Sierra Adventum Express Jumbo (QM) This product is exclusively for Jumbo A runs ran thru FNMA DU that receive an "Approve/Ineligible: due only to the loan amount. Minimum Loan Amt is $1over the FHFA county loan limit[1].					
Fixed Rate: T500SXJ 30 Yr.					
Purchase / Rate & Term Refinance					
Occupancy – Units	**Maximum Loan Amount[1]**	**Max LTV/CLTV**	**Minimum Fico Score**	**DTI**	**Reserves[2]**
Primary 1 Unit	$1,500,000	80%/80%	700	43%	see below
Primary 2 Units	$1,500,000	75%/75%	700	43%	see below
Second Home 1 Unit	$1,000,000	80%/80%	720	43%	see below
Cash Out Refinance					
Occupancy – Units	**Maximum Loan Amount[1]**	**Max LTV/CLTV**	**Minimum Fico Score**	**DTI**	**Reserves[2]**
Primary 1 Unit	$1,000,000	75%/75%	700	38	see below
Second Home 1 Unit	$1,000,000	70%/70%	740	38	see below

1. Minimum loan amount is $1 over the FHFA county loan limit (conforming/Hi Bal). Example: SD County Loan Limit $690,000- min L/A $690,001.

2. Follow the greater of the AUS reserve requirements or below requirements. If AUS does not provide minimum reserve requirements follow below requirements;
    1. If loan amount <= $1,000,000 - 6 months PITI reserves
    2. If loan amount > $1,000,000 - 9 months PITI reserves
    3. Second homes - 12 months PITI reserves

3. All Loans MUST have an AUS Approved/Ineligible due only to loan amount. Approved/Eligible is not acceptable for this program.

COVID 19 Temporary Policy – Mortgage Pay History	**COVID 19 Temporary Policy – Mortgage Pay History** All loans must contain additional documentation to verify that the borrower is current1 on ALL 1-4 Residential Mortgage loans that the borrower is obligated on thru the Note Date of the new loan. This would include loans in which the borrower co-signed.

	Lenders must continue to review the borrower's credit report to determine the status of all mortgage loans. **In addition to reviewing the credit report**, the lender must also apply due diligence for each mortgage loan on which the borrower is obligated, to determine whether the payments are current as of the note date of the new transaction for all Mortgages on OREO. Examples of acceptable additional due diligence methods to document the loan file include: • Credit Report **plus** a loan payment history from the servicer or third-party verification service or thru month prior to new Note Date • Credit Report **plus** the most recent one or two mortgage account statement from the borrower thru month prior to new Note Date (# of months determined by DLA of credit report, **but never less than one month mortgage account statement**) [1]For the purposes of these requirements, "current" means the borrower has made all mortgage payments due in the month prior to the note date of the new loan transaction by no later than the last business day of that month. Documentation that all mortgage loans the borrower is obligated on is current must be in the file prior to final loan approval, otherwise the loan is not eligible. • **Borrowers with Mortgage Payment history showing current or previous Forbearance are not eligible until 24 months has passed prior to date of loan application.**
Ability to Repay and Qualified Mortgage Rule	**QM designation must be provided in the loan file.**; • QM designation is QM Safe Harbor • Loan file must document the eight (8) Ability to Repay (ATR) rules identified in Part 1026-Truth-in-Lending (Regulation Z). The ATR rules require that the originator make a reasonable, good-faith determination before or when the loan is consummated, and that the consumer has a reasonable ability to repay the loan. The originating lender must consider the eight (8) underwriting factors established by the CFPB and the loan file must be documented accordingly.

	1. The borrower's current or reasonably expected income or assets. 2. The borrower's current employment status. 3. The borrower's monthly payment on the covered transaction. 4. The borrower's monthly payment on any simultaneous loan. 5. The borrower's monthly payment for mortgage-related obligations. 6. The borrower's current debt obligations, alimony, and child support. 7. The borrower's monthly debt-to-income ratio or residual income and 8. The borrower's credit history.
AGE OF DOCUMENTATION	➢ All credit documents must be **no older than 60 days from the Note date.** ➢ Credit Report can be no older than 90 days from the Note Date. ➢ Title Commitment can be no older than 90 days from the Note Date. ➢ **Appraisals must not be over 120 days old from the date of the Note. Recertification of value** is allowed. If appraisal is over 120 days old, a recertification of value needs to be performed
APPRAISAL REQUIREMENTS	**Appraisal Requirements** • All loans require a full appraisal and must be ordered from US Appraisals only – no other AMC is approved. • The appraisal fee to disclose on the initial LE is the cost per the appraisal fee matrix + $200 = total appraisal fee to be disclosed. • Appraisal Review required on all appraisals – Cost is $175 to be disclosed on initial LE. • **PIW waivers are ineligible.** • All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices. • The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. • An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. • **Transferred and/or Assigned appraisals are not acceptable.** • **Appraisals** must be completed for the subject transaction. Use of a prior appraisal, regardless of the date of the prior appraisal, is not allowed. • Flipping – seller must have taken title a minimum of 90 days prior to date of sale contract

	• **Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a recertification of value needs to be performed.** • Legal non-conforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed. • For 2-unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required • Negative property influences must be disclosed and adjusted accordingly by appraiser.
APPRAISAL REVIEW REQUIREMENTS	**Appraisal Review Process-** Sierra Pacific Mortgage must order an appraisal desk review product for each loan from a vendor listed on the Exchange's Approved Appraisal Desk Review Vendors/Products list posted on the Exchange's portal. • Clear Capital Collateral Desktop Analysis (CDA) without MLS **Note**: Loans submitted with a collateral underwriter score of 2.5 or lower are exempt from the above requirement. A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note. If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, Sierra Pacific Mortgage has the option to then ask the Exchange to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase. Contact the Jumbo UW Team should the appraisal exceed the 10% negative variance for a request to investor for Field Review. DO NOT ORDER A FIELD REVIEW- it has to be ordered directly by the investor. All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the Sierra Pacific Mortgage of its representations and warranties relating to the property and the appraisal including the underwriting thereof.
ARM PRODUCTS	**ARM "Adjustable Rate Mortgage"** Not eligible

ASSETS

Asset Requirements:

- **Beyond the minimum reserve requirements and in an effort to fully document the borrowers' ability to meet their obligations, borrowers should disclose all liquid assets**.
- **Large deposits** inconsistent with monthly income or deposits must be verified if using for down payment, reserves or closing costs.
- Most recent two (2) months bank statements. Asset verification by a Fannie Mae approved asset validation provider is not acceptable.
- For deposit where the borrower is unable to provide documentation to support the source- a detailed LOE is required, then the funds can be excluded from funds to close. Need to also verify/determine that no new debt was incurred for that deposit.
- **Funds must be SOLELY owned by the borrower**.
- On sole & separate transactions - Joint Bank Accounts held by a married couple or domestic partnership where there is equal access could be considered borrower own funds. An access to funds letter is required from the non-borrowing spouse.
- Follow FNMA guidelines for other sources of acceptable source of funds if the asset is not referenced herein these guidelines.

Asset Type	% Eligible for Calculation of Funds	Additional Requirements
Checking/Savings/ Money Market/CD's	100%	2 months most recent bank statements
Publicly Traded Stocks/Bonds/ Mutual Funds.[1] **Non-vested or restricted Stock are ineligible**	70%	-2 months most recent statements. -Evidence of liquidation if using for down payment or closing costs. -Non-vested stock is ineligible. -Margin account and/or pledged asset balances must be deducted.
Retirement Accounts (401(k), IRAs, etc)	70%	- Most recent statement covering a two (2) month period.

			- Evidence of liquidation if using for down payment or closing costs. - Evidence of unrestricted access to funds required for employer-sponsored retirement accounts. - Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves.
	Cash Value of Life Insurance/ Annuities	100% of value unless subject to penalties	Most recent statement(s) covering a two (2) month period.

1. Stocks and mutual funds: The UW must determine the value of the asset (net of any margin accounts.

ASSETS BUSINESS FUNDS

Business Assets

Use of Business Assets

- Business Assets may only be utilized for Down Payment and/or Closing Costs
- Business Funds may NOT be utilized for Reserves.
- Personal and business tax returns for the entity the funds are being withdrawn from and a year-to-date P&L and balance sheet are required.

, A letter from an CPA/Accountant verifying the following is also required:

- The amount of business assets that can be used must correspond to the borrower's percentage of ownership in the business.
- The funds are not a loan.
- Withdrawal of the funds will not negatively impact the business.
- CPA/Third Party cannot be related to borrower nor an interested party to the transaction.

ASSETS GIFTS	**Gift Funds** A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment and/or closing costs subject to the borrower minimum contributions as noted below. **Gift Funds may not be used for reserve requirements**. **Acceptable Donors** A gift can be provided by: • a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or • a fiancé, fiancée, or domestic partner. The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. [1] If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence. **Documentation Requirements** Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must: • specify the dollar amount of the gift; • specify the date the funds were transferred; • include the donor's statement that no repayment is expected; and • indicate the donor's name, address, telephone number, and relationship to the borrower.

	When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included: • A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence. • Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement. **Verifying Donor Availability of Funds and Transfer of Gift Funds** The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following: • a copy of the donor's check and the borrower's deposit slip, • a copy of the donor's withdrawal slip and the borrower's deposit slip, • a copy of the donor's check to the closing agent, or • a settlement statement showing receipt of the donor's check. When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.
ASSETS RESERVES	**Reserve Requirements** Follow the greater of the AUS reserve requirements or below requirements. If AUS does not provide minimum reserve requirements follow below requirements; • If loan amount <= $1,000,000 - 6 months PITI reserves • If loan amount > $1,000,000 - 9 months PITI reserves • Second homes - 12 months PITI reserves Reserves must be verified and comprised of liquid assets that borrower can readily access. Equity lines of credit, gift funds, and cash out from the subject property on a refinance transactions are not acceptable sources to meet the reserve requirement. .

	• On sole & separate transactions - Joint Bank Accounts held by a married couple or domestic partnership where there is equal access could be considered borrower own funds. An access to funds letter is required from the non borrowering spouse. • Vested funds from individual retirement accounts (IRA/SEP/Keogh/401K accounts) are acceptable sources of funds for reserves. Only 70% of the value of the assets may be considered. • For other types of retirement account and/or Employer held retirement accounts, the funds would be eligible if the file contains documentation that the borrower has unrestricted access to the funds held in the account. For those employers held retirement accounts, the availability of a loan would be eligible to count towards reserves. Only 70% of the value of the asses may be considered. **Business Funds for Reserves: Not eligible** **Ineligible Source of Funds Used for Reserves** • Business Assets • 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 • Restricted Stock • personal unsecured loans; • interested party contributions (IPCs) • Home Equity Loan (HELOAN) or Home Equity Line of Credit (HELOC) • Rate/Term Refinance incidental cash back • Cash-out refinance proceeds • Community Seconds • Employer Assisted Unsecured Loan • Grants from employer, municipality, or non-profit organization • Gifts Funds
AUTOMATED UNDERWRITING	• **All Loans must be run through DU –** "Approved/Ineligible" (due to loan amount only) • DU "Approved/Eligible" findings are ineligible • No Documentation relief is available.

	• Manual Underwriting is required to meet Appendix Q – cannot use doc relief from DU • Documentation requirements per the guidelines and QM Appendix Q • For topics not addressed/contained herein- contact the Jumbo UW team

BORROWER ELIGIBILITY	**Eligible Borrowers:**
	
	➢ **US Citizens**
	
	➢ **Permanent Resident Aliens** with evidence of lawful residency
	    ➢ A valid and current Permanent Resident Alien card (form I-551) also known as a green card.
	
	➢ **Non-Permanent Resident Aliens** with evidence of lawful residency are eligible with the following restrictions:
	  ➢ Primary residence only
	  ➢ Must be legally present in the U.S with a valid acceptable visa type. Acceptable visa types are as follows:
	      ➢ E Series (E-1, E-2, E-3)
	      ➢ G Series (G-1, G-2, G-3, G-4, G-5) (verify no diplomatic immunity)
	      ➢ H Series (H-1B, H-1C)
	      ➢ L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
	      ➢ NATO Series (NATO 1 – 6)
	      • Series (O-1)
	      ➢ TN-1, Canadian NAFTA visa
	      ➢ TN-2, Mexican NAFTA visa
	
	  ➢ Must have a history of visa renewals and a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.
	  ➢ Must be able to verify that current employment has a probability of three (3) year continuance. WVOE form may be used to document.
	  ➢ Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.
	
	➢ **Inter Vivos Revocable Trust** – see Inter Vivos Revocable Trust Section contained herein
	
	➢ **All borrowers must have a valid Social Security Number.**

	Maximum of four (4) borrowers per loan **Ineligible Borrowers:** • Borrower with only an ITIN (Individual taxpayer Identification number.) • Irrevocable Trust • Foreign Nationals • Borrowers who are party to a lawsuit • Borrowers with diplomatic status • Life Estates • Guardianships • LLCs, Corporations or Partnerships • Land Trusts (including Illinois Land Trust) • Borrowers without a valid Social Security Number • Borrowers with any ownership in a business that is federally illegal, regardless if the income is not being considered for qualifying • Borrowers who are employed by any business that is federally illegal.
Condominiums	**Condominiums:** • Must be documented and warranted per Fannie Mae • Limited Project Reviews are eligible • Condominiums with HOA litigation are not eligible

CONSTRUCTIONS TO PERMANENT FINANCING	**Construction to Permanent Financing** Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria: • Only the permanent financing on a construction to perm loan is eligible. Single closing construction permanent loan refinances are ineligible. • Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan. • The LTV will be based on the current appraised value of the lot if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan. • **If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus** the total acquisition costs. • Appraiser's final inspection is required. • A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided. • Construction loan refinances in which the borrower has acted as builder are not eligible for purchase.
CONTINUITY OF OBILGATION	**Continuity of Obligation**: Follow FNMA **B4-1.1-02, Lender Responsibilities** **Introduction** This topic contains information on lender requirements, including: • Lender Responsibilities • Confirmation and Documentation of the Current Owner

	• Objective and Unbiased Appraisals • Reporting Unfavorable Conditions **Confirmation and Documentation of the Current Owner** Confirmation that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value. ***Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required***
Contract for Deed/Land Contract	**Contract for Deed/Land Contract** Contract for Deed / Land contracts are ineligible

CONVERSION OF PRIMARY RESIDENCE	**Rental Income – Departing Primary Residence**
	
	If the borrower is converting their current primary residence to a rental property and using rental income, the following requirements apply:
	
	• Borrower must have documented equity in departure residence of 25%.
	• The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
	    • a current residential appraisal (no more than 6 months old from application date),
	    • an Exterior Only appraisal (2055) no more than 6 months old from application date) or
	    • appraisals cannot be borrower ordered
	    • Comparing the unpaid principal balance to the original sales price of the property. An automated valuation model (AVM) listing the prior sales price minus outstanding liens as evidenced by a mortgage statement or credit report reference. The AVM may not be used as a current valuation to determine the borrower's equity percentage.
	• A 25% expense /vacancy deduction must be applied to all rental income. Rental Income calculated at Gross Rent x 75% - Departing Residence PITIA
	• A fully executed and dated lease with a minimum of 12 months duration is required.

	• Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence & OREO as applicable. • Documentation would include a fully executed & dated Lease Agreement and copy of the first month's rent and/or security deposit. • Lease Agreement cannot come from an interested party to the transaction or family member. .
CREDIT	**Credit Refresh:** A Credit Refresh is required prior to Docs to ensure no additional debt has been incurred and will be ordered & reviewed by the underwriter prior to CTC. The credit refresh is good for 10 business days from Note Date. **Credit Inquiries:** • If the credit report indicates **recent inquiries within the most recent 120 days** of the credit report, must be explained by the borrower and documented accordingly. • If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment. • A gap or pre-close credit report is required to verify/validate no additional new debt and/or increased balances prior to closing (Note Date). **Borrower Party to Lawsuit:** If the 1003, title commitment or credit documents indicate the borrower is a party to a lawsuit, the loan is ineligible. **Disputed Account:** Follow DU/FNMA **Mortgage/Rent History Requirements** • Mortgage/Rental payment history requirements as determined by DU • Mortgage payment history requirements 0x30x12 • Borrowers with Mortgage Payment history showing current or previous Forbearance are not eligible until 24 months has passed prior to date of loan application. **Derogatory Credit:**

	Letter of explanations Major Derogatory - All major derogatory credit requires an explanation and supporting documentation when applicable. **Forbearance –** • Borrowers with Mortgage Payment history showing current or previous Forbearance are not eligible until 24 months has passed prior to date of loan application. **Bankruptcy, Foreclosure, Notice of Default (NOD), Deed-In-Lieu of Foreclosure and Short Sales** • At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, short sale or deed in-lieu measured from the date of completion to the date of application. • A satisfactory letter of explanation for the event from the borrower is required. • Extenuating circumstances are not permitted **Liens, Judgments and Collections** Collection accounts or charged-off accounts must be paid off as required by DU.
CREDIT SCORE/ MINIMUM TRADELINE REQ'MENTS	**Credit Score** • The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian and TransUnion). • For multiple borrowers the credit score is the lowest of all representative credit scores.

	• If only one credit score or no credit score is reported borrower **is not eligible**. • **Each borrower is required to have a minimum of 2 Fico Scores** **Tradeline Requirements:** Minimum credit requirement/tradelines as determined by DU. **Frozen Credit** is unacceptable. Credit report to be unfrozen and reran to obtain all scores.
DEBT RATIOS	**Maximum DTI Ratios** ➢ Maximum DTI is 43% ➢ Cash Out refinance transaction maximum DTI is 38%

Deed Restrictions	**Deed Restrictions** • Properties subject to Age Deed Restrictions are not eligible. • Properties subject to Income/Resale Deed Restrictions are not eligible. • Private Fee Covenants ARE NOT Eligible.

ELIGIBLE OCCUPANCY TYPES	➢ Primary residences for 1-2 units
	➢ Second home residences for one (1) unit properties
	    ➢ Must be a reasonable distance away from borrower's primary residence.
	    ➢ Must be occupied by the borrower for some portion of the year.
	    ➢ Must be suitable for year-round use.
	    ➢ Must not be subject to a rental agreement and borrower must have exclusive control over the property.

	➢ Any rental income received on the property cannot be used as qualifying income. Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days.
Eligible Terms & Product Codes	• T500SXJ - 30 yr. Fixed
ESCROW HOLDBACKS	**Escrow Holdbacks** ➢ Not Allowed
FLIPPING	**Flip Transactions** Seller must have taken title to the subject property a minimum of ninety (90) days prior to the date of sales contract Seasoning is measured from the date Seller acquired title to date purchase contract executed
Fraud Guard-Dataverify	**FraudGuard report (Dataverify) must be included in each file submission.** Each finding on the report needs to be addressed and noted how resolved.
GEOGRAPHICAL RESTRICTIONS	Geographical Restrictions • Hawaii: Properties in Lava Flow Zones 1 or 2 are not allowed. • Texas: 50(A)(6) cash out; 50(f)(2) to 50(A)(4) R/T are ineligible transactions. • New York: CEMA's allowed • Illinois Land Trust vesting's are not eligible • Hawaii- properties located in Lave Zones 1 or 2 are not eligible • Ohio – No reduced documentation under any program regardless of the AUS Feedback West Virginia: Pursuant to West Virginia Code R. § 106-5-11 – Section 106-5-11 – Documentation of Ability to Repay- which states if Borrower's DTI exceeds 50%, the initial lender must document an assessment of the borrower's ability to repay. An ATR affidavit will be generated with closing documents to be executed by all borrowers and lender in compliance with this regulation.

Hazard/ Flood Insurance	**Hazard/Flood Insurance** **Insurance General Property Coverage** **NOTE:** A cost estimator from the insuring company would be required in the event the hazard insurance does not cover the loan amount. Written copy of Cost Estimator from insurer to be included in loan file with Insurance policy to support coverage amount. Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy. All applicable loans must adhere to HFIAA regarding flood insurance escrows **B7-3-02, General Property Insurance Coverage (12/16/2014)** **Introduction** This topic contains information on general property insurance coverage, including: • Coverage Requirements • First Mortgages • Construction-to-Permanent Mortgages • Deductible Amount **Coverage Requirements** Property insurance for properties securing loans delivered to Fannie Mae must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion. Fannie Mae does not accept property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement Lenders should advise borrowers that they may not obtain property insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

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<tr><td>HPML/Hi Cost</td><td>HPML/Hi Cost

HI Cost loans are ineligible

HPML

HPML loans are ineligible</td></tr>
<tr><td>INCOME/ GENERAL (Stability, Declining, Gaps)</td><td>Employment and Income Stability

Gaps in Employment:
Borrower(s) must have a minimum of two (2) years employment and income history. Gaps in employment over thirty (30) days during the most recent two (2) year period require a satisfactory letter of explanation from the borrower.
All borrowers contributing income for qualification must be employed at present employment for a minimum of six (6) months to qualify if there is a gap in employment during the previous two (2) years.
An applicant re-entering the workforce must be in current job for a minimum of 6 months and evidence a 2-year work history prior to the absence.
6-month seasoning is measured from the date of employment to the date of the initial 1003.
Stable monthly income must meet the following requirements to be considered for qualifying:
Stable - two (2) year history of receiving the income
Verifiable
High probability of continuing for at least three (3) years
Declining Income:

When the borrower has significant declining income from self-employment, the income is unacceptable to be used towards qualifying income (Appendix Q-QM 6.6).

When the borrower has minimal declining income, the most recent twelve (12) months should be used. In certain cases, an average of income for a longer period may be used when the decline is related</td></tr>
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	to a one-time capital expenditure and proper documentation is provided. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay and documentation to support the income decline has stabilized. Careful analysis of the current year financials is required to support income is stable and/or increasing. If declining income is for a non-self-employed borrower, the employer should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying, if the UW deems the explanation to be acceptable and the decline has stabilized.
INCOME/ SOURCES DOCUMENTATION REQUIREMENTS	**Income Sources - Documentation Requirements:** **All income sources and method of income calculation must meet most recent Agency / Appendix Q Standards for Determining Monthly Debt and Income**. The loan file should include an Income Analysis form detailing income calculations. • The non-taxable portion of fixed income such as Social Security income, VA benefits, Pensions and Annuity income may be grossed-up to twenty five percent (25%). Refer to Non-Taxable Income contained in the guides herein. • Foreign income used for qualifying must be supported by the most recent two (2) years U.S. tax returns. • Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of commission income to total income. ***Important Note Regarding Documentation:*** • Appendix Q states that a borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25 percent or more of a corporation, limited liability company, partnership, sole proprietorship or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the "Self-Employed Borrowers" subsection below.

	• **<u>This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if the lender only relied upon the borrower's salary or other income to establish eligibility.</u>** **All required documentation as described here and in the following sections must be obtained prior to loan approval.** **Except for Salaried borrowers who qualify only with base wage income (W-2) All loans require the most recent signed 2 years tax returns, including all schedules, both individual and business returns as applicable and 4506C tax transcripts to validate the income used for qualifying.** **Salaried Borrowers**: refer to Income-Salary/Other Income section herein **Salaried Borrowers who also file Self-Employed and/or Supplemental Income/Loss Tax Return Schedules:** refer to Income-Salary/Other Income section herein **Salaried Borrowers with Commission/Bonus:** refer to Income-Salary/Other Income section herein • . **Verbal VOE:** Verbal VOE dated **within 5 business days** prior to Note Date in writing. The **verbal VOE must cover 24 months of employment**. If the borrower has changed jobs during the past two years the verbal VOE **must show the start and end dates for each job**. Any employment gaps exceeding 30 days must be addressed with a satisfactory letter of explanation from the borrower. Any employment gap over 30 days must be addressed. VVOE alternatives are NOT ACCEPTABLE. **Self-Employed Borrowers**: refer to Self Employed Section herein **Verification of Active Business:** The lender must verify the existence of the borrower's business **within 5 calendar days** prior to Note Date. Methods of verifying business include:

- Verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. If CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years and
- confirm that the Borrower’s business is open and operating (FNMA LL 2021-03) .

Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Restricted Stock Income (RSU)
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower’s primary residence.
- Expense account payments.
- Asset depletion of non-employment related assets.
- Retained earnings.
- Automobile allowances
- Deferred compensation
- Temporary or one-time occurrence income
- Rental income from a second home
- Education benefits
- Trailing spouse income
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:
    - Foreign shell banks
    - Medical marijuana dispensaries
    - Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
    - Businesses engaged in any type of internet gambling.

Closing Date = Date of Note

INCOME/ SALARY & OTHER INCOME	**Specific Income Documentation Requirements** **Except for Salaried borrowers who qualify only with base wage income or receipt of Pension/Retirement/Social Security (1099), All loans require the most recent signed 2 years tax returns, including all schedules, both individual and business returns as applicable and 4506C tax transcripts to validate the income used for qualifying.** **Salaried Borrowers**: • Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used. • W-2's from all employers for the past two (2) years. All W-2's must be computer generated. • If the borrower does not have 2 years of employment due to previously being in school a copy of the school transcript is required. • Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated. • Tax returns are not required for salaried borrowers if base wage income is the only source of income used for qualification. • Unreimbursed business expenses must be deducted from income regardless if the borrower's commission income is less than 25% of total income. • Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business and personal tax returns.

- Signed IRS Form 4506C.
- Two years tax transcripts are required to be obtained from the IRS. Wage transcripts are acceptable for W-2 borrowers. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.
- Verbal VOE dated within 5 business days prior to closing documented in writing. The verbal VOE must cover 24 months of employment. If the borrower has changed jobs during the past two years, the verbal VOE must show the start and end dates for each job. Any employment gaps exceeding 30 days must be addressed with a satisfactory letter of explanation from the borrower

Salaried Borrowers who also file Self-Employed and/or Supplemental Income/Loss Tax Return Schedules:

- Salaried borrowers who also own 25% or more of a business or other entity are required to provide a year-to-date P&L and balance sheet for that business or entity **even if the income from that business or entity is not being used to qualify**. This requirement includes all businesses and entities including those organized as pass through entities.

Salaried Borrowers with Commission/Bonus/Overtime:

- YTD paystubs reflect a minimum of 30 days YTD earnings and be computer generated
- Most recent 2 years W-2's and must be computer generated
- Two (2) years personal tax returns with 2 years 4506C tax transcripts
- WVOE or FNMA approved Automated Employment Validation breaking down the bonus or commission income for the past 2 years, AND further supported by a year-to-date paystub
- 2 year history of the receipt of the income is required
- Stable to increasing income should be averaged for the two (2) years
- VVOE

2106 Expenses

- Employee business expenses must be deducted from the adjusted gross income regardless of the income source used for qualifying (i.e. wages, bonus, etc.).

- Two (2) years tax returns are required for all borrowers except borrowers qualifying with Base wage income only. If 2019 tax returns reflect 2106 expenses and 2020 tax returns show no expenses (due to tax law change), a 12-month average of expenses must be based on 2019 tax return and deducted from qualifying income.

Alimony/Child Support/Separate Maintenance

Alimony and Child Support are allowable sources of income with proof of a minimum of three-year continuance.

Borrowers Employed by Family

- Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated
- Two (2) years W-2s and
- Two (2) years personal tax returns with 2 years 4506C tax transcripts
- VVOE (from unrelated party such as HR, Controller, CPA/Accountant)
- Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business.

Capital Gains

- Must be gains from similar assets for three (3) continuous years to be considered qualifying income.
- If the trend results in a gain it may be added as income.
- If the trend results in a loss, the loss must be deducted from total income.
- Personal tax returns – three (3) years with a consistent history of gains from similar assets with 3 years 4506C tax transcripts.
- Document assets similar to the assets reported as capital gains to support the continuation of the capital gain income.

Disability Income – Long Term - (Private policy or employer-sponsored policy)

Copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amount of payments, frequency of payments, and if there is an established termination date.

	Termination date may not be within 3 years of Note date; please note reaching a specific age may trigger a termination date depending on the policy.
	
	• Document regular and continued receipt of income as verified by the following:
	• Letters from the organizations providing the income, **AND**
	    ◦ 1099's or W-2's with 4506C transcripts, **OR**
	    ◦ 2 years most recent personal tax returns with 2 years 4506C tax transcripts **AND**
	• Proof of current receipt with two (2) months bank statements.
	
	Dividends and Interest Income
	
	• Interest and dividend income may be used as long as tax returns or account statements support a two-year receipt history. This income must be averaged over the two years.
	• Personal tax returns – two (2) years with 2 years 4506C tax transcripts
	• Documented assets to support the continuation of the interest and dividend income
	
	Foreign Income
	
	• Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated
	• W-2 forms or the equivalent and personal tax returns reflecting the foreign earned income. Income must be reported on two (2) years US tax returns with 2 years 4506C tax transcripts.
	• WVOE or FNMA approved Automated Employment Validation
	• VVOE
	• All income must be converted to US Currency
	• Documentation must be in English and translated to U.S. Dollars- Translation from a professional translator and not an interested party to the translation.
	
	Government Assistance Programs.
	
	• Income received from government assistance programs is acceptable as long as the paying agency provides documentation indicating that the income is expected to continue for at least three years.
	• If the income from government assistance programs will not be received for at least three years, it may not be used in qualifying.

- Unemployment income must be documented for two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment.

Non-Taxable Income (Child support, military rations / quarters, disability, foster care, etc.)

- Documentation must be provided to support continuation for three (3) years.
- Income may be grossed up by applicable tax amount. Tax returns must be provided to confirm income is non-taxable. The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount.
- If the borrower is not required to file a federal tax return, gross-up to 25%.

Note Income

- Copy of the Note must document the amount, frequency and duration of the payment.
- Evidence of receipt for the most recent consecutive past twelve (12) months and evidence of the Note income must be reflected on personal tax returns.
- 2 years most recent personal tax returns with 2 years 4506C tax transcripts
- Note income must have a three (3) year continuance.

Projected Income

- Not allowed.

Retirement Income (Pension, Annuity, 401(k), IRA Distributions)

- Copies of retirement award letters
- Copies of last two (2) months bank statements to document the regular deposit of payments
- Distributions from a retirement account (401K, IRA, Keogh, SEP) must be documented with a distribution letter and copies of last two (2) months bank statements to document the regular deposit of payments.
- Annuity retirement benefits must have a minimum continuance of three years from the date of the application to be considered as qualifying income.

Social Security Income

	• Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first three (3) years of the loan, the income may not be used. • Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least three (3) years. • Copy of the Social Security Administrations award letter. • Copies of last two (2) months bank statements to document the regular deposit of payments. **Trust Income** • Income from trusts may be used if guaranteed and regular payments will continue for at least three (3) years. • Regular receipt of trust income for the most recent consecutive past twelve (12) months must be documented**.** • Copy of Complete Trust Agreement or Trustee Statement showing: • Total amount of borrower designated trust funds • Terms of payment and frequency of distributions • Duration of trust payments • 2 years most recent personal tax returns with 2 years 4506C tax transcripts • If trust fund assets are being used for down payment or closing costs, the loan file must contain adequate documentation to indicate the withdrawal of the assets will not negatively affect income.
INCOME/ RENTAL INCOME & DEPARTING RESIDENCE	**Rental Income** Rental income from other properties must be documented with the borrower's most recent 2 years signed federal income tax returns that includes Schedule E with 2 years 4506C tax transcripts required. Leases are required for all properties where rental income is being used to qualify. For commercial properties a copies of leases are required – rent rolls are NOT acceptable. Proposed rental income from the comparable rent schedule may be used for qualifying if there is not a current lease or assignment of lease on purchase. Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 12 months or the time period after the lease expired.

A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITI to arrive at the rental income/loss used for qualifying

Commercial properties owned on schedule E must be documented with commercial leases and evidence that the primary use and zoning of the property is commercial.

Documentation to include most recent signed 2 years tax returns and copy of current lease as per QM Appendix Q requirements. If there is not a current lease in place, the rental income is ineligible to be used as qualifying income.

Rental Income – Departing Primary Residence

If the borrower is converting their current primary residence to a rental property and using rental income to offset the payment the following requirements apply:

- Borrower must have documented equity in departure residence of 25%.
- The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
    - a current residential appraisal (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
    - an Exterior Only appraisal (2055) no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference;
    - appraisals cannot be borrower ordered
    - An automated valuation model (AVM) listing the prior sales price minus outstanding liens as evidenced by a mortgage statement or credit report reference. The AVM may not be used as a current valuation to determine the borrower's equity percentage.
- A 25% expense /vacancy deduction must be applied to all rental income. Rental Income calculated at Gross Rent x 75% - Departing Residence PITIA..
- A fully executed and dated lease with a minimum of 12 months duration is required.
- Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence and OREO as applicable.
- Documentation would include a fully executed & dated Lease Agreement and copy of the first month's rent and/or security deposit
- Lease Agreement cannot come from an interested party to the transaction or family member.

INCOME/ SELF EMPLOYMENT	**Self-Employment** Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes. The requirements below apply for Self-Employed borrowers. Income calculations should be based on the Fannie Mae Form 1084 or Freddie Mac Form 91 or equivalent income calculation form. For borrowers with multiple businesses, each business is to be analyzed separately on their own FNMA 1084 or FHLMC 91- do not lump multiple businesses together on the same form. For businesses, whose income is not being utilized for qualifying, a Profit & Loss and Balance Sheet **is still required.** **Documentation requirements include:** • Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used. • For business income being used for qualifying the most recent signed two (2) years tax returns, including all schedules, both individual and business returns are required. All personal and business **tax returns must be signed and dated prior to Note Date**.

- Self-employed borrowers using wage income to qualify paid by their business need to fully document the income with W-2's for the past two (2) years and most recent paystubs, covering a thirty-day (30) period with year-to-date earnings. W-2 and paystubs must be computer generated.

- If tax return schedules show a loss in the prior year for any business where the borrower owns 25% or more, business tax returns including all schedules are required for this business in order to calculate the average loss. This is required regardless if this business income is being used to qualify. **Tax returns must be signed and dated prior to Note Date.**

- Signed IRS Form 4506C.

- Two years 1040 (& business if applicable) tax transcripts are required to be obtained from the IRS prior to closing and used to validate the income documentation used to underwrite the loan. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

Additional Requirements for P&L, Balance Sheet, and Business Bank Statements:

Lenders should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter **must include comments/justification of their analysis** to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:

- An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; **or**

- An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month

	preceding the loan application date, and (3) business bank statements from the most recent three months represented on the year-to-date P&L and (3) a Balance Sheet. • For example, the business bank statements should be from March, April and May 2020 for a year-to-date profit and loss statement dated through May 31, 2020. • The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement. • All borrowers owning 25% or more of a business or entity **must provide a year-to-date P&L statement and balance sheet for that entity, regardless of whether or not the business income is being used to qualify**. This requirement includes all business entities including those organized as pass through entities. • If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required. • If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided • The P&L and balance sheet is required even if the borrower does not have a business checking account. • P&L and tax returns must show stable or increasing income from all business entities and income sources for the period relative to previous periods. Income cannot decline by 20% or more from the prior tax period. **Small Business Administration (SBA) Loans and Grants Requirements:** The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.

	PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines. Proceeds from the PPP loan must not be included as business income or assets. **PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.** Follow all requirements in this section for underwriting self-employed borrowers. **Verification of Active Business:** The lender must verify the existence of the borrower's business **within 5 calendar days** prior to Note Date. Methods of verifying business include: • Verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. If CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years • confirm that the Borrower's business is open and operating (FNMA LL 2021-03) . • •

INTER VIVOS REVOCABLE TRUST REQUIREMENTS	**Inter Vivos Revocable Trust Requirements**
	
	An inter vivos revocable trust is a trust that an individual creates during their lifetime, becomes effective during their lifetime, and can be changed or canceled at any time for any reason, during their lifetime
	
	The Investor will accept inter vivos revocable trusts as an eligible borrower for 1-2 unit owner-occupied primary residences and 1-unit second homes . The subject property can be a single family residence, condominium, or PUD as long as documentation and eligibility requirements are met. Title insurance must provide full title insurance coverage without exceptions for the trust or trustees for the inter vivos revocable trust in that state.
	
	To determine whether or not the trust meets all the criteria required by State and investor standards, one (1) of the following will be required:
	
	➢ **A copy of the trust agreement**
	➢ **An attorney's opinion** stating the trust meets all Secondary Marketing requirements as set forth by Freddie Mac (FHLMC) or Fannie Mae (FNMA), as applicable, and any applicable State requirements
	➢ **Certification from a title company** evidencing compliance with all Secondary Marketing requirements as set forth by FHLMC/FNMA and any applicable State requirements
	➢ **Certification from an individual trustee** evidencing compliance with all Secondary Marketing requirements as set forth by FHLMC/FNMA, and any applicable State requirements. Additionally, the following requirements must be met:
	    ➢ Submit copies of the first page, signature page, and the page(s) of the trust agreement that verifies the trustee, and that the trust is revocable.
	    ➢ Certifications completed by an individual trustee must be notarized.
	
	NOTE: Trust certifications must confirm the following:
	
	➢ The existence and date of the trust.
	➢ The Settlors and the current trustees.
	➢ The powers of the trustees.
	➢ Whether the trust is revocable; and, if revocable, who holds the right to revoke.

- The names and number of the trustees required to sign on behalf of the trust.
- The trust identification number, whether that is a Social Security number or an IRS issued Tax Identification Number.
- How title to the trust assets should be taken.
- A statement that the trust has not been revoked, modified or amended in any manner.

The trust agreement must state the following:

- The trustee is authorized to borrow money for the purpose of purchase or refinance.
- The beneficiary does not need to grant written consent for the trust to borrow money. If consent is required, consent has been granted in writing for purposes of the mortgage.
- There is no unusual risk or impairment to the lenders' rights.
- Holding title in the trust does not diminish the lenders' rights as a creditor.

INTER VIVOS REVOCABLE TRUST CLOSING INSTRUCTIONS

Note

Each trustee and each individual establishing an inter vivos revocable trust whose income and assets are used to qualify for the mortgage must separately execute the Note and any necessary addendum.

Security Instrument

The trustee(s) of the inter vivos revocable trust also must execute the security instrument and any applicable rider (if used). Each individual establishing the trust whose income and assets are used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider (if used), and must agree to be bound thereby, by placing his or her signature after a statement of acknowledgment on such documents.

Any other party that Fannie Mae requires to sign either the Promissory Note or the security instrument also must execute the applicable document(s).

Revocable Trust Rider

	The use of a revocable trust rider avoids ambiguities for mortgages made to inter vivos revocable trusts by clarifying who is considered to be "the borrower" with respect to any given covenant in the security instrument. If the mortgage is secured by a California property, the Seller should use Fannie Mae's sample rider. If the mortgage is secured by property located in another state, the Seller should use a rider that has been appropriately modified to reflect the requirements of that state (unless the Seller determines that use of Fannie Mae's sample Revocable Trust Rider is appropriate for the specific state). **Signature Requirements** Signature Requirements for Notes and Mortgages involving inter vivos revocable trusts can be found in the FNMA Seller Guides. These include the form of signature for the trustee(s) and the statement of acknowledgment for each individual establishing the trust whose income or assets are used to qualify for the mortgage.
Interest Credit	**Interest Credit** Interest Credit is not allowed.
INTERESTED PARTY CONTRIBUTIONS/ FINANCING CONCESSIONS	**Interested Party Contributions "IPC's"** Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses • LTV between 75.01% - 80% max 6% contribution allowed. • LTV ≤ 75% max 9% contribution allowed **Seller Concessions/Contribution** Seller contributions in excess of the interested party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. The amount of the seller concession must be deducted from the purchase price and appraised value to determine the LTV.

<table>
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<td>LETTERS OF EXPLANATION "LOE"</td>
<td>Letters of Explanation

Letters of explanation regarding financial circumstances (credit, income, or assets) must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant</td>
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<tr>
<td>Liabilities</td>
<td>Liability Requirements:

All requirements for debt and liability documentation and calculation method must meet Appendix Q standards.

Business Debts
An applicant, who is self-employed, may be personally responsible for debts incurred for business related expenditures that appear on the applicant's personal credit report.
The business debt must be included in the DTI calculation unless the business entity (not the borrower) is the primary obligor.
Contingent Liabilities (Co-Signed):

Co-Signed Loans: The monthly payment on a co-signed loan may be excluded from the DTI if the following documents are provided
No late payments reporting on the account.
Copies of cancelled checks or bank statements for the most recent consecutive 12 months showing payments made by the primary obligor (other than the borrower)
The co signor must be legally obligated on the debt.
Contingent Liabilities (Court Order):

Court Order: If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided.
Copy of court order.
No delinquent payments in the previous consecutive 12-month period
For mortgage debt, a copy of the documents transferring ownership of the property
Departure Residence Pending Sale:</td>
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	If the current primary residence is pending sale the following applies: The current PITI of the property pending sale and the proposed PITI payment of the subject loan must be included in the debt ratio used to qualify. **Home Equity Line of Credit (HELOC)** For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document. **Installment Debt** • Installment payments with 10 or less months are **included in the DTI, regardless of the number of months remaining.**. • Lease Payments are included in the DTI, regardless of the number of months remaining **Revolving Debt** Follow DU requirements **Student Loans** • Follow Appendix QC – include fully amortizing payment in qualifying – (IBR payments ineligible) or 1% of the outstanding balance. All student loan payments must be included in DTI – including any deferred payments. **Open 30-Day Accounts** For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.
MAXIMUM #FINANCED PROPERTIES	**Multiple Financed Properties**

Follow DU

Limits on the Number of Financed Properties

The following table describes the limits that apply to the number of financed properties a borrower may have.

Subject Property Occupancy	Transaction	Maximum Number of Financed Properties
Principle residence	All	No limit
Second home	All	DU - 10

Applying the Multiple Financed Property Policy to DU Loan Casefiles

If the borrower is financing a second home that is underwritten through DU and the borrower will **have one to six financed properties**, Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores).

If the borrower will have **seven to ten financed properties**, the mortgage loan must have a **minimum representative credit score of 720**; all other standard eligibility policies apply.

Calculation of Reserves for Multiple Financed Properties

If the borrower owns other financed properties (determined in accordance with **B2-2-03, Multiple Financed Properties for the Same Borrower (08/07/2019)**additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:

- 2% of the aggregate UPB if the borrower has one to four financed properties,
- 4% of the aggregate UPB if the borrower has five to six financed properties, or

	• 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).
MINIMUM LOAN AMOUNT	**Minimum Loan Amount** • Minimum Loan Amount is $1 over the FHFA County Loan Limit (conforming/hi balance). Example: San Diego County loan limit is $690,000, minimum loan amount is $690,001. • Maximum Loan Amount is $1,500,000 (regardless of the number of units)
Mortgage Insurance	**Mortgage Insurance** Not Required
Non-ARMS Length Transactions	**Non-Arms-Length Transactions** Certain Non-Arm's Length Transactions in which a direct relationship exists between the borrower and any party in the transaction are permitted as stipulated by the FNMA.
NON-BORROWING SPOUSE	**Non-Borrowing Spouse** When a married borrower applies in their name alone, the spouse is referred to as the non-borrowing spouse. A non-borrowing spouse may have rights as a co-owner of the mortgage premises or due to state community property or marital rights. Non-borrowing spouse must sign the security instrument and if applicable, Right to Cancel. Please note that Non-Borrowing Spouses are allowed to go on title.
NON -OCCUPPANT CO-BORROWER	**Non-Owner Occupant Co-borrower** Non-occupant borrowers are credit applicants on a principal residence transaction who • do not occupy the subject property; • may or may not have an ownership interest in the subject property as indicated on the title; • sign the mortgage or deed of trust note; • have joint liability for the note with the borrower(s); and • ***do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker***.

	DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his or her principal residence, DU will consider the income, assets, liabilities, and credit of that borrower.
OCCUPANCY	**OCCUPANCY** 1**. Primary Residence:** A primary residence is the property the borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any given time. • 1-2 Units detached, attached, PUD, and eligible condominiums 2. **Second Home:** The property must be occupied by the borrower from time-to-time and is suitable for year-round use. Typically, the property is located in either a resort or vacation area or for convenience in a city where the borrower works when the primary residence is in a distant suburb. • 1 unit detached, attached, PUD, and eligible condominiums • Property may not be a time share, subject to a rental agreement or other shared ownership arrangements. • The property must be a reasonable distance from the borrower's primary residence • Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days. • Rental income from a second home cannot be used to qualify the borrower.

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<td>POWER OF ATTORNEY</td>
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POWER OF ATTORNEY (POA)

Subject to the restrictions and requirements listed below, the investor will allow the use of a Power of Attorney (POA) to execute the security instrument, Note and other closing documents on behalf of the borrower(s).

1. Requirements

• POA to be recorded along with security instrument in those states requiring recordation.
• The person(s) name(s) granting the power of attorney must match the name on the security instrument.
• The POA must be valid at the time the affected loan documents were signed.
• The POA must be notarized and unless otherwise required by applicable law, must reference the address of the subject property.
• Only relatives (as defined by FNMA), fiancé, fiancée or domestic partners of the borrower may be named to act as an attorney-in-fact.

2. Restrictions on the Use of a Power of Attorney

Except as required by applicable law, the following restrictions apply:

• Borrower(s) must sign at least the initial or final 1003.
• POAs not allowed on Cash-Out transactions.

Additional Requirements

If a power of attorney is used because the lender determines such use is required by applicable law, the lender must include in the mortgage loan file a written statement that explains the circumstances. Such statement must be provided to the document custodian with the power of attorney.
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PROPERTY ELIGIBILITY	**Eligible Properties**
	
	• 1-2 Unit Owner Occupied Properties
	• 1 Unit Second Homes
	• Low/mid/high-rise new and established Fannie Mae warrantable condominiums.
	    • FNMA Limited Project Review is eligible
	    • Condominiums with HOA in litigation are ineligible.
	• Planned Unit Developments (PUDs)
	• Properties with ≤20 Acres
	    • Properties with > 10 ≤ 20 acres: 3 comparable sales with similar acreage are required
	
	Unpermitted Additions:
	
	Properties with unpermitted additions will be reviewed on a case-by-case basis.
	The property must meet zoning requirements and the appraiser must identify that the improvements have been made in a workmanlike manner and are consistent with the architecture of the remainder of the home
	
	HERO/PACE/Solar Panels
	
	Any item that that will include a UCC associated with the property and/or will create an easement on title is ineligible.
	
	Ineligible Properties
	
	• Manufactured Homes
	• Factory built housing
	• Condo hotel units
	• Log homes
	• Unwarrantable condominiums
	• Condominiums with litigation (even minor litigation is not eligible)
	• Timeshare units
	• Geothermal homes
	• Unique properties
	• Mixed use properties
	• Working farms, ranches, orchards

<table>
<tr><td></td><td>Properties with more than 20 acres.
Agricultural Zoned (agricultural/residential is eligible)
Co ops
3-4 Units
Investment Properties
Properties with condition rating of C5/C6
Properties with construction rating of Q6
Indian/Native American tribal land
Leasehold
Log Homes
Model home leaseback
Oil or gas leases
Properties with Private Transfer covenants</td></tr>
<tr><td>PRIVATE TRANSFER FEE COVENANTS</td><td>Not Allowed</td></tr>
<tr><td>PURCHASE TRANSACTIONS</td><td>Purchase Transactions

General Purchase Transaction Eligibility Requirements

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property.

The table below provides the general requirements for purchase money mortgage transactions.

<table>
<tr><th>✓</th><th>General Requirements</th></tr>
<tr><td></td><td>The minimum borrower contribution requirements must be met.</td></tr>
<tr><td></td><td>Proceeds from the transaction must be used to
finance the acquisition of the subject property,</td></tr>
<tr><td></td><td>A purchase contract (also referred to as a purchase agreement or sales contract) is the binding agreement between a buyer (the applicant) and a seller used to formalize the purchase of real estate and must be included in all purchase transactions.</td></tr>
</table></td></tr>
</table>

Contract Requirements:

- Is legible and fully completed (there are no blank spaces)
- Lists both buyer and seller names
- Applicant(s) must be identified as the buyer.
- Contains initials for all parties to the transaction next to any modification(s)
- Is a full and complete contract, including all addendums/amendments/counteroffers, signed and dated by all parties to the transaction
- Maximum total RE Commissions (includes bonus, auction, admin, etc.) of 8%.

The following items **are not permitted**:

- Any reference to Assignment of Purchase Contract of Sale
- The seller is not listed as owner of record.
- Any reference to the seller acquiring title being subject to the closing of a contingent or pending transaction of the subject property
- Excessive Real Estate Commissions (includes bonus, auction, admin, etc.) of >8%

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

Verification of Ownership/Owner of Record: The property must be purchased from the owner of record and documentation to verify ownership must be obtained.

Seller must have taken title to the subject property a minimum of ninety (90) days prior to the date of the sales contract.

Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property for purposes of this section

RECENTLY LISTED PROPERTY	**Properties Listed for Sale**
	
	• Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met.
	  • Rate and Term refinance only.
	  • Documentation provided to show cancellation of listing prior to Note Date.
	  • Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing.
	• Cash-out refinances are not eligible if the property was listed for sale within six (6) months of the Note date.

REFINANCE CASH-OUT	**Cash-Out Refinance Requirements:** ➢ Borrower must have **owned the property for at least six (6) months.** The borrower must have held title to the property for at least 6 months prior to the loan application unless the borrower meets the requirements in the **Delayed Purchase Refinance** section. ➢ Evidence of required seasoning must be submitted in the underwriting file. Underwriters must verify borrower is the owner of record.. ➢ Texas Cash-Out 50(A)(6) refinances are ineligible. ➢ Cash-out refinances are not eligible if the property was listed for sale within six (6) months of the Note date ➢ No subordinate liens or secondary financing allowed
REFINANCE DELAYED PURCHASE REFINANCING	**Delayed Purchase Refinancing is allowed with the following requirements:** ➢ Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible. ➢ A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property Preliminary title reflects the borrower as the owner and no liens. ➢ Funds used to purchase the property are fully documented and sourced and must be the borrower's own funds (no gift funds). ➢ Funds drawn from a HELOC on another property owned by the borrower, funds borrowed against a margin account or funds from a 401(k) loan are acceptable as long as the following requirements are met:

	➢ The borrowed funds are fully documented ➢ The borrowed funds are reflected on the Closing Disclosure (CD) as a payoff on the new refinance transaction ➢ Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. ➢ Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations ➢ The purchase of the subject property must have been an arm's length transaction. ➢ Property may not be located in Texas.
REFINANCE RATE & TERM	**Rate and Term Refinance**: ➢ Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing. ➢ Documentation provided to show cancellation of listing. ➢ Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing. ➢ A minimum of 6 months (per DU) must have elapsed if the previous refinance transaction combined a first and a non-purchase money subordinate lien into a new first lien. Provide closing disclosure from any prior transaction ➢ The mortgage amount may include the: ➢ Principal balance of the existing first lien[1]. ➢ Pay off subordinate financing only to the extent that such financing was used to acquire the property. Borrower must document that all proceeds from the subordinate financing were used to acquire the property. ➢ Payoff of a co-owner pursuant to a written agreement. ➢ Financing of the payment of prepaid items and closing costs. ➢ Cash back to the borrower is limited to the lesser of $2000 or 2% of the new mortgage loan [1] Payoffs may not reflect any suspended payments or 2nd principal amount or deferred interest.
SECOND	**Second Home**

HOME	A second home is a 1-unit property, including condominiums, and PUDs, that the borrower will occupy for a portion of the year. The property generally is located in a vacation or resort area, but not always, and must be suitable for year-round use. A second home should not be in the same local market as the borrower's primary residence. • Property may not be a time share, subject to a rental agreement or other shared ownership arrangements. • The property must be a reasonable distance from the borrower's primary residence. • Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days. • Rental income from a second home cannot be used to qualify the borrower.
SECONDARY FINANCING	**Secondary Financing** Please note the DTI maximum & Reserves requirements are based upon the CLTV(HCLTV if HELOC)- Allowed up to maximum CLTV per matrix. Secondary financing terms must conform to FNMA guidelines, however Affordable Lending/ Community Seconds are ineligible. • New subordinate financing is permitted up to the maximum allowable LTV/CLTV. • Permitted on purchase and rate & term refinance transactions only up to maximum LTV, CLTV, HLTV as per matrix • Maximum LTV / CLTV / HLTV for subordinated HELOCS will be based on the fully drawn balance. • Cash-out transactions are not eligible for subordination of existing liens • Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties. • In cases in which a HELOC is resubordinated to the subject mortgage, monthly amount on credit report will be used. If no monthly payment amount is shown on credit report, 1% minimum payment of the maximum line amount will be used for qualifying. If HELOC has a zero balance and no draws within 24 months of application, no payment need be include in DTI. Withdrawal activity must be documented with a transaction history for the line of credit.

Acceptable Subordinate Financing Types

The table below provides the requirements for acceptable subordinate financing types
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✓	**Acceptable Subordinate Financing Types**
	Variable payment mortgages that comply with the details below.
	Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
	Mortgages with deferred payments in connection with employer subordinate financing (see below).
	Mortgage terms that require interest at a market rate.

If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.

Unacceptable Subordinate Financing Terms

The table below describes unacceptable subordinate financing terms.

✓	**Unacceptable Subordinate Financing Terms**
	Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).
	Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments). **Note**: Fannie Mae will accept these subordinate financing terms when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.

	Eligible Variable Payment Terms for Subordinate Financing Fannie Mae permits variable payments for subordinate financing if the following provisions are met: • With the exception of HELOCs, when 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 lien mortgage. (For HELOCs, the monthly payment does not have to remain constant.) • The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).
TAX TRANSCRIPTS "4506C"	**4506-C REQUIREMENTS** All applicants are required to complete, sign and date the Internal Revenue Service (IRS) Form 4506-C **during the application process and at closing.** **Tax Transcripts / 4506-C** A completed, signed, and dated IRS form 4506-C must be completed for all borrowers at closing whose income is used to qualify for the mortgage. A 4506-C must be processed and tax transcripts for personal (and Business, if applicable) income tax returns obtained (for each year requested) to validate all income used for qualifying. W-2 transcripts are allowed in lieu of tax transcripts when the borrower's sole source of income is W-2 base wages, please refer to program specific guidelines for allowance of W-2 transcripts in lieu of tax transcripts. Transcripts must match documentation in the file. In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found." In these cases, an additional prior year's tax transcripts should be obtained and provided. Large increases in income that cannot be validated through a tax transcript may not be considered for qualifying. **Unfiled Tax Returns** The following guidelines apply for the prior year's tax return:

For loans closed between Jan 1 and the tax filing date (typically April 15), borrowers must provide:

- IRS form 1099 and W-2 forms from the previous year.
- Loan closing in January prior to receipt of W-2s may use the prior year year-end paystub.

For borrowers using 1099s, evidence of receipt of 1099 income must be provided.

Personal 1040 tax returns - For loans closed between the tax filing due date (typically April 15), and the extension expiration date (typically October 15), borrowers must provide (as applicable):

- Copy of the filed extension with evidence of any tax liability paid in full
- W-2 forms.
- Form 1099, when applicable.
- Year-end profit and loss for prior year, if self-employed.
- Balance sheet for prior calendar year, if self-employed.

Partnership (1065) or S-Corporation (1120S) tax returns – For loans closed between the tax filing due date (typically March 15) and the extension expiration date (typically September 15), borrowers must provide (as applicable):

- Copy of the filed extension.
- Year-end profit and loss for prior year.
- Balance sheet for prior calendar year

Corporation (1120) tax returns (assuming calendar year) – For loans closed between the tax filing due date (typically April 15) and the extension expiration date (typically October 15), borrowers must provide (as applicable):

- Copy of the filed extension.
- Year-end profit and loss for prior year.
- Balance sheet for prior calendar year.

After the extension expiration date, loan is not eligible without prior year tax returns.

Tax Transcripts- 4506C Policy

4506-C and Application Docs:

NEW IRS FORM 4506-C, IVES REQUEST FOR TAX TRANSCRIPT – REPLACES 4506T.

The Internal Revenue Services (IRS) has released Form 4506-C, this will be the only form accepted through the Income Verification Express Service (IVES) to provide tax transcripts to third parties as of February 1, 2021. This means Borrowers will need to sign the 4506-C form, instead of the Form 4506-T, to give permission for obtaining their tax transcripts.

Background: "Form 4506-C was created to be utilized by authorized Income Verification Express Service (IVES) Participants to order Tax Transcript records electronically for a third party. *In effort to protect taxpayer information,* a policy change was implemented for the Form 4506 series which no longer permits the mailing of tax returns to third parties that have not been vetted through the agency. Some of the differences between the 4506C & 4506T are:

- Line 5a was changed to include IVES participant name, address and Secure Object Repository (SOR) mailbox ID.
- The Caution language below Line 5b was updated to be limited for IVES requests
- A field was added below the signature lines to print or type the name(s) of the individual(s) signing the form.
- IVES Service Center fax numbers replaced the tables showing states and corresponding fax numbers.
- Notification language for designated recipients and taxpayers was added to advise that a designated recipient will be subject to penalties for unauthorized access, other use, or redisclosure of the taxpayer's information without the taxpayer's express permission and authorization.

Effective February 1, 2021 - all IVES tax transcript submission requests are required to use the new Form 4506-C

Sierra Pacific Mortgage has added the 4506C to the Closing package, however the users will need to either access in SIMON (Retail) or provide from their own LOS (Wholesale), the updated 4506C for those loan transactions requiring income validation prior to closing (see below), until updates are made:

4506-C and Closing Docs:

- An IRS Form 4506-C will automatically print at drawing for Borrower's signature as a standard closing condition. The #4506C form must still be executed at closing (one for each federal income tax return and each business federal income tax return as applicable).
- The borrower must sign this document and cannot use a Power of Attorney.
- Please make ensure that the 4506-C received at closing is no smaller than the original 8 ½" x 11" size. C
- Review the executed 4506C(s) to ensure they are completed accurately with the borrower(s) name, address, business name etc.
- POST-CLOSE: Loans chosen for Post Close audit will require an executed 4506C and QC will request the 4506C results through Data Verify as part of the post-closing re-verification process. If the request is unable to be completed due to an error in the completion of the form, QC will reach out to the ROC for correction of the 4506C. Once the corrected form is received by QC, the form will be resent through Data Verify to obtain 4506C results.

	• We will also be unable to use unreadable 4506-T forms in our post-closing quality control process. • .
TEMPORARY BUY-DOWNS	Not Allowed
Title Insurance	**Chain of Title** • All transactions require a **minimum twelve (12) month chain of title**. • For purchase transactions seller must have taken title to the subject property a minimum of **ninety (90) days prior to the date of sales contract**. **Title** Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the lender must ensure that those amendments provide the same coverage. The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, and ARM loan types. The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form). The title insurance policy must insure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.

	A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured. Any existing tax or mechanic's liens must be paid in full through escrow.
Texas 50(A)(6)	**Texas 50 (a) (6) Refinance (Texas Equity Loans)** Not eligible
UNDERWRITING	Unless otherwise noted in the Investor guidelines, the **more restrictive** of the Fannie Mae Selling Guide or Appendix Q (to part 1026 to 12 CFR Chapter X-Truth-in-Lending Regulation Z) should be followed.