title cannot be held in probate. • Percentage of ownership by heirs must be demonstrated. • **A five percent (5%) LTV/CLTV reduction must be applied to LTV/CLTV /HCLTV**
Refinance Restrictions/ Principal Curtailments	At-Close Principal Curtailments are <u>only allowed because of at closing excess premium rate credits</u>. The amount must be identified on the Closing Disclosure and <u>is limited to the amount of the excess premium rate credit.</u> • If cash proceeds to the borrower exceed the maximum amount permitted for a rate/term refinance, <u>the loan amount must be adjusted accordingly before the loan closes. The excess amount **must not** be handled as an at-close principal curtailment.</u>
Refinance: Technical Refinance (Delayed Financing)	Not permitted.

Age of Credit Documents	• Credit documents may not be more than 120 days old at time of loan closing for existing and new construction.
	  ○ Credit documents include credit reports, employment, income, and asset documentation.
	  ○ The age of the documents is measured from the date of the document to the date the note is signed.
	
	For properties located in an "escrow state" only, the Closing Disclosure should be used to determine the actual closing date for determining the age of credit documents.

Bankruptcy	The borrower's bankruptcy must have been dismissed or discharged (as defined below) and s/he must have re-established a satisfactory credit history and demonstrated the ability to manage financial affairs prudently. ("Satisfactory" means that the most recent rating has a rating of "1".) The bankruptcy should be fully discharged or dismissed as specified below.
	
	The waiting period is a minimum of four (4) years from the date of the mortgage application. In all instances, a letter of explanation from the borrower(s) for the Bankruptcy is required.
	<u>Chapter 7 or 11 Bankruptcy</u>
	• 4 years must have elapsed, measured from the discharge or dismissal date of the bankruptcy action.
	  ○ Exceptions for extenuating circumstances may be considered after two (2) years (measured from the discharge or dismissal date) if the extenuating circumstances can be documented, provided the borrower meets all requirements for re-established credit.
	  ○ If the borrower cannot provide satisfactory documentation to support the extenuating circumstances, four (4) full years must have elapsed.
	<u>Chapter 12 or 13 Bankruptcy</u>
	• 4 years from the date a repayment plan was dismissed or 2 years from discharge date.
	  ○ The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 12 or 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 12 or 13 plan and received a dismissal is held to a 4-year waiting period.
	
	<u>Bankruptcy on the Same Mortgage</u>
	If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy is obtained. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.
	
	<u>Multiple Bankruptcy Filings</u>
	• Five (5) years must have elapsed from the most recent dismissal or discharge date for borrowers with more than one bankruptcy filing within the past 7 years.
	• A satisfactory credit record must be re-established.
	• All bankruptcies must be either dismissed or discharged.

	Note: Two or more borrowers with individual bankruptcies should not be considered cumulative. **<u>Documentation Requirements</u>** Borrowers who have had a bankruptcy closed within the past 7 years must provide the following: • Copies of the bankruptcy petition, schedule of debts, discharge or dismissal order andthe document issued by the court showing the bankruptcy estate is closed. • Evidence to indicate that all debtsnot satisfied by the bankruptcy have been paid or are beingpaid. • Any other evidence necessary to support the determination that the borrower has reestablished and maintained an acceptable credit reputation (*see Re-establishing Credit).*
Borrower Explanations (LOE/LOX)	A signed, written explanation from the borrower is required for the following: • **All Significant Derogatory Information**. The purpose for requiring a written explanation is to assist the underwriter in determining whether the Borrower's credit problems were due to extenuating circumstances (factors clearly beyond the control of the Borrower) or whether they reflect financial mismanagement (the Borrower's disregard for the payment of obligationswhen due). *Refer to Credit/Analysis/Derogatory Credit* for examples of significant derogatorycredit. • **Temporary Leave**: The borrower must provide written confirmation of their intent to returnto work and the agreed upon date of their return. • **Gap in Employment**: The borrower must provide a written explanation when there is a gapin employment of 30 days or more.
Consumer Credit Counseling Agencies (CCCA)/Debt management Services (DMS)	Borrower(s) who have participated in consumer credit counseling or debt management program during which time the counseling agency made payments to creditors on the borrower's behalf. The following conditions must be met: • A minimum of 12 months must have passed since the borrower participated in the program. • The borrower has demonstrated the ability to manage credit sincethen. • The borrower has a satisfactory pay history on allaccounts. **Note:** Homeownership Counseling, which is designed to help first time homebuyers prepare for the financial responsibilities associated with home ownership, should not be confused with Consumer Credit Counseling.
Credit History	Good credit must not be considered a compensating factor. It must be expected of each borrower applying for a mortgage. **Changes in Credit Usage** Recent changes in the borrower's use of credit may indicate they are having difficulty in maintaining accounts. The underwriter should review the age of all obligations to determine whether there has been a recent, significant increase in the number of open accounts and/or the number of outstanding balances.

	Authorized Users of Credit Credit report trade lines that list a borrower as an "Authorized User" may only be considered as part of the borrower's credit history to meet minimum credit requirements if: • Another borrower in the current loan transaction is the owner of the tradeline; or • The borrower can provide written documentation (i.e., cancelled checks) that s/he has been the actual and sole payer of the account for at least twelve months preceding the date of the loan application. If an authorized user's account is used to meet the minimum credit requirements, then both the payment history, including any late payments and the monthly obligation must be considered in the credit analysis and included in the DTI ratios.
Minimum Trade Lines	**Traditional Credit:** The cumulative established credit history of all borrowers on the transaction needs to consist of: • Minimum of 4 trade lines (installment, revolving accounts, mortgages, etc.), • One must be open and has a minimum of 24 months history • The other 3 may be open or closed but must be rated for at least 12 months. **Note:** If there are less than 4 trade lines, or the trade lines do not meet the required payment history requirements (i.e., one has been open a minimum of 24 months, the other 3 must be rated for at least 12 months) or if there is no credit, there is insufficient data to determine credit behavior – even if the report includes a credit score. **Non-traditional credit/history is not permitted.**
Credit Inquiries	If the credit report indicates an inquiry within the previous 90-day period, the Lender must determine whether additional credit was granted as a result of the borrower's request. A letter from the creditor OR a signed statement from the borrower may be used to determine whether additional credit was obtained. If new debt has been obtained, the unpaid balance, terms of repayment and the payment history (if applicable) must be included on the final loan application and DTI ratio.
Credit Report Alerts	<u>**Fraud or Active Duty**</u> GHMC must verify the applicant's identity prior to closing. <u>**Address Indicators**</u> The credit reporting agencies indicate when the applicant's address provided by a creditor differs, or is a variation, from the address on the credit report. Often there is a simple and logical explanation. However, such discrepancies may be red flags for fraudulent activity. • *Address Discrepancy Alert* This alert occurs when the applicant's address <u>is a variation</u> of the address the credit bureau has on file or the credit bureau address history reflects other addresses reported during the same time period as the inquiry address. • *Address Mismatch Alert*

	This alert occurs when the applicant's address does not show up on the credit bureau report. This indicates the inquiry address is a new address for the applicant's credit profile, as the address does not match or has never been reported to the credit bureau before. **All discrepancies/mismatch addresses must be reviewed and resolved. Frozen/Locked Credit must follow Consumer Credit Bureau Block policy.**
Credit Utilization	The underwriter must evaluate the borrower(s) use of revolving credit by comparing the current balance on each open account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. The higher the borrower's overall utilization of revolving credit the higher the amount of risk. (**Note:** The lack of adverse or derogatory credit information may not be used as an offset for high balance- to-limits or high overall utilization of revolving credit.)
Credit Worthiness	The underwriter must determine the credit worthiness of all borrowers. While credit score is a key factor used in determining credit worthiness, we recognize there are situations in which either the credit history is old, or there are too few trade lines available to score a loan. In these cases, a manual, further evaluation of credit may be necessary. ***Refer to the Prime Jumbo Underwriter Credit Decision Requirements Credit/Decision/Options/Comprehensive Risk Assessment* for instructions on the data that should be examined and considered while performing a judgmental/subjective credit evaluation. Located in Teams > All Underwriters > Guidelines – Job Aids – Policy > Snapshots** **Important**: The underwriter has the right to request additional information if deemed appropriate even if an explanation is not normally required.
Deed-in-Lieu / Short Sale/ Pre-Foreclosure or Charge-Off of a Mortgage Account	The waiting period is a minimum of four (4) years from the date of the mortgage application, measured from the completion of the action. **Extenuating Circumstances:** If the deed-in-lieu, short sale, pre-foreclosure or charge-off of a mortgage account was the result of documented extenuating circumstances, the waiting period is two (2) years provided the borrower meets all requirements for re-establishing credit. • If the borrower cannot provide satisfactory documentation to support the extenuating circumstances, four (4) full years must have elapsed. **Note:** This section does not apply to deeded Timeshares.

Derogatory Credit	The cause and significance of the derogatory information must be determined, verification that sufficient time has elapsed since the date of the last derogatory information, and confirmation that the borrower has a re-established acceptable credit history is required.
	
	A written explanation for significant derogatory credit must be documented along with supporting exhibits as defined throughout this section. All letters of explanation must be signed by the Borrower prior to close.
	
	The underwriter should determine if a letter of explanation is required for minor derogatory credit or an isolated incident that is not representative of the borrower's overall credit history/ profile. The underwriter should explain in their rationale if a letter is not being required.
	
	<u>Significant Derogatory Credit</u>
	
	The following scenarios are examples of what may be considered "Significant Derogatory Credit" and, therefore, <u>require a written explanation from the borrower</u>.
	• There are several accounts showing recent late payments
	• There are multiple 60- or 90-day late payments;
	• There are more than two 30-day or more than one 60-day late housing payments withinthe most recent two years
	• The number and size of the delinquent accounts are large in relation to the overall credit
	• There are multiple episodes of late payments extending over a period oftime
	• The credit history shows derogatory credit information within the two most recentyears combined with multiple revolving accounts with high balances-to-limits
	• The public record information reveals several occurrences of derogatory credit information, including judgments, tax liens and/or collection accounts
	• There is a bankruptcy filing, foreclosure, pre-foreclosure sales, mortgage charge-offs, deed- in-lieu of foreclosure, short sale within the last seven years, or accounts that have been turned over to a collection agency.
	
	<u>Identification of Significant Derogatory Credit Events in the Credit Report</u>
	The Underwriter must:
	• Review the credit report thoroughly to determine
	    o the status of each trade line, manner of payment codes, remarks to identify significant derogatory credit events (current and previous mortgages, HELOC's), foreclosures, deed-in-lieu, pre-foreclosure sales, bankruptcies, odd terms, balances greater than the credit limit (revolving, installment or mortgage)
	    o If there are any public records (collections, judgments),
	• Review the Declarations section of the loan application to identify instances of significant derogatory credit events.
	
	If significant derogatory credit events are not clearly identified in the credit report, the borrower must provide copies of appropriate documentation to establish the completion date of the event and confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

Discrepancies	When a credit report does not include a reference of a debt the borrower reported on the loan application, separate written verification/payment history for each unreported debt is required. Written explanation from the borrower may be required depending on the documentation process selected. All letters of explanation must be signed by the Borrower prior to close.
Disputed Credit Obligations	Disputed trade lines or public records adverse to the credit profile require a written explanation from the borrower including evidence to support the dispute. If the account in question adds risk, such as stolen/fraudulent use of the account, the evidence must include documentation and verification of the account status (i.e. current balance, delinquency, etc.) from the creditor or credit bureau. All written letters of explanation must be signed by the borrower prior to close. **Note:** If the account or public record is medical, a letter of explanation and evidence is not required. **<u>Past Due Accounts</u>** Past Due accounts must be brought current prior to closing. **<u>Incorrect Information</u>** If a borrower states the information on the credit report is incorrect or does not belong to the borrower and the information reflected is deemed to be of material significance (e.g., delinquent credit obligation, public records or trade lines that do not belong to the borrower), the borrower must provide documentation from the creditor or the credit bureau evidencing that a dispute has been initiated for the identified account(s). A subjective review by the underwriter must be documented in the loan file. All written letters of explanation must be signed by the Borrower prior to close.
Foreclosure	The waiting period is a minimum of seven (7) years from the date of the mortgage application from the completion of the foreclosure action. A letter of explanation from the borrower(s) **Note:** This topic does not apply to deeded Timeshares.
Garnishments	• If the reason for the garnishment is not obvious (child support, etc) the underwriter should determine the reason for the garnishment and note the loan file. • The monthly debt should be included in the total debt ratio. **Note**: Garnishments do not need to be paid off prior to or at close.
Judgements & Tax Liens / Public Records	• Borrower must pay off all delinquent credit, including delinquent taxes, judgments, charged-off accounts, tax liens and mechanics or materialmen's liens. • Borrowers with previous judgments must provide evidence of payment in full or evidencethe judgment no longer represents a claim against theborrower. • The borrower must provide satisfactory written explanation along with any supporting documentation, as needed. • All letters of explanation must be signed by the Borrower prior to closing. Loan proceeds, when allowed based on transaction type, may be used to pay off judgments or tax liens at closing by the title company; pay off must be documented on the Closing Disclosure.

Lawsuits	• A written explanation and a copy of the filed complaint pertaining to the lawsuit are required. • All letters of explanation must be signed by the Borrower prior to close. • Additional documentation may be required depending on the type of lawsuit and the borrower's involvement.
Payment of Past Mortgages/ Rent	As of the date of the loan application, housing history must reflect 0 x 30 in the previous 12 months for <u>all borrowers</u> (rolling late payments are not permitted). **<u>Existing Mortgage Payment History</u>** A verification of a mortgage history is required on all transactions and must contain current balance, status and payment amount verified via a Credit Report, or a Verification of Mortgage (VOM) completed by the mortgage holder. • If the credit report reflects a history of at least 12 months, no further documentation is required. • If the credit report reflects a history less than 12 months, the history must be verified via 12 months cancelled checks (front and back) or a statement directly from the mortgage servicer. • On the date of the loan application, the borrower's mortgage payments (first and second) on the subject property must be current. • On the date of the loan application, the mortgage history must reflect 0 x 30 in the previous twelve (12) months. "Rolling" Mortgage late pays are not permitted. • In case of a recent refinance or account transfer, a combination of payment performance from multiple lenders for the same collateral may be used to complete the twelve-month (12) history requirement. • In the case of a recent purchase, a combination of payment performance from a prior property or rental payments may be used to complete the twelve-month (12) history. A gap in mortgage/rental payment history of up to six (6) months is allowed by obtaining the most recenteighteen-month (18) history and providing written documentation explaining the reason for the gap. • For each mortgage liability where the borrower is currently an obligor on the note secured by real estate debt, a verification of mortgage must be obtained if the mortgage is not verifiedon the credit report. **Note:** If there is a new debt being incurred from a pending purchase transaction, the Loan Estimate and Lender approval should be obtained to verify the new monthly payment amount. **<u>Existing Rental Payment History:</u>** A verification of rental history is required on all transactions via: • Copies (front & back) of twelve (12) consecutive monthly payments paid within the month due; OR • Twelve (12) months of bank statements or direct payment records showing one (1) payment per month paid in the month due; OR • Verification of Rent (only acceptable when provided by management company) OR • Residential mortgage credit report ("RMCR") or merged in-file report. If the landlord is related to the borrower, twelve months of cancelled checks must be

	provided. **Note:** If the landlord is a management company, the management company must be listed in the local telephone directory and the file must contain a copy of the list. If the listing is not available, 12 months canceled checks must be provided.
Purchase of a Pre-Foreclosure or Short Sale Property	**<u>Allowable Fees and Payments</u>** Borrowers may pay additional fees or payments in connection with acquiring a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees or payments include, but are not limited to the following: • Short sale processing (also referred to as short sale negation fees, buyer discount fees, short buyer fees); **Note:** This fee does not represent a common and customer charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. • Payment to a subordinate lien holder; and • Payment of delinquent taxes or delinquent HOA fees. **<u>The following requirements apply</u>**: • The borrower (buyer) must be provided with written details of the additional fees or payments • and the additional necessary funds to complete the transaction must be documented. • The servicer that is agreeing to the pre-foreclosure or short sale must be provided with written details of the fees or payments and has the option of renegotiating the payoff amount to release its lien. • All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees or payments. This can be accomplished by using the "Request for Approval of Short Sale" or "Alternative Request for the Approval of Short Sale" forms published by the U.S. Treasury Supplemental Directive 09-09 or any alternative form or addendum. The Closing Disclosure must include all fees and payments included in the transaction.
Reestablishing Credit	After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, pre-foreclosure sale or charge- off of a mortgage account, <u>the borrower's credit will be considered re-established if all the following are met.</u> • The waiting period for the event along with related requirements have beenmet. • The borrower has met traditional credit as defined in Credit History/Minimum Trade Linestopic above. **Note:** Non-traditional credit is not permitted.
Restructured Loans	A restructured loan is a mortgage loan in which the terms of the original transaction have been changed resulting in either forgiveness of all or a portion of the debt **OR** a restructure of the debt through the modification of the original loan or origination of a new loan that results in: • Forgiveness of a portion of the principal and/or interest on either the first or second mortgage.

	• Application of a principal curtailment except as permitted by policy. • Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or • Conversion of any portion of the original mortgage debt from secured to unsecured. If the transaction involves the refinancing of a mortgage that has been previously restructured, or if the borrower(s) were obligated on a prior mortgage that was restructured, the borrower(s) are eligible for new financing subject to the following: • At least 24 months have elapsed since the restructure occurred; and • Mortgage history must reflect 0x30 in the past 24 months.
Social Security Number	All borrowers must have a social security number to be eligible for a loan. ITIN numbers not permitted. **<u>Social Security Number (SSN) Validation Requirements</u>** Any SSN issues (including invalid format, number not issued, borrower age or issue date discrepancies, number associated with deceased individuals, etc.) that cannot be resolved internally, must be validated with the Social Security Administration (SSA).
IRS Tax Transcripts	IRS Tax Transcripts are required when any income that is verified via a tax return is used to qualify. Transcripts must be obtained via third party vendor, except in the case of IRS reject code 10 as noted below. **<u>IRS Tax Transcript Rejects</u>** If the IRS rejects a tax transcript request with reject code 10, IRS reject code 10 due to limitations, or IRS reject due to limitations, indicating the borrower may be a victim of taxpayer identification theft, the following steps must be taken: • The borrowers must contact the IRS at the number identified on the rejection letter. • The borrower must confirm they have no fraud or identity theft. • The underwriter must review the file to ensure there are no red flags present. • A LOX from the borrower OR documented rationale from the underwriter must be placed into the file confirming the borrower contacted the IRS and no ID theft.

Unpaid Charge Offs & Collections	Unpaid charge-off and/or collections are required to be satisfied as defined below
	
	The collection/charge off must be paid prior to or at loan closing unless the criteria listed below can be met:
	• The total outstanding balance of all collections/charge-offs is $2,000 or less; or
	• The collection/charge-off has not reached a judgment or lien status; and
	• When the account is disputed, borrower has documented evidence of the dispute, and
	• The loan qualifies carrying a payment of 5% of the balance of each outstanding collection/charge-off.
	
	If the above cannot be met and the collection/charge-off must be paid at closing, the following will apply:,
	• Cash-Out Refinance
	    o Proceeds may be used to satisfy the un-paid charge-off and/or collection at closing
	• Purchase or Rate/Term Refinance
	    o The pay-off must be documented on the Closing Disclosure and match documentation in the loan file, AND
	    o The loan contains documentation as to why the account(s) could not be paid prior to the loan closing; AND
	Sufficient borrower funds have been verified (under no circumstances may the proceeds of the loan be used to pay unpaid charge-off or collections

Debt Payoff/ Consolidation	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. • Installment loans that are being paid off do not have to be included in the borrower's long- term debt. • Payoff of revolving debt to qualify is not permitted. The debt listed on the credit report must be used to calculate the DTI. If installment debt does not extend beyond 10 months, can be excluded from the DTI, however, the underwriter must review the borrower's debt to ensure that the size and/or number of remaining payments will not impact the borrower's ability to handle the new mortgage payment. If all or any portion of the proceeds of the Mortgage is used to pay off or pay down existing debts (installment) to qualify for the Mortgage, payoff must be documented in the Mortgage file. Canceled checks, paid receipts and/or a copy of the Closing Disclosure form or other closing statement may be used to document the repayment. When the borrower pays off or pays down an existing debt in order to qualify, the source of funds used must be verified, and meet eligibility requirements for both purchase and refinances.
Debt-to-Income Ratios	If the subject property is a second home and the borrower's primary housing expense is zero, the file must contain documentation to verify that the borrower does not have a primary housing payment/debt.

Housing-to-Income Ratio	**Properties subject to Tax Abatements:**
	The full monthly real estate tax amount must be included in the ratios unless all of the below can be met:
	• The tax abatement must not expire in 5 years or less; and
	• The tax abatement must be recorded on title.
	
	New Constructed Properties:
	• The debt ratios should be calculated using the estimated real estate taxes based upon the completed property improvements, not the unimproved lot taxes.
	
	Existing properties:
	• The debt ratios should be calculated using the tax amount provided by the current tax bill, Title Commitment, DLS Screen Print or recent appraisal.
	
	Properties located in California:
	• If the property was purchased within the last 12 months, and taxes have not yet been fully assessed, debt ratios should be calculated using 1.25% of the lesser of the purchase price or appraised value.
	    o If the underwriter determines that the actual tax rate is **less than** 1.25%, the actual tax rate may be used to calculate the debt ratios if documentation supporting the amount is in the loan file.
	    o If the actual tax rate is **greater than** 1.25%, that amount must be used to calculate the debt ratio as well.

	Payment calculation for subordinate financing: • HELOC - Qualifying payment should be calculated using the fully amortizing principaland interest payment based on Prime + Margin (or 2% if margin is unavailable) + 2%, for the remaining term after the Interest Only period on the maximum lineamount. • FRHEL- Qualifying payment is calculated using the principal and interestpayment. *Refer to Assets/Borrowed Funds/Subordinate Financing for general eligibility requirements.*
Qualifying Ratio	There must be a reasonable belief that the borrower has the ability to repay the loan. Loan decisions will not be based solely on the value of the real estate collateral. The underwriters analysis of a borrower's ability to repay will include appropriate review of income, debts, DTI ratios, disposable income, and credit worthiness.

<table>
<tr><td>Types of Recurring Debt</td><td>Refer to individual topics listed below to determine liabilities – Recurring Debt that should be included in the debt ratio.</td></tr>
<tr><td>Alimony & Maintenance</td><td>Alimony obligation should be documented as follows:
All page(s) of the final divorce decree, or
Signed court order, or
Property settlement, or
Separation agreement.
If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient.

Obligations that will end within the next 10 months do not need to be considered and may be omitted from the DTI ratio only if the remaining term of payments is verified by the above documentation. However, the size and number of remaining payments should not impact the borrower’s ability to handle the new mortgage payment during the early period of the loan.</td></tr>
<tr><td>Borrowed Funds Against Financial Asset</td><td>The borrower may take a loan against a liquid asset that is secured by stocks, bonds, or any other investment account, life insurance policies, 401(k) accounts, CDs, or other financial assets.
Although information regarding the amount of the loan must be provided, the debt is not generally counted in the borrower’s qualifying ratios if the loan instrument shows the asset as collateral for the loan, since the loan may be repaid by liquidating the asset.
A financial institution must have made the loan.
The borrower may only use assets in the account that exceed the loan balance to satisfy cash reserve requirements.</td></tr>
<tr><td>Business Debt</td><td>If the debt is reflected on the borrower’s personal credit report and the borrower is the primary obligor on the debt, the borrower is personally liable for the debt, and it must be included in the debt- to-income ratios.
Debts paid by the borrower’s business do not have to be included in the debt-to-income ratios if:
The borrower provides 12 months canceled checks drawn against the business account;and
The account in question does not have a history of delinquency; and
Two years’ personal, partnership, and/or corporate tax returns evidencing that business expenses associated with the debt support that the debt has been paid by the businessmust be obtained; and
The underwriter’s cash flow analysis of the business took into consideration the payment ofthe obligation (included interest expenses, and taxes and insurance, if applicable, that one would reasonably expect to see based on the loan balance and age of theloan).
The debt must be included in the borrower’s debt ratios, if the tax return analysis of the business does not reflect any business expense (including 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.
If the debt is <u>not</u> included in the borrower’s debt ratio, the loan must be reviewed to confirm income is independent of the borrower and the business can continue to cover the debt for the next three years.
If the above requirements are not met, the payment needs to be included in the total debt ratio.</td></tr>
</table>

	• In lieu of cancelled checks, a letter from a CPA providing specific account number(s) and verification that the business has paid the debt for the past 12 months is acceptable.
Child Support	Child support obligations should be documented as follows: • Applicable page(s) and signature page of the divorce decree, or • Property settlement, or • Separation agreement. If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient. Obligations that will end within the next 10 months do not need to be counted in debt-to-income ratio. However, the size and number of remaining payments should not impact the borrower's ability to handle the new mortgage payment during the early period of the loan. Borrowers with current or previous past due child support must provide evidence that all past due payments are current unless the borrower is making the payments according to a court approved plan. In this case, the borrower must demonstrate that payments are current according to the plan.
Contingent Liability: Debt Paid by Others	A contingent liability being paid by others may be excluded from the monthly debt payment ratio when meeting the following requirements: **Installment debt (not including mortgages), Revolving, or Monthly Lease Payment:** • The most recent 12 months' cancelled checks or bank statements from the party making the payments, • There must be no delinquencies in the most recent 12 months, and • The party making the payments cannot be an interested party to the subject real estate or mortgage transaction. **Mortgage Payment or other property related expenses (taxes, insurance, etc):** • The party making the payments must be obligated on the note, • The most recent 12 months' cancelled checks or bank statements from the party making the payments, • There must be no delinquencies in the most recent 12 months, • The borrower is not using rental income from the property to qualify, and • The party making the payments cannot be an interested party to the subject real estate or mortgage transaction. **Court ordered assignment of debt:** When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree), regardless of whether the creditor has not released the borrower from liability, the underwriter is not required to count this contingent liability as part of the borrower's recurring debt obligations. • Must document the order with a copy of the appropriate divorce decree/ separation agreement.

	Note: The above policy for court ordered assignments of debt and property settlement buyouts should never apply to debt secured against the subject property. In these instances, debt must ALWAYS be counted in the debt ratio calculation
Deferred Loans	Installment debts with deferred payments include debts on furniture, household items, and automobiles for which the initial payment is delayed for a period of time as part of a merchant's promotional campaign. *For student loans refer to the Student Loans topic later in this section.* For deferred installment debts, the payment amount that will be required once the deferment or forbearance period has ended must always be included as part of the borrower's recurring monthly obligations. If the credit report does not indicate a monthly payment at the end of the deferment period, the following documentation should be requested: • A direct verification from the creditor; or • A copy of the installment loan agreement obtained from the borrower.
Demand Loans	A demand loan has no monthly payment; it becomes due and is payable in full on a particular date. This type of debt may or may not be secured. • If the notice is due within the next 2-years and the borrower does not have adequate reserves available to repay the obligation in full, the transaction should be treated as an installment loan. A minimum payment of 5% of the unpaid balance must be included in the debt-to-income ratio. If the borrower does have adequate reserves available to pay the obligation in full, the debt should not be included in the debt-to-income ratio.
Installment Debt	• Installment debts with monthly payments that extend beyond 10 months (and debts that are in a period of either deferment or forbearance for agency loans) must be included in the debt-to- income ratio for qualification purposes. • Even if the debt does not extend beyond 10 months, it must be noted whether the size and/or number of remaining payments will impact the borrower's ability to handle the new mortgage payment during the early period of the loan. • If debt is paid by the borrower's business, it does not need to be included as a liability if it meets the requirements in the Business Debt topic above.
Leased Obligations	• The monthly payment for the leased item should always be counted as a recurring debt regardless of the remaining term. • If lease is paid by the borrower's business, the debt does not need to be included as a liability if it meets the requirements in the Business Debt topic above. **Pre-Paid Leases** - If the borrower fully pre-paid the terms of their lease at the original time the Lease Agreement was executed, the monthly payment for the lease does not have to be included in his/her recurring debt obligations provided the borrower's assets are reviewed and no undisclosed obligations are reflected. The file should be documented with the terms of the lease and the Underwriters rationale for not including a monthly payment in the DTI.
Mortgage Assumptions	For a contingent liability on a Mortgage Assumption, the liability must be included in the DTI when the borrower has sold a property as an assumption without a release of liability being obtained.
Net Rental Loss/ Negative Rent Income	• If real estate is owned free and clear, only current real estate taxes, hazard insurance premiums, and homeowners' association fees must be included in the borrower's monthly expenses. • The borrower must supply a copy of the homeowner's insurance policy declaration page or

	other documentation that clearly evidences the current property is free of encumbrance. • If any documents in the file indicate that the property has a mortgage, it must be verified, and the payment history supplied. The amount of the negative cash flow calculated from the tax return must be included in the borrower's debt-to-income ratio. *Refer to Employment & Income/Rental Income for details with regards to rent income.*
Non-Reimbursed Business Expenses	When a borrower has non-reimbursed business expenses that are being analyzed, such as meals, gasoline, auto insurance and/or taxes, a recurring monthly debt obligation should be developed based on a 24-month average of the expenses (from Schedule A and IRS Form 2106 from the tax returns). Automobile depreciation may be netted out. Union dues shown as an expense on the 2106 do not need to be treated as a reduction to total income. The 24-month average should be deducted from the borrower's stable monthly income. Automobile loan payments and automobile lease payments that are included as non-reimbursed expenses on the tax returns <u>may not be deducted</u> from income. They must be included as recurring debts in the total debt ratio. • If the borrower claims a "standard mileage" deduction, multiply the business miles driven by the depreciation factor for the appropriate year as published by the IRS, and add that figure backto the calculation. • If the borrower claims an "actual depreciation expense" deduction, the amount the borrower claimed should be added back. Refer to www.IRS.gov for depreciation factors. For additional information regarding the treatment of Auto Allowance/Expense Account Reimbursement *refer to Section -Employment & Income/Other Non-Employment Income/Auto Allowance/ Expense Account Reimbursement.* *Refer to Section - Employment & Income/Wage Earner/Commission Income for additional information regarding treatment of Commission Income*. **Note:** Non-reimbursed expenses should be deducted from the income that is being used to qualify and should not be considered in the 20% tolerance between the income documentation provided by the borrower and the income documented on the IRS Transcript as discussed in Section- Employment & Income/Introduction/Processing and Analyzing the 4506-C.
Overdraft Protection Account	If there is a balance, count a minimum payment in the debt- to-income ratios.

Payroll Deductions	Any time a payroll deduction appears on the borrower's pay stub, the underwriter must determine if the deduction represents a debt that must be included in the debt ratio. Examples of such debts include, but are not limited to: Credit Union or employer loans, garnishments, child support, etc. The following information may assist in making the determination: • Monthly payment of the debt • Balance of the debt • Reason the debt is being deducted from payroll • All guidelines regarding the debt

Real Estate Obligations: Departure Property	The reserve requirements for the subject property as noted on the Prime Jumbo Matrix must be applied, in addition to:
	
	The current principal residence is pending sale but will not be closed/transferred prior to the new transaction (evidence that property is up for sale or pending sale is required):
	The following reserve requirements must be met for all loans:
	• If the borrower can qualify with both properties in DTI, count both payments plus two months PITIA reserves for the departure property.
	• If the borrower cannot qualify with both properties in DTI:
	    ○ If there is an accepted contract, a minimum of 6 months PITIA reserves on the departure property is required and payment on the departure property does not have to be included in the DTI.
	    ○ If there is no contract on the departure property, a minimum of 24 months PITIA reserves for the departure property is required and the payment of the departure property does not have to be included in the DTI.
	
	The current principal residence is being converted to a second home:
	• The PITIA for the current and proposed mortgage payments must be used to qualify the borrower for the new mortgage loan; and
	• Minimum of 6 months of PITIA reserves are required for the departure property.
	
	The current principal residence is being converted to an investment property:
	• If the borrower qualifies with the PITIA for the departing property and the PITITA for the new proposed mortgage payment, the borrower must have six months PITIA reserves for the departure property.
	• To determine if rental income may be used to qualify, equity must be documented with one of the following:
	    ○ A current appraisal (2055 or better), minus any liens. The appraisal may not be dated more than 180 days prior to the note date; or
	    ○ By comparing the original sales price of the departure property to the current unpaid principal balance.
	    ○ If 25% or more equity is in the departure property:
	        ▪ If the borrower has a documented two-year history of managing rental properties, 75% of the rental income can be used to calculate rental income. Refer to Calculating Rental Income: Non-Subject Property for complete information, and the following must be obtained:

	• A copy of the fully executed lease agreement; or • If the file does not document a two-year history of managing investment property via the Borrower's federal tax returns, then signed leases may not be used for rental income or to offset the mortgage for the newly converted investment property. • Twelve months PITIA for the departure property is required to be in reserves **OR** • If the borrower does not have a documented two-year history of managing investment property via the Borrower's federal tax returns, then signed leases may not be used for rental income or to offset the mortgage for the newly converted investment property unless the following criteria are met: o FICO is > 760; and o $100,000 in post-close reserves or the reserves required for the transaction; whichever is greater. o If less than 25% equity in the departure property: • Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and • Minimum reserves of 6 months PITIA are required for the departure property.
Real Estate Obligations: Verification of Mortgage Debt	For each mortgage liability where the borrower is currently an obligor on the note secured by real estate debt, a verification of mortgage must be obtained if the mortgage is not verified on the credit report. **Note:** If there is a new debt being incurred from a pending purchase transaction, the TIL, GFE, Loan Estimate or other alternative documentation from the lender should be obtained to verify the new monthly payment amount. If there are any mortgage interest deductions or payments on the borrower's personal tax returns (if tax returns are in the file) it must be determined if the borrower is obligated on an undisclosed mortgage, and if so, the mortgage must be verified. **Real Estate obligations that do not meet the criteria for utilizing rental income as stated in the Rental Income section:** • The PITIA must be included in the debt ratio for qualifying. **Standard with Bridge Loans –** Refer to the Bridge Loans Topic in *Source of Funds/ Bridge Loans*

Revolving Debt	The following must be included in the debt-to-income ratio: • Minimum payment (from statement or credit report); or • The greater of 5% of the current balance, or $10, if no payment is stated on the credit report. If multiple account payments are not reported, and/or the borrower's ratios are at the maximum permitted for the process selected, the underwriter should obtain actual minimum payments from the borrower's account statements to qualify the borrower. • **<u>Open 30-Day Charge Accounts</u>:** On all 30-day accounts (also referred to as open accounts), if the borrower does not have sufficient assets to cover the unpaid balance or will not be reimbursed by their employer for the charges, the account must be paid off at closing and the source of funds must be provided. • **<u>"Authorized User of Credit" Accounts:</u>** Payments on "Authorized User" accounts must *always* be included in the debt-to-income ratio **unless** written documentation (i.e. 12 months cancelled checks) is provided proving that the owner of the account is making the payments. • **<u>Fees Paid Outside of Closing (POC):</u>** The applicant may charge the total fees due on a credit card, regardless of the amount. When more than 1% is charged and the borrower does not have sufficient liquid funds to cover the charge, then the credit card payment must be re-calculated, and the new payment included in the DTI. To recalculate the new POC debt one of the following is required: – <u>Credit Card Receipt</u>: Obtain credit card receipt and use 5% of the POC amountin addition to the payment on the credit report for any current balance; or – <u>Credit Card Statement with the POC Charge</u>: Obtain a copy of the credit card statement showing the amount charged, the outstanding balance and the terms of repayment. Fees POC include lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees. Borrowers are not required to pay off these credit card charges on or before closing. **Under no circumstances may credit card financing be used for the down payment.**
Special Assessments	Any special assessment amounts indicated on the appraisal or in the title work must be included in the borrower's total debt ratio, following the installment loan policy. If the underwriter learns that the special assessment district may be having financial difficulties, the underwriter should evaluate the borrower's ability to repay the mortgage in the event additional assessments are imposed. If special assessments are in arrears, documentation must be obtained to show they have been paid, or that sufficient deposits to cover such amounts are being collected.

<table>
<tr><td>Student Loans</td><td>Repayment of all student loans must be included in the debt-to-income ratio, except:
10 or fewer payments remain; or
Payments are deferred for at least 12 months from the date of closing.
Verification of deferment is required
For deferred installment debt that expires in less than 12 months, the payment amount that will be required once the deferment or forbearance period has ended must be included as part of the borrower's recurring monthly obligations.

If the credit report does not reflect a payment or the correct monthly payment, the following may be used to qualify the borrower:
The monthly payment reflected on the student loan documentation (i.e., a copy of the installment loan agreement, a direct verification from the creditor or the most recent student loan statement). OR
1% of the outstanding balance, as reported on the credit report.
Note: Customer provided documentation (i.e., most recent student loan statement) may be used to support a different monthly payment amount than what's reflected on the credit report. A credit report supplement may be used to resolve further discrepancies.</td></tr>
<tr><td>Subordinate Financing</td><td>If the subject property has an existing subordinate lien, the existing lien may be subordinated to the new "refinance" transaction.
Note: Subordinate financing may not contain negative amortization financing structure and may not have any special servicing requirements for GHMC. Negative amortization is defined as the accrual of interest during a period of deferment.</td></tr>
<tr><td>Unsecured Loans</td><td>Unsecured personal loans are not an acceptable source of funds for down payment, closing costs, or reserves.</td></tr>
<tr><td>Verification of Debts</td><td>All disclosed debt must be verified on the credit report or via separate credit verification. If a current liability is not reflected on the credit report, it must be verified via separate credit verification. If a current liability appears on the credit report but is not on the application, the borrower should provide a reasonable explanation for the undisclosed debt.

Documentation may be required to support the borrower's explanation.

For inquiries on credit reports, refer to Section - Credit/Analysis/Credit Inquiries topic.

Note: Timeshare loans are treated as installment debt. Monthly maintenance fees/HOA fees must be included as a liability.</td></tr>
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Evaluating Funds to Close	• The underwriter must verify that the borrower has adequate cash to cover down payment, including the earnest money deposit, prepaid/escrow items, closing costs, financing costs if paid by the borrower, and reserves, if required, as per program guidelines. • Cash is defined as an asset that is or can readily be converted into cash in a short time frame (a.k.a., a liquid asset). • Proof of liquidation is required for non-liquid assets used to pay the above items. • When someone other than the borrower is paying any of the items listed above, the file must contain documentation showing the amount being paid and who paid it. • If the payments are being made by an interested party to the transaction or funds from premium pricing are used, the transaction must meet the requirements of Section - Source of Funds/ Interested Party Contributions. • This section addresses various closing costs that may be required in the originations of a first mortgage loan and general requirements associated with those costs. • A list of acceptable assets that may be used to finance funds to close are listed in - Assets/Source of Funds section.
At-Closing Principal Curtailments	At-closing principal curtailments may not be used to make additional down payments or to reduce the loan amount. In these situations, the borrower will have two options: (1) close the loan "as-is" and make any desired principal curtailments after closing as permitted by the terms of the mortgage documents and subject to any applicable prepayment penalties; or (2) obtain underwriting approval for a loan amount change and, if necessary, redraw the closing package. Principal Curtailments are only allowed as a result of at closing excess premium rate credits. The amount must be identified on the Closing Disclosure and is limited to the amount of the excess premium rate credit. If the borrower receives more cash back than is permitted for a rate/term refinance and it is **due to excessive premium rate credits**, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement, otherwise, the loan amount must be reduced. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan
Closing Costs	Any costs that are normally the responsibility of the buyer are considered concessions if the seller pays them or if the seller exceeds the maximum contribution limit. *Refer to Section - Assets/Source of Funds/Minimum Down Payment/Borrower Contribution Requirement topic for additional details.* All other forms of payment or gifts related to the acquisition of the property, or to the payment of the financing terms are contributions and subject to the limitations noted in this guide (e.g., origination fees, discount points, commitment fees, appraisal costs, interest shortfall, transfer taxes, stamps, attorneys' fees, surveys, title insurance, fees for the use of a real estate tax service, and credits to the purchaser from any interested party). Pro-rated real estate taxes cannot be considered when determining the funds required for the transaction. Although a pro-rated tax credit from the property seller can offset that portion of the charge for the establishment of the escrow account, the borrower must still verify sufficient funds for down payment, closing costs, prepaids and reserves, including the payment of pro-rated real estate taxes prior to closing. (Example: Borrowers closing costs and prepaids are $5,000. The seller's

	portion of the pro-rated real estate tax credit to the borrower is $2,000. This reduces the borrower's cash to close to $3,000. The borrower must still verify the entire $5,000 prior to closing). Pro-rated real estate tax credits cannot be used to meet the borrowers minimum required investment or down payment.
Down Payment	**<u>Deposit on Sales Contract</u>** *Refer to Section - Assets/Source of Funds/ Earnest Money topic for specific requirements.* **<u>Saving Funds to Close</u>** It is acceptable for the borrower to save part of the closing costs between the times of the application and closing provided the amount and time to save before closing is considered reasonable, subject to the requirements below: • The borrower must provide a written explanation as to how the funds will be saved and over what period of time. • All letters of explanation must be signed by the Borrower prior to close. • A monthly savings plan worksheet demonstrating how the funds will be saved is required and must be included in the loan package. • The worksheet must be included when submitting the file to Underwriting. It is critical that the amount is reasonable with respect to the borrower's previous savings history, the proposed time frame, and current income and expense levels. • The underwriter has the final decision with regards to its reasonability. • The funds must be held by a disinterested third party, such as a depository institution, escrow company, etc. (this does not include the builder or Realtor). • All funds must be saved in accordance with the approved savings plan. • The loan must be approved with a condition to verify the funds prior to closing. **Note: Pro-rated real estate tax credits cannot be used to meet the borrowers minimum required investment or down payment.**
Interest Rate Buydowns	**<u>Temporary Buy Downs</u>** Temporary interest rate buy downs are not permitted.
Prepaid Items	An escrow account is required for the payment of taxes, special assessments, hazard, flood, and/or mortgage insurance on most loan transactions, except as specified by policy or, in the case of a table funding, as prohibited by state law. **Higher-Priced Mortgage Loans:** Not Permitted
Reserves	**<u>Acceptable Sources of Reserves</u>** Examples of liquid financial assets that can be used for reserves include: • Checking or savings accounts, • Investments in stocks, bonds, mutual funds, and Other Securities. *Refer to Section - Source of Funds/ Retirement Accounts* for verification requirements. • Certificates of deposit: 100% of value less any early withdrawal penalties that should be deducted • Money market funds and trust accounts • The amount vested in a retirement savings account, • The cash value of a vested life insurance policy. • Stocks

	(*Refer to Section - Assets/Source of Funds* for additional requirements) **<u>Unacceptable Sources of Reserves</u>** The following cannot be counted as part of the borrower's reserves: • Funds that have not been vested, • Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death, • Stock held in an unlisted corporation, • Non-vested stock options • Notes or loans receivable from a privately-held company • Unsecured borrowed funds, including unsecured Employer-Assisted Housing benefits • Interested party contributions (IPCs) • Cash out proceeds **<u>Minimum Reserve Requirements</u>** Refer to <u>Prime Jumbo Matrix</u> for reserve requirements. **<u>Multiple Properties</u>** If a borrower has multiple properties, the following reserve requirement applies: • In addition to the reserve requirements specified in the Prime Jumbo LTV Matrix for the subject property, 2 months PITIA is required on each additional residential property with a lien (i.e., primary residence, second home, and investment property). • Cash-out received at closing may not be used to satisfy reserverequirements. • Reserves must be cash or marketable securities. • Retirement assets can be used if it meets Fannie Mae guidelines. • Business assets can be used for reserves only if the business is one hundred percent(100%) owned by the borrower.

Source of Funds Eligibility

The following matrix identifies the various types of assets, the eligibility of the asset, and what the asset can be used for.

Asset Type	Funds to Close	Funds for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Annuities	X	X	X	X	
Borrowed Funds - Secured	X	X	X	X	
Borrowed Funds – Unsecured					X
Bridge Loan Proceeds	X	X	X	X	
Business Funds	X	X	X	X	
Cash on Hand					X
Cash Out Proceeds from a Refinance	X	X			
Checking, Savings, & CD Accounts	X	X	X	X	
Community Assistance Program/ Down Payment Assistance *					X
Corporate Relocation Buyout	X				
Corporate Sponsored Loans					X
Cryptocurrency [1]					X
Custodial Accounts for Children or Others / (UTMA)					X
Disaster Relief Grant or Loan	X				
Earnest Money Deposit	X				
Employer Assisted Housing *					X
Foreign Assets	X	X	X	X	
Gift	X	X			
Gift of Equity					X
Gift/Grant from Non-Profit (Secured & Unsecured)					X
Gift – Wedding	X	X			
Government Bonds	X	X	X	X	
Individual Development Accounts (IDA)*					X
Inheritance	X	X	X	X	
Asset Type	Funds to Close	Funds for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Interested Party Contributions – Financing Concessions	X				
Land Equity	X				
Life Insurance Net Cash Value	X	X	X	X	
Lease to Own/rent w/Option to Buy	X				

Lender Paid Assistance*					X
Loan Repayment Proceeds	X	X	X	X	
Margin Loan	X				
Non-Traditional Savings Plan					X
Pledged Assets					X
Pooled Funds					X
Proceeds from Sale of Home	X	X	X	X	
Profit Sharing Plan				X	
Retirement Account	X	X	X	X	
Sale of Assets	X	X	X	X	
Seller Derived Assistance					X
Stocks/Securities – Exercisable	X	X	X	X	
Sweat (work) Equity					X
Trade Equity					X
Trust Account	X	X	X	X	
Unvested Restricted Stock					X
1031 (Like Property/Tax Deferred Exchange) *	X				

*May be permitted under certain limited conditions. Refer to the topic for more detail.
[1] In order to use funds, asset must be liquidated and meet "Sale of Assets" policy.

1031 Like Property Exchange

A 1031 exchange is an investment property exchange therefore primary residences and second home transactions are not permitted.

Annuities

If the annuity is being used as income, it cannot be used for reserves, down payment, etc.

The annuity asset may be used for closing costs, down payment and reserves as follows:

- 70% of the current cash value, less any outstanding loans, should be used to calculate the amount of funds available; or
- 100% of the current cash value can be used if it can be verified that the borrower is not subject to penalties, surrender charges, or taxes.

If the asset is used for closing and/or down payment, proof of liquidation is required. Surrender Charges, penalties and fees imposed by the managing company as well as any outstanding loans should be deducted from the cash value prior to calculating the amount available for closing.

If the asset is being used for reserves only, proof of liquidation does not need to be obtained; however, verification of the asset is still required.

A computer-generated statement must always be obtained to verify the following:

- The name of the company managing the annuity
- The name of the annuity owner
- The period covered and the current cash value
- Outstanding loans; and
- Penalties, surrender charges and or fees.

Asset Verification Requirements	Assets must be liquid, calculated, and documented.
	The two most recent consecutive months' bank statements and/or other documents are required to verify assets to close.
	Verifications must be no more than 45 days old at the time of application AND no more than 120 days old at closing.
	Quarterly asset statements must be dated within 90 days of the initial loan application.
	
	<u>Documentation Methods</u>
	• **Written Verification of Deposit (VOD) Form:** A written VOD may be used to verify deposits. The VOD must be faxed or mailed to/from Lender directly to/from the borrower's deposit institution. It may not be hand delivered by the borrower or loan officer.
	• **Account Statements:** Copies of bank statements or investment portfolio must:
	  o Identify the borrower as the account holder
	  o Include at least the last four digits of the account number
	  o Include the time period covered by the statement/printout
	  o Include all deposits and withdrawals transactions (for depository accounts)
	  o Include all purchase and sale transactions (for financial portfolio accounts); and
	  o Include the ending account balance.
	• **Internet Downloads:** Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source of information...for example, by including that information on the Internet or fax banner at the top of the document.
	• **Letters:** A letter statement is usually generated when an attorney or trustee, insurance company, or employer manages the asset. The most frequent types of accounts that make use of letter statements include trust funds for the benefit of the customer, cash value of life insurance, present value of an annuity or current value of a 401k.
	• **Printouts:** Printouts obtained from a depository institution are acceptable. However, if the printouts do not contain all the information that is found on account statements (e.g., bank name, logo, account number, etc.). The printouts are only acceptable if they are signed and dated by a representative of the deposit institution.
	• **Faxed Documents:** If the lender has not viewed or copied the original documents directly, the source of the information should be verified via telephone with the borrower's financial institution. The documents must clearly identify the institution and the source of the information must be included in the "fax" banner that is at the top of the document.
	• **E-Mail:** If the lender has not viewed or copied the original documents directly, verify the source of the information via telephone.
	<u>Large Deposits/New Accounts</u>
	Purchase Transactions:
	The source of funds must be explained and documented.
	• A single deposit on the account statement that exceeds 50% of the total monthly qualifying income.
	  o If the source of a large deposit is readily identifiable on the account statement, the underwriter does not need to obtain further explanation or documentation (i.e. tax refund clearly referenced as coming from the IRS).
	  o If the source of the deposit is noted on the statement, but the underwriter still has

	questions as to whether the funds may have been borrowed, the underwriter should obtain additional documentation. **Note:** When a single deposit includes both verified and unverified funds as defined above, only the unverified funds are used to determine the 50% requirement. • If the large deposit is from another account belonging to the borrower, that account must also be verified to ensure the funds into the account are properly sourced. To source a large deposit from another account belonging to the borrower, the complete one month's statement from the source account must be obtained for the month the withdrawal of the funds occurred. This does not change the number of months that are required. • If the large deposit is from another account being verified for the loan, that account must be verified after the withdrawal to assure that the funds are not counted twice. **Refinance Transactions:** • Except as specified below, documentation or explanation for large deposits is not required; however, any liabilities resulting from all borrowed funds must be considered when qualifying the borrower. • When the borrower pays off or pays down an existing debt in order to qualify, the source of funds used must be verified. If the funds verified include a large deposit as defined above, the source of that deposit must be verified, unless the borrower has sufficient funds to pay off/down the debt without the large deposit.
Borrowed Funds	Borrowed funds that are secured by an asset represent a return of equity. Therefore, they may be used for the transaction. Assets that may be used to secure funds include certificates of deposit, stocks, bonds, automobiles, real estate, and life insurance policies. The underwriter must verify the value and ownership of the secured asset, the terms of the loan and the fact that it is a secured loan. Except in the scenarios noted below, monthly payments for the loan must be considered as debt when qualifying the borrower. When the loan does not require monthly payments, the lender should calculate an equivalent amount and consider it as debt. **Unacceptable Borrowed Funds:** • Signature loans • Lines of credit taken against credit cards, • Overdraft protection on checking accounts. • Energy-efficient loan program, the cost of which is added to the property tax assessment and secured by a lien on the property that takes precedence over the first mortgage. Such programs include Energy Loan Tax Assessment Programs (ELTAP) and Property Assessed Clean Energy (PACE), Home Energy Renovation Opportunity (HERO) programs. **Borrowed funds are subject to the following restrictions**: • Funds must <u>not</u> be borrowed from the broker, developer, real estate professional, or a lender who is otherwise connected with the subject transaction. • Funds from a loan secured by real property owned by the borrower (other than thesubject property) may be used as a source of the down payment. The debt must be included as a liability on the application. • Payments for loans secured by the borrower's personal financial assets (such as life insurance policies, 401(k) accounts, CDs, stocks, bonds, etc.), in which repayment may be accomplished by liquidating the asset, do not have to be included in the debt ratio

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calculations if

The loan instrument shows the asset as collateral for the loan; and
The loan secured by the financial asset must have been made by a financial institution.
The borrower may not use the same asset to satisfy cash reserve requirements, however, they may use the portion of the asset remaining after the value of the asset plus any related fees havebeen reduced by the amount of the secured loan.

Unsecured loans are not permitted, except when available in conjunction with an Employer-Provided Subordinate Financing as outlined below.

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<tr>
<td>Borrower Contribution Requirements / Minimum Down Payment</td>
<td>
A minimum down payment from borrower’s own funds is required as indicated below:
<table>
<tr><th>LTV, CLTV, or HCLTV Ratio</th><th colspan="2">Minimum Borrower Contribution Requirement from Borrower’s Own Funds</th></tr>
<tr><td>70% or less</td><td>Primary Residence</td><td>The borrower must make a 5% minimum contribution from his or her own funds. See note below for additional clarification.</td></tr>
<tr><td>Greater than 70%</td><td>Primary Residence</td><td>The borrower must make a 10% minimum contribution from his or her own funds. See note below for additional clarification.</td></tr>
<tr><td>All LTVs</td><td>Second Home</td><td>Borrower must make full down payment. Gift funds are not permitted</td></tr>
</table>
Note: If the borrower has the 10% minimum contribution in a non-liquid asset account (stocks, bonds, etc.) but is also receiving a gift for the transaction, the borrower may use the gift funds for their 10% minimum contribution in lieu of liquidating the assets. The non-liquid asset account must be verified per policy as evidence that the borrower has the 10% minimum contribution available.
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<td>Bridge Loans</td>
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Generally, financing is acceptable if:

Borrower has the ability to carry the payment on the new home, the payment on other obligations, the payment on the current home and the payment on the bridge loan. If the repayment schedule for the bridge loan is not monthly, it must be converted to a monthly amount for qualifying purposes; and
Bridge loan may not be cross-collateralized against the newproperty.

For additional information regarding how to treat the debt on the “departure property” refer to Real Estate Obligations: Departure Property.
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<tr>
<td>Business Funds</td>
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If Business Funds are used for down payment, closing costs and/or reserves, all of the following conditions must be met:

Borrowers must provide verification from the other owners of the business that they have access to the funds UNLESS the Borrower is the sole proprietor or 100% owner of the business.
Regardless of the documentation required for the process type, two years’ personal, partnership and/or corporate tax returns must be obtained, and the underwriter must perform a cash flow analysis to determine that the withdrawal of funds will not have a detrimental effect

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	on the business. • The file must contain the underwriters written analysis and conclusion. **Note:** Forms 1084/91, which are used to calculate income, not assets, do not satisfy thisrequirement. • Verification of funds in the account is required. Large deposits that are not in line with business revenue/income stream should be explained and verified.
Checking, Savings, & CD Accounts	Money retained in bank (including credit unions, savings and loan associations, and savings banks) checking and savings accounts are the most common method of accumulating assets, but it may also be in the form of a Certificate of Deposit (CD). • Statements must clearly identify the borrower as the account holder and include the name of the issuing institution, account number, the period covered by the statement, and all deposits and withdrawals made during the period covered. • CD's typically contain a forfeiture provision whereby a portion of the accumulated interest and possibly an early withdrawal fee are applied if the CD is liquidated early. The forfeiture of interest and/or withdrawal fee should be considered when using the asset for closing and/or reserves.
Corporate Relocation Buyout & Closing Cost Assistance	**Corporate Buyout:** If funds from a Corporate Relocation Buyout are being used for closing, a copy of an executed buyout agreement along with the equity advance statement should be obtained. **Closing Costs Assistance:** Most employers provide their transferring employees a benefit which covers normal and customary closing costs. This benefit is reflected on the HUD-1/Closing Disclosure. This reduces the out of pocket costs for the employee and eliminates the need to get reimbursed for an expense after closing. The specific benefit is determined by the relocation agreement/corporate relocation package which should be obtained to verify the terms, etc.
Cryptocurrency (E.G. Bitcoin)	Cryptocurrency in its original state may not be used to meet asset requirements (i.e., reserves or other investable assets), However, if the borrower liquidates the asset, they may use the funds received provided they meet “Sale of Assets” requirements addressed later in this section.

Credit Card Reward Points	• If the reward points are converted to cash and deposited into the borrower’s depository account (checking or savings), no additional documentation is required unless the deposit is considered a large deposit. In that event, follow the requirements for evaluating large deposits.
	• If the reward points are converted to cash, but not deposited into the borrower’s depository account, the lender must provide the evidence the reward points were:
	  ○ Available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); AND
	  ○ Converted to cash prior to closing of the loan.

Earnest Money	If the deposit is being used as part of the borrower’s minimum contribution requirement, the lender must verify that the funds are from an acceptable source. Admissible verification includes: • Copy of the cancelled check and bank statement showing that the check has cleared;or • Copy of the cancelled check and Verification of Deposit (VOD). The VOD must indicate that the average balance for past two months was large enough to cover the amount of the earnest money deposit. **Note:** If the borrower has sufficient verified assets to cover earnest money deposit, the above verification is not required. Receipt of funds on the Closing Disclosure is sufficient evidence that funds have been received. If it cannot be determined that the earnest money deposit was withdrawn from the borrowers account, additional documentation, and evidence that the funds have actually changed hands should be provided.

	Note: Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.
Foreign Assets	• All assets must be verified prior to the transfer and the funds must be seasoned and sourced • All assets being used for down, payment, closing costs, pre-paids and reserves currently held in an account outside of a U.S. Banking Institution must be translated into English, transferred into an account in the United States and verified in U.S. dollars prior to closing of the mortgage transaction. • Donor gift funds, given at closing, that are currently held in an account outside of a U.S. Banking Institution must be transferred into an Escrow/Closing Agent account in the United States. The funds must be verified in U.S. dollars at the time the funds are transferred and received in the U.S. and meet all the requirements of the Gift Funds topic below. Documents of foreign origin must be translated to English. • It is important to look for patterns of behavior particularly when gift funds are involved. Some of the scenarios may include multiple transfers for smaller amounts and from various individuals instead of one wire transfer for the entire gift amount. It is important to pay attention to the amounts, account owner, etc. If there are any concerns regarding the foreign assets, the file should be referred to the Underwriting Manager
Gift Funds	Gifts are permitted in connection with a purchase or refinance of a primary residence. Gift funds cannot be used to satisfy the reserve requirements. Gift funds are not permitted on a second home transaction. Gift funds cannot satisfy the minimum down payment from the borrower's own funds. **Down Payment** *Refer to the Borrower Contribution Requirements/ Minimum Down Payment* topic above for requirements unless specified otherwise in the program parameters. The gift can be provided by the following: • Relative, which is defined as a borrower's spouse, child, or other dependent, or an individual who is related by blood, legal proceedings, marriage or adoption; or • Fiancé, fiancée, or domestic partner; or • Former relative, godparent, or relative of a domestic partner If gift funds are coming from outside of the U.S., *refer to the Foreign Assets* topic above for additional information. **Acceptable Sources of Gift Funds:** Large financial gifts from close family members can be considered if properly documented. Substantial cash gifts ($1000 or more) from one individual must comply with standard gift documentation. Gift funds may come from the following sources. **Wedding Gifts:** The following documentation must be obtained to verify funds: • A copy of a marriage license or certificate, and • Verification that gift funds were deposited within 90 days of the date of the marriage license or certificate **Graduation Gifts:** The following documentation must be obtained to verify funds:

- Evidence of graduation from an educational institution, such as diploma or transcripts that supports the date of graduation, and
- Verification that gift funds were deposited within 90 days of the date of the graduation.

Funds Pooled from a Relative or Domestic Partner residing with the Borrower: Can not be used to meet the borrower's minimum required down payment. However, funds from a relative or domestic partner may be used as outlined in the above gift policy

Gift of Equity: Not Permitted.

Gift or Grant from a Non-Profit Organization: Not Permitted.

Gift Letters

The following information must be completed on a fully executed gift letter:

- The actual or the maximum dollar amount of the gift.
- The donor's name, address, telephone number, his/her relationship to the borrower.
- Indicate that funds are a gift that does not have to be repaid.

Verification of Funds

The transfer of the gift funds to the borrower must be documented in one of the following ways:

- Funds Received prior to closing: Transfer of funds from the donor's account in a financial institution to the borrower's account via either:
  - copies of bank statements from both the donor and the borrower's accounts OR
  - copy of a canceled gift check OR
  - copy of the donor's withdrawal slip and the borrower's deposit slip, Or
  - Evidence of electronic transfer.
- Funds Received at Closing: If the donor does not intend to provide gift funds until closing, donor must provide proof that they have sufficient funds to cover the gift via bank statement. The following documentation must be obtained at the closing table:
  - Transfer of the funds from the donor's account in a financial institution to the settlement or closing agent via either
    - copy of a cashier's check
    - Wire transfer confirmation

Funds transferred using a third-party money transfer application or service are acceptable only when the documentation evidence that the funds were transferred using the application or service directly from the donor's bank account to the borrower's bank account or to the settlement or closing agent.

Funds pooled From a Relative or Domestic Partner residing with the Borrower:

These funds can be pooled with the borrower's funds to make up the required down payment. In addition to the above documentation, the following is required:

- Evidence that the Borrower and the related person have resided together for at least one year. Examples of documentation include, but are not limited to, a copy of a driver's license, a bill or bank statement.
- A signed letter or an email directly from the borrower attesting to: A)The source of the pooled funds, B) the fact that the pooled funds were not borrowed by the contributing related person, C) The relationship between the contributor and the borrower, and D) that the related person has resided with the borrower for the past year and intends to continue residing with the borrower in

	the new residence.
Government/ U.S. Savings Bonds	US Savings/Government Bonds must be verified by the following: • A statement from a financial institution or the loan originator confirming review of the actual bonds and listing the serial numbers, date of maturity, type, amount and verifying that the borrower is the owner • Proof of value from the U.S. Treasury Table Evidence of liquidation if the assets are required for closing.

Ineligible Source of Funds	The following sources of funds may not be used in the calculation of assets:
	• Borrowed Funds from the following sources:
	    ○ Signature Loans
	    ○ Lines of Credit on Credit Cards
	    ○ Overdraft Protection on Checking Accounts
	• Cash-on-Hand
	• Cash advances from a credit card or other revolving account.
	• Community Assistance or Down Payment Assistance Programs
	• Corporate Sponsored Loans
	• Cryptocurrency (unless liquidated in compliance with "Sale of Assets")
	• Disaster Relief Grant or Loan
	• Employer Assisted Housing (Secured &Unsecured)
	• Funds from Individual Development Accounts (IDA)
	• Gift of equity
	• Gifts which must be repaid in full or partially.
	• Gift/Grant from Non-Profit
	• Individual Development Account (IDA) (Including funds from an IDA)
	• Lender Paid Assistance
	• Non-Traditional Savings Plan
	• Pledged Assets
	• Pooled Funds
	• Proceeds from unsecured loans or personal loans (except as permitted with an approved Employer-Assisted Housing program.)
	• Salary / bonus advances received against future earnings
	• Seller Carrybacks
	• Seller Derived Assistance Programs
	• Subordinate Financing which contains any of the following:
	    ○ Negative Amortization
	    ○ Terms that restrict prepayments or provide for a prepayment penalty, except asindicated in Subordinate Financing
	    ○ Does not fully amortize under a level monthly payment plan when the maturity or balloon payment date is less than five years after the note date of

	the new firstmortgage. • Sweat Equity (includes donated goods and/or materials): Contribution to the constructionor rehabilitation of a property in the form of labor or services rather than cash is considered sweat equity. Sweat equity may not be deducted from the construction costs, nor may it be used to offset the borrower's minimum down payment. • Trade Equity
Inheritance	The borrower must provide a copy of the will or a letter from the Trustee detailing the distribution of the estate. Borrower's receipt of funds must be verified prior to closing. Because the inheritance is considered the borrower's money, funds can be used for the borrower's minimum down payment. Gift letter policy does not apply.
Interested Party Contributions	Interested Party Contributions (IPCs) are funds provided by someone other than the borrower(s) to pay costs associated with obtaining a mortgage that are normally the responsibility of the property purchaser. They may be paid by the seller, lender, or by any other third party who has an interest in the property sale or purchase transaction. IPCs are defined as Financing Concessions or Sales Concessions, as discussed later in this section. **Appraisal Requirements** Appraisers must be provided with information relating to all interested party contributions for the subject property granted by anyone associated with the transaction, including both financing and sales concessions that have been, or will be, granted. The appraiser must also be provided with information associated with a permanent interest rate buy down funded through a standby commitment provided by the lender or the builder. Positive adjustments for sales or financing concessions are not acceptable. **File Document Requirements** When there is an IPC in a transaction, all loan and sales contract documents, including the sales contract, Loan Estimate (LE), the loan application, appraisal report and Closing Disclosure must include or address all financing arrangements that have been negotiated between the buyers and sellers. • Items paid by the property seller that are the responsibility of the seller—such as real estate sales commissions, charges for pest inspections, deed release fees, or costs that the property seller is required to pay under state or local law—are not contributions. This includes pro-rated real estate tax credits provided by the seller at closing in thosejurisdictions in which property taxes are paid in arrears. This credit represents property tax amounts assessed but not yet due and payable, for the period when the seller still owned the property, and it is not considered to be a contribution. **IPC Contribution Limits** IPC contribution limits are based on occupancy type. They are measured using the lesser of the sales price and appraised value. The contribution limits are as follows: • **Primary Residence & Second Homes: Maximum Contribution = 6%** The total dollar amount of the Financing Concessions may not exceed the actual total dollar amount of the allowable closing costs. **Items Not Permitted as IPCs**

- Contributions may not be used to meet the borrower's down payment or minimum borrower contribution requirements, or to meet reserve requirements for thetransaction.
- Monthly payment abatements to pay for or reimburse the borrower for payments of principal, interest, taxes, insurance, and more than 12 months ofhomeowner association fees for units in condominium or PUDs **are not permitted,** regardless of whether they are disclosed on the Closing Disclosure. This applies to transactions where the interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity, such as a non-profit down payment assistance program (DAP).
- **Note:** The payment of HOA fees is not considered abatement unless the payment of the fee extends for more than 12 months. **The payment of HOA fees for 12 months or less is considered an interested partycontribution.**

  Undisclosed IPCs, including "Silent" second mortgages held by the property seller. Seller contributions that are not disclosed on the Closing Disclosure are often given to homebuyers outside of loan closing. These undisclosed contributions tend to reduce the effective sales price of a property and may compromise the loan-to-value ratio for amortgage. Consequently, a mortgage with undisclosed seller contributions is not eligible.

<u>**Sales Concessions**</u>

- IPCs that exceed allowable Financing Concession limits are considered SalesConcessions.
- In addition to contributions that exceed those limits, additional inducements may come in the form of cash or personal property such as furniture, automobiles, securities, and/or other "giveaways" granted by any interested party to the transaction. The cost of items that are in the form of personal property (i.e., furniture, decorator items, automobiles, or other "giveaways") are also considered SalesConcessions.
- Sales Concessions are not subject to IPC contribution limits, <u>but their value must alwaysbe deducted from the sales price of the property</u>. For underwriting purposes, the sales price must be reduced to reflect the amount of all Sales Concessions. The LTV ratio should then be calculated based on the lesser of the reduced sales price or the appraisedvalue.
- **Sales Concessions include, but are not limitedto:**
  - Payment of various fees on the borrower's behalf that are not considered allowable Financing Concessions
  - Pre-foreclosure or short sale processing fees that are charged to the borrower (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees,etc) must be treated as a sales concession if any portion is reimbursed by the seller or an interested party to the transaction.
  - Financing Concessions that exceed allowable IPC Financing Concession limits, orthat exceed the dollar amount of actualcosts
  - Cash
  - Furniture
  - Automobiles
  - Decorator allowances
  - Repair allowances*
  - Moving expenses

  * Money received for repairs will not be considered contributions provided the property is new construction, repairs are complete prior to close, or if funds have been escrowed for work to be completed.

	Note: Escrows for repairs on existing properties are not permitted. For underwriting purposes, the value of Sales Concessions must be deducted from the sales price. The LTV and CLTV ratios should then be calculated based on the lesser of the reduced sales price or the appraised value.
Land Equity	Not Permitted
Lease-to-Own / Rent with Option to Buy	Not Permitted
Lender Paid Assistance	Cannot be used to make any part of the borrower's down payment, reserves, etc. Is not subject to the IPC
Life Insurance Net Cash Value	The amount available for liquidation should be calculated using **60% of the cash/surrender value, less any outstanding loans or fees**. If asset is required for closing proof of liquidation is required, regardless of the Documentation Process. Proof must be verified by the following: • Computer generated statement identifying the life insurance company • Identify the policy owner. Policy owner must be a borrower. • Evidence the period covered and the current cash/surrender value • Identify any outstanding loans and deduct them from the cash value/surrender value.
Loan Repayment Proceeds	To be considered an eligible cash asset, funds received by the borrower from the repayment of a personal loan s/he extended requires the following: • A copy of the written agreement between the borrower and the recipient of the loan. • Verification that the borrower had the ability to lend the funds (cancelled check or bank statement showing withdrawal of funds). • Verification that repayment was made (evidence of funds withdrawn from the recipient's account) and proceeds deposited into the borrower's account prior to scheduling the close.
Margin Loan	Margin loans typically do not have a monthly payment therefore it is generally not included in the debt ratios. Repayment of the loan does not have to be considered.
Pooled Funds	Not permitted.
Proceeds From Sale of Home	If the borrower's current home is listed for sale—but has not yet been sold—s/he can be qualified based on the anticipated equity. The following formula should be used to determine the amount of equity a borrower has in the house that is being sold: (Sales Price* x 90%) - all Mortgage Balances = Equity *If the sales price has not yet been established, the listing price should be used.
Retirement Accounts	Funds from an individual retirement account (IRA/Keogh) and/or an employer sponsored tax- favored retirement savings account (401k), the vested balance less any outstanding loans secured by the account may be used for the down payment, closing costs, and reserves provided the borrower has access to the fund(s). The underwriter must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status. However, because there are severe penalties for early withdrawal (before retirement age), only the net value, after any withdrawal and/or tax penalties are deducted, may be considered. Retirement Accounts must be verified by the following: • Most recent two months statements (For 401k accounts the statements must reflect the vested balance or percentage of vesting, any outstanding loans, the ending balance of the account and terms of withdrawals/loans. If the 401k account is used for reserves the terms of the retirement plan must show that the borrower is vested and that the plan will allow

	withdrawals regardless of the current employment status) • Any outstanding loans must be subtracted prior to determining the vestedbalance • If the assets are required for closing, proof of liquidation isrequired.
Sale of Assets	Proceeds received from the sale of the borrower's personal assets may be considered as long as the borrower can provide evidence that s/he: • Owned the asset (applies to all asset types that are titled assets). • Has documentation to support the value of the asset, as determined by an independent source, if the proceeds represent more than 50% of the total monthly income used in qualifying. The lesser of the estimated value (as determined by the independent source) or actual sales price must be used when determining the amount of funds for the transaction. For example, a borrower plans to sell their vehicle. The value as determined by an independent source is $10,000; the sales price of the vehicle is $12,000. Only $10,000can be added to the borrower's available funds, even if the sale has alreadyoccurred. • Can prove the transfer of ownership (a copy of a bill of sale or a statement from the purchaser); and • Provides the receipt of the purchase proceeds (deposit slips or bankstatement)
Seller Derived Assistance Programs	Not permitted.
Stocks & Other Securities	The net value of the stock (which includes mutual fund or other publicly traded security, restricted stock, and non-vested stock), **should be calculated using 70% of the current market rate.** Value is established using a current statement from the stockbroker, a photocopy of the stock certificate, accompanied by a dated newspaper, or Internet stock list. (Because value is difficult to establish, we do not accept securities that are not publicly traded.) If assets are liquidated, the actual amount of documented liquidated assets may be used. **Note: Stock options and non-vested restricted stock options are *not* eligible for use as reserves.** **Pledged stocks and/or bonds used as loan security or to offset a margin account are not considered liquid assets**. The broker statement is an investor's account of all transactions and asset values within a set period. They list dividends received, interest earned or due, assets purchased and sold, and the value of assets owned during the period. Stocks/Securities statements must identify the following: • The institution or administrator • The account owner • The account number • All transactions, the period covered, any outstanding loans and the endingbalance • For securities accounts, identify the stocks/securities • If the assets are needed for closing, proof of liquidation is required • If there is a margin account secured by stock/securities, the borrower's total assets must be reduced by the margin account's outstanding balance amount, plus any overdrawn amount. If the borrower does not receive a statement, the following must be provided: • Photocopy of the stock certificate that identifies the ownership of the stocks by the borrower, number of shares/units owned, and identification numbers of thestock certificate, type, and entity name

	• Current stock prices from a published source

Subordinate Financing	**Subordinate financing must provide for the following:**
	• Regular payments of principal and interest, OR regular payments of interest only sothat negative amortization does not occur.
	• If the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lienmortgage.
	• Interest rate should be at market rate.
	• If the subordinate lien contains a maturity date or balloon or call provision within the five-year period after the note date of the first lien, it must be fully amortizing under a level monthly payment. (May be less than 5 years if the subordinate debt is minimal in comparison to the borrower's financial assets and/or credit profile. E.g., borrower's financial situation supports ability to pay off or refinance within the balloonperiod.)
	• Be recorded and subordinate to the first mortgage lien unless the financing is an unsecured loan from the borrower's employer.
	
	Subordinate financing may not have the following:
	• Negative amortization
	• Terms that restrict prepayments or provide for a prepayment penalty, except as indicated above
	• Does not fully amortize under a level monthly payment plan when the maturity or balloon payment date is less than five years after the note date of the new first mortgage
	
	Documentation Requirements
	• **For Purchase and Refinance transactions where subordinate financing is originated concurrently with the first mortgage** (either new subordinate financing orrefinance of an existing subordinate lien), all the following subordinate financing documentation must be included in the loan file as applicable for eachloan:
	  ○ Note or other evidence of subordinate lien terms; and
	  ○ Closing Disclosure or other closing statement; and
	  ○ For HELOCs, the HELOC agreement indicating all fees and costs paid by the borrowerat closing, and the maximum permitted creditadvance.
	• **For refinance transactions, if an existing subordinate lien is not paid off**, it must be re-subordinated to the new first lien**, and a copy of the recorded subordination agreement must be maintained in the loan file** as well as the note or other evidence of subordinate terms, so terms can be appropriately disclosed as indicatedbelow.
	
	Disclosure Requirements:
	The existence of subordinate financing and the terms of repayment (including note rate, repayment terms, and the institution or individual providing the financing) must be provided to the appraiser.
	
	Maximum Combined Loan Amount:
	The first mortgage transaction must meet LTV/CLTV/HCLTV and loan amount guidelines for the

	program selected. **Note:** This includes business loans, such as those provided by the Small Business Administration (SBA). **<u>Minimum Down Payment Requirements</u>:** The minimum down payment requirement for a transaction is based on the CLTV, not the HCLTV, so if the CLTV is 80%, a 10% down payment would be required, regardless of what the HCLTV is. **Note:** Borrowers must use their own funds to meet the minimum borrower down payment or contribution requirement for the loan transaction. **Note:** Subordinate financing may be paid off or paid down by the title company at closing; the amount paid off/down must be shown on the HUD-1/Closing Disclosure. Additional evidence of payoff/pay down is not required.
Trade Equity	Trade equity is equity that results from a property purchaser giving his/her existing real property as all or part of the down payment for the property that is being purchased. **Trade equity is not allowed.**
Trust Accounts	Funds from a Trust may be used with a copy of the Trust Agreement or a letter from the Trustee confirming the following information: Identify the trustee's name, address, and telephone number. The trustee must be an independent third party that would typically handle trust accounts. • Identify the borrower as the beneficiary. • Verify that the borrower has access to all or a specific amount of thefunds. • Verify that the funds are available for disbursement to theborrower. • Proof that funds have been received is required if assets from the trust are being used for closing.

Evaluating Employment and income	Income documents must NOT be more than 120 days old at the time of closing for existing and new construction. The actual calculation used to determine the qualifying income must be documented in every loan file. Acceptable sources of income include: • **Wage Earner Income:** All non-self-employed borrowers who receive a W-2 at year end to summarize total earnings– includes hourly, weekly, biweekly, part-time, seasonal, bonus, commission, and tips/gratuity. • **Self-Employed:** Sole Proprietorship, Partnership, Corporations, and S-Corporations. • **Non-Employed Income:** Alimony/ Maintenance/Child Support/Separate Maintenance, Foster Care, Unemployment/Welfare/ADC, Disability/Worker's Compensation, Retirement/Pension, Social Security, Annuity, IRA, Military/VA Benefits, Trust, Interest & Dividend, Inheritance/Guaranteed Income, Note Receivables, Mortgage Differential/ COLA, and Rental. **Note:** Income that is paid to the borrower in cryptocurrency may not be used for qualification. Income from sources other than the ones addressed in this chapter may be considered provided the borrower has received the income for at least 2 years and documentation supports that it will continue for at least 3 years. Documentation requirements are addressed in this chapter.

4506-C Requirements	**<u>4506-C</u>**
	All Borrowers whose income is used to qualify for the loan transaction must sign form 4506-C at closing, regardless of income type – salary, self-employed, social security, etc.
	
	<u>Processing the 4506-C (obtaining IRS transcripts):</u>
	• When federal income tax information is used to document income for qualifying purposes (positive or negative), the transcripts of the applicable federal income tax documents must be obtained.
	• Information reported on the tax transcripts should match information reported on the tax returns provided by the borrower.
	    ○ If the income documentation provided by the borrower is different from the income documented on the IRS transcript, the Underwriter must perform an in-depth review to determine if additional steps need to be taken.
	    ○ At a minimum a letter from the borrower explaining the difference must be obtained and retained in the loan file (all letters of explanation must be signed by the borrower prior to close).
	    ○ Additional documentation to support the explanation should also be requested if necessary.
	    ○ Underwriter rationale for any variance per the above guidelines should be thoroughly documented.
	• All other current guidelines for analysis must also be followed.
	
	Note: For documentation requirements related to Taxpayer Identification Theft *refer to Section 1-Credit/Analysis/Taxpayer Identification Theft* topic for more information.

Future Income	If a borrower applies for a mortgage before starting employment because of the nature of the work, GHMC may consider the future income (i.e., projected income) <u>if the scheduled start of employment is prior to closing subject to the following:</u> • The borrower must provide a signed employment contract or offer letter that specifies the amount of the monthly income and when they will begin receiving it.

	• A paystub must be obtained from the borrower that includes sufficient information to support the income used to qualify prior to closing the loan.
Employment Stability	• A 2-year employment history must be reflected on the application. • Frequent employment changes within the same line of work while continuing to advance in income or benefits is acceptable. Income stability takes precedence over job stability. There may be occasions that warrant a closer examination of employment and income. **Example:** Frequent changes in employment for reasons other than advancement (e.g., changing careers) or extended periods of unemployment may be indicative of an unsteady work history and income. • Borrowers who work in certain industries may experience frequent job changes due to the nature of the work (e.g., seasonal, or unskilled labor). In these instances, borrowers should not be penalized provided they have demonstrated the ability to maintain a steady income and the changes have not affected the borrower's ability to pay their obligations. **Note:** Often due to the nature of the work, LMI borrowers may change jobs frequently and still be able to demonstrate the ability to earn consistent and predictable income. In these instances, emphasize the continuous flow of income. **<u>Re-entering the Workforce</u>** A borrower's income may be considered effective and stable when recently returning to work after an extended absence if s/he: • Is employed in their current job for six months or longer; and • Can document a two-year work history prior to an absence from employment using: o Traditional employment verifications; and/or o W-2s or paystubs. **Note:** An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce. Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six months. **<u>Newly Employed</u>** Borrowers who are newly employed and have an employment and income history that covers less than the 2 most recent years may be eligible for a mortgage loan as long as the borrower was attending college/ trade school, in a training program related to the new position, or in the military immediately prior to their current employment. Supporting evidence such as transcripts or discharge papers are required to verify. **Note: When the borrower has less than a two-year history of receiving income, the underwriter must also provide a written analysis to justify the determination that the income used to qualify the borrower is stable.**
Income Adequacy and Continuance	The borrower should have a history of generating steady income for at least 2 years and it must be likely to continue at the level used to qualify for at least the next 3 years. Stable monthly qualifying income must be: • Recurring • Received regularly • Received in cash (includes check, wire-transfer, etc.) and paid tax on the income as evidenced by a U.S. tax return • Reasonable based on the source.

	The determination of income stability and continuance for all sources is required. The underwriter should focus on • The borrower's past employment/ self-employment history • The history of receipt of other income • The probability of continued consistent receipt of the income used to qualify the borrower. For each income source used to qualify, the underwriter must determine that both the source and the amount of income are stable. For all eligible income types, the underwriter may consider the income as long as s/he does not have any knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt for the next 3 years. While sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income. Other sources of income that do not have defined expiration dates may also be considered provided the documentation indicates the income type. In these instances, the underwriter may conclude that the income is stable, predictable, and likely to continue and request for additional documentation related to continuance is not required. **<u>Significant Increases or Decreases in Income Level</u>** If the borrower has experienced a <u>significant decrease</u> in income, income should not be averaged using a previous higher level unless the decrease was due to a documented one-time occurrence that impacted the income level for a period of time, and the borrower's income level has returned to the amount they previously earned. If the borrower has experienced a <u>significant increase</u> in income, the underwriter must obtain sufficient documentation to determine that the increase was not due to a one-time occurrence, and that the income used to qualify is stable and likely to continue at the level to be used for qualifying. The focus of the underwriter's analysis should be on the qualifying income that is most likely to be received for the next 3 years. If the borrower has multiple sources of income, refer to each income type for documentation requirements.
Unacceptable Sources of Income	<u>Income derived from any of the following may not be used in calculating qualifying income.</u> • Any income derived from transactions in or related to the sale or production of marijuana, hemp or any cannabis products or derivatives, such as CBD products. • Any income that cannot be documented and verified • Capital withdrawals • Draw Income • Gifts, including Gift of Equity • Illegal Income/Income not listed on Tax Returns • Income from Foreign / Non-U.S. Sources • Retirement assets used as qualifying income • Room/boarder rent • Trade Equity • Trailing Co-Borrower • Any income derived from owning or controlling a VASP (Virtual Asset Service Provider) • Income that is paid in cryptocurrency

Alimony/ Separate Maintenance	The borrower must have received the income for at least 12 months, and it must continue for at least 3 years as specified by the court order or an attorney's letter specifying the individuals and term. If full or partial payments are made, however, on an inconsistent basis, the income should not be used for qualifying or as a compensating factor. If a borrower does not have a court order that specifies support payments, the proposed or voluntary payments should not be used as income to qualify. **<u>Documentation Requirements</u>:** • 6 -months deposit slips and/or bank statements/cancelled checks, court records ortax returns evidencing regular deposit of the funds; and • Court order/agreement evidencing amount, frequency, and 3 yearscontinuance.
Annuity	**<u>Documentation Requirements</u>:** Copy of the most recent updated annuity renewal statement showing the effectivedate, amount, frequency, and 3 years continuance.
Auto Allowance / Expense Account Reimbursement	The borrower must have a 1-year history of receiving the income and it can be reasonably expected to continue for 3- years. If the borrower reports automobile expenses on Form 2106 or personal tax returns, schedule C: • The amount of the auto allowance that exceeds the amount of monthly expenses is addedto the monthly income; or • The amount of the expenses that exceeds the allowance should be included in theborrower's total monthly obligations. **Note:** If the borrower uses IRS Form 2106 with "actual expenses" instead of the "standard mileage rate," the lender must look at the "actual expenses" section to identify the borrower's actual lease payments, and then make the appropriate adjustments. If the borrower **does not** report the allowance on either Form 2106 or Schedule C: • The full amount of the allowance should be added to the borrower's monthly income; and • The full amount of the lease or monthly payment for the automobile must be added to the borrower's total monthly obligations and included in the total debt to incomeratio. Typically, auto allowance and expense account reimbursements are included with the W-2 earnings; therefore, **it is very important to make certain the income is not included twice**. *Refer to Employee Business Expenses (2106) in - Employment & Income/ Tax Returns* for additional information. **<u>Documentation Requirements</u>:** • Most recent pay stubs covering past 30 days; and • 2 years most recent W-2s; or • 2 years most recent tax returns with all Schedules when auto allowances and/orexpenses are reported on IRS Form 2106 or Schedule C.
Boarder Income	Not Permitted.
Capital Gains/ Losses	Gains/losses that are recurring may be considered when calculating available income. If income from this source represents a substantial portion of the borrower's income, review the tax returns along with the Schedule D and average it over 2-years. If earnings are consistent, a 2-year average will suffice. However, if income fluctuates substantially, a 3-year average will be necessary. Capital gain income should only be considered if there is evidence of sufficient assets remaining after closing to support continuance of the income, at the level used for qualifying, for at least the

	next 3 years.
	Exercising Stock Options
	Although not typically used as qualifying income, stock options may be considered as qualifying income on occasion if the loan warrants. Only profits received from exercised stock options may be considered. The borrower must have a verified history of receiving income from executed stock options for at least 2-years and the likelihood of its continuance must be verified.
	Documentation Requirements
	• 2 years most recent tax returns with Schedule D and W-2s or 1099's; and
	• Proof of ownership of the asset (e.g., statements) evidencing sufficient value to support the continuance of capital gains;and
	• It is determined that the income is likely to continue based on an established earningstrend.
	  ○ If the trend is stable or increasing, income can be averaged over the two-yearperiod.
	  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period ofdecline.

Child Support	Child support is non-taxable and can be grossed up. Refer to the documentation requirements under the Tax- Exempt Income/ Non-Taxable Income topic below for additional requirements that must be obtained to determine if a particular source of income is non-taxable If the income is received less than 12 months, it may only be used as a compensatingfactor. If full or partial payments are made on an inconsistent basis, the income should not be used for qualifying or as a compensating factor. If a borrower does not have a court order that specifies support payments, the proposed or voluntary payments should not be used as income to qualify. **Documentation Requirements:** • 6 -months court records, deposit slips and/or bank statements/cancelled checks evidencing regular deposit of funds; and • Proof of ages of the children for which child support is received;and • Court order/agreement evidencing amount, frequency, and 3 yearscontinuance.
Disability – Workers Compensation	If the benefits have an expiration date, the remaining term must continue at least 3 years from the date of the mortgage application. Generally, long term disability will not have a defined expiration date and it must be expected to continue. The requirement for re-evaluation is not considered an expiration date. If the payments will not continue for at least 3 years, refer to the Temporary Leave Income topic in this section for additional guidance. If the 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 long-term benefits amount must be used to qualify the borrower. Non-taxable benefits can be grossed up provided it is verified as non-taxable. *Refer to the Tax-Exempt Income/ Non-Taxable Income topic* in this section for documentation requirements that must be obtained to determine if a particular source of income is non-taxable. **Documentation Requirements:**

	• Copy of Disability policy or Benefits Statement • A statement from the benefits' payer (insurance company, employer, or other qualifiedand disinterested third party) confirming the borrower's current eligibility • 2-months deposit slips and/or bank statements/cancelled checks evidencing regular deposit.
Foster Care	This income may be considered provided the borrower has a 2- year history of providing foster-care services under a recognized program and is likely to continue for the next 3 years at a level that supports the amount of income needed for qualifying for the mortgage. **Documentation Requirements**: • Letters from the organization providing the income showing a 2-year payment history;and • 2 years most recent personal tax returns; or • 24-months deposit slips or bank statements/cancelled checks confirming regular depositof the payments.
Gambling Winnings	Funds are usually considered as a lump sum distribution and therefore not considered income. However, if the borrower is a professional gambler and the earnings are from his/her self-employed business the income may be used for qualifying. The income must be documented and analyzed per the requirements outlined in - Employment & Income/Self Employed Income section. Lottery winners will be considered on a case-by-case basis. **Documentation Requirements:** • 2 years most recent tax returns with all Schedules
Gift Income	Not Permitted
Inheritance & Other Guaranteed Income	Ongoing income received from inheritance or other guaranteed sources—such as prize earnings, or lottery winnings—may be used to qualify provided it can be verified that the income is regular and recurring. Typically, the borrower should have a documented history of receiving it for at least 2-years and verify that it will continue for at least 3 more years. Borrowers who do not have a 2-year history of receiving the income may still be considered contingent upon the terms of the payout. **Example:** The income is guaranteed to continue for the next 20 years but the borrower has only received one payment/installment. **Documentation Requirements:** • Copy of Award letter confirming amount, frequency, and duration of payments;and • 2 years most recent tax returns with all Schedules.
Interest & Dividends	Interest or dividend income may be used to qualify when the borrower has a 2-year history of receiving the interest or dividend income and the income is expected to continue for the next 3 years. The assets from which the interest and dividend income was earned must also be verified via most recent bank statements. Any taxable interest or dividend income that is not recurring must not be used to qualify. Average interest and dividend income received for the last 2 years to calculate the qualifying income. If funds are used for the down payment and closing costs, the value of the assets should be reduced accordingly, and the interest and dividends recalculated based on the reduced value. **Documentation Requirements:** • 2 years most recent tax returns with Schedule B; and • Account Statements showing sufficient assets available to continue generating dividendsand interest after closing; **and** • Determine that the income is likely to continue based on an established earningstrend. o If the trend is stable or increasing, income can be averaged over the two-yearperiod.

	○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used. ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
K-1 Income With < 25% Ownership	When a borrower receives K-1 income but has <25% ownership of a partnership, S corporation, or LLC, ordinary income, net rental real estate income and other net rental income reported on IRS Form 1065 or IRS Form 1120S, the income may be used to qualify the borrower provided: • The borrower can document ownership share (may use Schedule K-1); • The borrower can document access to the income; and • The business has adequate liquidity to support the withdrawal of the earnings. **K-1 Cash Distributions** If the Schedule K-1 reflects a stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, the Schedule K-1 income may be used to qualify, no additional documentation of access to the income or adequate liquidity is required. If the Schedule K-1 **does not** reflect a stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, additional review is required. In addition to the documentation requirements as listed below, the following must be documented and reviewed: • Evidence that the borrower has access to the income such as partnership agreement or corporate resolution confirming access to the income. • Evidence that the business has adequate liquidity to support the withdrawal of the earnings. The underwriter needs to determine what documentation is acceptable to determine that the business has the capacity to continue making cash distributions at the level of business income being used to qualify. **Schedule K-1 Guaranteed Payments to Partner** If the borrower has a 2-year history of receiving "guaranteed payments" from a partnership or an LLC, the payments can be used to qualify. **Note:** If the borrower has less than a 2-year history of receiving "guaranteed payments" it may only be used to qualify IF the borrower has recently acquired a minimal ownership in a professional services partnership (i.e., medical practice or law firm) after having an established employment history with the partnership. The borrower's partnership agreement and evidence of year-to-date income must also be obtained. **Documentation Requirements:** • 2 years most recent tax returns with Schedule E; and • 2 years most recent Schedule K-1.
Military Benefits	Military personnel may be entitled to different types of pay in addition to their base pay. The following may be considered stable income provided there is documentation verifying the income will continue for at least 3 years. • Flight Pay • Hazardous Duty Pay • Rations • Clothing Allowance (usually paid yearly) • Housing Allowances **Education benefits may not be used to calculate qualifying income.** Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments,

	allowances, estimated time in service, and the amount of net and gross pay. Also, obtain and verify the following information from the borrower's latest Leave and Earnings Statement (LES): • Military Rank • Social Security Number • Length of active service to date • Estimated remaining time at present location The tax-free income from housing (BAQ), rations, uniforms, food, flight pay, etc., can be used as income to qualify for the loan as long the income will continue for at least 3 years. Grossing up of this income is subject to standard GHMC guidelines. **<u>Documentation Requirements</u>:** • YTD LES documenting at least 30 days of income • W-2's for the most recent two years • Verbal Verification of Employment performed no more than 10 business days prior to theloan closing; or • *For military personnel only*, verification through the online Defense Manpower Data Center no more than 30 days prior to close is permitted in lieu of a verbal VOE or additional Leave and Earnings Statement (LES). **Military Reserve:** Income paid to military reservists may be used to qualify as long as the borrower has a 2-year history or receipt, and the income is expected to continue for the next 3 years.
Minister/ Clergy Income	Ministers and other clergy members are typically paid a monthly base pay plus "other" income. The amount of "other" income may vary widely and may or may not be taxable income. Often, ministers are self-employed and/or have unreimbursed business expenses. Housing allowance is typical and may be considered with acceptable verification and documentation. • Review YTD paystubs and W-2s/1099s and personal tax returns to determine income. • Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income if the tax returns reflect "other" income >25% of the borrower's annual employment income. • Documentation provided must show income has been received for most recent 12 months and likely to continue for the next 3 years. • If there is any indication that all or part of the income is not likely to continue, it should not be used to qualify the borrower.
Notes Receivable	**<u>Documentation Requirements</u>:** • A copy of the Note confirming the amount, frequency, and 3 years continuance; and • Most recent 2 years' tax returns with Schedule B; or • 12-months deposit slips and/or bank statements/cancelled checks evidencing regulardeposit of the fund Notes receivable income on newly executed notes, that do not have at least a 12-month history of receipt, even if it will continue for 3 years, may not be used to qualify.
Public Assistance	Types of Public Assistance income include but are not limited to Social Security, Section 8 Housing Voucher, Food Stamps and SNAP. Public Assistance income may not be discounted or treated differently than wage income. It may be considered if the income is properly documented by letters or exhibits from the paying agency. The amount and frequency must be stated in the letters/exhibits and there is no statement that the income will not continue. <u>Documentation Requirements</u>:

	• 2 months deposit slips and/or bank statements/cancelled checks evidencing regular deposit of the fund if the assistance is already being received; and • Receipt of Letters or Exhibits from paying agency showing amount, frequency, and 3 years continuance. Note: A history of receipt is not required for newly obtained assistance. The Section 8 HCVP is available only to families that have been admitted to the HCVP and it is not offered by every Public Housing Agency (PHA). PHA's have discretion to determine whether to implement the HCVP in their jurisdiction. There must be a sponsoring PHA because they are the source of funds for this program. The program utilizes two different methods. The method used varies depending on how the PHA in each geographical area decides they want it to function. Loans must be coded using the Income Type of Housing Choice Voucher Program (Section 8) to identify. • **Housing Assistance Payment (HAP) Option**: The first method is one in which the public assistance funds are sent directly to the borrower, and the borrower uses this money to help pay their monthly mortgage payments. A mortgage with a term of 30 years will receive income assistance for 15 years, and with a term of 15 years will receive income assistance for 10 years. For the elderly (62 or older) and disabled* borrowers, there is no expiration of the benefits. • **Second Mortgage Option:** The second method is one in which public assistance funds are used to pay a community second subsidy mortgage that is put in place by the PHA. The subsidy provided by the PHA provides significant down payment assistance for the borrower, which ultimately lowers the borrower's monthly mortgage payments. Unlike the first method, the money never passes through the borrower's hands, but the result is almost the same – the portion of the borrower's monthly mortgage payment is reduced. If the borrower is utilizing the Community Second Mortgage Option, there will be a subordinate lien with the PHA and the Community Second is paid directly by the PHA. • The term of the Community second is not to exceed 15-years and any interest, if applicable may not exceed the interest rate on the first mortgage. • Only subordinate financing provided by a approved Community Second is permitted. Non-Community Seconds are not permitted. • Correspondents represent and warrant that the Community Second program complies with Fannie Mae guidelines and does not have a Negative Amortization financing structure. • Income cannot be grossed up when using a Freddie Mac 1st Mortgage Program or when using a Federal Home Loan Bank Funded Community Second. Income may be grossed up for Fannie Mae salable 1st Mortgage programs.
Retirement Assets used as Qualifying Income	Not Permitted
Retirement Pension	Non-taxable benefits can be grossed up provided it is verified as non-taxable. *Refer to the Tax-Exempt Income/ Non-Taxable Income topic* below for additional requirements that must be obtained to determine if a particular source of income is non-taxable. **Lump Sum Distributions** Borrowers who have recently retired and opted to take a lump sum distribution are eligible to use the income as qualifying provided the borrower has transferred funds to an annuity or similar account

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	that allows for regular withdrawals and the account is set up for regular withdrawals. A letter from the borrower's financial advisor is required to verify the terms of the withdrawal. If funds are not set up in an account allowing for regular withdrawals, income **may not** be used to qualify. **<u>Documentation Requirements</u>** • Copies of most recent 1 years' 1099 or IRS W-2; or • 2-months financial statements or bank statements evidencing regular deposit of the fund;or • Statement from the organization providing the income; or • Most recent 1 years' Signed Federal Tax Return If retirement income is paid as a monthly distribution from a 401(k), IRA or Keogh retirement account, the income must continue for the next 3 years. The retirement accounts (IRAs, 401k or Keogh) may be combined to determine the 3 years continuance. In addition, the following apply: • Borrower must have unrestricted access without penalty to the accounts; and • If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value must beused to determine the number of distributions remaining to account for the nature of theassets. **Note:** Unrestricted access is obtained by borrower arranging for distributions and if the distributions are in a series of substantially equal periodic payments (not less frequently than annually) there shall be no associated income tax increase.

Royalty Payments	Royalty payments may be used to qualify if they have been received on a regular basis for the most recent 12 months and are likely to continue for the next 3 years.
	The income is verified by the most recent 2 years' personal tax returns, including Schedule E.
	<u>Documentation Requirements:</u>
	• 2 years' most recent tax returns with all Schedules, and
	• Documentation that the income will continue for 3 years, and
	• Obtain copies of the royalty contract, agreement or statement confirming amount, frequency & duration of the income.
	• Determine that the income is likely to continue based on an established earningstrend.
	    ○ If the trend is stable or increasing, income can be averaged over the two-yearperiod.
	    ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	    ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period ofdecline.

Social Security	The portion that is non-taxable can be grossed up provided it is verified as non-taxable income. *Refer to the Tax-Exempt Income/ Non-Taxable income* topic below for additional requirements that must be obtained to determine if a particular source of income is non-taxable. Social Security income for retirement or long-term disability that the borrower is receiving from his/her own account/work record will not have a defined expiration date and must be treated as though income is "expected to continue". If Social Security benefits are being paid as a benefit for a family member of the benefit owner and the income has a defined expiration date due to recipient's age, the income may be used in qualifying; however, you must obtain evidence that the income will continue for at least three (3) years from the date of the mortgage application.

Documentation Requirements

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record	Borrower is drawing Social Security benefits from another person's account/work record
Retirement	• Most recent Social Security Administrator's (SSA) Award Letter Or • SSA – 1099 Or • Most Recent Signed federal tax returns Or • Proof of current receipt	• Most recent SSA Award Letter • Proof of current Receipt; AND • If Social Security income has a defined expiration date due to recipient's age, you must obtain evidence that income will continue for at least three years.
Disability		
Survivor Benefits	n/a	
Supplement Security Income (SSI)	• Most recent SSA Award Letter; and • Proof of current receipt	n/a

Note: If the borrower is presently employed but is anticipating retirement within the next 12 months, anticipated retirement income should also be taken into consideration. For newly established SSI benefits, a recently issued Social Security award letter reflecting the finalized terms may be used to document the income if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by the award letter. Verification of receipt is not required.

Tax Exempt/ Non-Taxable Income

A borrower with tax-exempt/non-taxable income should be evaluated in the same manner as a borrower who has a higher gross taxable income. Tax-exempt sources may include

- Child support payments,
- Social Security benefits,
- Disability retirement payments,
- Workers' compensation benefits,

- If the income is verified to be non-taxable, and its tax-exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower *if the additional income is needed to qualify*. The previous year's tax rate must be used to calculate grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on theirtax return, a 25% tax rate must be used in thecalculation.

Refer to the specific income types in this section to determine if the income may be grossed up.

Documentation Requirements:

- 1 year's most recent tax returns with all Schedules; or
- Other documents showing that the income, or a portion is nontaxable

Note: If the borrower indicates in any way that s/he did not file a tax return and the 4506-C transcript

	confirms there is no filing, no additional documentation is required.
Temporary Leave	Leave is no longer considered temporary when the borrower does not intend to return to their current employer, or they do not have a commitment from their current employer to return to work. The requirements and guidance for income while on temporary leave do not extend to employer-initiated actions such as furloughs and layoffs. Income used to qualify is determined by when the borrower will be returning to work: • If the borrower <u>will</u> return to work prior to the first mortgage payment being due, the borrower's regular employment income that will be received upon their return to employment can be used to qualify. • If the borrower <u>will not</u> return to work prior to the first mortgage payment being due, the lesser of the borrower's temporary leave income (if any) or their regular employment income may be used to qualify. **<u>Supplemental Income</u>** If the borrower <u>will not</u> return to work prior to the first mortgage payment being due and the borrower's temporary income is less than their regular pay, liquid assets may be used to supplement the temporary leave income. However, the total qualifying income (temporary leave income plus supplemental income) may not exceed the borrower's gross monthly income that will be received upon their return to their current employer. Supplemental Income= Available liquid reserves* ÷ the number of months of supplemental income** ***Available liquid reserves**: Total liquid assets reduced by the amount of funds needed to complete the transaction (down payment, closing costs, prepaids, other debt payoff, required reserves, etc.). ****Number of months of supplemental income**: The number of months from the first mortgage payment date to the date the borrower will begin receiving his/her regular employment income, rounded up to the next whole number. **<u>Qualifying Income</u>** Total Qualifying Income = Temporary Leave Income + Supplemental Income **Note:** Total qualifying income may not exceed the borrower's regular employment income. <u>Example</u>: • Regular income amount: $6,000 per month • Temporary leave income: $2,000 per month Total verified liquid assets: $30,000
Trailing Co-Borrower Income	Not Permitted.
Trust Income	The trust must have sufficient assets to maintain the same level of payments for the next 3 years. Lump-sum distributions made before the loan closing may be used for the down payment or closing costs if they are verified by a copy of the check or the trustee's letter showing the distribution amount. **Estates & Trusts:** Income from estates and trusts can be very complex in nature; therefore, there must be documented evidence of the amount, frequency of receipt, and continuance for the next 3 years. Losses from estates and trusts must be analyzed for disallowed losses.

	Documentation Requirements: • Copy of Trust Agreement or trustee's statement that verifies the amount, frequency, and 3 years continuance; and • 2 years most recent tax returns with all Schedules (if Agreement/statement does not include information about historical level of distributions from the trust)
Unemployment Benefits	Unemployment compensation associated with **seasonal employment** only may be considered qualifying income if the borrower has a two-year history of receipt and the unemployment compensation is likely to continue for the next three years. **Documentation Requirements**: • YTD paystub or salary voucher documenting at least 30 days of incomeand • 2 years most recent tax returns with all schedules evidencing proof of receipt of unemployment compensation for two years and • Verify that the income is likely to continue (no evidence from the employer that the income will no longer be received, and it is determined that the income is likely to continue basedon an established earnings trend.)
United Nations Income	Borrowers who work for the United Nations receive wages but typically taxes are not deducted from the borrower's wages. The borrower is still responsible for paying taxes on the income but will do so when filing tax returns in their country of residence. If borrower's income is received in any currency besides U.S. dollars, the income is not permitted. **Documentation Requirements:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and • Most recent 2 years W-2s, or comparable documentation appropriate for the country providing the income.
VA Benefits	Borrowers receiving VA benefits can use the income with proof the benefits will continue for at least three years from the date of loan application. **Education benefits may not be used to calculate qualifying income.** **Documentation Requirements:** • Copy of VA Benefits Letter or distribution form from VA showing amount, frequency, and duration of benefits

Restricted Stock	Restricted stock plans award an employee share of stock as a form of additional compensation. However, the employee cannot take possession of the shares until vesting restrictions are met. Most commonly, the vesting restriction is met if the employee continues to work for the company for a certain number of years. Time-based restrictions may lapse all at once or gradually. If the recipient does not meet the conditions the company set forth prior to the end of the vesting period, the shares are typically forfeited.
	
	Note: To avoid counting the income/asset twice, if restricted stock is used as income, any unvested shares of restricted stock cannot be used as an asset, nor can dividend interest or capital gains income from the same restricted stock be used.
	
	Restricted stock may be considered as qualifying income if the loan documentation supports. The borrower must have a verified history of receiving income from restricted stock for at least 24 months and the likelihood of its continuance must be verified.
	
	<u>Documentation Requirements:</u>
	• Documentation of receipt of restricted stock income for the most recent 2 years E.G. 2 most recent year-end paystubs, w-2s that provide a breakdown of base pay and restricted stock, etc, and
	• Documentation of the most recent 2 years of restricted stock awards. E.G., compensation awards letters, vesting schedule etc.
	• Printout/screenshots verifying company is publicly traded and verifying the stock price on the date of application.
	
	Note: Restricted stock received from a sign-on type award can be used towards establishing the history of receipt of RSU income, but those shares cannot be considered in the income calculation.
	
	• Determine that the income is likely to continue based on an established earnings trend.
	  ○ If the trend is stable or increasing, follow income calculation below.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used.
	
	Income Calculation
	Typically, restricted stock income is calculated using the lower of:
	• An average of the prior 2 years RSU earnings, OR
	• The number of performance-based shares/units awarded over the last 2 years at the current employer multiplied by the current stock price on the application ate at 70% and averaged over 24 months. See below for example:
	
	Example:
	• 2020 performance/refresh award of 100 shares.
	• 2021 performance/refresh award of 90 shares.
	• Stock price of publicly traded company on date of application: $200/share
	
	100 shares + 90 shares = 190 shares * $140 (70% of share price) = $26,600 / 24 months = $1,108 per month.

<table>
<tr><td>Evaluating Rental Income</td><td>Rental income may be generated from the following sources:
Subject property being financed is an owner-occupied 2–4-unit primaryresidence
Other investment property that the borrower currently owns that is not part of loan transaction.
Rental income generated from a second home or single-family primary residence is not considered stable monthly income and may not be used to qualify the borrower or, be considered as a compensating factor to offset the total debt-to-income ratios.

If rental income is <u>not</u> used to qualify the subject investment property, the full PITIA must be included in the debt-to-income ratio.

The income from rental / investment properties is determined based on if the borrower has a history of renting the subject and/or another property. The rental income will be reported on the IRS for 1040, Schedule E of the borrower's personal tax returns, or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return.</td></tr>
<tr><td>Calculating Rental Income on Non-Subject Property</td><td>If the borrower is qualified using the full housing expense (rental income is not considered), documentation of net rental income is not required.

Refer to the table below for all non-Subject property income verification requirements.

<table><tr><th></th><th></th></tr><tr><td>Yes</td><td>The two most recent federal tax returnswith Schedule E, and
If the property generating income does notappear on the most recently filed tax return, a current lease is required. Rental income must be documented based on requirements for Partial or No Rental Income on Tax Returns reflected below. Income should be calculated using 75% of the gross income.</td></tr><tr><td>No</td><td>Income/loss should be calculated by using 75%of the gross income and verified by currentleases.</td></tr></table>
Signed leases may be used to determine the net rental income for an investment property not owned during the previous tax year. Refer to Partial or No Rental History on Tax Returns section for additional eligibility options.

*If there is a HELOC secured by the property, the payment per the credit report may be used to calculate the monthly net rental income/loss.
GHMC REO Income Calculation worksheet must be utilized and maintained in the loanfile.
If the current residence is being converted to a second home, refer to Liabilities: Real Estate Obligations: Departure Property for additional guidelines.</td></tr>
<tr><td>Partial or No Rental History on Tax Return</td><td>If the borrower can document (per the table below) that the rental property was not in service the previous tax year, or for only a portion of the year, qualifying rental income may be determined by using the following:
Schedule E Income and expenses, and annualizing the income (or loss) calculation;or</td></tr>
</table>

<table>
<tr><td></td><td>
Lease agreement(s) to 75% of the gross rental income to be used in the net rental income(or loss) calculation.
Note: Leases must be current and fully executed, with a minimum original term of one year
<table>
<tr><td>If the property was acquired during or after the most recent tax filing year</td><td>Then confirm the purchase date using the Closing Disclosure or other documentation.
If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses depending on when the unit was in service as a rental).
If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.</td></tr>
<tr><td>If the rental property was out of service for an extended period</td><td>Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.
Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.</td></tr>
<tr><td>It is determined that some other situation warrants an exception to use a lease agreement</td><td>The loan file must contain an explanation and justification to support using a lease agreement.</td></tr>
</table>
</td></tr>
<tr><td>Rental Income Reported Through a Partnership or S-Corporation</td><td>
If the borrower is personally obligated on a mortgage debt (as evidenced by the credit report) and gross rents and related expenses are reported through a Partnership or an S-Corp, Form 8825 should be used to determine net rental income or loss for the property.

The Partnership or S-Corp must be documented and analyzed according to the Employment & Income/Self-Employed Income/Partnership or Employment & Income/Self-Employed Income/S-Corp section.

<u>Documentation Required:</u>
Obtain Partnership or S-Corp business tax returns, including IRS Form8825.
Analyze each property listed on Form 8825.
</td></tr>
</table>

Evaluating Self-Employed Income	A Self-Employed Income Analysis Form must be completed on every transaction and retained in the permanent loan file. An individual receiving income from any of the following sources must be qualified as self-employed: • Borrower has an ownership interest of 25% or more in a business. The business may be a sole proprietorship, a general partnership, limited partnership, corporation, or S-corporation. • Borrower relies on investments for income (e.g., interests, dividends, capital gains, orreal estate). • Borrower is a contract worker (1099 income) • Borrower receives income from the subject property seller orbroker A 2-year self-employment history is required. Less than 2-years may be considered provided that: • The borrower has a recent 2-year history of successful employment in the same occupation (or a related field) and they have been self-employed for at least 1 full tax year. • The borrower's most recent 2 years signed federal income tax returns, including all schedules, must reflect the receipt of income at the same or greater level in a line of business that provides the same products or services as the current business or in an occupation in which s/he had similar responsibilities to those undertaken in connection with the current business. Business tax returns are analyzed to assess the likelihood of continued personal income to the borrower. The cash flow of the corporation and an analysis of the trends experienced by the business are used to determine its viability. The inclusion of projected gross or net business income, retained earnings, or capital withdrawal generally may not be used when calculating qualifying income. This restriction applies to all businesses, including closely held corporations. If any of the borrowers are self-employed, their personal tax returns must be reviewed to determine if there is a business loss that may have an impact on the total qualifying income even if the income from the self-employed business is not being used to qualify. **Note:** If personal or business tax returns are included in the loan file for a borrower or co-borrower(s), the underwriter must review and consider in their credit evaluation. **The underwriter may not disregard data in tax returns just because they are not required.**
Business Restructuring	It is not unusual for a business to change their structure to take advantage of various tax or business laws. Although the most common business conversion is from a sole proprietorship to something else, other conversions also occur. A conversion provides the business owner with more protection and less liability. A change like this doesn't necessarily mean the borrower is starting a new business. For example, a business begins as a sole proprietorship and then switches to a partnership, corporation, or S-corporation. The total length of the business' existence must be at least 2-years. Average income should be calculated using income from both business structures (the current as well as previous) as long as it can be confirmed that the nature of the business remains the same. The underwriter must carefully consider the conversion when an owner is added or removed and the impact it will have on the business as a whole as well as the borrower's individual income. The loan file must contain a detailed written explanation by the Underwriter.
Calculating Cash Flow:	

Partnership & S-Corporations

Ordinary income, net rental income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided:

- The borrower can document ownership share (may use Schedule K-1);
- The borrower can document access to the income; and
- The business has adequate liquidity to support the withdrawal of earnings.

Note: Borrowers, who have less than 25% ownership, *refer to- Employment and Income/ Other Income* section for requirements.

If…	Then
The Schedule K-1 reflects a documented, stable history of receiving cash distributions of income form the business consistent with the level of business income being used to qualify…	No further documentation of access to the income or adequate business liquidity is required. The schedule K-1 income may then be included in the borrower's cash flow
The Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify…	Must confirm the following to include the income in the borrower's cash flow • The borrower can document access to the income (such as a partnership agreement or corporate resolution) – unless the borrower(s) own 100% of the business, in which case confirmation of access to the income is not required; and • The business has adequate liquidity to support the withdrawal of earnings
The borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC…	These payments can be added to the borrower's cash flow
Business tax returns are required…	The type of business structure and analysis of the business returns as indicated in this section of Policy must be considered in accordance with requirements.

Business income may be used to qualify only if the following is documented and verified:

- The income was distributed to the borrower, or
- The business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

It is important to select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriated for businesses that rely heavily on inventory to generate income. This test excludes inventory from assets in calculating the proportion of current assets available to meet current liabilities.

  Quick Ratio = (current assets – inventory) / current liabilities

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income).

  Current Ratio = current assets / current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

Contract Employees	Individuals who work on a contractual basis rather than as an employee, are treated as self-employed and must have a 2-year history in the same line of work. Because the individual may be released from employment at any time, or as specified in their contract, employment history is key in establishing income stability and the likelihood that it will continue. **Required Documentation:** • 2 years most recent personal tax returns with all W-2s or 1099's;and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.

Corporation	Complete signed and dated personal tax returns **and** corporate returns for the most recent two years must be included in the loan file.
	Required Documentation:
	• 2 years most recent personal and business tax returns signed and dated with all Schedules and W-2s or 1099s (tax returns must reflect at least 12 months of self-employed income); and
	• Year-to-date unaudited profit and loss (P&L) statement and balance sheet for the business either:
	  ○ Completed by the business's tax preparer; or
	  ○ Completed by the borrower in addition to the following:
	    ▪ Evidence provided that the document has been viewed by the business'stax preparer or
	    ▪ Evidence provided that the document has been viewed by an appropriate third party who is not affiliated with the loan transaction, or
	    ▪ Two months business bank statements to support the income on the P&L statement and balance sheet.
	  ○ The year-to-date P&L and balance sheet are required when the application is dated more than 90 days after the end of the business' fiscal or calendar year end; and
	• Income Analysis Form; and
	• Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.
	
	Note: Corporate income may not be used unless the borrower owns 100% of the business. (W-2/1099 earnings are eligible.)

Documenting the Transaction	If the borrower is self-employed, the business must have been in existence for at least 2-years. The underwriter may consider amounts less than 2 years, however the most recent tax return must reflect at least 12 months of self-employed income. An explanation as to why self-employed income with a history of less than 2 years was used to qualify must also be documented in the loan. All letters of explanation must be signed by the Borrower prior to close. **Note**: If the application date is after the April IRS cutoff date, tax returns for the prior year or a copy of an extension must be obtained. *Refer to - Employment and Income/Tax Returns/Age of Federal Tax Returns* for details. A Self-Employed Income Analysis Form must be completed on every transaction and retained in the permanent loan file. **Note:** If tax returns are included in the loan file for a borrower or co-borrower(s), the underwriter must review and consider in their credit evaluation any information. **The underwriter may not disregard data in tax returns just because they are not required.**
Farm Income	Provided it can be verified that it is stable, consistent, and recurring, cash flow for depreciation,

	amortization, casualty loss, depletion, or business use of home may be added back. **Required Documentation**: • 2 years most recent personal tax returns signed and dated with Schedule F; and • Income Analysis Form; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing. **Note:** Hobby farms that are not the primary source of income must be reviewed for a loss on the tax returns.

Partnership	There are 2 types of partnerships—a general partner and a limited partner.
	• A general partnership indicates that the individual has full ownership interest and is totally liable for the business.
	• A limited partner's liability is limited to the amount of their investment only.
	The cash flow of the partnership must be analyzed to assess the stability of the borrower's personal cash flow. This provides a snapshot of the business' ability to meet its short-term obligations.
	
	Required Documentation:
	• 2 years most recent personal & business tax returns signed and dated with all Schedules including Partnership return and K-1s (tax returns must reflect at least 12 months of self-employed income); and
	• Year-to-date unaudited profit and loss (P&L) statement and balance sheet for the business either:
	  ○ Completed by the business's tax preparer; or
	  ○ Completed by the borrower in addition to the following:
	    ▪ Evidence provided that the document has been viewed by the business's tax preparer or
	    ▪ Evidence provided that the document has been viewed by an appropriate third party who is not affiliated with the loan transaction, or
	    ▪ Two months business bank statements to support the income on the P&L statement and balance sheet
	  ○ The year-to-date P&L and balance sheet are required when the application is dated more than 90 days after the end of the business' fiscal or calendar year end: and
	• Income Analysis Form; and
	• Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.

S-Corporation	The S-Corporation must report income and losses on IRS Form 1120S and each partners share of the profit or loss is reported on Schedule K-1 of the 1120S. Complete signed and dated personal tax returns and corporate returns for the most recent two years must be included in the loan file.
	Required Documentation:
	• 2 years most recent personal and business tax returns signed and dated with all Schedules and K-1s (tax returns must reflect at least 12 months of self-employed income); and
	• Year-to-date unaudited profit and loss (P&L) statement and balance sheet for the business either:
	  ○ Completed by the business's tax preparer; or
	  ○ Completed by the borrower in addition to the following:

	▪ Evidence provided that the document has been viewed by the business's tax preparer or ▪ Evidence provided that the document has been viewed by an appropriate third party who is not affiliated with the loan transaction, or ▪ Two months business bank statements to support the income on the P&L statement and balance sheet. ○ The year-to-date P&L and balance sheet are required when the application is dated more than 90 days after the end of the business' fiscal or calendar year end: and • Income Analysis Form; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.
Self-Employed Analysis Form	A Self-Employed Income Analysis Form must be completed on every transaction and retained in the permanent loan file.
Sole Proprietor	Complete signed and dated personal tax returns for the most recent two years must be included in the loan file. When there is evidence of a large increase in net profits from the prior year, and the income is needed to qualify, additional information may be required to substantiate the income. The borrower must provide a detailed letter from their CPA explaining the cause of the increase along with an audited year-to-date Profit and Loss Statement. **<u>Required Documentation:</u>** • 2 years most recent tax returns signed and dated with all Schedules (tax returns must reflect at least 12 months of self-employed income); and • Income Analysis Form; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.
Verifying the Existence of the Business	Confirmation that the borrower's business remains open and in existence must be verified within 30 calendar days prior to the loan closing when a borrower(s) has 25% or greater ownership in the business. **Confirmation is not required if the business income is not used to qualify or if there is a business loss.** Verification should include: • Documentation prepared/issued by from a third party, such as a CPA, regulatory agency, or applicable licensing bureau, if possible; OR • Obtaining a phone listing and address for the borrower's business using telephone book, the Internet or directory assistance. Internet sites such as 411.com, Chamber of Commerce sites and Manta.com where they allow the business owner to add their own information are not acceptable. • For all of the methods of verification, the lender must document the source of the information obtained as follows: ▪ Name and address of the business, and ▪ The entity contacted (if applicable), and ▪ The date the information is verified, and ▪ The name and tile of the person who obtained the verification. • **Note:** At the underwriter's discretion, on a case-by-case basis, other sources may be used to verify employment but must be thoroughly explained and documented.

Age of Federal Tax Returns

For some types of income, GHMC requires borrowers to provide copies of federal income tax returns (personal returns and, if applicable, business returns). The "most recent year's" tax return is defined as the last return scheduled to have been filed with the IRS.

The timing of tax returns varies depending on the application date and disbursement date of the mortgage loan. The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage.

<table>
<tr><th>Application Date</th><th>Note Date</th><th>Documentation Required</th></tr>
<tr><td>October 15[1], (current year minus 1), to April 14[2], current year</td><td>October 15[1], (Current year minus 1), to April 14[2], Current year</td><td>The most recent year's tax return (as identified in the chart above) is required. The use of a Tax Extension is not permitted.</td></tr>
<tr><td>April 15[1] Current</td><td>May 30</td><td rowspan="2">The following must be obtained:
• The most recent year's tax return, OR all of the following:
○ A Copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS.
○ IRS form 4506-C transcripts confirming "No Transcripts Available" for the applicable tax year, and
○ Returns for the previous two years.</td></tr>
<tr><td>All Applications</td><td>May 31 – October 31</td></tr>
<tr><td>All Applications</td><td>November 1 to April 14 (Current year plus 1)</td><td>The most recent year's tax return (as defined above). Tax Extensions are not permitted.</td></tr>
</table>

[1] Or the April/October filing date for the year in question as published by the IRS.

[2] Or the day prior to the April/October filing date for the year in question as published by the IRS.

Note: For business tax returns, if the borrower's business follows a fiscal year (a year ending on the last day of any month except December), the dates in the chart above may be adjusted to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

IRS Extensions	If the borrower has requested an extension to file their most recent tax returns, a copy of ALL applicable extension requests along with filed tax returns for the two prior years, must be provided. **Form 4868** extends the filing date to October 15. The amount of tax liability disclosed on Form 4868 must be compared to the previous 2 years tax liability. Extension requests that reflect a lower tax liability than years' prior must be carefully reviewed and guidelines for declining income should be followed if applicable. Extension requests that exceed the October 15th filing date require verification of approval from the IRS.
Tax Return Analysis	• It is important to establish an earnings trend for both the borrower and their business that earnings remain level or increase, and the borrower reflects stability and consistency. • A consistent decline in the business' gross income over 2 or 3-years could be a reason for concern, even if the borrower's current income and debt ratios meet GHMC's guidelines. For example, the borrower's AGI as listed on the tax return may be increasing yearly because of items not related to the business (e.g., capital gains received from the sale of real estate), while the actual business income is declining yearly. • Only income consistent with the documentation provided may be considered for loan qualifying purposes. • Dramatic increases and/or decreases in earnings must be reviewed carefully. • It may be necessary to obtain additional years tax returns to establish a consistency of earnings since large fluctuations are typical of some businesses. • If the borrower needs to draw additional income from the business (and has the legal right), investigate whether the business can produce additional income for the borrower's use. • Withdrawal of cash may have a severe negative impact on the business and may lead to a negative cash flow. If this occurs, it may not be possible to confirm stable, ongoing income.

Evaluating Wage Income	Wage earner income is best defined as compensation for services paid by a person, business or organization at specified intervals and is commonly referred to as salary or wage earner income. The pay schedules of wage earners can be classified into 4 general categories. • **Full Time:** The borrower is a permanent employee of a company and works a standard workweek, usually totaling 35 to 40 hours a week. Hours and number of days may or may not vary. • **Part Time:** The borrower is a permanent employee of a company, but the number of hours is not standardized, usually totaling less than 30 hours aweek. • **Temporary:** The borrower is not a permanent employee of the company and therefore is not part of the company's permanent staff. Temporary employees usually work for a contracted, or "as needed" period only. • **Occasional/Seasonal:** The borrower works for a specified period on a specific job or project. Once completed, the borrower is on "standby" until they receive their next assignment. Examples of this type of worker include roofers, landscapers, union construction workers, and migrant farm workers. The type of pay schedule directly impacts how monthly qualifying income is calculated. Common types of stable wage earner income may include regular base earnings plus consistent and documented secondary income, such as overtime, commission, and bonus, and additional part-time or seasonal employment.

Bonus Income	The nature and timing of receipt of the bonus must be determined up front in order to include in qualifying income.
	The borrower must have a 2-year history of receipt to use as qualifying income and it must be likely to continue for the next three years. Earnings must be level or increasing; compensating factors must exist if decreases in the last year.
	<u>Required Documentation</u>:
	• Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and**
	• 2 years most recent W-2s and/or 1099s; **and**
	• Personal tax returns for the most recent 2 years; **and**
	• There is no evidence from the employer that the income will no longer be received; **and**
	• It is determined that the income is likely to continue based on an established earnings trend.
	  ○ If the trend is stable or increasing, income can be averaged over the two-year period.
	  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
	  and
	• Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.

Calculating Income	It is important to establish an earnings trend. Annual earnings that are level or increasing from one year to the next reflect income stability. **However, if the earnings show a decline compared to the current year, there must be strong**

	compensating factors to support using the income. If the borrower's employer is unable to predict whether the income will continue, it may be considered provided the employer does not specifically state that income is not likely to continue.
Commission Income	The borrower must have a two-year consecutive history of receiving commission income and the commission income must be likely to continue for the next three years in order to use the income to qualify. Income may be subject to fluctuations from year-to-year. If there are large fluctuations, the borrower must provide a written explanation to support the increase or decrease in income and the appropriate adjustments made to average income used to qualify. All letters of explanation must be signed by the Borrower prior to close. **<u>Required Documentation</u>** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and** • 2 years most recent W-2s; **and** • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing. **Note**: If the file contains tax returns or tax transcripts they cannot be ignored. *Refer to Section - Liabilities/Recurring Debt/Non-Reimbursed Business Expenses for additional requirements regarding deductions to the 2106.*
Documenting the Transaction	This section addresses sources of documentation used to verify salary/wage earner income and the principal methods of validating its authenticity. **<u>Pay Stubs</u>** Pay stubs must include the following information in order for it to be considered an acceptable form of verification: • Be computer generated (may not be handwritten) • Contain the company's name or employer tax I.D. that matches the W-2 • Contain the name and/or social security number of the employee • Show the pay period covered • Be dated no earlier than 30 days prior to the application date • Show the year-to-date gross earnings • List all deductions If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained. I.e., a written VOE (see next section) or 2-years tax returns must be obtained. Refer to the applicable Documentation Process and product/program fact sheets for specific requirements. Statements must be reviewed to determine if there are deductions that should be included in the list of debt obligations. Some of the most common types of deductions are: • Credit union loans (if deduction is for repayment of a loan, payment should be included in list of debts). • 401k loan repayments: Debt is not included in the total debt ratios.

	• Alimony/child support payments (a mandatory requirement in some states, therefore a statutory deduction). • Wage Assignments/ Garnishments (due to tax liens, judgments for non-payment of debt, or loss of a court case). Not all of the above deductions are necessarily obligations. The statement must be reviewed carefully to determine the nature of the deduction and if it should be included in the borrower's list of debt obligations. **W-2s** The W-2(s) must cover the most recent two-year period and must clearly identify the borrower as the employee (the taxpayer's copy of the W2 is required). **Note:** The final year-to-date paystub, provided it contains complete year-to-date information, or an IRS Wage and Income Transcript (W-2 Transcript), or a written VOE may be used in lieu of the actual W-2 form. **Schedules & Forms** Although they may not be included in every instance, the following list of schedules and forms may also be required when other additional income is used to qualify. • **Commission/ Bonus:** Signed 1040s, Schedule A, Form 2106/2106-EZ • **Rental Income:** Signed 1040s, Schedule E, Form 4562 • **Interest/Dividend Income:** Signed 1040s, Schedule B • **Farm Income:** Signed 1040s, Schedule F, Form 4562 **Note:** Individual tax returns must be signed by the borrower unless one of the following alternatives is obtained: • Documentation confirming that the tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent); • A completed IRS form 4506-C (signed by the borrower) for the year in question; or • IRS transcripts that validate the information on the unsigned tax returns. **Note:** If tax returns are included in the loan file, the underwriter must review and consider in their credit evaluation. **The underwriter may not disregard data in tax returns just because they are not required.**
Employees of a School District	Employees of a school district may be paid on a 9-month, 10-month, or 12-month basis. **Required Documentation:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained (written VOE or a copy of the Employment contract with the School District); and • 2 years most recent W-2s; and • Personal tax returns for the most recent 2 years; and • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.
Gaps in Employment	Interruptions/gaps in employment of 30 days or more must be explained in writing.

Individual Employed by an Interested Party in the Transaction	Tax returns must be obtained even if the borrower does not meet the definition of self-employed. However, they do not have to be treated or registered as a self-employed borrower. • Carefully examine loans with borrowers who are employed by interested parties to the property sale, purchase or financing of the transaction. • Borrowers who are employed by an interested party in the transaction must also provide 2-years tax returns, regardless of the percentage of ownership or type of income. **Required Documentation**: • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and • 2 years most recent personal tax returns with all W-2s; and • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.
Individual Employed in a Family-Owned Business	Tax returns must be obtained even if the borrower does not meet the definition of self-employed. • Carefully examine loans with borrowers who are employed in a family-owned business, or whose employer is an interested party to the sale of the property. **Required Documentation:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and • 2 years most recent personal tax returns and all W-2s; and • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.
Internet & Email Verifications	• Downloads from the Internet are acceptable provided they meet all general guidelines outlined in this section. • The existence of the web site from which the documents were derived must be verified. • Documents that are downloaded from the Internet by the borrower must clearly identify the employer (as evidenced by corporate letterhead or logo), and the source of the information must be included on the Internet banner that is at the top of the document. • Printed web pages must show the uniform resource locator (URL) address and the date and time printed. **Note:** E-mail photographs or screen shot pictures via a phone of documents are permitted provided they are complete, legible, and meet all requirements for electronic records.
Overtime	The borrower must have a 2-year history of receipt to use as qualifying income and it must be likely to continue for the next three years. Earnings must be level or increasing; compensating factors must exist if decreases in the last year. **Required Documentation:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and** • 2 years most recent W-2s and/or 1099s; **and**

	• Personal tax returns for the most recent 2 years; **and**
	• There is no evidence from the employer that the income will no longer be received; **and**
	• It is determined that the income is likely to continue based on an established earningstrend.
	  ◦ If the trend is stable or increasing, income can be averaged over the two yearperiod.
	  ◦ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current,but lower stabilized amount must be used.
	  ◦ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
	and
	• Verbal Verification of Employment performed no more than 10 business days prior to theloan closing.

Part Time, Seasonal, & Secondary Income	• Part-time, seasonal, or second-job income may be used to qualify if it can be verified as having been received for the previous 2-years and if it has a strong likelihood of continuation. • This income is considered uninterrupted if the borrower has held the same position for at least 2-years and employment is expected to continue for the next 3 years. (For example, someone who works at a department store only during the Christmas season, or who works summers in an amusement park demonstrate a consistency that is likely to continue.) • Income is averaged over 2 years. • For secondary income, it is acceptable for a borrower to have a history that includes different employers as long as the income has been consistently received. **<u>Required Documentation</u>:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and • 2 years most recent W-2s; and • Verbal Verification of Employment performed no more than 10 business days prior to theloan closing; and • For first mortgage transactions, using seasonal income, either verbal or written confirmation with borrower's employer that there is a reasonable expectation that the borrower will be rehired next season. (Written VOE may be required. If confirmation cannot be obtained, the income may not be used to qualify.) **Unemployment Benefit Income:** *Refer to Section - Employment and Income/Other Income/ Unemployment Benefits.*
Tips & Gratuities	The borrower must have a 2-year history of receipt to use as qualifying income and it must be likely to continue for the next three years. Gratuities and tips can only be included in qualifying income if they are included in **two years** of taxable income. **<u>Required Documentation</u>:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and**

	• 2 years most recent tax returns with all W-2s; **and** • Verbal Verification of Employment performed no more than 10 business days prior to theloan closing; and • For First Mortgage transactions, either verbal or written confirmation with borrower's employer that tip income is likely to continue. (Written VOE may be required. If confirmation cannot be obtained, the income may not be used to qualify.) **Note:** The borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on unreported tip income, when filing his/her tax returns. This income may be used in qualifying if the most recent two years federal income tax returns with Form 4137 are obtained. Determine that the income is likely to continue based on an established earningstrend. • If the trend is stable or increasing, income can be averaged over the two-yearperiod. • If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current,but lower stabilized amount must be used. • If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
Union Worker	• Union workers are members of a specific trade union and are often skilled tradesperson (e.g., electricians, plumbers, roofers, etc.). • Workers can work for a single employer on a long-term basis or for more than one employer throughout the year. At the completion of a job, the Union will then refer the individual to a new employer. During the individuals' course of employment with the assigned employer, they are paid directly by the employer, not the Union. • Their jobs may be seasonal, and it is not uncommon for individuals to receive unemployment during down time. • If the borrower is in a line of work that is deemed seasonal (e.g., roofing) and is not working at the time of loan application or closing, they may still be eligible for financing. Verify that the borrower is a member of the union and in good standing. It is not necessary to verify the union dues or count them as a liability. • If the borrower is a member of a local trade union and obtains employment via these means, income can be verified by the following: **<u>Required Documentation</u>**: • 2 years tax returns; or • 2 years of W-2s and/or 1099s, or • A VOE from the Union for earnings from all employers during the current year and aW-2 from prior year. If the union work is paid with a 1099 and have expenses that may be deducted from the income used to qualify, s/he should be treated as a self-employed borrower, averaging the income over a 2-year period. **Note:** This policy does not apply to borrowers who are employed by a traditional employer (e.g., GM, Ford, etc.), but rather are members of a trade union such as a carpenter's union. Borrowers who are employed by a traditional employer would be considered wage-earner employees.
Variable Income	• Certain types of income fluctuate and must be averaged to arrive at income that is usedto

	qualify. Examples of variable income sources include hourly workers with fluctuating hours, or income that includes commission, bonus, or overtime. • Typically, two years or more of receipt of the variable income is recommended; however, a shorter time period of 12 to 24 months may be considered as acceptable. Refer to the requirements for each individual source of income for additional details. • It is also important to establish an earnings trend. The earnings trend must be evaluated and the amount that is most likely to continue for the next 3 years must be used to qualify. A borrower who has had different types of employment in the past may be considered to have stable income if the amount has remained at a consistent level (at a minimum), and changes have not affected the borrower's ability to pay their obligations. • The frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) must be determined to accurately calculate the monthly income to be used. • The monthly year to date income calculation should be compared to prior year's earnings using the borrower's W-2's or signed federal income tax returns, as determined by the documentation required under the source of income. For an example of the calculation refer to thecalculating income section of this chapter.
Verbal VOE	The purpose of a verbal verification of employment (VOE) is to: 1) confirm the borrower's current employer; and 2) confirm that the borrower's employment status has not changed. VOE is not required for previous employers. **<u>A verbal VOE must be performed no more than 10 business days prior to the loan closing on all loans regardless of the initial income/employment verification type used</u>**. Neither a pay stub nor a written VOE (Verification of Employment) Form may replace the verbal VOE except as noted below. **Exception:** A verbal VOE does not have to be performed if a written VOE is received from the employer and meets the following requirements: • Is dated within 10 business days of the closing; **AND** • Provides all employment information required on a Verbal VOE. **Note:** If the employer will not verbally verify employment, a written verification or verification from a third-party employment verification vendor may be obtained within the same time frame as indicated above for the verbal VOE. The phone number that the borrower provided as their employer's number must be independently confirmed by using the phone book, calling Directory Assistance, or through the internet via a resource such as "The Work Number". Contact with the employer must be documented in writing via the verbal VOE form and must contain the following information: • Borrower Name • Name of the borrower's employer • Name, title, and department of the person who provided the confirmation (generally, this information should be provided by a Human Resource representative or the borrower's supervisor or manager) • Employer's telephone number and the source from which the number was obtained(e.g., directory assistance, phone book, etc.). • Statement that the borrower <u>is</u> or <u>is not</u> currently employed. • Other remarks that may be pertinent to the transaction. • Name and title of the individual who contacted the employer and the date the information was obtained. An email exchange with the borrower's employer from the employer's work email address within he same time frame as the verbal VOE requirements is acceptable.

	The following guidelines must be followed: • The lender must conduct additional due diligence to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites. • The email must include borrower's name, and employer's name; the name, title, and work email address of the individual contacted at the employer, the date of contact, and the borrower's current employment status. • Name and title of the employee who contacted the borrower's employer and obtained the e-mail verification. **Note:** W*hen the verbal verification is generated electronically by the employer or a third party* the following information is not required to be reflected on the VVOE: • Name, title, and department of the person who provided the confirmation; or • Name, title & phone number of the employer/employee requesting the information; or • Employer's telephone number and the source from which the number was obtained. As noted above, the verbal VOE must be performed within 10 business days prior to the loan closing. **If any electronic data base is used to obtain the verbal VOE, it is important to note that the completed date on the verification document may not be older than 35 days old prior tothe closing date.** **Union Workers:** If the union facilitates the borrower's placement in each assignment and it is determined that the Borrower's employment and income history is stable, the verbal VOE may be obtained directly from the individuals union. This is applicable to both individuals who are employed at the time of closing, as well as those who are in between employers at the time of closing.
Written Verification of Employment (VOE) Form	• A written VOE (Verification of Employment) may be used to verify income and employment. If a written VOE is used to verify income it must be fully completed. • The VOE must be faxed or mailed directly to and received from borrower's employer. It may not be hand delivered, faxed, emailed, etc. by the borrower. • The VOE must be completed, signed, and dated by the owner, partner, or a Human Resource representative, along with the date and phone number. • We will not accept forms that are completed by the borrower. If the VOE is signed by someone with the same last name as the borrower, their relationship to the borrower must be determined. (If a relative employs the borrower, *refer to "Employed in a Family-Owned Business" section of this chapter.)*

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All new updates will be in RED font.		
Section	**Date**	**Update**
Borrower Eligibility	05.26.2022	Added • Non-Permanent Resident Aliens changed to GHMC overlay.
Employment and Income – Other Income	05.26.2022	Added **United Nations Income (Other Income):** Borrowers who work for the United Nations receive wages but typically taxes are not deducted from the borrower's wages. The borrower is still responsible for paying taxes on the income but will do so when filing tax returns in their country of residence. If borrower's income is received in any currency besides U.S. dollars, the income is not permitted. **Documentation Requirements:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and • Most recent 2 years W-2s, or comparable documentation appropriate for the country providing theincome.
Commission Income	06.16.2022	**Removed:** **If commission income represents less than 25% of the borrower's total annual employment income:**
Real Estate Obligations: Departure Property	06.16.2022	**Added:** • If the borrower qualifies with the PITIA for the departing property and the PITITA for the new proposed mortgage payment, the borrowermust have six months PITIA reserves for the departure property.
Asset Type	06.16.2022	**Asset Type:** **Added:** **Unvested Restricted Stock has been added to the table and labeled as 'Not Eligible'.** Asset Type / Funds to Close / Funds for Debt Payoff / Reserves Requirement / Compensating Factor / Not Eligible Unvested Restricted Stock: Not Eligible – X
Payment of Past	07.26.2022	**Added:**

Mortgages / Rent		• On the date of the loan application, the borrower's mortgage payments (first and second) on the subject property must be current.
Closing Costs	07.26.2022	**Added:** Pro-rated real estate taxes cannot be considered when determining the funds required for the transaction. Although a pro-rated tax credit from the property seller can offset that portion of the charge for the establishment of the escrow account, the borrower must still verify sufficient funds for down payment, closing costs, prepaids and reserves, including the payment of pro-rated real estate taxes prior to closing. (Example: Borrowers closing costs and prepaids are $5,000. The seller's portion of the pro-rated real estate tax credit to the borrower is $2,000. This reduces the borrower's cash to close to $3,000. The borrower must still verify the entire $5,000 prior to closing). Pro-rated real estate tax credits cannot be used to meet the borrowers minimum required investment or down payment.
Down Payment	07.26.2022	**Added:** **Note: Pro-rated real estate tax credits cannot be used to meet the borrowers minimum required investment or down payment.**
Unacceptable Sources of Income	07.26.2022	**Added:** • Income that is paid in cryptocurrency
Continuity of Obligation	07.26.2022	**Removed:** • Is a related person to a borrower on the mortgage being refinanced; or
Real Estate Obligations: Departure Property	08.05.2022	**Updated:** The current principal residence is pending sale but will not be closed/transferred prior to the new transaction (evidence that property is up for sale or pending sale is required):
Gift Funds	08.16.2022	**Added:** • The dollar amount of the gift, the date the funds were transferred ("At closing" if funds to be sent directly to closing agent), the donor's name, address, telephone number, his/her relationship to the borrower.
Stocks and Other Securities	08.16.2022	**Added:** • If there is a margin account secured by stock/securities, the borrower's total assets must be reduced by the margin account's outstanding balance amount, plus any overdrawn amount.
Condos	08.25.2022	**New Section Added**
Ineligible Product Types, Transactions & Scenarios	09.15.2022	**Updated:** • Single / One Time close Construction-to-Permanent transactions
Construction – to – Permanent Financing	09.15.2022	**Updated:** • Two-Closing Transactions Only (Single/ One-time close not permitted)

		• Borrower must have acquired title to the lot before applying for the construction loan • Borrower must be the primary obligor on the construction loan & current owner of the lot • All work must be complete as per plans/specs prior to closing- no escrow holdbacks allowed (no exceptions even due to weather) • Lots purchased <90 days prior to date of loan application- funds must be documented/sourced Loan may be done as a rate/term cash-out refinance **Rate/Term:** • Must meet all other criteria of a rate/term refinance (Freddie Mac) • Cash back to the borrower may not exceed 1% of the principal amount ofthe new mortgage or $5,000 whichever is less **Cash-Out:** • Borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage • Loans where unsecured liens or construction costs paid by the borrower outside of the interim construction loan will be included in the new loan must be considered a cash-out refinance • Must meet all other criteria of a standard cash-out refinance **Additional Documentation required:** • Copy of current deed to document borrower is presently the lotowner, and was the owner of the lot prior to APPLYING FOR the Construction Loan • Copy of Construction loan agreement evidencing that the Borrower is the primary obligor • Copy of Build Contract and all change orders as applicable • Copy of Plans & Specs • Certificate of Occupancy or equivalent • Construction loan lender must provide proof that all work has been paid for; all mechanics liens, materialmen's liens and any other liens and claims that could become a lien relating to the construction have been satisfied
Student Loans	09.15.2022	**Updated:** • Payments are deferred for at least 12 months from thedate of closing. Verification of deferment is required
Alimony & Maintenance	10.04.2022	**Updated:** Alimony obligation should be documented as follows: • All page(s) of the final divorce decree,or • Signed court order, or • Property settlement, or • Separation agreement. If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient.

		Obligations that will end within the next 10 months do not need to be considered and may be omitted from the DTI ratio only if the remaining term of payments is verified by the above documentation.
Verification of Debts	10.04.2022	**Added:** Note: Timeshare loans are treated as installment debt. Monthly maintenance fees/HOA fees must be included as a liability.
Disability – Worker's Compensation	10.04.2022	**Added:** If the payments will not continue for at least 3 years, refer to the Temporary Leave Income topic in this section for additional guidance.
Public Assistance	10.31.2022	**Added:** Types of Public Assistance income include but are not limited to Social Security, Section 8 Housing Voucher, Food Stamps and SNAP. Public Assistance income may not be discounted or treated differently than wage income. It may be considered if the income is properly documented by letters or exhibits from the paying agency. The amount and frequency must be stated in the letters/exhibits and there is no statement that the income will not continue. Documentation Requirements: • 2 months deposit slips and/or bank statements/cancelled checks evidencing regular deposit of the fund if the assistance is already being received; and • Receipt of Letters or Exhibits from paying agency showing amount, frequency, and 3 years continuance. Note: A history of receipt is not required for newly obtained assistance. The Section 8 HCVP is available only to families that have been admitted to the HCVP and it is not offered by every Public Housing Agency (PHA). PHA's have discretion to determine whether to implement the HCVP in their jurisdiction. There must be a sponsoring PHA because they are the source of funds for this program. The program utilizes two different methods. The method used varies depending on how the PHA in each geographical area decides they want it to function. Loans must be coded using the Income Type of Housing Choice Voucher Program (Section 8) to identify. • **Housing Assistance Payment (HAP) Option**: The first method is one in which the public assistance funds are sent directly to the borrower, and the borrower uses this money to help pay their monthly mortgage payments. A mortgage with a term of 30 years will receive income assistance for 15 years, and with a term of 15 years will receive income assistance for 10 years. For the elderly (62 or older) and disabled* borrowers, there is no expiration of the benefits. • **Second Mortgage Option:** The second method is one in which public assistance funds are used to pay a community second subsidy mortgage that is put in place by the PHA. The subsidy provided by the PHA provides significant down payment assistance for the borrower, which ultimately lowers the borrower's monthly mortgage payments. Unlike the first method, the money never passes through the borrower's hands, but the result is almost the same – the portion of the borrower's monthly mortgage payment is reduced.

		If the borrower is utilizing the Community Second Mortgage Option, there will be a subordinate lien with the PHA and the Community Second is paid directly by the PHA. • The term of the Community second is not to exceed 15-years and any interest, if applicable may not exceed the interest rate on the first mortgage. • Only subordinate financing provided by a approved Community Second is permitted. Non-Community Seconds are not permitted. • Correspondents represent and warrant that the Community Second program complies with Fannie Mae guidelines and does not have a Negative Amortization financing structure. Income cannot be grossed up when using a Freddie Mac 1st Mortgage Program or when using a Federal Home Loan Bank Funded Community Second.
Verbal VOE	10.31.2022	**Added:** An email exchange with the borrower's employer from the employer's work email address within he same time frame as the verbal VOE requirements is acceptable. The following guidelines must be followed: • The lender must conduct additional due diligence to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites. • The email must include borrower's name, and employer's name; the name, title, and work email address of the individual contacted at the employer, the date of contact, and the borrower's current employment status. • Name and title of the employee who contacted the borrower's employer and obtained the e-mail verification.
Special Assessment	10.31.2022	**Removed:** GHMC requires an escrow account be established for the payment of special assessments.
Gift Funds	10.31.2022	**Added:** **Funds pooled From a Relative or Domestic Partner residing with the Borrower:** These funds can be pooled with the borrower's funds to make up the required down payment. In addition to the above documentation, the following is required: • Evidence that the Borrower and the related person have resided together for at least one year. Examples of documentation include, but are not limited to, a copy of a driver's license, a bill or bank statement. • A signed letter or an email directly from the borrower attesting to: A)The source of the pooled funds, B) the fact that the pooled funds were not borrowed by the contributing related person, C) The relationship between the contributor and the borrower, and D) that the related person has resided with the borrower for the past year and intends to continue residing with the borrower in the new residence.

		Chapter 12 or 13 Bankruptcy • 4 years from the date a repayment plan was dismissed or 2 years from discharge date. ◦ The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 12 or 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 12 or 13 plan and received a dismissal is held to a 4-year waiting period.
Products Offered	10.31.2022	**Added:** SOFR ARM: Initial note rates may not be lower than 3% below the Fully Indexed Rate (FIR).
Ineligible Product Types, Transactions & Scenarios	11.09.2022	**Added:** • Co-ops • Geodesic Domes, Earth Berms • New or newly converted Florida Condos • Community Land Trusts • Properties with Private transfer fees • Properties with condition ratings of C-5 or C-6 or quality ratings of Q-6
Gift Funds	11.17.2022	**Added:** Gift funds cannot satisfy the minimum down payment from the borrower's own funds. **Acceptable Sources of Gift Funds:** Large financial gifts from close family members can be considered if properly documented. Substantial cash gifts ($1000 or more) from one individual must comply with standard gift documentation. Gift funds may come from the following sources. **Wedding Gifts:** The following documentation must be obtained to verify funds: • A copy of a marriage license or certificate, and • Verification that gift funds were deposited within 90 days of the date of the marriage license or certificate **Graduation Gifts:** The following documentation must be obtained to verify funds: • Evidence of graduation from an educational institution, such as diploma or transcripts that supports the date of graduation, and • Verification that gift funds were deposited within 90 days of the date of the graduation. **Funds Pooled from a Relative or Domestic Partner residing with the Borrower:** Can not be used to meet the borrower's minimum required down payment. However, funds from a relative or domestic partner may be used as outlined in the above gift policy

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Gift of Equity: Not Permitted.
Gift or Grant from a Non-Profit Organization: Not Permitted.
<u>Verification of Funds</u>
The transfer of the gift funds to the borrower must be documented in one of the following ways:

Funds Received prior to closing: Transfer of funds from the donor's account in afinancial institution to the borrower's account viaeither:

copies of bank statements from both the donor and the borrower's accounts OR
copy of a canceled gift check OR
copy of the donor's withdrawal slip and the borrower's deposit slip, Or
Evidence of electronic transfer.

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<tr>
<td>Gifts Funds: Wedding</td>
<td>11.22.2022</td>
<td>Section Removed</td>
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<tr>
<td>Restricted Stock</td>
<td>11.22.2022</td>
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Section Renamed from "Vested Restricted Stock"
Added:
Restricted stock plans award an employee share of stock as a form of additional compensation. However, the employee cannot take possession of the shares until vesting restrictions are met. Most commonly, the vesting restriction is met if the employee continues to work for the company for a certain number of years. Time-based restrictions may lapse all at once or gradually. If the recipient does not meet the conditions the company set forth prior to the end of the vesting period, the shares are typically forfeited.
Note: To avoid counting the income/asset twice, if restricted stock is used as income, any unvested shares of restricted stock cannot be used as an asset, nor can dividend interest or capital gains income from the same restricted stock be used.
Restricted stock may be considered as qualifying income if the loan documentation supports. The borrower must have a verified history of receiving income from restricted stock for at least 24 months and the likelihood of its continuance must be verified.
<u>Documentation Requirements:</u>

Documentation of receipt of restricted stock income for the most recent 2 years E.G. 2 most recent year-end paystubs, w-2s that provide a breakdown of base pay and restricted stock, etc, and
Documentation of the most recent 2 years of restricted stock awards. E.G., compensation awards letters, vesting schedule etc.
Printout/screenshots verifying company is publicly traded and verifying the stock price on the date of application.

Note: Restricted stock received from a sign-on type award can be used towards establishing the history of receipt of RSU income, but those shares cannot be
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		considered in the income calculation.
		
		• Determine that the income is likely to continue based on an established earnings trend.
		  ○ If the trend is stable or increasing, follow income calculation below.
		  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used.
		
		Income Calculation
		Typically, restricted stock income is calculated using the lower of:
		• An average of the prior 2 years RSU earnings, OR
		• The number of performance-based shares/units awarded over the last 2 years at the current employer multiplied by the current stock price on the application ate at 70% and averaged over 24 months. See below for example:
		
		Example:
		• 2020 performance/refresh award of 100 shares.
		• 2021 performance/refresh award of 90 shares.
		• Stock price of publicly traded company on date of application: $200/share
		
		100 shares + 90 shares = 190 shares * $140 (70% of share price) = $26,600 / 24 months = $1,108 per month.

Minimum Loan Amount	11.22.2022	**Updated:** 1. Minimum loan amounts are $1 above the current FHFA conforming loan limits.
Cash Out Refinance (Located on LTV Matrix)	12.01.2022	**Updated:** • LTV Increased to 70% for $1,000,000 loan amounts. • LTV Increased to 65% for $1,500,000 loan amounts. • Max Cash-Out to borrower increased to $350,000. • Required monthly reserves decreased to 18 months.
Alimony Income	12.20.2022	**Updated:** Length of history was reduced to 6 months of receipt.
Child Support Income	12.20.2022	**Updated:** Length of history was reduced to 6 months of receipt.
Social Security Income	12.20.2022	**Added:** **Additional documentation requirements Social Security Income:** • SSA-1099 or • Most recent signed federal tax returns or • Proof of current receipt
LTV Matrix	12.20.2022	**Updated:** Depreciating Markets policy applies to any MSA depreciating 5.01% or more per

		Exhibit 1 Depreciating Markets or information found on the appraisal
LTV Matrix	12.29.2022	**Added:** 1. Minimum loan amounts are $1 above the current FHFA conforming loan limits (Loans locked as of 12/12/2022 must be at least $1.00 over 2023 conforming loan limits).
Depreciating Markets	01.27.2023	**Updated:** • The subject property is located in a depreciating market, as shown on the *Jumbo Exhibit 1 Depreciating Markets,* Or, • If the appraiser/appraisal indicates the property value is "declining"
Temporary Leave Income	02.28.2023	**Added:** The requirements and guidance for income while on temporary leave do not extend to employer-initiated actions such as furloughs and layoffs.
Contingent Liabilities: Debt Paid by Others	02.28.2023	**Added:** A contingent liability being paid by others may be excluded from the monthly debt payment ratio when meeting the following requirements: **<u>Installment debt (not including mortgages), Revolving, or Monthly Lease Payment:</u>** • The most recent 12 months' cancelled checks or bank statements from the party making the payments, • There must be no delinquencies in the most recent 12 months, and • The party making the payments cannot be an interested party to the subject real estate or mortgage transaction. **<u>Mortgage Payment or other property related expenses (taxes, insurance, etc):</u>** • The party making the payments must be obligated on the note, • The most recent 12 months' cancelled checks or bank statements from the party making the payments, • There must be no delinquencies in the most recent 12 months, • The borrower is not using rental income from the property to qualify, and • The party making the payments cannot be an interested party to the subject real estate or mortgage transaction. **<u>Court ordered assignment of debt:</u>** When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree), regardless of whether the creditor has not released the borrower from liability, the underwriter is not required to count this contingent liability as part of the borrower's recurring debt obligations. • Must document the order with a copy of the appropriate divorce decree/ separation agreement.

Contingent Liabilities: Co-Signed Loans	02.28.2023	**Section Removed.**
Gift Funds	02.28.2023	**Added:** **Eligible donors:** • Former relative, godparent, or relative of a domestic partner. **Gift Letter:** • The actual or the maximum dollar amount of the gift.
Asset Verification Requirements	02.28.2023	**Added:** **Note:** When a single deposit includes both verified and unverified funds as defined above, only the unverified funds are used to determine the 50% requirement. • If the large deposit is from another account belonging to the borrower, that account must also be verified to ensure the funds into the account are properly sourced. To source a large deposit from another account belonging to the borrower, the complete one month's statement from the source account must be obtained for the month the withdrawal of the funds occurred. This does not change the number of months that are required.
Public Assistance	02.28.2023	**Added:** • Income cannot be grossed up when using a Freddie Mac 1st Mortgage Program or when using a Federal Home Loan Bank Funded Community Second. Income may be grossed up for Fannie Mae salable 1st Mortgage programs.
Ineligible Product Types, Transactions & Scenarios	02.28.2023	**Updated:** • Properties located in Idaho with more than 80 acres. • Properties located in Montana or South Dakota with more than 30 acres.
Products Offered	04.04.2023	**ARM Information Updated:** • Margin = 2.75% • The floor rate is the margin