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ELITE MORTGAGE GUIDELINES

TABLE OF CONTENTS

TABLE OF CONTENTS.....	2
ELITE PROGRAM.....	10
ABILITY TO REPAY (ATR), QUALIFIED MORTGAGE, AND NET TANGIBLE BENEFIT REQUIREMENTS.....	10
BENEFIT TO THE BORROWER.....	11
PRODUCT HIGHLIGHTS.....	11
PRODUCT CODES	12
ELITE JUMBO PROGRAM MATRIX	12
TRANSACTIONS.....	13
OCCUPANCY TYPE.....	13
PRIMARY RESIDENCE.....	13
SECOND HOME	13
INVESTMENT PROPERTY	13
LOAN PURPOSE	14
ELIGIBLE PURCHASE MONEY MORTGAGE TRANSACTIONS	14
ADDITIONAL PURCHASE TRANSACTION ATTRIBUTES:	14
INELIGIBLE PURCHASE MONEY MORTGAGE TRANSACTIONS.....	14
PURCHASING IN REDEMPTION PERIOD	14
PURCHASE TRANSACTIONS THAT INCLUDE NEW SUBORDINATE FINANCING	14
PROPERTY FLIPS	15
ELIGIBLE REFINANCE MORTGAGE TRANSACTION ATTRIBUTES.....	15
LIMITED CASH-OUT REFINANCE (RATE AND TERM)	15
LIMITED CASH-OUT REFINANCE: UNACCEPTABLE ATTRIBUTES	16
PROPERTIES LOCATED IN TEXAS	16
PACE / HERO LOANS.....	16
HOMES RECENTLY LISTED FOR SALE	17
FIRST-TIME HOMEBUYERS (FTHB).....	17
DELAYED FINANCING	17
SUBORDINATE FINANCING.....	18
NEW SUBORDINATE FINANCING	18
EXISTING SUBORDINATE FINANCING.....	18
RE-SUBORDINATION REQUIREMENTS FOR REFINANCE TRANSACTIONS.....	18
INELIGIBLE SUBORDINATE FINANCING.....	19
MULTIPLE PROPERTIES FINANCED	19
INELIGIBLE TRANSACTION TYPES.....	20
MAXIMUM LOAN TO VALUE.....	20
DETERMINING AMOUNT TO BE FINANCED.....	20
DETERMINING VALUE.....	20

ELITE MORTGAGE PRODUCT GUIDELINES

PURCHASE TRANSACTIONS.....	20
REFINANCE TRANSACTIONS.....	21
CALCULATING LOAN-TO VALUE.....	21
CLTV / HCLTV.....	21
TREATMENT OF AUCTIONEER FEES FOR LTV AND HCLTV PURPOSES.....	21
INTERESTED PARTY CONTRIBUTIONS.....	22
IPC LIMITS BASED ON OCCUPANCY	22
FINANCING CONCESSIONS.....	22
SALES CONCESSIONS.....	22
AUCTIONEER FEES.....	22
INELIGIBLE INTERESTED PARTY CONTRIBUTIONS.....	23
BUILDERS AFFILIATED WITH MORTGAGE LENDER.....	23
REPAIRS NOTED WITHIN PURCHASE CONTRACT.....	23
MONTHLY HOUSING EXPENSE.....	23
CEMA LOANS.....	23
NON-ARM'S LENGTH TRANSACTIONS.....	23
ESCROWS/IMPOUNDS.....	24
 BORROWERS.....	 25
SOCIAL SECURITY NUMBER VALIDATIONS	25
NON-OCCUPANT CO-BORROWER, GUARANTOR, AND CO-SIGNER.....	25
CITIZENSHIP REQUIREMENTS	25
U.S. CITIZENS AND NATIONALS	25
NON-U.S. CITIZENS.....	25
PERMANENT RESIDENT	25
NON-PERMANENT RESIDENTS.....	26
OTHER RESIDENCY STATUSES.....	26
LOANS TO TRUST	26
INTER VIVOS REVOCABLE TRUST	26
LAND TRUST (ILLINOIS LAND TRUST).....	27
COMMUNITY LAND TRUSTS	27
BLIND TRUSTS.....	27
OWNERSHIP INTEREST	27
NON-BORROWING SPOUSE	27
POWER OF ATTORNEY.....	27
CONTINUITY OF OBLIGATION.....	27
POSSIBLE EXCEPTIONS TO CONTINUITY OF OBLIGATION.....	29
 CREDIT & LIABILITIES.....	 30
DOCUMENTATION AGE	30
DOCUMENTATION STANDARDS	30
CREDIT REPORT REQUIREMENTS.....	30
CREDIT REPORT RED FLAGS.....	31
NON-TRADITIONAL CREDIT	31

ELITE MORTGAGE PRODUCT GUIDELINES

FOREIGN CREDIT REFERENCES	31
MINIMUM CREDIT SCORE	31
AUTHORIZED USER ACCOUNTS	31
MINIMUM TRADE LINE REQUIREMENT	32
MINIMUM CREDIT SCORE REQUIREMENT.....	32
SIGNIFICANT ADVERSE OR DEROGATORY CREDIT	32
DOCUMENTATION REQUIREMENTS.....	32
REESTABLISHED CREDIT REQUIREMENTS.....	33
RECOVERY TIME PERIODS	33
BANKRUPTCY FILING	33
FORECLOSURES/DEEDS-IN-LIEU OF FORECLOSURE/PRE-FORECLOSURE/SHORT SALES/SETTLED DEBTS.....	33
DEED FOR LEASE	33
RESTRUCTURED MORTGAGE LOAN.....	34
CONSUMER CREDIT COUNSELING.....	34
PAST-DUE ACCOUNTS.....	34
COLLECTIONS/CHARGE-OFFS/LIENS	34
IRS INSTALLMENT PLANS.....	34
HOUSING AND RENTAL PAYMENT HISTORY	35
MORTGAGE & PAYMENT HISTORIES	35
DEROGATORY HOUSING PAYMENT HISTORY	36
DISPUTED ACCOUNTS.....	36
DEBTS PAID BY A BUSINESS.....	36
PAYING OFF DEBT.....	36
STUDENT LOANS.....	37
QUALIFYING HOUSING PAYMENT.....	37
MONTHLY DEBT OBLIGATIONS	37
QUALIFYING WITH AN INTEREST ONLY MORTGAGE.....	37
TOTAL QUALIFYING DEBT-TO-INCOME RATIOS.....	37
ALIMONY AND CHILD SUPPORT	38
PAYMENT SHOCK	38
30 DAY OPEN ACCOUNTS	38
SEPARATION AGREEMENTS.....	38
BORROWERS LIVING RENT-FREE	38
QUALIFYING PAYMENT (HELOC)	39
CREDIT FREEZE.....	39
RE-SCORED CREDIT REPORTS	39
RECURRING OBLIGATIONS-REO SPLIT OWNERSHIP.....	39
EMPLOYMENT/INCOME ANALYSIS.....	40
EMPLOYMENT & INCOME DOCUMENTATION STANDARDS.....	40
STABILITY AND CONTINUANCE OF EMPLOYMENT AND INCOME	43
EMPLOYMENT GAPS	43
EXTENDED ABSENCES	43

ELITE MORTGAGE PRODUCT GUIDELINES

PROJECTED INCOME FOR NEW JOB (EXECUTED EMPLOYMENT CONTRACTS).....	44
NON-REIMBURSED BUSINESS EXPENSES.....	44
TAX TRANSCRIPTS AND IRS REJECTION CODE	44
INCOME TYPES.....	45
PRIMARY EMPLOYMENT (BASE EARNINGS)	45
SEASONAL EMPLOYMENT	45
PRIMARY EMPLOYMENT LESS THAN 40-HOUR WORK WEEK.....	45
PART-TIME EMPLOYMENT.....	45
BONUS OR OVERTIME INCOME	46
COMMISSION INCOME	46
RENTAL INCOME	47
SELF-EMPLOYMENT INCOME	47
BORROWERS WORKING FOR A FAMILY BUSINESS	47
BORROWERS PLANNING TO RETIRE	47
RETIREMENT INCOME	48
IRA AND 401K RETIREMENT DISTRIBUTION INCOME.....	48
SOCIAL SECURITY INCOME	48
SELF-EMPLOYED CO-BORROWER INCOME/LOSS.....	49
TRUST INCOME OR LOSS	49
OTHER ACCEPTABLE INCOME SOURCES.....	49
UNACCEPTABLE INCOME SOURCES	50
 ASSET ANALYSIS.....	 51
DOCUMENTATION AGE	51
MINIMUM DOWN PAYMENT AND CASH TO CLOSE.....	51
VERIFICATION AND SOURCING FUNDS.....	51
CASH DEPOSITS	51
CO-MINGLED FUNDS	52
CO-MINGLED FUNDS--NON-BORROWING SPOUSE.....	52
GIFT FUNDS	52
GIFT FUNDS FOR THE PURPOSES OF PAYING OFF DEBT	52
GIFTS OF EQUITY	52
CREDIT CARD DEPOSITS.....	53
BUSINESS ASSETS	53
FOREIGN ASSETS	53
1031 EXCHANGE	53
RETIREMENT ACCOUNTS.....	54
RESERVE REQUIREMENTS.....	54
ADDITIONAL RESERVE REQUIREMENTS.....	54
RETAINING AND CONVERTING DEPARTING RESIDENCE	54
REPORTED NON-SUFFICIENT-FUNDS (NSF) FEES.....	55
STOCKS, BONDS, AND MUTUAL FUNDS.....	55
RELOCATION FUNDS	55
ACCEPTABLE ASSETS	56

ELITE MORTGAGE PRODUCT GUIDELINES

PROPERTY ELIGIBILITY	58
COVID-19 TEMPORARY OVERLAYS.....	58
3-4-UNIT PROPERTIES.....	58
ELIGIBLE PROPERTY TYPES.....	58
SINGLE-FAMILY RESIDENCE	58
TWO-UNITS.....	58
CONDOMINIUMS	58
CONDOMINIUM OVERVIEW.....	59
INELIGIBLE CONDOMINIUM/PUD PROJECTS.....	60
APPROVAL AUTHORITY AND PROCESS FOR CONDOMINIUM PROJECTS	60
WARRANTING THE PROJECT	60
PREVIOUSLY APPROVED PROJECTS	61
CONDOMINIUM PROJECT MANAGER (CPM) EXPEDITED REVIEW	61
FANNIE MAE PROJECT ELIGIBILITY REVIEW SERVICE (PERS).....	61
FULL REVIEW	61
PLANNED UNIT DEVELOPMENT (PUD).....	61
PUD ELIGIBILITY REQUIREMENTS	61
INELIGIBLE PROPERTY TYPES.....	62
ENVIRONMENTAL HAZARD ASSESSMENT	62
HAZARD AND FLOOD INSURANCE REQUIREMENTS.....	63
HOA ASSESSMENT LIENS / SUPER LIENS.....	63
MULTIPLE PARCELS.....	63
RURAL PROPERTIES.....	63
LEASED/OWNED UTILITIES AND COMMUNITY UTILITIES	63
PRIVATE ROAD MAINTENANCE AGREEMENT/SHARED DRIVEWAYS	64
LIFE ESTATE OR LEASEHOLD ESTATE.....	64
CONDOMINIUM OWNER’S ASSOCIATION OBLIGATION	64
APPRAISAL REQUIREMENTS.....	65
GENERAL APPRAISAL REQUIREMENTS	65
APPRAISER REQUIREMENTS	65
APPRAISAL REVIEW PROCESS.....	66
THIRD VALUATION (IF APPLICABLE):	66
APPRAISED VALUE	67
DOCUMENTATION AGE AND STANDARDS	67
AGE OF APPRAISAL	67
ACCEPTABLE APPRAISAL FORMS.....	67
UNIFORM RESIDENTIAL APPRAISAL REPORT (FANNIE MAE FORM 1004/FREDDIE MAC FORM 70) – URAR.....	68
INDIVIDUAL CONDOMINIUM UNIT APPRAISAL REPORT (FANNIE MAE FORM 1073 AND FREDDIE MAC FORM 465)	68
SMALL RESIDENTIAL INCOME PROPERTY APPRAISAL REPORT (FANNIE MAE FORM 1025 AND FREDDIE MAC FORM 72)	68
APPRAISAL UPDATE (FANNIE MAE FORM 1004D/FREDDIE MAC FORM 442)	68

ELITE MORTGAGE PRODUCT GUIDELINES

MARKET CONDITIONS ADDENDUM (FANNIE MAE FORM 1004MC)	69
FIELD REVIEW	69
ONE-UNIT PROPERTY.....	69
TWO-UNIT PROPERTY	69
PROPERTY QUALITY AND CONDITION	69
CONDITION RATING.....	69
QUALITY RATING.....	70
DISASTER POLICY.....	70
LAVA ZONES	71
IMPROVEMENTS WITHOUT PERMITS.....	71
 AUS REQUIREMENTS.....	 72
DOCUMENTATION REQUIREMENTS.....	72
DU AND LPA RESUBMISSION REQUIREMENTS.....	72
DESKTOP UNDERWRITER (DU) DECISIONS.....	72
ACCEPTABLE FINDINGS.....	72
UNACCEPTABLE FINDINGS.....	73
DESKTOP UNDERWRITER ACCURACY.....	73
DESKTOP UNDERWRITER DATA	73
DESKTOP UNDERWRITER VERSION CONTROL.....	73
LOAN PRODUCT ADVISOR (LPA) DECISIONS.....	73
ACCEPTABLE FINDINGS.....	73
UNACCEPTABLE FINDINGS.....	74
LOAN PRODUCT ADVISOR ACCURACY	74
LOAN PRODUCT ADVISOR DATA	74
LOAN PRODUCT ADVISOR VERSION CONTROL	74
 ABILITY TO REPAY REQUIREMENTS.....	 75
EMPLOYMENT-RELATED INCOME	75
STABILITY OF INCOME.....	75
EFFECTIVE INCOME.....	75
VERIFYING EMPLOYMENT HISTORY	75
ANALYZING A BORROWER'S EMPLOYMENT RECORD.....	76
BORROWERS RETURNING TO WORK AFTER AN EXTENDED ABSENCE*	76
SALARY, WAGE, AND OTHER FORMS OF INCOME	76
GENERAL POLICY ON BORROWER INCOME ANALYSIS.....	76
OVERTIME AND BONUS INCOME	77
ESTABLISHING AN OVERTIME AND BONUS INCOME EARNING TREND.....	77
QUALIFYING PART-TIME INCOME.....	78
INCOME FROM SEASONAL EMPLOYMENT.....	78
PRIMARY EMPLOYMENT LESS THAN 40-HOUR WORK WEEK.....	79
COMMISSION INCOME	79
QUALIFYING COMMISSION INCOME EARNED FOR LESS THAN ONE YEAR.....	79
EMPLOYER DIFFERENTIAL PAYMENTS	80

ELITE MORTGAGE PRODUCT GUIDELINES

RETIREMENT INCOME	80
SOCIAL SECURITY INCOME	80
AUTOMOBILE ALLOWANCES AND EXPENSE ACCOUNT PAYMENTS	81
BORROWERS EMPLOYED BY A FAMILY-OWNED BUSINESS.....	81
INCOME DOCUMENTATION REQUIREMENT.....	81
GENERAL INFORMATION ON SELF-EMPLOYED BORROWERS AND INCOME ANALYSIS.	82
DEFINITION: SELF-EMPLOYED BORROWER.....	82
TYPES OF BUSINESS STRUCTURES.....	82
MINIMUM LENGTH OF SELF EMPLOYMENT	82
GENERAL DOCUMENTATION REQUIREMENTS FOR SELF-EMPLOYED BORROWERS	82
ESTABLISHING A SELF-EMPLOYED BORROWER'S EARNINGS TREND	83
ANALYZING THE BUSINESS'S FINANCIAL STRENGTH.....	83
INCOME ANALYSIS: INDIVIDUAL TAX RETURNS (IRS FORM 1040).	83
GENERAL POLICY ON ADJUSTING INCOME BASED ON A REVIEW OF IRS FORM 1040	83
GUIDELINES FOR ANALYZING IRS FORM 1040	84
INCOME ANALYSIS: CORPORATE TAX RETURNS (IRS FORM 1120)	85
DESCRIPTION: CORPORATION	85
NEED TO OBTAIN BORROWER PERCENTAGE OF OWNERSHIP INFORMATION	85
ANALYZING CORPORATE TAX RETURNS.....	85
INCOME ANALYSIS: "S" CORPORATION TAX RETURNS (IRS FORM 1120S)	86
DESCRIPTION: "S" CORPORATION.....	86
ANALYZING "S" CORPORATION TAX RETURNS	86
INCOME ANALYSIS: PARTNERSHIP TAX RETURNS (IRS FORM 1065).	86
DESCRIPTION: PARTNERSHIP	86
ANALYZING PARTNERSHIP TAX RETURNS.....	87
NON-EMPLOYMENT RELATED BORROWER INCOME	88
ALIMONY, CHILD SUPPORT, AND MAINTENANCE INCOME CRITERIA	88
INVESTMENT AND TRUST INCOME.....	88
ANALYZING INTEREST AND DIVIDENDS	88
TRUST INCOME OR LOSS	89
NOTES RECEIVABLE INCOME	89
ELIGIBLE INVESTMENT PROPERTIES (CALCULATION IS INELIGIBLE FOR SUBJECT INVESTMENT PROPERTY PURCHASE TRANSACTIONS)	89
MILITARY, GOVERNMENT AGENCY, AND ASSISTANCE PROGRAM INCOME	90
MILITARY INCOME	90
VA BENEFITS.....	90
GOVERNMENT ASSISTANCE PROGRAMS	90
MORTGAGE CREDIT CERTIFICATES	90
HOME OWNERSHIP SUBSIDIES	91
RENTAL INCOME	91
ANALYZING THE STABILITY OF RENTAL INCOME	91
RENTAL INCOME FROM BORROWER OCCUPIED PROPERTY	92
INCOME FROM ROOMMATES OR BOARDERS IN A SINGLE-FAMILY PROPERTY	92

ELITE MORTGAGE PRODUCT GUIDELINES

DOCUMENTATION REQUIRED TO VERIFY RENTAL INCOME.....	92
ANALYZING IRS FORM 1040 SCHEDULE E.....	92
USING CURRENT LEASES TO ANALYZE RENTAL INCOME	92
EXCLUSION OF RENTAL INCOME FROM PROPERTY BEING VACATED BY THE BORROWER.....	93
POLICY EXCEPTIONS REGARDING THE EXCLUSION OF RENTAL INCOME FROM A PRINCIPAL RESIDENCE BEING VACATED BY A BORROWER.....	93
NON-TAXABLE AND PROJECTED INCOME.....	94
TYPES OF NON-TAXABLE INCOME.....	94
ADDING NON-TAXABLE INCOME TO A BORROWER’S GROSS INCOME.....	94
ANALYZING PROJECTED INCOME.	94
PROJECTED INCOME FOR NEW JOB. (EXECUTED EMPLOYMENT CONTRACTS).....	94
BORROWER LIABILITIES: RECURRING OBLIGATIONS.....	95
TYPES OF RECURRING OBLIGATION. RECURRING OBLIGATIONS INCLUDE:.....	95
DEBT-TO-INCOME RATIO COMPUTATION FOR RECURRING OBLIGATIONS	95
REVOLVING ACCOUNT MONTHLY PAYMENT CALCULATION	95
REDUCTION OF ALIMONY PAYMENT FOR QUALIFYING RATIO CALCULATION.....	96
BORROWER LIABILITIES: CONTINGENT LIABILITY	96
DEFINITION: CONTINGENT LIABILITY	96
APPLICATION OF CONTINGENT LIABILITY POLICIES	96
CONTINGENT LIABILITY ON MORTGAGE ASSUMPTIONS.....	96
EXEMPTION FROM CONTINGENT LIABILITY POLICY ON MORTGAGE ASSUMPTIONS ..	96
CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS	96
BORROWER LIABILITIES: PROJECTED OBLIGATIONS AND OBLIGATIONS NOT CONSIDERED DEBT	97
PROJECTED OBLIGATIONS.....	97
OBLIGATIONS NOT CONSIDERED DEBT	97

Any item not covered in the guidelines please refer to the [Fannie Mae Seller Guide](#) or [Freddie Mac Seller Guide](#). *specific scenario requests, please go to the [eScenarios](#) tab and post your scenario.*

ELITE PROGRAM

The purpose of credit and property underwriting is to ensure that each loan meets LHFS' quality standards. A loan meets LHFS' underwriting quality standards if the borrower's credit and capacity to make payments and the quality of the collateral are consistent with the Elite mortgage loan program. The likelihood of timely repayment is expected to be commensurate with the credit quality of the loan program and the represented value of the subject property is expected to reflect accurately its market value.

These Elite Jumbo Underwriting Guidelines set forth the underwriting standards that apply to all jumbo loan programs, for purposes hereof, "jumbo mortgage loan" means that the loan amount exceeds the conforming maximum mortgage loan limits imposed by the Federal Housing Finance Agency (FHFA), as the same may be set from time to time. The maximum loan amount for jumbo mortgage loans eligible through the Elite mortgage program is currently \$2,000,000. Underwriting Guideline requirements set forth in these Elite Jumbo Underwriting Guidelines are applicable to loans underwritten by Desktop Underwriter® or Loan Product Advisor®, unless otherwise specified.

Regardless of underwriting method, additional information may be requested at the discretion of LHFS.

All references to "agency guidelines" are based on the specific agency guides as they were stated as of the release date of these Elite Jumbo underwriting guidelines. Brokers should refer to Agency guidelines for any topic not specifically addressed in these Elite Jumbo Underwriting Guidelines.

ABILITY TO REPAY (ATR), QUALIFIED MORTGAGE, AND NET TANGIBLE BENEFIT REQUIREMENTS

The Consumer Financial Protection Bureau adopted a rule that implements the Ability to Repay ("ATR") and Qualified Mortgage ("QM") provisions of the Dodd-Frank Act. The Borrower's ability to repay has been established as laid out in the Truth in Lending Act. Investment properties used for business purposes (Borrower does not intend to occupy property more than 14 days per year), are exempt from ATR, but must still meet applicable points and fees threshold.

The Originator must verify the income and assets used to determine the Borrower's ability to repay the loan. Refer to the [Income](#) and [Assets](#) sections of this Guide for additional information.

BENEFIT TO THE BORROWER

In keeping with the Commitment to responsible lending, all LHFS loans must have a measurable benefit to the Borrower. When determining the benefit on a transaction, one of the following items must exist to support the benefit to the Borrower:

1. Consolidation of debt
2. Conversion from an adjustable rate to a fixed rate
3. Conversion from negative amortization to fully amortization
4. Eliminating mortgage insurance
5. Lower interest rate
6. Lower principal and interest housing payment
7. Lower total monthly payments
8. Other as defined by the Borrower
9. Pay-off of a balloon payment
10. Pay-off of a Construction Loan
11. Pay-off of a privately held mortgage
12. Pay-off of a tax lien
13. Pay-off of property taxes
14. Purchasing a home
15. Reduction of loan term
16. Reduction of total interest payments
17. Resolution of loss mitigation actions
18. Title transfer/Court order

PRODUCT HIGHLIGHTS

- LTV up to 80%
- Credit scores from 680+
- First-time homebuyers OK
- Loan amounts up to \$2,000,000
- 15-, 20-, and 30- year fixed terms
- No prepayment penalty
- 1-2 units, primary and Investment Properties are eligible.
- Second Home Properties, are eligible

ELITE MORTGAGE PRODUCT GUIDELINES

PRODUCT CODES

LHFS PRODUCT NAMES AND CODES	
Elite Jumbo Mortgage Program	
Product Code	Product Detail
WJ30-080	W Elite Jumbo Fixed 30
WJ20-080	W Elite Jumbo Fixed 20
WJ15-080	W Elite Jumbo Fixed 15

ELITE JUMBO PROGRAM MATRIX

Due to COVID-19 the following transactions are ineligible:

- Cash-out refinance transactions
- Properties with three to four units

Occupancy Type	Transaction Type	Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Rate/Term Refinance	Single Family, PUD, Condominium	75%	\$2,000,000 ¹	740 ¹	43% ¹
			80%	\$1,500,000 ¹	720 ¹	
			80%	\$1,000,000 ¹	700 ¹	
			80%	\$850,000 ¹	680 ¹	
		2-Units	65%	\$2,000,000	740	
Second Home	Purchase and Rate/Term Refinance	Single Family, PUD, Condominium	70%	\$2,000,000	740	
Investment Property	Purchase and Rate/Term Refinance	1-2 Unit Single Family, PUD, Condominium	65%	\$1,500,000	740	

¹See [First-Time Homebuyer](#) section for LTV, DTI, and FICO requirements

TRANSACTIONS

This section describes the types of transactions for which LHFS will make loans.

Due to COVID-19, cash-out refinance transactions are ineligible.

OCCUPANCY TYPE

PRIMARY RESIDENCE

- A primary residence is a property in which all borrower(s) take title and occupy as his, her, or their primary residence for the majority of the year.
- Borrowers are required to occupy subject property within 60 calendar days of Consummation or as per the terms of the Mortgage/Deed of Trust.
- Gift funds are ineligible for use as reserves.

SECOND HOME

- The property must be occupied by the borrower for some portion of the year.
- The property must be suitable for year-round occupancy.
- All borrowers must take title to the property.
- Property cannot be subject to any agreements that give a management company control over the property.
- The property must be under the borrower's exclusive control (timeshares and rental agreements ineligible).
- Gift funds are ineligible and may not be used for down payment, closing costs, pre-pays, or reserves.

If any of the first four requirements are not met, the borrower must give a satisfactory explanation for the use of the property as a second home, and the seller must carefully consider the property eligibility

INVESTMENT PROPERTY

- An investment property is owned but not occupied by the borrower.
- All borrowers must take title to the property.
- Income from the subject investment property may not be used to qualify the borrower when the subject transaction is a purchase.
- Gift funds are ineligible and may not be used for down payment, closing costs, pre-pays, or reserves.

LOAN PURPOSE

This section outlines the transaction requirements that apply to the Elite mortgage program.

Mortgage Loans made for the following purposes as defined in this section:

- Purchase Money Mortgage Loan.
- Refinance Mortgage Loan.
 - Limited Cash-out refinance Mortgage Loan.

ELIGIBLE PURCHASE MONEY MORTGAGE TRANSACTIONS

The proceeds from a purchase money transaction must be used to finance the acquisition of the subject property.

Additional Purchase Transaction Attributes:

- Except as otherwise required by applicable laws, closing costs may not be financed as part of a purchase money transaction.
- Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing:
 - A reimbursement for the borrower's overpayment of fees.
 - If property taxes are due within 30 calendar days of the purchase loan closing, the Settlement Statement or Closing Disclosure (s) should reflect the amount sufficient for the Seller to pay the taxes.
 - Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees).

A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.

INELIGIBLE PURCHASE MONEY MORTGAGE TRANSACTIONS

The following transactions are ineligible:

Purchasing in Redemption Period

- Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed under the related mortgage loan.
- The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.
- Unexpired redemption periods are deemed to be an unacceptable title impediment, and a mortgage loan with an unexpired redemption period is not eligible.

Purchase transactions that include new subordinate financing

Transactions with new subordinate financing are ineligible.

Property Flips

If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, this transaction would be ineligible.

The following types of re-sale transactions are not considered property flips:

- Property being sold by a spouse who acquired the property through a divorce settlement.
- Property acquired by an employer through a relocation program.
- Property being sold by an administrator or executor of an estate.
- Property being sold by a lender, mortgage investor, or mortgage insurance company that was acquired through foreclosure or deed-in-lieu of foreclosure.

ELIGIBLE REFINANCE MORTGAGE TRANSACTION ATTRIBUTES

- There must be continuity of obligation (see "[Continuity of Obligation](#)" section).
- If the subject property was purchased in the previous 12 months, the HUD-1 Settlement Statement(s) or Closing Disclosure(s) must be provided in order to determine the subject property value (See "[Determining Value](#)" section).

Limited Cash-out Refinance (Rate and Term)

Eligible Limited Cash-out Refinance Transactions:

- Paying off a mortgage loan secured by the same property.
 - Closing costs, points, and pre-paid fees may be rolled into the loan amount.
 - Borrowers may receive up to 1% of the subject loan principal amount back at closing.
- Buying out the equity position of a co-owner as a result of a court ordered agreement.
- Property ownership resulting from a legal document inheritance.
- Paying off a first lien and purchase money subordinate lien (LHFS must document that the entire subordinate lien was used to purchase the property).
- Paying off a seasoned non-purchase money subordinate lien or first lien HELOC.
 - A seasoned non-purchase money subordinate lien or first lien HELOC is a mortgage that has been in place for a minimum of 12 months. Seasoning is based on the note date of the second lien to the application date of the subject Mortgage Loan. A seasoned equity line of credit is defined as not having cumulative draws greater than \$2,000 in the past 12 months.
 - Withdrawal activity must be documented with a transaction history for the Line of Credit.
- Paying off a first lien HELOC used to purchase the subject property.
- The payoff of a seasoned private mortgage lien, for which cancelled checks and/or bank statements supporting an acceptable payment history are provided by the borrower.

Limited Cash-out Refinance: Unacceptable Attributes

- New subordinate financing is ineligible.
- Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding \$2000 cumulatively in the previous twelve months.
- Loans which include the payoff of delinquent real estate taxes, which are past due 60 calendar days or more (see Fannie Mae guidance related to this topic).
- Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate and term refinance, will result in the loan being deemed a cash-out refinance.
- Properties currently listed for sale.
- The payoff of a private mortgage lien for which cancelled checks and/or bank statements cannot be provided to support an acceptable payment history is ineligible for a rate and term refinance.
- The payoff of an unseasoned private mortgage is ineligible for a rate and term refinance

PROPERTIES LOCATED IN TEXAS

A copy of the current mortgage or mortgage note is required to determine that the existing loan is not subject to Texas Section 50(a)(6)—also known as Home Equity Deed of Trust, Home Equity Installment Contract, or Residential Home Loan Deed of Trust requirements.

If the first mortgage loan is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and the new mortgage loan is considered to be a rate and term refinance. The second lien must be subordinate to the lien of the new Mortgage Loan. The borrower may not receive any cash back from the transaction.

Refinance of an existing Texas Section 50(a)(6) loan is ineligible.

PACE / HERO LOANS

- Paying off a PACE loan seasoned 12 months or more may be treated as a rate & term refinance.
- Paying off a PACE loan seasoned less than 12 months is considered a cash-out refinance.
- If the PACE loan is structured as subordinate financing, it may remain in the subordinate position provided all LTV/HCLTV product requirements are met. (The terms of the program may not provide for lien priority over the first mortgage lien in order to be eligible. Must monitor State and local law to determine which jurisdictions offer PACE loans that may provide for lien priority).
- For PACE loans originated prior to July 6, 2010 the loan must be paid off.

HOMES RECENTLY LISTED FOR SALE

- If the subject was acquired in the previous 9 months, the file must contain the HUD Settlement Statement or Closing Disclosure from the previous transaction, and the LTV calculation would be based on the lesser of the purchase price or the current appraised value.
- If the subject was acquired in the previous 6 months as a result of an inheritance or the dissolution of a marriage or domestic partnership, then the file must be documented accordingly.

FIRST-TIME HOMEBUYERS (FTHB)

Any borrower who has not owned a residential property at any time during the prior three years (prior ownership within the previous three years is measured from the HUD or Closing Disclosure closing date [when the property was sold] to the date of the subject mortgage loan application).

First-time home buyer requirements do not apply to loans with more than one borrower, when at least one borrower has owned a residential property at any time during the prior three years. The following requirements apply to first-time homebuyer transactions:

- Loan amount up to \$1,500,000
- Maximum LTV based on loan amount
- Primary residence only.
- 38% maximum DTI.
- 740 minimum FICO.
- 12 months' reserves.
- 24 months' rental history with no late payments.
- One-unit properties only.

The following documentation may be necessary to provide evidence of previous/current residential property ownership:

- Evidence borrower(s) was responsible for the PITIA (if additional non-borrowing parties are or were on title to the property with the borrower).
- Evidence borrower(s) was the purchaser on the original HUD or Closing Disclosure for the purchase of the previous or current residential property, or;
- Evidence borrower has been on title to the property for the previous 12 months.

DELAYED FINANCING

Loans with delayed financing are ineligible

SUBORDINATE FINANCING

NEW SUBORDINATE FINANCING

Transactions with new subordinate financing are ineligible.

EXISTING SUBORDINATE FINANCING

Existing subordinate financing may be eligible, provided such financing is re-subordinated to the first lien of the Mortgage Loan. The CLTV may never exceed the maximum LTV permitted with respect to the transaction type.

- HUD-1 settlement statement(s) or Closing Disclosure(s) are required with respect to any transaction involving the property within the past 6 months.
- The terms of any existing subordinate financing must be fully disclosed to LHFS, documented with a copy of the note, and compliant with the requirements as set forth by LHFS.
- Regardless of the type of subordinate lien, the DTI must include all additional lien(s) monthly payment(s), and the LTV/HCLTV must include all subordinate financing loan limit(s).

RE-SUBORDINATION REQUIREMENTS FOR REFINANCE TRANSACTIONS

- If subordinate financing remains in place in connection with a first mortgage loan refinance transaction, LHFS requires execution and recordation of a subordination agreement.
- If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage loan being refinanced, LHFS does not require re-subordination. Broker is responsible for determining that the subordinate lien satisfies any specified criteria of applicable law.
- Insurance against a former junior lien not being properly subordinated to the refinance Mortgage Loan does not release LHFS from its obligation to comply with these re-subordination requirements, or from the requirement that the subject property be free and clear of all encumbrances and liens having priority over the lien of the Mortgage Loan.
- When an existing HELOC credit line limit is reduced, it will be necessary to evidence the newly recorded second lien amount on title and provide a copy of the modified Note.

INELIGIBLE SUBORDINATE FINANCING

- Employer assistance secured by a subordinate lien against the subject property.
- Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
- Disaster Relief Grants or loans that require a subordinate lien against the subject property.
- Any subordinate financing ineligible.
- Subordination of an existing PACE loan obtained prior to 7/6/10. The loan must be paid off when there is sufficient equity.
- The terms of the subordinate financing may not provide for lien priority over first mortgage liens.
- Brokers/LHFS must monitor State and local law to determine which jurisdictions offer PACE loans that may provide for lien priority.

MULTIPLE PROPERTIES FINANCED

- The borrower may own a maximum of four financed, one- to four-unit residential real properties, including the subject property (regardless of occupancy type).
 - Borrowers on title to a property and not included on the property Mortgage Note would not be required to include said property in the maximum property count (file must contain evidence the borrower is not on the Mortgage Note).
 - Co-signed Mortgage Notes must be included in the maximum property count.
- Borrowers must have six months PITIA in reserves for each additional property owned by the borrower (in addition to the reserves required for the subject property, as set out in the [Assets](#) section). If additional properties are owned free and clear, the six months of insurance, taxes, and association dues (when applicable) must be documented.
- Properties in the name of a borrower's business, commercial or residential, typically do not need to be included in this count, when the associated mortgage debt is not the borrower's personal obligation and thus not reported on the borrower's personal credit report.
- Financed commercial properties that are the borrower's personal obligation must be included in the count of maximum financed properties owned by a borrower. When a commercial property is reported on the personal 1040 tax returns, the property is deemed a personal property unless sufficient evidence is provided to support otherwise.
- Vacant land is not typically considered in the count of maximum financed properties.

INELIGIBLE TRANSACTION TYPES

Mortgage Loans made for the following purposes are **not eligible**:

- Loans to Principal Owners of Business Lending Client—Mortgage Loans made to principal owners or majority shareholders (25% or greater ownership) of a Broker Partner with LHFS.
- Construction-to-Permanent Mortgage.
- Refinance of the Permanent Financing from a Construction Loan with less than 12 months seasoning.
- Installment Land Contracts.
- Principal curtailment that exceed the lessor of \$10,000 or 1% of the loan amount.
- A Refinance of a Restructured Loan or Short Refinance Loan.
- Renovation/Rehabilitation Mortgages.
- Texas Section 50(a)(6) Loans, Texas Section 50(a)(3), and Texas Section 50(f)(2) Loans.
- Property Flips.
- A Refinance transaction on a property currently listed for sale.
- Cash-out transactions.
- New York purchase transactions documented by CEMA.
- Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction.
- EEM Loans (Energy Efficient Mortgages).
- HUD-184 Mortgages.
- Loans exceeding 80% LTV/HCLTV.
- Transactions consisting of an Assignment of Sales Contract.
- Title held as Tenants in Common with unequal ownership.

MAXIMUM LOAN TO VALUE

All jumbo mortgage loans with an HCLTV of up to 80% are eligible.

DETERMINING AMOUNT TO BE FINANCED

For any Mortgage Loan, the amount eligible for financing is determined by factors specific to that Mortgage Loan, including, but not limited to, the type of financing, LTV, loan amount, property type, income, credit, and asset determination.

DETERMINING VALUE

PURCHASE TRANSACTIONS

The LTV will be based on the lesser of the purchase price or appraised value.

REFINANCE TRANSACTIONS

When the subject property has been purchased in the past 12 months, the lesser of the current appraised value or the purchase price will be used to calculate the LTV. Ownership date is measured from the date of acquisition (or HUD or Closing Disclosure closing date) to the application date of the subject mortgage.

CALCULATING LOAN-TO VALUE

Loan-to-value should be determined by dividing the sum of the first mortgage by the value as defined in the “[Determining Value](#)” section.

CLTV / HCLTV

CLTV is the combination of the outstanding first lien and the outstanding balance of all additional liens or line amounts from home equity lines of credit.

HCLTV is the combination of the outstanding first lien with all outstanding additional liens or available credit limits from a home equity line of credit.

The HCLTV is calculated by dividing the sum of the first mortgage amount and any additional lien balances (whether disbursed or not) by the value, as defined in “[Calculating Loan to Value](#)” section.

TREATMENT OF AUCTIONEER FEES FOR LTV AND HCLTV PURPOSES

In most cases (but not all), it is common and customary for the buyer to pay the auctioneer fee (buyer's premium). The table below outlines the most common to least common events and the required treatment of auctioneer fees (buyer's premium) in relation to total sales price, LTV, and interested party contributions:

Customary Payer of Auctioneer Fee (Buyer's Premium)	Actual Payer	Add Premium to Auction Price	Include Premium in LTV	Considered an IPC/Sales Concession
Buyer	Buyer	Yes*	Yes	NA
Seller	Buyer	Yes*	Yes	NA
Buyer	Seller**	No	No	Yes
Seller	Seller**	No	No	No

* The value in the “Purchase Price” of the Details of Transaction of the application should be the total of the winning bid plus the auctioneer fee. If the borrower has pre-paid the auctioneer fee, it should be documented in the same manner as an earnest money deposit and the fee should be identified in the “other credits” section of the Details of Transaction.

** Highly unlikely the seller will ever pay buyer's premium at auction.

INTERESTED PARTY CONTRIBUTIONS

Interested party contributions are used to cover costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may be in the form of financing concessions or sales concessions.

Interested parties include, but are not limited to builders, realtors, brokers, and sellers.

LHFS does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

IPC LIMITS BASED ON OCCUPANCY

- Primary Residence or Second Home: Cannot be greater than 3% of the lesser of the mortgaged property's sales price or its appraised value.
- Investment Properties: Cannot be greater than 2% of the lesser of the mortgaged property's sales price or its appraised value.

FINANCING CONCESSIONS

Common and customary closing costs and pre-pays typical for the subject property location are acceptable. Financing concessions paid on the borrowers' behalf which include, but are not limited to, financial contributions from an interested party, payments related to pre-pays, financing terms, or other payments related to acquiring the property are subject to Agency limits, unless otherwise specified in these underwriting guidelines.

Common and customary financing concessions may include, but are not limited to:

- Origination fees, discount points, commitment fees.
- Appraisal costs.
- Transfer taxes, tax stamps, tax service fees.
- Title insurance premiums, attorneys' fees.
- Survey fees.
- Pre-paid interest (30 days maximum).
- Real estate taxes covering any period after settlement, unless no escrow account established.
- Property insurance premiums (14 months).
- HOA assessments (limited to 12 months).

SALES CONCESSIONS

Non-realty items with real value, provided to the borrower within or outside a sales contract, are considered sales concessions and must be deducted from the sales price of the subject property in accordance with Agency guidelines.

AUCTIONEER FEES

See section for [Treatment of Auctioneer Fees](#) as interested party contributions.

INELIGIBLE INTERESTED PARTY CONTRIBUTIONS

- Down-Payment Assistance Programs.
- Payment Abatements.

BUILDERS AFFILIATED WITH MORTGAGE LENDER

If an affiliation exists due to common ownership or control by Broker over an interested party, or when there is common ownership by a third party over Broker and interested party; then all sales and financing concessions from these parties are considered in the total allowable interested party contributions.

REPAIRS NOTED WITHIN PURCHASE CONTRACT

Follow applicable Agency guidelines related to those property repairs or improvements included in a purchase contract, as these amounts may impact subject sales price.

MONTHLY HOUSING EXPENSE

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. Monthly housing expenses include the following:

- Principal and Interest Payments on the First Mortgage Loan.
- Financing Payments on Subordinate Lien Loans Secured by the Subject Property.
- Hazard Insurance Premiums.
- Flood Insurance Premiums.
- Real Estate Taxes (If new construction property; borrower(s) must be qualified with taxes based on full completion).
- Homeowners' Association Dues.
- Leasehold Payments.
- Ground Rent.
- Special Assessments

CEMA LOANS

Brokers should follow the applicable Agency guidelines for New York refinance and purchase transactions documented by a consolidation, extension, and modification agreement (CEMA) which consolidate into one document the terms of prior notes and mortgages related to the security of a property. New York purchase transactions documented by a consolidation, extension and modification agreement (CEMA) are ineligible.

NON-ARM'S LENGTH TRANSACTIONS

Follow applicable Agency requirements for non-arm's length transactions.

ESCROWS/IMPOUNDS

Escrow or impounds are defined as all funds collected by a mortgagee on a mortgage loan for the servicer to cover expenses of the borrower that are required to be paid under the security instrument. The funds may include, but are not limited to, taxes, homeowners association charges, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Mortgage Loan, as well as hazard, flood and premiums.

An escrow of funds for the payment of property taxes, hazard insurance, flood insurance, and HO6 is required.

- A renewal policy is required for hazard and flood insurance policies expiring within 50 calendar days from the loan closing.
- Two months of escrow is required on all loans unless escrows have been waived or if otherwise mandated by federal or state law.
- Escrow of the HO6 policy is not required if coverage is for personal contents only.
- On a purchase transaction, if property taxes are due within 30 calendar days of the loan closing, the Settlement Statement or Closing Disclosure(s) should reflect the amount sufficient for the Seller to pay the taxes.
- On a refinance transaction, property taxes which are delinquent 60 days or more may not be paid with funds from the transaction and must be paid-current at time of consummation.
- Escrow of premiums and fees for flood insurance is required for all mortgage loans as mandated by the Flood Disaster Protection Act of 1973, as amended.

BORROWERS

The loan originator must conduct all origination procedures without regard to the borrower's race, color, religion, national origin, age, sex, marital status, handicap, or status in any other class of persons protected under any applicable federal, state or local law.

Any person signing an application for a loan is a borrower. All borrowers must sign the Mortgage Note.

A borrower must be an individual. Non-individual legal entities, including but not limited to corporations, general partnerships, limited partnerships, real estate syndications, blind trusts and investment trusts, are not eligible.

Borrowers must meet credit and program eligibility requirements of LHFS and the applicable Agency, as set forth in these guidelines.

Inter vivos and Land Trust requirements must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.

Loans with more than four borrowers are not eligible.

SOCIAL SECURITY NUMBER VALIDATIONS

Evidence of a valid Social Security number is required for all borrowers. Any Social Security number discrepancies that are identified must be resolved.

Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are ineligible.

NON-OCCUPANT CO-BORROWER, GUARANTOR, AND CO-SIGNER

Loans with non-occupant co-borrowers, guarantors, and co-signers are ineligible.

CITIZENSHIP REQUIREMENTS

U.S. CITIZENS AND NATIONALS

U.S. citizens and nationals (citizens of a U.S. possession or territory) are eligible borrowers.

NON-U.S. CITIZENS

Permanent Resident

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. A permanent resident is an eligible borrower, provided that legal residency is documented according to the applicable Agency requirements. Please see www.uscis.gov for more information.

Non-Permanent Residents

Non-Permanent residents are eligible borrowers provided the legal residency is document and all the following criteria are met:

- H1B and L1 Visas (only) are eligible (document must be provided).
- Loans must meet current guideline requirements.
- All loans must meet QM compliance.
- Maximum 75% LTV/HCLTV
- Maximum 38% DTI.
- Primary residence only.
- Social Security Number required.
- Two full uninterrupted years of employment in the United States required for all borrowers whose income is being considered in qualifying.

Other Residency Statuses

Individuals classified under Diplomatic Immunity, Foreign Nationals with no residency status, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole are considered ineligible.

LOANS TO TRUST

INTER VIVOS REVOCABLE TRUST

- An inter vivos revocable trust (a “living trust”) is a trust created by an individual during his/her lifetime and become effective during the creator’s lifetime. An inter vivos revocable trust can be changed or cancelled by its creator at any time and for any reason during the creator’s lifetime.
- The inter vivos revocable trust must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.
- The subject property must be a 1–2-unit primary residence.
- For loans in a trust certification state, a fully completed and executed Certification of Trust and an attorney’s opinion letter or a lender’s legal attestation (signed by an officer of the company or Legal Counsel) will be required to evidence the trust meets Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable state requirements must be provided.
- For loans that are not in a trust certification state, a complete copy of the trust along with an attorney’s opinion letter or a lender’s legal attestation (signed by an officer of the company or Legal Counsel) will be required to evidence the trust meets Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable state requirements must be provided.
- For loans closing in a trust all loan documents, including application and credit report must reflect the full legal Borrower name as listed in Trust as Trustee.

LAND TRUST (ILLINOIS LAND TRUST)

Illinois Land Trust loans are not eligible.

COMMUNITY LAND TRUSTS

A mortgage loan made to a community land trusts are not eligible.

BLIND TRUSTS

Blind trusts are ineligible.

OWNERSHIP INTEREST

Title to the subject property must be in the borrower's name at the time of application for a refinance transaction; and at the time of or simultaneously with the closing for all transactions.

- Continuity of obligation guidelines provided in this section must be followed.
- The borrower must hold title to the property as a fee simple estate.
- All individuals signing the application are borrowers.
- All borrowers must sign the Mortgage Note.
- All individuals on the HUD or Closing Disclosure are not required to sign the Mortgage Note (must meet all applicable state laws).

In addition to the applicable requirements above, title to the subject property when held in an LLC or Inter Vivos Revocable Trust must meet the requirements below:

- Title held by a LLC, that is majority owned by the borrower, must meet continuity of obligation requirements.
- At the time of application an Inter Vivos Revocable Trust may hold the title when the borrower is the primary beneficiary and Trustor (or Settler) of the trust.

For all transactions, title must be in the borrower's name at time of or simultaneously with the closing.

NON-BORROWING SPOUSE

The non-borrowing/purchasing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

POWER OF ATTORNEY

Not eligible.

CONTINUITY OF OBLIGATION

- At least one borrower on the new loan must also be obligated on the current lien; or

ELITE MORTGAGE PRODUCT GUIDELINES

- Borrower has been on title to the subject property for the previous 12 months; occupied the subject property for the previous 12 months; and can demonstrate having made the payments in the previous 12 months.

POSSIBLE EXCEPTIONS TO CONTINUITY OF OBLIGATION

- The borrower on a refinance transaction was added to title a minimum of 24 months prior to the subject transaction.
- The borrower acquired the subject property through an inheritance or was legally awarded the property through a court ordered agreement. This scenario requires no minimum waiting period for continuity of obligation.
- The borrower has been on title for at least 12 months but is not obligated on the existing mortgage which is being refinanced, and the borrower meets at least one of the following requirements:
 - Can document he or she has been residing at the property for a minimum of 12 months.
 - Can document he or she has paid the mortgage for a minimum of 12 months.
 - Can demonstrate a relationship with the current obligor (for example, a relative or domestic partner).

CREDIT & LIABILITIES

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

A borrower's credit profile may be established by submitting the loan through Desktop Underwriter or Loan Product Advisor but may not be relied on solely for the credit review.

DOCUMENTATION AGE

The following documentation age limitations apply:

- Desktop Underwriter: The credit report must be dated no more than 90 calendar days prior to the Note date.
- Loan Product Advisor: The credit report must be dated no more than 90 calendar days prior to the Note date.

DOCUMENTATION STANDARDS

- All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference.
- The following data is required for each trade line reported on the credit report:
 - Current balance.
 - Current status.
 - Current rating.
 - Monthly payment amount.
 - Payment history for the most recent 12 months.
- Written verifications of mortgage, rent, or credit must be sent by the LHFS directly to the creditor. The return address on the verification must be the LHFS's address. The hand carrying of verifications by the borrower or interested party is strictly prohibited.

CREDIT REPORT REQUIREMENTS

- Broker should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Credit Report Requirements, unless otherwise specified in these Underwriting Guidelines.
- The lowest mid-score(s) will be the qualifying credit score. Should a borrower have two credit scores, the lower of the two will be considered the borrower's qualifying credit score.
- All borrowers on a loan are required to have a valid Social Security number.
- Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud. LHFS requires the complete Social Security number to be displayed on the credit report.
- Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are ineligible.

- Late payments unrelated to the mortgage, which occurred in the previous 12 months require a letter of explanation from the borrower.
- Self-reported tradelines such as utilities are not acceptable tradelines and should not be considered part of the borrower's credit score.

CREDIT REPORT RED FLAGS

Credit repositories have developed messages to identify potential fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the borrower's Social Security number, address, telephone number, etc.

All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.

NON-TRADITIONAL CREDIT

Any loan for which one or more borrowers do not have a valid credit score, or borrowers who do not have at least two valid credit scores, are considered "non-traditional" credit loans. All non-traditional credit loans are ineligible.

FOREIGN CREDIT REFERENCES

If a borrower does not have sufficient trade line references in the United States, credit references from foreign countries may not be used, and the loan will be ineligible.

MINIMUM CREDIT SCORE

Refer to the product matrix to determine the minimum credit score for the Elite loan program, loan amount, and/or property type.

AUTHORIZED USER ACCOUNTS

- The authorized user account cannot be considered part of the borrower's credit history when the borrower has several authorized user accounts, and only a few accounts of his/her own (see second bullet). Conversely, if the borrower has several trade lines in good standing and only a minor number of authorized user accounts, LHFS may consider the information reported on the credit report as an accurate reflection of the borrower's credit history.
- If a borrower provides 12 months canceled checks as proof of payment on an authorized user account, the account may be considered part of the borrower's credit history. The required monthly payment must be included in the DTI calculation.
- Authorized user accounts are not required to be included in the borrower's DTI ratios, unless the debt was listed on the initial loan application, or if the borrower is responsible for making the payment.

MINIMUM TRADE LINE REQUIREMENT

All loans require a credit score based on the following minimum credit history and trade line requirements:

- The score for each borrower must be generated from a minimum of three traditional trade lines evaluated for at least 12 months. Must reflect a satisfactory payment history.
- Trade lines for closed accounts may be used to meet this requirement provided the payment history is acceptable.
- Authorized user accounts may not be used to satisfy this requirement unless the borrower can provide written documentation (such as canceled checks or payment receipts) proving that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.
- A trade line for which a payment has never been made may not be used to satisfy this requirement (for example, a deferred student loan).
- Borrowers who do not meet the above requirements would be viewed as having a “thin file” credit history and would be ineligible.

MINIMUM CREDIT SCORE REQUIREMENT

LHFS requires a minimum of two credit scores per borrower. Borrowers who do not meet the minimum credit score and minimum trade line requirements are considered “non-traditional” or “thin file” credit borrowers and are ineligible.

SIGNIFICANT ADVERSE OR DEROGATORY CREDIT

To conclude that the borrower’s credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur, and the borrower’s credit profile is acceptable must be explained.

The following guidelines apply to individuals who have a significant adverse or derogatory credit incident such as a bankruptcy or foreclosure reporting in their credit history, or if it’s determined that a borrower was personally obligated on a mortgage debt which was not reported.

DOCUMENTATION REQUIREMENTS

- Evidence that the borrower has re-established an acceptable credit profile. The borrower will be considered as having acceptable re-established credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24 months period.
- Evidence on the credit report and other credit documentation of the length of time since completion of the significant derogatory event to the date of the loan closing, and of completion of the recovery time period requirements as identified below.

REESTABLISHED CREDIT REQUIREMENTS

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale, or other significant derogatory credit, the borrower's credit will be considered reestablished if all of the following are met:

- The waiting period and related additional requirements are met.
- The minimum credit score requirements based on the loan parameters and established eligibility requirements are met.
- The borrower has traditional credit. Non-traditional credit is not acceptable. The borrower will be considered as having acceptable reestablished credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24 months period.
- AUS approval based on credit profile.

RECOVERY TIME PERIODS

Recovery time requirements are based on the discharge, dismissal, or completion date to the date of the loan closing.

Bankruptcy Filing

For all bankruptcies discharged or dismissed, LHFS will align with applicable agency waiting period requirements with the exception of the following:

- A seven year waiting period from the date of discharge or dismissal to the date of closing to be eligible.
- Mortgages discharged in bankruptcy require seven-year waiting period from the date of discharge to the date of closing.
- Borrowers with multiple bankruptcy filings are ineligible.

Foreclosures/Deeds-in-Lieu of Foreclosure/Pre-Foreclosure/Short Sales/Settled Debts

Any of the above credit events require seven years' seasoning after the completion date, and satisfactory re-established credit must be verified.

- Regardless of the borrower's credit score and/or payment history, the seven-year seasoning requirement applies for any reference to one of the above-mentioned events, whether via the credit report or other loan file documentation.
- Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.

Deed for Lease

Borrowers may have the opportunity to lease a property for which they have given a deed-in-lieu of foreclosure. When the borrower's loan file references a deed for lease, the underwriter must determine the completion date of the deed -in- lieu of foreclosure to ensure all requirements are met.

Restructured Mortgage Loan

A borrower who has had a loan restructured, in which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following is ineligible within seven years of the credit event:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- Short Refinance Mortgage Loan.
- A new transaction that includes any of the above is ineligible.

CONSUMER CREDIT COUNSELING

Borrowers who have received credit counseling as a result of derogatory credit within the past four years are ineligible.

PAST-DUE ACCOUNTS

Past-due open accounts must be brought current prior to the loan closing and will be factored into the overall credit profile.

COLLECTIONS/CHARGE-OFFS/LIENS

- Liens impacting title must be satisfied prior to closing.
- All collections and charge-offs must be paid if an individual collection or charge-off is equal to or greater than \$1000 or if the cumulative total of collections and charge-offs per loan is equal to or greater than \$2500.
- All settled debts reported in the previous 24 months must be fully explained and taken into consideration in the full credit review.

IRS INSTALLMENT PLANS

Borrowers making monthly installment payments to the Internal Revenue Service (IRS) may be eligible provided the borrower is being qualified with the installment payment, and the following documentation is included in the loan file:

- Document a satisfactory payment history (account must be in good standing).
- Evidence of the approved installment agreement with the IRS.
- If the installment debt is scheduled to be repaid in ten months or less, the debt may be excluded from the borrower’s DTI, provided the obligation does not impact the borrower’s ability to pay the mortgage after closing.
- IRS debts which have become liens or are past-due, are ineligible for qualifying as an installment plan and must be paid prior to consummation.

HOUSING AND RENTAL PAYMENT HISTORY

- An acceptable VOR or cancelled checks with supporting bank statements for the most recent 12 or 24 months (based on program requirements) must be provided.
- For homes owned free and clear, provide evidence taxes, property insurance, and association dues are paid as agreed.
- Borrowers renting from a private landlord must provide cancelled checks for rental verification.
- For qualifying purposes, a first-time homebuyer's rental documentation requires at least one borrower has a 24 month rental history.
- Peer to peer payment methods can be considered if properly documented with monthly statements or detailed pay histories.
- A satisfactory payment history for private financed mortgages must be documented with the most recent 12 months cancelled checks and/or bank statements.
- Borrowers living rent-free must meet the following requirements:
 - The rent-free period must be the months directly preceding or during the loan purchase application process.
 - The rent-free period is consecutive and does not exceed 12 months,
 - The lender obtains an acceptable 12- or 24-months rental history (based on specific program requirements) for the time-frame immediately prior to the rent-free period, and;
 - The file contains an acceptable letter of explanation from the borrower.

MORTGAGE & PAYMENT HISTORIES

- No mortgage loans or rental agreements for which the borrower is obligated may be in forbearance, including co-signed mortgage loans and rental agreements
- Loans to Borrowers who have exited forbearance on a mortgage or rental agreement which is current*, must document the following:
 - Borrower has exited forbearance with six months of on time, full payments since the time forbearance ended.
 - Satisfactory explanation of recovery from hardship with documentation to show hardship no longer exists.
 - The mortgage/rent is not in a repayment plan or loss mitigation program and the mortgage/rent is current*.

*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, **according to the terms of the original note**, by no later than the last business day of that month. No part of the principal may have been forgiven, added to loan or subordinated to current first.

DEROGATORY HOUSING PAYMENT HISTORY

- Borrowers with late mortgage or rent payments in the previous 12 months are ineligible. Additionally, late mortgage or rent payments in the previous 24 months are deemed significant derogatory credit and should be considered in the total credit analysis.
- First-time home buyers with late rental payments in the previous 24 months are ineligible.

DISPUTED ACCOUNTS

LHFS must follow the automated underwriting requirements and the applicable Agency guidelines to determine how to treat the disputed account. The disputed trade line must be considered in the overall AUS risk assessment.

DEBTS PAID BY A BUSINESS

In order for a debt to be excluded from the borrower's total qualifying ratio calculation, evidence must be provided to show the business has paid the debt for the previous twelve-month period. Additional requirements in removing a business paid debt include but are not limited to the following:

- No history of delinquency on the account in question.
- Evidence the obligation was paid out of company or business funds.
- Tax returns or cash flow analysis to reflect the business making said payment.
- Applies to all business types, with the exception of Schedule C Sole Proprietorship.

PAYING OFF DEBT

Both installment and revolving debts may be paid off in order to remove the payment from the total qualifying ratios. The following documentation must be provided:

- Evidence the account has been paid in full.
- Source of funds to pay off the debt must be documented.
- Installment debts with ten payments or fewer remaining do not need to be considered in the borrower's qualifying ratios provided the obligation does not impact the borrower's ability to pay the mortgage after closing, or the borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt.
- Lease payments may not be paid down or paid off for qualifying purposes.
- Revolving debt must be paid off in full in order for the monthly obligation to be removed from the qualifying DTI. Paid in full revolving accounts may remain open with a zero balance at consummation.
- Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate and term refinance, will result in the loan being deemed a cash-out refinance.

STUDENT LOANS

All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans:

- A payment that when made will fully amortize the loan and is documented by one of the following options:
- the credit report, or
- the student loan creditor documentation, or
- A payment based on 1% of the outstanding balance of the loan.
- A calculated payment that will fully amortize the loan based on the documented repayment terms provided in the file.

QUALIFYING HOUSING PAYMENT

Broker should follow the manual underwriting requirements and the applicable Agency guidelines as it relates to the Qualifying Housing Payment unless otherwise specifically documented to the contrary in [Ability to Repay Requirements](#) of these Elite Jumbo Underwriting Guidelines, as aligned with Regulation Z, Appendix Q. Maximum DTI is 43 percent.

MONTHLY DEBT OBLIGATIONS

Broker should follow the manual underwriting requirements and the applicable Agency guidelines as it relates to Monthly Debt Obligations, unless otherwise specified in these Elite Jumbo Underwriting Guidelines.

QUALIFYING WITH AN INTEREST ONLY MORTGAGE

Borrowers who currently have any of the following, and will be retaining the property associated with this mortgage, must be qualified with the fully amortizing payment and not the interest only optional payment:

- Interest only first mortgage;
- Option ARM Mortgage (negatively amortizing); or

TOTAL QUALIFYING DEBT-TO-INCOME RATIOS

- The maximum debt-to-income ratio is 43%
- The maximum debt-to-income ratio for first-time homebuyers is 38%
- The maximum debt-to-income ratio for loans involving gift funds is 40% (may be lower based on program specifications).

ALIMONY AND CHILD SUPPORT

Borrowers making monthly child support or alimony payments must be qualified with the monthly payment:

- Arrearages must be satisfied prior to closing.
- Alimony and/or child support may not be considered a business debt when qualifying a self-employed borrower.
- If the alimony and/or child support debt is scheduled to be repaid in less than ten months, the debt may be excluded from the borrower's DTI, provided one following scenarios apply:
 - The obligation does not impact the borrower's ability to pay the mortgage (43%) after closing, or;
 - The borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt over-and-above the assets required for reserves based on the these underwriting guidelines.
 - Evidence the account has been paid in full with an eligible source of funds.

PAYMENT SHOCK

LHFS does not have specific requirements related to payment shock; however, payment shock is taken into consideration in the overall risk of the loan.

30 DAY OPEN ACCOUNTS

A payment equal to 5% of the current outstanding balance must be included in the qualifying ratios for any 30-day open account reflecting a zero-payment amount or a payment equal to the current outstanding balance on the credit report.

If the borrower paid off the account balance prior to closing, the Broker may provide proof the account balance has been paid in full, in addition to the source of funds used to pay the account balance.

SEPARATION AGREEMENTS

LHFS will accept a legal separation agreement in lieu of a final divorce decree, provided the agreement includes proper separation of assets and liabilities, and is signed by all parties.

BORROWERS LIVING RENT-FREE

Borrowers living rent-free in the most recent twelve months are eligible provided there is an acceptable previous rental or mortgage history documented in the file. The borrowers may not be first-time homebuyers and the file must contain an acceptable letter of explanation.

QUALIFYING PAYMENT (HELOC)

The payment used for qualifying a borrower with an existing home equity line of credit (HELOC) must be based on the current balance owed on the HELOC documented by either the credit report or the current statement from the creditor dated after the date of the credit report.

When funds drawn from an existing HELOC are being considered as assets for the transaction, the qualifying payment must be based on the new outstanding home equity line balance.

The fully amortizing payment must be used for qualifying when an interest only HELOC or second lien will be converting to a fully amortized payment within 12 months of the note date.

CREDIT FREEZE

Frozen credit is only acceptable when one credit score is impacted. Each borrower must have a minimum of two current active credit scores in order to qualify.

RE-SCORED CREDIT REPORTS

New credit reports ordered specifically for the purpose of increasing a borrower's credit scores are ineligible. A new credit report with updated credit scores may be provided if the initial credit report contained erroneous information and has since been corrected, provided the new credit report meets the Fair Credit Reporting Act with regard to the nature of the inquiry. All credit reports obtained in connection with the subject loan transaction must be provided in the closed loan package, along with a letter of explanation and any supporting documentation regarding the reason for the new report.

RECURRING OBLIGATIONS-REO SPLIT OWNERSHIP

The monthly housing obligation (PITIA) may not be reduced based on the percentage of ownership when ownership is split with non-borrowing individuals. Rental income will be based on the borrower's Schedule E income.

EMPLOYMENT/INCOME ANALYSIS

This section outlines the Employment and Income Analysis and Documentation requirements that apply to the Elite Jumbo Program.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

EMPLOYMENT & INCOME DOCUMENTATION STANDARDS

Please refer to the applicable Agency guidelines for specific standards which are not addressed below or in [Ability to Repay Requirements](#):

- **Paystubs**—a minimum of a full 30 days of paystubs dated no earlier than 30 days prior to the initial loan application date must be included in the file for non-self-employed borrowers. See agency standards for acceptable paystub documentation.
- **W2s**—two years of W2 statements must be provided for all non-Schedule C self-employed borrowers (if applicable), as well as all salaried employees, unless a written Verification of Employment is being provided.
- **W2 transcripts**—W2 transcripts may be used in lieu of W2s when necessary. A written explanation should be included in the closed loan package as to why the borrower's W2 statement was unavailable.
- **K1's**—All K-1's must be obtained regardless of the percentage of ownership.
- **Verbal Verification of Employment**—verbal verification of employment must be included in all Mortgage Loan files, dated within ten days of the borrower's closing date.
- **Employment Gap**—length must be documented prior to consummation to verify the loan meets Appendix Q requirements.
- **Non-Arms-Length Verbal Verifications of Employment** are ineligible.
- **Third Party Verification of Employment**—if the verbal verification of employment is provided by a third party and dated within ten days, however the "information current as-of" date on the verification is older than 35 days, updated verification documentation must be provided. Fannie Mae DU Validation Service (DVS) documentation is acceptable, in conjunction with any additional documentation required in these guides.
- **Written Verification of Employment**—written verification of employment forms are acceptable provided they are accompanied by a minimum of one paystub dated within 30 days of the application date. The paystub must include year to date earnings for the borrower. Written VOEs are not acceptable for a borrower employed by family or self-employed. Fannie Mae DU Validation Service (DVS) documentation is acceptable, in conjunction with any additional documentation required in these guides.

Tax Transcripts and Tax Returns:

- **Personal Tax Returns (1040)**— most recent two years 1040 returns signed and dated prior to date of consummation are required (see Primary Employment-Base Earnings for exceptions to this rule).
- **Tax Transcripts (personal)**— most recent two years 1040 transcripts for each borrower, regardless of income type, are required on all Jumbo Mortgage loans.
- **Transactions Originated and/or Closed from January through mid-April** of any given year, we will consider using the most current year's tax returns for a self-employed borrower for which tax transcripts are not yet available. We would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS and sourced in the file. Any significant increase or decrease in income from the prior year's returns must be satisfactorily explained.
- **Transactions Closed on or after October 15** of any given year (where the borrower had filed an extension for their previous year's return), we would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS, and sourced in the file. Any significant increase or decrease in income from the prior year's return must be satisfactorily explained.

Self-Employment:

- **Business Tax Returns**—two years required, to include all schedules and K-1s as applicable.
- **Tax Transcripts (business)**—optional.
- **Year-to-Date Profit and Loss Statement**—required for all self-employed borrowers regardless of whether a borrower's business income is being considered for qualifying.
- **Year-to-Date Balance Sheet**—required for all self-employed borrowers regardless of whether a borrower's business income is being considered for qualifying.
- **Signed Tax Returns, P&L and Balance Sheets** are required for all borrowers who have 25% or more ownership of a business, regardless of whether the income is being considered in qualifying.
- **Third-party verification of self-employment income** must be completed within ten business days of consummation.

Additional documentation may be required at the discretion of the underwriter, or as a result of inconsistencies or legibility concerns.

PPP Loans:

- **PPP Cares Act Loans**--for self- employed income considerations (when the consumer is not a Sole Proprietor and the debt is not in the name of the consumer, nor has the consumer personally guaranteed repayment of the debt) the debt would be a liability of the business and subject to the business financial strength, it may or may not impact the use of income generated from that business in consumer qualifying considerations.
- **PPP Cares Act Loans (To a Sole Proprietor)** --could be in the individual's name. PPP loans to sole proprietors would be considered a liability with a 0.00 monthly payment unless there was evidence in the file that the loan was not forgiven and subject to a monthly payment from the consumer. (Unlike a typical SBA loan, the PPP loans are not personally guaranteed. The application indicates the Borrower's attestation that they are taking out the loan to use for purposes that would result in forgiveness.). There should be no additional liability considerations based on the business outstanding PPP loan.

General Requirements:

- **Validation Service (DVS or AIM)** are acceptable, in conjunction with any additional documentation required in these Guidelines.
- **Full income documentation** must be obtained prior to consummation.
- **Taxpayer Consent Disclosures** for each borrower must be provided. The disclosure must provide express purpose and permission and should be signed at the time of application. Borrowers with multiple businesses must address each business on the Consent Disclosure. The revised URLA (Form 1003-Section 6) signed by all borrowers and included in the closed loan package will also satisfy this requirement.
- **4506-T**—required for all borrowers on each Jumbo Mortgage Loan.
- **Income Analysis**—Must provide written documentation as to the borrower's ability to repay the mortgage debt.
- **Desktop Underwriter (Fannie Mae)**—Within 90 calendar days of the Note date.
- **Loan Product Advisor (Freddie Mac)**—Within 90 calendar days of the Note date.

STABILITY AND CONTINUANCE OF EMPLOYMENT AND INCOME

Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.

Brokers must verify the borrower's employment for the most recent two full years, and the Broker must require the borrower to:

- Indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim with college transcripts or military discharge papers.
- For additional guidance see [Ability to Repay Requirements](#).

EMPLOYMENT GAPS

- Gaps in employment which exceed one month must be explained.
- Borrower's new employment must be documented with a WVOE and paystub, employment contract and paystub, or paystubs covering the most recent 30-day period.
- Verbal verification of employment dated within ten business days of the date of consummation.
- For information related to non-revocable guaranteed employment contracts, see "[Projected Income for New Job](#)."
- Employment gap-length must be documented prior to consummation to verify the loan meets Appendix Q requirements.

EXTENDED ABSENCES

Borrowers returning to work after an extended absence (defined as six months), may be considered as having stable income provided:

- they've been in their current employment position for a minimum of six months, and
- the borrower can document a two year work history prior to an absence from employment.
 - A two-year employment history must be documented with W2s and paystubs, or written employment verification and paystub.
 - It is acceptable to measure the length of employment from the date a borrower began or returned to work to the date of closing or loan consummation.

PROJECTED INCOME FOR NEW JOB (EXECUTED EMPLOYMENT CONTRACTS)

- Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
- The creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes.
- The income does not qualify if the loan closes more than 60 days before the consumer starts the new job.
- Verbal verification of employment to support the borrower's employment has begun must be provided.

NON-REIMBURSED BUSINESS EXPENSES

Out of pocket, unreimbursed business expenses reported on a borrower's federal tax return Form 2106, must be deducted from the borrower's qualifying income. If reported on the most recent two years tax returns, the expenses would be averaged over 24 months. If the unreimbursed expenses are higher in the most recent tax year, then a 12-month average of the expenses should be deducted from the qualifying income.

TAX TRANSCRIPTS AND IRS REJECTION CODE

If a request for tax transcripts has been rejected by the IRS by means of a rejection code, the applicable Agency guidelines should be followed. In addition, the Broker should obtain documentation which includes but is not limited to the following:

- IRS rejection documentation.
- Letter of explanation from the borrower.
- Transcripts obtained directly from the borrower.
- Form 14039 (IRS Identity Theft Affidavit) if applicable.

INCOME TYPES

PRIMARY EMPLOYMENT (BASE EARNINGS)

Borrowers whose income is reported solely from W-2, salaried, non-self-employed sources are not required to provide tax returns unless deemed necessary due to additional factors such as Unreimbursed Business Expenses; however tax transcripts must be included for all borrowers.

SEASONAL EMPLOYMENT

- The borrower must have worked in the same seasonal job for the previous two years. Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

PRIMARY EMPLOYMENT LESS THAN 40-HOUR WORK WEEK

- When a borrower's primary employment is less than a typical 40-hour work week, the Broker should evaluate the stability of that income as regular, ongoing primary employment. If the hours are considered common and customary for the field, the borrower should have a demonstrated history in this line of work and the file should contain documentation to support this type of income for qualifying.

PART-TIME EMPLOYMENT

- Part-time employment income can be used to qualify the borrower if the Seller documents that the borrower has worked the part time job uninterrupted for the past two years and plans to continue. For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours per week.
- Part-time income received for less than two years but no less than 18 months may be included as effective income, provided that the Broker justifies and documents that the income is likely to continue.
- Part-time income not meeting these requirements may not be used in qualifying.

BONUS OR OVERTIME INCOME

Bonus or overtime income is compensation in addition to an employee's straight salary or hourly wage. Automated underwriting must recognize bonus or overtime income.

- If used for qualifying, bonus and overtime income must be documented for the previous two or more years.
 - Bonus income should be averaged based on a minimum of two years' receipt from the current employer.
 - Overtime income should be averaged based on a minimum of the previous two years plus year-to-date.
- The documentation submitted for the loan cannot indicate that this income source will likely cease.
- Bonus or overtime income received for less than two years, but more than 18 months may be eligible for qualifying, with strong compensating factors and documentation.
- If the earning trend is stable or increasing, the income must be averaged. If the earning trend is declining, the use of this income should be carefully considered, and the file must contain strong rationalization for the use of this income for qualifying purposes. If the declining bonus or overtime income is being used for qualifying, only the most current lower earnings should be averaged.
- A borrower who has recently changed employment, remaining in the same field, and has guaranteed bonus income documented in an employment contract, may be qualified with said bonus income if fully documented and averaged with bonus earnings from the previous employer. If bonus earnings from previous employer were higher than the guaranteed new bonus earnings, the higher amount may not be considered in the average, and the new guaranteed bonus earnings must be annualized.

COMMISSION INCOME

- A commission borrower is one who receives more than 25% of his/her income from commissions.
- A minimum history of two years commission earnings is required. If a borrower has a history of commission income earnings with less than 24 months but equal to or more than 18 months and has been with their current employer for a minimum of 18 months the commission income may be considered for qualifying, provided there are positive factors to reasonably offset the shorter history and a likelihood that the income will continue.
- Commission income must be averaged over the previous two years and year to date period using a minimum of two years 1040's, W2s and a year-to-date paystub. The file must clearly document the portion of earnings from commission.

- All 2106 Expenses ([Non-Reimbursed Business Expenses](#)) must be averaged and deducted from the borrower's earnings. Providing tax transcripts in lieu of tax returns is not acceptable.
- A borrower's income may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower for the mortgage.
- Commission income earned for less than 18 months is ineligible.

RENTAL INCOME

Rent received for properties owned by the borrower is acceptable, as long as the Broker can document the stability of the rental income. Please refer to [Rental Income](#) for specific information.

SELF-EMPLOYMENT INCOME

A self-employed borrower is an individual who has a 25% or greater ownership interest in a business or receives 1099s to document income. The length of self-employment, type of business and business structure will be evaluated to assess stability and continuance of self-employment income. Please refer to [General Information on Self-Employed Borrowers and Income Analysis](#) for additional information.

BORROWERS WORKING FOR A FAMILY BUSINESS

Borrowers working for a business owned and/or operated by a family member, spouse, or domestic partner carry additional risk, and therefore the following qualifying documentation is required:

- Copies of signed personal tax returns, or
- A signed copy of the business tax return showing ownership percentage is required.
 - Must be qualified using a two-year average of W-2 earnings amortized over 24 months. If there has been a decline in earnings from one year to the next, the Seller must use the more conservative lower income for qualifying.
 - Income must be reported on the borrower's most recent two years signed federal income tax returns, regardless of the type of income the borrower receives (commission, salary, overtime, or bonus).
- Tax transcripts obtained directly from the IRS may not be used in lieu of tax returns.

BORROWERS PLANNING TO RETIRE

Brokers must provide the following documentation in the closed loan package for borrowers planning to retire during the first three-year period of the Mortgage Loan.:

- Document retirement benefits.
- Document social security payments.
- Other payments expected to be received in retirement.

RETIREMENT INCOME

Retirement income must be verified from the former employer or from Federal tax returns. Retirement income must continue for a minimum of three years from the date of the Mortgage Loan closing.

IRA AND 401K RETIREMENT DISTRIBUTION INCOME

- Borrowers must have unrestricted access without penalty to the accounts.
- If the assets generating income are in the form of stocks, bonds, or mutual funds; 70% of the value (remaining after any applicable deductions for the subject transaction) must be used to determine the number of distributions remaining, in order to account for the market volatility
- Multiple accounts can be combined in order to meet the required 3-year minimum continuance requirement. Document account distributions began prior to consummation and will continue for a minimum of three years from closing. In order to document the retirement distribution income, the file must contain one of the following:
 - The most recent 2 months of statements reflecting the dollar amount of the distribution being used for qualifying. If the distribution is received annually or quarterly, then a letter from the Account Custodian must be provided to evidence the annual or quarterly amount.
 - If the retirement income distribution was recently established, a letter from the Account Custodian indicating the amount, frequency and start date of the distribution is required in addition to evidence of the first month's distribution.
 - Two years tax returns and a letter from the Account Custodian indicating the current amount and frequency of the distribution or two years tax returns and the most recent account statement.
- Deferred Compensation Plans are ineligible as qualifying income.

SOCIAL SECURITY INCOME

Social security income must be verified with the most recent Social Security Administrations benefit verification letter. Social security income must continue for a minimum of three years from the date of the Mortgage Loan closing. Non-taxed Social Security income may be "grossed-up" for qualifying

SELF-EMPLOYED CO-BORROWER INCOME/LOSS

Co-borrowers jointly applying for a Mortgage Loan whose income is not being used for qualifying must provide the most recent two years signed tax returns, Profit & Loss, and Balance Sheet; any losses must be included in the ratios.

TRUST INCOME OR LOSS

Losses reported from a trust must be factored into the qualifying ratios for a borrower (refer to [Trust Income or Loss](#) additional guidance).

OTHER ACCEPTABLE INCOME SOURCES

If used to qualify the borrower, document the income according to the underwriting requirements in [Ability to Repay Requirements](#) as aligned with Regulation Z, Appendix Q.

- Alimony, Child Support, and Maintenance Payments (must be received for a minimum of 10-12 months and continue for a minimum of three years from the date of closing). A legally binding court document supporting this income is required. There can be no evidence of arrearages.
- Annuity Income.
- Auto Allowances (see [ATR](#) for additional guidance).
- Capital Gains and Losses.
- Disability Income.
- Distribution Income/Asset Depletion
- [Employer Differential Payments](#)
- Foster Care Income.
- Housing or Parsonage Allowances: If the clergy receives a housing or parsonage allowance, LHFS will follow Freddie Mac's Housing or Parsonage Allowance guidelines.
- Interest and Dividend Income.
- Military Income.
- Non-taxable Income.
- Note Receivable Income (with evidence of three-year continuance from date of closing).
- Public Assistance and Mortgage Credit Certificates (refer to [Home Ownership Subsidies](#) for additional guidance).
- Royalty Payment Income.
- State or Federally sponsored caregiver benefits
- Temporary Leave and Short-term Disability Income.
- Tip and Gratuity Income.
- Union Member Employment income.
- VA Benefits.

UNACCEPTABLE INCOME SOURCES

Income from sources considered ineligible includes, but is not limited to the following:

- Asset Depletion Income.
- Border Income.
- Deferred Compensation Plans.
- Farm Income from the Subject Property.
- Foreign Income.
- Future Income.
- Gambling Income.
- Home Ownership Subsidies from any source other than the Public Housing Agency
- Income Derived from the Subject Property with Land Being Leased to Another Party.
- Income Derived from the Sale or Distribution of Marijuana.
- Income Determined to be Temporary or One-Time in Nature.
- Lump Sum Payments such as Inheritances or Lawsuit Settlements.
- Lump Sum Payments of Lottery Earnings that are not ongoing.
- Non-Incidental Income Received from Farming or Agricultural Use of a Property.
- Rental Income Received from the Borrower's Single Family Primary Residence or Second Home.
- Rental Income from the Subject Investment Property on a purchase transaction.
- Rental Income Resulting from a Rapid Acquisition of Multiple Rental Properties (which has not yet been documented on the borrower's 1040s).
- Rental income from an accessory unit associated with the subject property.
- Restricted Stock Units.
- Retained Earnings in a Company.
- Stock Options.
- Taxable Forms of Income not declared on Personal Tax Returns.
- Trailing Co-Borrower Income.
- Unverifiable Income.
- VA Education Benefits

ASSET ANALYSIS

This section outlines the asset requirements that apply to the Elite Jumbo Loan Program. Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

DOCUMENTATION AGE

The following documentation age limitations apply:

- Desktop Underwriter (Fannie Mae)—90 days prior to the Note date.
- Loan Product Advisor (Freddie Mac)—90 days prior to the Note date.

MINIMUM DOWN PAYMENT AND CASH TO CLOSE

- Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as the Loan Program requires.
- Evidence of liquidation of funds necessary for closing must be provided in the closed loan package.
- For all Loan Programs, the borrower is required to make a minimum down payment from his or her own assets.
- All down payment funds and cash to close must be documented and verified. Electronic verifications are acceptable.

VERIFICATION AND SOURCING FUNDS

- All funds must be documented with a minimum of two months bank statements or most recent quarterly statement.
- A verification of deposit (VOD) form is acceptable if accompanied by a minimum of one full month bank statement.
- All funds from accounts opened for 90 days or less, must be sourced if used for down payment, closing costs, or reserves.
- Large deposits exceeding 50% of total qualifying income must be sourced.
- If source of funds cannot be documented, it is acceptable to exclude a large deposit, so as not to consider these funds for qualifying.
- Fannie Mae DU Validation Service (DVS) documentation is acceptable, in conjunction with any additional documentation required in these guides. The validation documentation should include transaction histories, current balances, average balances, account numbers, account types, and borrower name & address. If transaction histories are not included, the Fannie Mae approved validation service documentation must be accompanied by a monthly bank statement.

CASH DEPOSITS

Cash deposits are ineligible funds in a transaction and should be reduced from the amount of available funds, regardless of whether they are considered large deposits.

CO-MINGLED FUNDS

- All funds must come from the borrower's own demonstrated savings.
- Borrowers using accounts in which their funds are co-mingled with a non-borrowing party or parties, have the burden of proving funds in those accounts are a result of their earnings/savings. In addition, the file must also contain appropriate authorization letters from all additional account owners.
- Funds from co-owned accounts that appear to have no connection to, or ownership by the borrower, will not be considered the borrower's own funds for use in the transaction.

CO-MINGLED FUNDS--NON-BORROWING SPOUSE

- Provide account statements to support the borrower's history as an account holder, in addition to supporting the borrower's past and continued contributions to the account.
- All large (a-typical/non-payroll related) deposits must be sourced, and will not be considered eligible if the funds are originally from a source solely associated with the non-borrowing spouse.

GIFT FUNDS

Gift funds are eligible for down payment and closing costs when a borrower has met a minimum 5% contribution from their own funds. Additional criteria for the use gift funds in any transaction are provided below:

- Primary residence only.
- Eligible for 80% LTV up to \$2,000,000.
- Purchase and Limited Cash-out only (Cash-out transaction are not eligible).
- Single Family, PUD, and condominiums only.
- Maximum 38% DTI for first-time home buyer program; maximum 40% DTI for all other loan programs.
- Co-mingled accounts are an ineligible source of funds for the borrower's minimum required contribution.
- Relative, spouse, domestic partner, fiancé or fiancée are all considered eligible donors.
- Gifts must be supported with a fully executed gift letter; proof of donor's ability to provide the gift, and evidence the borrower has received the gift funds.
- Gift funds are not eligible for reserves.
- A 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.

GIFT FUNDS FOR THE PURPOSES OF PAYING OFF DEBT

Gift funds for the purpose of paying off debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.

GIFTS OF EQUITY

Gifts of equity are ineligible on Elite jumbo loans.

CREDIT CARD DEPOSITS

It is acceptable for common and customary fees, typically paid outside of closing, to be paid via an initial credit card deposit.

BUSINESS ASSETS

Business assets are eligible for the borrower's down payment and closing costs. The percentage of business assets withdrawn from an account (for use in the transaction) should be equal to or less than the borrower's percentage of ownership in said business. Business assets are not eligible as reserves.

Evidence of the following must be included in the file:

- Evidence supporting the borrower has full access to their percentage of the funds.
- A cash-flow analysis or CPA letter stating the withdrawal of said funds will not negatively impact the business.

FOREIGN ASSETS

- All assets considered in the transaction must be located in US bank accounts. Funds in financial institutions located outside of the US will not be eligible for reserves.
- The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.

1031 EXCHANGE

- 1031 exchange funds are an acceptable source of funds for a like type of investment purchase, provided the transaction meets all applicable Agency guidelines. 1031 exchange funds are an ineligible source of funds for reserves.

RETIREMENT ACCOUNTS

- Retirement accounts are an eligible source of funds for closing, down payment and reserves. When accessing retirement funds for assets to close, evidence of liquidation and reduction of any applicable penalties must be fully documented.
- The portion of self-directed IRA accounts invested in real estate or other non-liquid assets are ineligible as reserves.
- Any existing loans secured by a retirement asset must be deducted from the discounted value of the vested balance.
- If using funds from a retirement account for reserves, a discounted value of 70% of the vested balance must be used for qualifying based on market volatility.
- Terms of withdrawal from the account program administrator should be provided when using the account for reserves.
- Terms of withdrawal are not required when the 401(k) funds are associated with a previous employer; however, a discounted value of 70% of the vested balance must be used for qualifying.
- Terms of withdrawal from IRA accounts are not required.

RESERVE REQUIREMENTS

Occupancy	Cash Reserves Required
Primary residence (1 unit) up to \$1M	6 months
Primary residence (1 unit) \$1,000,001 to \$2M	12 months
Primary residence (2-units)	12 months
First-time home buyer	12 months
Investment/Second home	18 months

ADDITIONAL RESERVE REQUIREMENTS

- Borrowers with other properties in addition to the property being purchased or refinanced are required to have an additional six months of reserves for each property. Evidence of six months taxes, insurance, and association dues are required for properties owned free and clear.
- Borrowers who do not currently own a primary residence are required to have six months of rent payments in reserves when financing a second home or investment property.
- Reserve calculations for an existing rental property are based on the actual PITIA calculation for that property, rather than the negative cash flow from the property.

RETAINING AND CONVERTING DEPARTING RESIDENCE

If the borrower is retaining their departing principal residence and converting it to a second home or investment property, reserve requirements of six months PITIA for the departing residence must be met. If a borrower has sold but not closed on the sale of their departing residence, the debt must be included in the ratios when qualifying. In order to determine whether rental income can be used to off-set a portion of the PITIA see requirements below:

ELITE MORTGAGE PRODUCT GUIDELINES

Exception	Description
Relocation	The consumer is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (that is, a lease signed by the consumer and the lessee) of at least one year's duration after the loan is closed is required. Note: Underwriters should also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowners.
Sufficient Equity in Vacated Property	The loan has a loan-to-value ratio of 75% or less, as determined by: <ul style="list-style-type: none"> a current (no more than six months old) Residential Appraisal LHFS does not permit comparing the unpaid principal balance to the original sales price of the property. Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for Condominium units on form Fannie Mae 1073/Freddie Mac 465).
Leased to Unrelated Third Party	The current 12-month lease must be to an unrelated third party and must be effective as of the first payment due date of the subject mortgage loan.
Additional Documentation	Must provide evidence that the security deposit and first months' rent have been received and deposited.

REPORTED NON-SUFFICIENT-FUNDS (NSF) FEES

Asset statements showing a history of non-sufficient-fund (NSF) fees present a layer of risk that must be weighed against the borrower's credit history from the credit report and all of the other risk factors in the file. Letters of explanation should be provided.

STOCKS, BONDS, AND MUTUAL FUNDS

Stocks, Bonds, and Mutual Funds must be reduced by 30% of the current market value, to account for market volatility. Stocks, Bonds and Mutual Fund asset liquidation must be fully documented when used for closing or down payment.

RELOCATION FUNDS

- Funds provided toward the borrower's down payment from an employer-relocation or transfer, are ineligible assets.
- Funds provided toward the borrower's closing costs and/or pre-pays must meet interested party contribution (IPC) requirements.

ACCEPTABLE ASSETS

The following table on the next page indicates whether a particular asset type can be considered for borrower's minimum contribution, down payment, closing costs, or reserves. The asset must be properly documented and verified, in addition to meeting all applicable Agency guidelines.

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Anticipated Savings					X
Bank Accounts/Funds on Deposit in Financial Institutions	X	X	X	X	
Borrowed Funds Secured by Borrower's Own Assets (financial)	X	X	X	X	
Borrower Earned Real Estate Commission from Subject Transaction (limited to primary residence transactions)	X	X	X		
Bridge Loan Must be from a financial institution, and the borrower must qualify with the bridge loan payment.	X	X	X	X	
Business Assets See Business Assets section for additional guidance.	X	X	X		
Cash-on-Hand					X
Cash-out from Subject Transaction					X
Cash Value of Life Insurance	X	X	X	X	
College Savings Plans/529 Accounts (for which borrower(s) is/are not the Intended Recipient) *May only be used as reserves when account has been liquidated.	X	X	X	X (*)	
Community Savings Plans and Lending Clubs					X
Cryptocurrencies such as Bitcoins					X
Custodial Accounts Irrevocable (UGMA/UTMA)					X
Disaster Relief Grant Provided the funds are not considered loan funds and there is no subordinate lien to be recorded against the subject property.	X	X			
Earnest Money Deposit (EMD)	X	X	X		
Employer Assistance Programs (may not result in a lien against the property)				X	
Funds drawn prior to consummation from an existing HELOC	X	X	X	X	
Gift Funds See additional restriction (Gift Fund section)		X	X		
Gifts of Equity					X
Individual Development Account Provided the account does not require a subordinate lien to be recorded against the subject property.	X	X	X	X	
Individual Development Account Matching Funds					X

ELITE MORTGAGE PRODUCT GUIDELINES

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Interested Party Contributions (IPCs)			X		
Lot Value (when purchased or inherited by the borrower)	X	X			
Lot Value (when received as a gift)					X
Margin Accounts	X	X	X		
New Simultaneous Financing on Subject Property					X
Non-Vested Restricted Stock Units/Stock Options					X
Pension Funds					X
Proceeds from Sale of Borrower's Own Real Estate or Assets	X	X	X	X	
Relocation: Down Payment					X
Rent Credit with Option to Purchase	X	X			
Retirement Accounts (401K and IRA) See Retirement Account section for additional guidance.	X	X	X	X	
Sales Concessions			X		
Stocks/Bonds/Mutual Funds 70% of current market value or evidence of liquidation required	X	X	X	X	
Sweat Equity/Trade Equity					X
Trust Accounts for which the Borrower is the Owner and Has Immediate Access to the Funds.	X	X	X	X	
Unsecured Line of Credit Financing					X
U.S. Savings Bonds	X	X	X	X	
Vested Stock Options/Restricted Stock Units—file must contain evidence of liquidation of funds.	X	X	X	X	

PROPERTY ELIGIBILITY

COVID-19 TEMPORARY OVERLAYS

3-4-UNIT PROPERTIES

Temporary Policy: Properties with three to four units are currently ineligible

ELIGIBLE PROPERTY TYPES

- Single-family residences.
- Two-unit properties.
- Attached Condominiums (borrower does not own the land or the exterior walls of their unit).
- Site Condominiums (borrower owns the land on which the structure is located and the property is essentially a single-family dwelling).
- Detached Condominiums (borrower does not own the land or the exterior walls of the structure).
- Planned Unit Development (PUD).

Note: Not all property types listed above are eligible under all Loan Programs. See the Elite matrix.

SINGLE-FAMILY RESIDENCE

A single-family residence is an attached or detached single-family dwelling, including town homes, row homes, and site condominiums.

TWO-UNITS

A two-unit is a residential structure with more than one unit, but not more than two units.

CONDOMINIUMS

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

Additional Condominium requirements include but are not limited to:

- Condominiums can be both attached and detached and should have both a master deed and bylaws in association with the total project. Detached condominiums should not be confused with site condominiums.
- A condominium project must be created in accordance with local and state statutes and regulations.
- The structure must contain two or more units with the interior airspace individually owned.
- The balance of the property (land and building) must be owned in common by the individual unit owners.
- The condominium project must meet all applicable Agency insurance requirements
- In order for a condominium to be eligible for purchase, it must be eligible, based on Fannie Mae's current published selling guide criteria.

Condominium Overview

Broker must not be aware of any circumstances that would make the project ineligible for approval.

- LHFS requires that a minimum of 50% of the units in a new condominium project must be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.
- Two-unit condominium projects, are eligible in accordance with Fannie Mae's Selling Guide.
- LHFS aligns with the Agencies for investor concentration requirements on existing projects in which the subject property is a primary residence or second home.
- Investment property transactions must have a minimum 51 % of the units in the project conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.
- Non-realty limited common elements (for example, boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.

Ineligible Condominium/PUD Projects

LHFS does not permit Mortgage Loans secured by a property located in a project identified by the applicable Agency as Ineligible, or within any of the following project types or units containing any of the following additional property characteristics:

- Cooperatives.
- Projects which include manufactured housing.
- Non-warrantable Condominium/PUD projects.
- A condominium which receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements.
- A condominium project with no master insurance policy for the project.
- A condominium located in a project which received a Project Eligibility Review Service (PERS) approval that allows exceptions to the Agency's published requirements.
- Live/Work projects.
- Conversion condominium projects that have not been fully converted or do not meet applicable agency requirements.
- A condominium project which contains more than 25% of its total space dedicated to non- residential or commercial use.
- Projects in which a single entity owns more than FNMA allowable limits as listed below:
 - Projects with 21 units or more with 10% or more of the units owned by one entity.
 - Projects with 5–20 units with more than 2 units owned by one entity.

Approval Authority and Process for Condominium Projects

- Brokers must follow the eligibility guidelines of the applicable Agency and of LHFS as provided in this section with respect to condominium and PUD projects.
- Brokers are responsible for providing accurate condominium warranties for all transactions secured by condominiums.
- All condominium and PUD projects must be warrantable and comply with the applicable Agency requirements, except as otherwise specifically set forth herein. A warrantable condominium is a condominium project that meets Agency and LHFS eligibility standards.
- A limited review is ineligible.

Warranting the Project

Must warrant the condominium project's eligibility through one of the following methods:

Previously Approved Projects

If Fannie Mae has previously issued a Final Project Approval through (PERS) as listed at <https://www.fanniemae.com/singlefamily/project-eligibility>, print it, circle the project name that appears on the approval page, and place it in the Mortgage Loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the Mortgage Loan will be ineligible.

Condominium Project Manager (CPM) Expedited Review

Condo Project Manager (CPM) Expedited Review is a Fannie Mae web-based tool that is used to provide project acceptance for attached, detached, new, and established condominium projects.

Fannie Mae Project Eligibility Review Service (PERS)

PERS approvals that allow exceptions to the Agency's published requirements are ineligible.

PERS-approved projects are posted on the Fannie Mae website. Final Project Approval decisions will expire one year after issuance. PERS-reviewed projects determined to be ineligible.

Full Review

Full Review process is another method for the review of new and established condos. Brokers performing a Full Review must ensure that the project meets all eligibility criteria of the applicable Agency and of LHFS.

PLANNED UNIT DEVELOPMENT (PUD)

A PUD is a real estate project or subdivision in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, parking space).

PUD Eligibility Requirements

The individual unit owner must own a parcel of land improved with a dwelling. This ownership may not be in common with other unit owners. The development must be administered by a homeowners' association (HOA) that owns and is obligated to maintain the common elements (including greenbelts, recreation facilities, and parking areas) within the development for the common use and benefit of the unit owners.

The unit owners must have an automatic, non-severable interest in the HOA and pay a mandatory assessment.

- Must be a single-family residence.
- The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.
- Must meet all applicable Agency insurance requirements.
- Must meet any additional requirements specific to these Elite Jumbo Underwriting Guidelines.

A project or subdivision is not classified as a PUD solely based on zoning. If the units in a project or subdivision have the following characteristics they would not be considered a PUD.

- there are no common improvements,
- there are no established HOA membership, and
- there are no required assessments paid.

INELIGIBLE PROPERTY TYPES

LHFS does not permit Elite Jumbo Mortgage Loans secured by a property identified by the applicable Agency as Ineligible or with any of the following additional property characteristics:

- 3-4 Units
- Manufactured housing.
- Modular, prefabricated, and panelized homes.
- Geodesic homes.
- Properties comprising more than 15 acres of land.
- Cooperatives.
- Group homes.
- Log homes.
- Live/Work Projects.
- Properties deemed unique or consisting of unique characteristics (e.g. dome homes, berm homes, and geodesic).
- Properties with deed restrictions (with the exception of properties that meet FNMA age-related deed restriction requirements and properties with deed restrictions specific to developer land-use or building code requirements for a subject development).

ENVIRONMENTAL HAZARD ASSESSMENT

If LHFS has identified environmental problems through the performance of its project review process and due diligence review, and an environmental assessment would be required, then the loan is ineligible.

HAZARD AND FLOOD INSURANCE REQUIREMENTS

- Broker should follow the applicable Agency guidelines as they relate to Hazard and Flood Insurance requirements, unless otherwise specified in these Elite Jumbo Underwriting Guidelines.
- Documentation should be in the form of a declaration page or policy. Binders are not considered acceptable evidence of insurance.
- Maximum allowable deductible securing a first mortgage loan is 5% of the face value of the policy.
- Such flood insurance policy for each Mortgage Loan is in an amount representing coverage not less than the least of (A) the outstanding principal balance of the Mortgage Loan (plus any additional amount required to prevent the Mortgagor from being deemed a co-insurer), (B) the full insurable value of the related Mortgaged Property, and (C) the maximum amount of insurance, which was available under the Flood Disaster Protection Act of 1973, as amended.

HOA ASSESSMENT LIENS / SUPER LIENS

Broker should Fannie Mae guidelines relative to the subject property located in a PUD or condominium project in which the subject's HOA assessments have priority over, or will not subordinate to, our subject Mortgage Loan first lien.

MULTIPLE PARCELS

LHFS aligns with Agency guidelines with regard to multiple parcels.

RURAL PROPERTIES

Comparable properties should be in similar rural locations and similar property styles. Appraiser must adequately explain the use of comparables not meeting these requirements.

LEASED/OWNED UTILITIES AND COMMUNITY UTILITIES

- Utilities owned, such as solar panels, must meet standard eligibility requirements, based on the applicable Agency.
- Leased utilities such as solar panels are acceptable provided the applicable Agency guidelines have been met, and the borrower is being qualified with any monthly obligation related to the lease. Additionally, the leased utility should be addressed by the appraiser in the property appraisal report.

- Community Utilities such as a shared well must follow the applicable Agency guidelines, which include, but may not be limited to the following standards:
 - Must meet community standards.
 - Must be adequate for the number of users of the shared utility.
 - Must be in service.
 - Must be accepted by area residents.
 - Must be accessible by the subject property owner.
 - If the shared utility is not located on the subject site, there must be a legally binding agreement for access and maintenance in place by the impacted parties.

PRIVATE ROAD MAINTENANCE AGREEMENT/SHARED DRIVEWAYS

If the subject property is located on a private road, or access to the property requires the use of a private road, the file must contain at a minimum, one of the following documents:

- Title policy with the private road maintenance agreement language contained within.
- Private road maintenance agreement.
- Evidence the property is located within a state or county that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street; then no separate agreement or covenant is required.

LIFE ESTATE OR LEASEHOLD ESTATE

Loans secured by a life estate or leasehold estate are not eligible.

CONDOMINIUM OWNER'S ASSOCIATION OBLIGATION

If the subject property is part of a Condominium Association, which results in a financial obligation on the part of the borrower, provide the following information in the closed loan package.

- Name of Association or Management Company.
- Phone number and/or email address for the Association or Management Company.
- Evidence of the current status of dues (current, past due, etc.) if applicable.
- Amount and frequency of the dues payable for the Association or Management Company (if not provided on appraisal report.).

APPRAISAL REQUIREMENTS

This section outlines the appraisal documentation and evaluation requirements that apply to the Elite Jumbo Program. Broker should follow the applicable Agency guidelines as they relate to Appraisal Documentation, Requirements, and Property Evaluation, unless otherwise specified in these Underwriting Guidelines.

GENERAL APPRAISAL REQUIREMENTS

- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, the analysis and/or opinion of value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required and must be accompanied by a field review or desk review. (See [Appraisal Review Process](#)).
- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
- Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

APPRAISER REQUIREMENTS

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

The appraiser must comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision, as well as Fannie Mae and Freddie Mac Appraiser Independence Requirements.

- The appraiser must comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989 (regardless of whether LHFS is subject to those regulations).
- The appraiser must be experienced in the appraisal of properties similar to the type being appraised.
- The appraiser must be actively engaged in appraisal work, licensed, and in good standing.
- The appraiser may not be an interested party in the subject transaction.
- The appraiser must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

APPRAISAL REVIEW PROCESS

An Appraisal Review Fee of \$350 will be required and needs to be disclosed on the LE.

All files must contain a full appraisal report regardless of the loan amount or AUS finding's documentation requirements.

LHFS requires all jumbo appraisals to be accompanied by a secondary valuation product. Select from either secondary valuation product below.

Desk Reviews— if the initial appraisal's value will be supported by a Desk Review; the following Desk Review products are acceptable to satisfy this requirement:

- Clear Capital © Collateral Desktop Analysis (CDA®).
- Summit Valuations © (SVR).
- Pro Teck Valuation Services © Appraisal Risk Review (ARR).

Field Reviews— if the appraised value will be supported by a Field Review, the Field Review may not be prepared by the same appraisal company as the initial appraisal; however, the appraisal can be ordered through the same AMC.

- If the secondary valuation report is greater than the appraised value, the LTV/HCLTV would be based on the initial appraised value.
- If the secondary valuation report is lower than the appraised value but within a 10% tolerance, the LTV/HCLTV would be based on the initial appraised value.
- If the secondary valuation report is lower than the appraised value by more than a 10% tolerance, a third valuation report must be provided.

THIRD VALUATION (IF APPLICABLE):

All files must contain a third valuation product if and when the secondary valuation product is lower than the appraised value by more than a 10% tolerance.

Field Review— If a Desk Review was the secondary valuation product and was not within the allowable tolerance; a Field Review should be obtained and the original appraised value supported within the 10% tolerance. The LTV/HCLTV would be based on the original appraisal value.

Second Appraisal— If a second full appraisal is obtained as the supporting valuation product, the original appraised value must be supported within the 10% tolerance and the LTV/HCLTV would be based on the lower of the two appraisal reports.

If the second full appraisal is more than 10% below the initial appraised value, the second full appraisal would then replace the initial appraisal and must be supported by a new secondary valuation product.

The maximum number of supporting valuation products for any appraisal is two products.

APPRAISED VALUE

If the subject property was acquired in the previous nine months, such value of the Mortgage Property will be based on the lesser of the purchase price and appraised value for purposes of determining Loan-to- Value.

DOCUMENTATION AGE AND STANDARDS

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

Review appraisal in detail for completeness, accuracy, and assessment of the current fair market value. The appraisal must be in the name of LHFS. No transfers or assignments allowed.

All versions of the subject property appraisal report must be included in the closed loan package. Brokers must provide borrowers with all copies of the appraisal report upon completion of said report but no later than three days prior to the consummation.

AGE OF APPRAISAL

If the appraisal report is more than 90 days old as of the date of the note and mortgage, an appraisal update is required.

If the date of the appraisal report is more than 90 days but less than 360 days from the date of the Mortgage Note, the original appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 90 days of the date of the Mortgage Note. A new appraisal is required when the appraiser indicates in an Appraisal Update that the property value has declined.

ACCEPTABLE APPRAISAL FORMS

The appraisal form must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form listed below.

Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70) – URAR

Used for appraisals of one-unit properties and units in PUDs, (including a one-unit property with an accessory apartment) based on interior and exterior property inspections. The URAR may also be used for units in a detached condominium project if the appraiser includes an adequate description of the project and information about the homeowner association fees and the quality of project maintenance. An interior and exterior inspection of the subject property is required. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.

- If the transaction is a refinance of a one-unit investment property and rental income is being considered for qualifying, it is necessary to include a 1007.

Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 and Freddie Mac Form 465)

This report must be used for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. The appraisal report must be UAD compliant.

- If the transaction is a refinance of a one-unit investment property and rental income is being considered for qualifying, it is necessary to include a 1007.

Small Residential Income Property Appraisal Report (Fannie Mae Form 1025 and Freddie Mac Form 72)

This report must be used for appraisals of two-unit properties. An interior and exterior property inspection is required.

Appraisal Update (Fannie Mae Form 1004D/Freddie Mac Form 442)

When performing an appraisal update, the appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property.

The use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used.

The type of inspection required depends on the nature of the appraisal conditions or changes to the subject property.

- If the appraisal is completed "as is," an interior inspection is not required unless there are any known changes to the subject property that would have an adverse effect on condition or marketability.
- If the appraisal is subject to completion per plans and specifications, interior and exterior inspections are required. Exterior and interior photographs are required.
- If the appraisal is subject to repairs that affect safety, soundness, or habitability, interior and exterior inspections are required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection with exterior photographs is required.

MARKET CONDITIONS ADDENDUM (FANNIE MAE FORM 1004MC)

This is required for all mortgage loans with appraisals of 1–4-unit properties. It is intended to provide the Seller with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

FIELD REVIEW

An analysis comparing the original appraisal and the review appraisal must be performed. The original appraiser must address any significant differences or discrepancies. The following forms must be present when a field review appraisal is required by the Loan Program or at the discretion of the underwriter:

One-Unit Property

- A One-Unit Residential Appraisal Field Review Report (Fannie Mae Form 2000 or Freddie Mac Form 1032).
- Original front and street photos of the subject property.
- Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.
- Street map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

Two-Unit Property

- Two-unit Residential Appraisal Field Review Report (Fannie Mae Form 2000A or Freddie Mac Form 1072).
- Original front and street photos of the subject property.
- Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.
- Street Map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

PROPERTY QUALITY AND CONDITION

CONDITION RATING

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition.

Additionally, when provided, the following Condition rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- Property condition ratings of C1, C2, C3, or C4 are acceptable in an “as is” condition.
- Property condition ratings C5 and C6 carry additional risk, and therefore any appraisals with a C5 or C6 rating must include, but may not be limited to the following to be eligible:
 - An account of the condition items causing the C5 or C6 rating.
 - The initial appraisal must be “subject to completion of repairs.”
 - Evidence of completion of repairs.
 - An updated minimum condition rating of C4.

QUALITY RATING

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition.

Additionally, when provided, the following Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 is acceptable.
- Any appraisal report containing a Quality of Construction rating Q6 is ineligible as a result of an increased risk associated with this quality rating.
- When the appraisal is made subject to completion, repairs, or inspection, the lender must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed prior to closing in order for the transaction to be eligible.

DISASTER POLICY

- When natural disasters, such as hurricanes, tropical storms, and tornadoes, occur, LHFS must take steps to ensure that the subject property secured by the loan is protected.
- Once the federal government has declared a disaster with individual assistance (assistance to individuals and households), a FEMA Disaster Notification is issued at <http://www.fema.gov/>.
- Note: A disaster declared with public assistance (assistance to State and local governments and certain private nonprofit organizations for emergency work and the repair or replacement of disaster-damaged facilities) does not require a re-inspection.
- Unless otherwise specified, LHFS will follow the applicable Agency guidelines as it relates to properties involved in a disaster.
- Loan funding may be delayed as a result of properties located in a disaster area as declared by an individual state or by Federal authority such as FEMA.

LAVA ZONES

Loans secured by properties located in the state of Hawaii that are located within lava zones 3 through 9 only are eligible.

Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

IMPROVEMENTS WITHOUT PERMITS

- Unpermitted additions to a subject property should not be included in the overall square footage of the subject in the appraisal report.
- In order to include the unpermitted addition, the proper permits must be acquired, and evidence the addition is covered by an acceptable homeowner's insurance policy would be required.

AUS REQUIREMENTS

LHFS requires the use of Fannie Mae's Desktop Underwriter® (DU® or Desktop Underwriter) or Freddie Mac's Loan Product Advisor® (LPA® or Loan Product Advisor) for automated underwriting decisions on all loans. DO® (Desktop Originator®) findings may not be considered a substitute for DU approval.

Regardless of underwriting method, a full manual underwrite will be required and additional information may be requested at the discretion of the underwriter.

DOCUMENTATION REQUIREMENTS

Loans underwritten by Desktop Underwriter or Loan Product Advisor may not follow the DU Underwriting Findings Report or LPA Feedback Certificate, including but not limited to Streamlined Accept or Streamline Refinance requirements. Documentation requirements for manual underwriting for the applicable agency must be provided unless otherwise stated in these Elite Jumbo Underwriting Guidelines or in the [Matrices](#).

DU AND LPA RESUBMISSION REQUIREMENTS

Resubmission of a loan to DU or LPA is required if:

- The final DU and LP decisions must reflect the proper risk class and/or documentation
- The findings are no longer valid due to an expired submission.
- Information on the previous submission was not true, complete, or accurate.

DESKTOP UNDERWRITER (DU) DECISIONS

ACCEPTABLE FINDINGS

When a loan is submitted to Desktop Underwriter, the only recommendation in the DU Underwriting Findings Report that is acceptable to LHFS is the following:

Decision	Description
Approve/Ineligible	Based on the data submitted to DU, "Approve/Ineligible" findings would be the result of any of the following: loan amount, LTV, cash out amounts allowable in accordance with these Elite Jumbo Underwriting guidelines and cash-out amounts resulting from non-purchase money second lien payoffs as a rate and term refinance.
Approve/Eligible	Approve/Eligible findings are acceptable for Agency eligible high-balance loans (\$647,201-\$ 970,800) when submitted and locked on the jumbo loan program, these files will be manually underwritten and must meet all applicable Elite jumbo loan guidelines.

UNACCEPTABLE FINDINGS

Loans submitted to DU that receive other Desktop Underwriter Recommendations (including but not limited to the following) are ineligible:

- Refer with Caution
- Out of Scope

DESKTOP UNDERWRITER ACCURACY

The data submitted to Desktop Underwriter must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value. Post-closing submission of a loan to DU is acceptable when necessary to correct loan data on the report.

DESKTOP UNDERWRITER DATA

Verification documents must be reviewed, and the verified values compared to the data submitted to Desktop Underwriter. The terms of the closed loan must match the terms of the final loan case-file submission to Desktop Underwriter. Desktop Underwriter allows specific data tolerances for DTI ratios, assets, reserves, etc.; however, LHFS does not use these tolerances. If any of the loan data changes, LHFS must ensure that the loan continues to meet all requirements of these Elite Jumbo Underwriting Guidelines.

DESKTOP UNDERWRITER VERSION CONTROL

Fannie Mae continuously updates Desktop Underwriter with new versions of the system; therefore, when a loan is initially run through a specific version of Desktop Underwriter, any underwriting updates for that same loan must be run through the same version of Desktop Underwriter.

Any updated Desktop Underwriter versions will not apply to previously submitted loans.

LOAN PRODUCT ADVISOR (LPA) DECISIONS

ACCEPTABLE FINDINGS

When a loan is submitted to Loan Product Advisor, the only recommendation in the LP Feedback Certificate that is acceptable to LHFS is the following:

Decision	Description
Accept/Ineligible	Based on the data submitted to LPA, "Accept/Ineligible" findings would be the result of any of the following: loan amount, LTV, cash out amounts allowable in accordance with these Elite Jumbo Underwriting guidelines and cash-out amounts resulting from non-purchase money second lien payoffs as a rate and term refinance.
Accept/Eligible	Accept/Eligible findings are acceptable for Agency eligible "Super Conforming" - loans (\$647,201-\$ \$970,800) when submitted and locked on the jumbo loan program, these files will be manually underwritten and must meet all applicable Elite jumbo loan guidelines.

UNACCEPTABLE FINDINGS

Any loans that are submitted to LPA that receive other Loan Product Advisor Recommendations (including but not limited to the following) are ineligible:

- Caution
- Caution/500 A-Minus
- Incomplete/Invalid

LOAN PRODUCT ADVISOR ACCURACY

The data submitted to Loan Product Advisor must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value. Post-closing submission of a loan to LP is acceptable when necessary to correct loan data on the report.

The final Transmittal Summary must be maintained in the permanent loan file documenting the verified values of the data utilized to perform the underwriting analysis.

LOAN PRODUCT ADVISOR DATA

Verification documents must be reviewed, and the verified values compared to the data submitted to Loan Product Advisor. The terms of the closed loan must match the terms of the final loan case-file submission to Loan Product Advisor. LP allows specific data tolerances for DTI ratios, assets, reserves, etc.; however, LHFS does not use these tolerances. If any of the loan data changes, LHFS must ensure that the loan continues to meet all requirements of these Elite Jumbo Underwriting Guidelines.

LOAN PRODUCT ADVISOR VERSION CONTROL

Freddie Mac continuously updates Loan Product Advisor with new versions of the system; therefore, when a loan is initially run through a specific version of Loan Product Advisor, any underwriting updates for that same loan must be run through the same version of Loan Product Advisor. Any updated Loan Product Advisor versions will not apply to previously submitted loans.

Loan Product Advisor allows specific data tolerances for DTI ratios, assets, reserves, etc.; however, LHFS does not use these tolerances. If any of the loan data change, LHFS must ensure that the loan continues to meet all requirements of these Jumbo Underwriting Guidelines.

ABILITY TO REPAY REQUIREMENTS

Broker must comply with all state, local, and municipal Ability to Repay requirements, including providing any required documentation.

For all initial applications taken on or after January 10, 2014, the Broker must comply with TILA and Regulation Z requirements regarding the borrower's ability to repay (ATR). In all circumstances, the Broker must consider and document the borrower's ability to repay in accordance with applicable law. The Broker must also confirm and provide evidence to LHFS that the Mortgage Loan is a Qualified Mortgage (QM) within the meaning of 12 C.F.R. 1026.43(e)(2), (e)(4), or (f). Broker bears the sole responsibility for determining that the Mortgage Loan is a QM. Furthermore, all jumbo mortgage loans must be underwritten in accordance with the requirements of set forth in these Jumbo Underwriting Guidelines. Please note that certain of these requirements may be more restrictive than the requirements set out in Appendix Q to Regulation Z, so Brokers should rely on the requirements set forth herein.

In compliance with Appendix Q, it is important to note that all income documentation must be received and verified prior to the consummation date. Documentation received at consummation or post-consummation cannot be considered as verified in the credit decision.

EMPLOYMENT-RELATED INCOME

STABILITY OF INCOME

Effective Income

Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.

Written VOEs are acceptable documentation for salaried employees when accompanied by a current pay stub. Written VOEs are not acceptable for a borrower employed by family or self-employed.

Verifying Employment History

- The Broker must verify the borrower's employment for the most recent two full years, and the Broker must require the borrower to:
 - Explain any gaps in employment that span one or more months; and
 - Indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim, such as college transcripts, or discharge papers, and
 - **Employment gap-length must be documented prior to consummation to verify the loan meets Appendix Q requirements.**
- Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented by the Broker.

Note: A borrower with a 25% or greater ownership interest in a business is considered self-employed and will be evaluated as a self-employed borrower.

Analyzing a Borrower's Employment Record

- When analyzing a borrower's employment, Broker must examine:
 - The borrower's past employment record; and
 - The employer's confirmation of current, ongoing employment status.

Note: LHFS may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been or is set to be terminated. LHFS should not rely upon a verification of current employment that includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

- LHFS may favorably consider the stability of a borrower's income if he/she changes jobs frequently within the same line of work but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

Borrowers Returning to Work After an Extended Absence*

A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:

- Is employed in the current job for six months or longer **from the start date of the current job to the closing or consummation date of the Mortgage Loan; and**
- Can document a two-year work history prior to an absence from employment using **W2s and paystubs, or written employment verification and paystub.**

Note: An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce.

Important: Situations not meeting the criteria listed above may not be used in qualifying.

***Extended absence is defined as six months.**

SALARY, WAGE, AND OTHER FORMS OF INCOME

General Policy on Borrower Income Analysis

- The income of each borrower who will be obligated for the mortgage debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether his/her income level can be reasonably expected to continue.
- In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective when properly verified and documented by the Broker and LHFS.

Notes:

- Effective income for borrowers planning to retire during the first three-year period must include the amount of:
 - Documented retirement benefits;
 - Social Security payments; or
 - Other payments expected to be received in retirement.
- Brokers must not ask the borrower about possible future maternity leave.
- Brokers may assume that salary or wage income from employment verified in accordance with [Analyzing a Borrower's Employment Record](#) above can be reasonably expected to continue if a borrower's employer verifies current employment and income and does not indicate that employment has been or is set to be terminated. Brokers should not assume that income can be reasonably expected to continue if a verification of current employment includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

Overtime and Bonus Income

- Overtime and bonus income can be used to qualify the borrower if he/she has received this income for the past two years, and documentation submitted for the loan does not indicate this income will likely cease. If, for example, the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.
- The Broker must develop an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable. **A borrower who has been with their current employer for no less than 18 months and has bonus or overtime income received for less than two years but more than 18 months, may be eligible for qualifying with said bonus and overtime income when strong compensating factors and documentation are provided.**

Establishing an Overtime and Bonus Income Earning Trend

- The Broker must establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the Broker must document in writing a sound rationalization for including the income when qualifying the borrower. **Only the most current lower earnings should be averaged.**

- Two years plus year-to-date must be used in calculating the average overtime income earnings, while bonus income should be averaged over the previous two years. If the income varies significantly from year to year it may be necessary to average either income type over a longer period of time.
- A borrower who has recently changed employment, remaining in the same field, and has guaranteed bonus income documented in an employment contract, may be qualified with said bonus income if fully documented and averaged with bonus earnings from the previous employer. If bonus earnings from previous employer were higher than the guaranteed new bonus earnings, the higher amount may not be considered in the average, and the new guaranteed bonus earnings must be annualized.

Qualifying Part-Time Income

- Part-time and seasonal income can be used to qualify the borrower if the Broker documents that the borrower has worked the part-time job uninterrupted for the past two years and plans to continue. Many low- and moderate-income families rely on part-time and seasonal income for day-to-day needs, and Brokers should not restrict consideration of such income when qualifying the income of these borrowers.
- Part-time income received for less than two years may be included as effective income, provided that the Broker justifies and documents that the income is likely to continue.

Part-time income received for no less than 18 months may be included as effective income, provided that the Broker justifies and documents that the income is likely to continue.

- Part-time income not meeting the qualifying requirements may not be used in qualifying.

Note: For qualifying purposes, “part-time” income refers to employment taken to supplement the borrower’s income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours per week.

Income from Seasonal Employment

- Seasonal income is considered uninterrupted, and may be used to qualify the borrower, if the Broker documents that the borrower:
 - Has worked the same job for the past two years, and
 - Expects to be rehired the next season.
- Seasonal employment includes, but is not limited to:
 - Umpiring baseball games in the summer; or
 - Working at a department store during the holiday shopping season.

Primary Employment Less than 40-Hour Work Week

- When a borrower's primary employment is less than a typical 40-hour work week, the Broker should evaluate the stability of that income as regular, ongoing primary employment. **If the hours are considered common and customary for the field and the file contains documentation to support this type of income, the income may be considered for qualifying.**
- Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income.

Commission Income

- Commission income must be averaged over the previous two years and year to date. To qualify commission income, the borrower must provide:
 - Copies of signed tax returns for the last two years; and
 - **A year-to-date pay stub; and**
 - **The most recent two years W2s.**
 - **Evidence a minimum of two years commission earnings.**
- Borrowers whose commission income was received for **less than 24 months, but equal to or more than 18 months may be considered favorably provided the borrower has been with the same employer for a minimum of 18 months and the underwriter can:**
 - Document the likelihood that the income will continue, and
 - Soundly rationalize accepting the commission income.
 - **Provide compensating factors to reasonably offset the shorter history; and**
 - **The file must clearly document the portion of earnings from commission**

Notes:

- Unreimbursed business expenses must be subtracted from gross income.
- A commissioned borrower is one who receives more than 25% of his/her annual income from commissions.
- **Providing tax transcripts in lieu of tax returns is not acceptable.**

Qualifying Commission Income Earned for Less than One Year

- Commission income earned for less than 18 months is not considered effective income.
- A borrower's income may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower for the mortgage.

Employer Differential Payments

If the employer subsidizes a borrower's mortgage payment through direct payments, the amount of the payments:

- Is considered gross income, and
- Cannot be used to offset the mortgage payment directly, even if the employer pays the mortgagee directly.

Retirement Income

Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k) accounts, will cease within the first full three years of the mortgage loan, such income may not be used in qualifying.

- **Borrowers must have unrestricted access without penalty to the accounts.**
- **If the assets generating income are in the form of stocks, bonds, or mutual funds; 70% of the value (remaining after any applicable deductions for the subject transaction) must be used to determine the number of distributions remaining, in order to account for the market volatility.**
- **Multiple accounts can be combined in order to meet the required 3-year minimum continuance requirement. Document account distributions began prior to consummation and will continue for a minimum of three years from closing. In order to document the retirement distribution income, the file must contain one of the following:**
 - **The most recent 2 months of statements reflecting the dollar amount of the distribution being used for qualifying. If the distribution is received annually or quarterly, then a letter from the Account Custodian must be provided to evidence the annual or quarterly amount.**
 - **If the retirement income distribution was recently established, a letter from the Account Custodian indicating the amount, frequency and start date of the distribution is required in addition to evidence of the first month's distribution.**
 - **Two years tax returns and a letter from the Account Custodian indicating the current amount and frequency of the distribution or two years tax returns and the most recent account statement.**
- **Deferred Compensation Plans.**

Social Security Income

Social Security income must be verified by a Social Security Administration benefit verification letter (sometimes called a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter"). If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Notes:

- If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three years of loan origination, the Broker shall consider the income effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.
- Some portion of Social Security income may be “grossed up” if deemed nontaxable by the IRS.

Automobile Allowances and Expense Account Payments

- The amount by which the borrower’s automobile allowance exceeds actual expenditures may **not** be considered income **for qualifying**.
- If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income.
- Expenses that must be treated as recurring debt include:
 - The borrower’s monthly car payment; **unless offset by the auto allowance;**
 - Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.
 - **Evidence the automobile allowance has been received for two years.**

BORROWERS EMPLOYED BY A FAMILY-OWNED BUSINESS.

Income Documentation Requirement

In addition to normal employment verification, a borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business, which may include:

- Copies of signed personal tax returns, or
- A signed copy of the corporate tax return showing ownership percentage.
 - **Must be qualified using a two-year average of W-2 earnings amortized over 24 months. If there has been a decline in earnings from one year to the next LHFS must use the more conservative lower income for qualifying.**
 - **Income must be reported on the borrower’s most recent two years signed federal income tax returns, regardless of the type of income the borrower receives (commission, salary, overtime, or bonus).**

Note: A tax transcript obtained directly from the IRS may not be used in lieu of tax returns.

GENERAL INFORMATION ON SELF-EMPLOYED BORROWERS AND INCOME ANALYSIS.

Definition: Self-Employed Borrower

A borrower with a 25% or greater ownership interest in a business is considered self-employed.

Types of Business Structures

There are four basic types of business structures. They include:

- Sole proprietorships.
- Corporations.
- Limited liability or "S" corporations.
- Partnerships.

Minimum Length of Self Employment

- Income from self-employment is considered stable, and effective, if the borrower has been self-employed for two or more years.
- Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for borrowers who have been self-employed for less than two years.

If the period of self-employment is:	Then:
Between one and two years	For the borrower's income to be effective, the borrower must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. Note: A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable.
Less than one year	The income from the borrower may not be considered effective income.

General Documentation Requirements for Self-Employed Borrowers

Self-employed borrowers must provide the following documentation **prior to consummation, regardless of whether the income is being considered for qualifying purposes:**

- Signed, dated individual tax returns, with all applicable tax schedules for the most recent two years, **as well as tax transcripts for the corresponding years; if current year tax returns are not available due to a filed extension, a copy of the extension is required (refer to [Employment & Income Documentation Standards](#) for specifics).**
- For a corporation, "S" corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules; and
- Year-to-date profit and loss (P&L) statement and balance sheet **are required for all businesses for which a borrower has a 25% or greater ownership interest, including**

Sole Proprietorships. This rule applies to all businesses, whether or not the business income is being considered for qualification purposes.

- **Third party verification of self-employment must be performed within ten business days prior to the date of consummation.**

Establishing a Self-Employed Borrower's Earnings Trend

- When qualifying income, the Broker must establish the borrower's earnings trend from the previous two years using the borrower's tax returns.
- If a borrower:
 - Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
 - Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings. **Income from a P & L statement may not be considered in the income calculation.**
- If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the Broker must base the income analysis solely on the income verified through the tax returns.
- If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

Analyzing the Business's Financial Strength

The Broker must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.

INCOME ANALYSIS: INDIVIDUAL TAX RETURNS (IRS FORM 1040).

General Policy on Adjusting Income Based on a Review of IRS Form 1040

The amount shown on a borrower's IRS Form 1040 as adjusted gross income must either be increased or decreased based on the Broker's analysis of the individual tax return and any related tax schedules.

ELITE MORTGAGE PRODUCT GUIDELINES

Guidelines for Analyzing IRS Form 1040

The table below contains guidelines for analyzing IRS Form 1040:

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	<p>An amount shown under this heading may indicate that the borrower:</p> <ul style="list-style-type: none"> • Is a salaried employee of a corporation, or • Has other sources of income. • Receives a W2/salary from his/her self-employed business. <p>This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's adjusted gross income.</p>
Business Income and Loss (from Schedule C)	<p>Sole proprietorship income calculated on Schedule C is business income.</p> <ul style="list-style-type: none"> • Depreciation or depletion may be added back to the adjusted gross income. • Deductible meals and entertainment must be backed out of the gross income.
Rents, Royalties, Partnerships (from Schedule E)	<p>Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E</p>
Capital Gain and Losses (from Schedule D)	<p>Capital gains or losses generally occur only one time, and should not be considered when determining effective income.</p> <p>However, if the borrower has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earnings trend. If the trend:</p> <ul style="list-style-type: none"> • Results in a gain, it may be added as effective income, or • Consistently shows a loss, it must be deducted from the total income. • The Seller must document anticipated continuation of income through verified assets. <p>Example: Broker / LHFS can consider the capital gains for a borrower who purchases old houses, remodels them, and sells them for profit.</p>
Interest and Dividend Income (from Schedule B)	<p>This taxable/tax-exempt income may be added back to the adjusted gross income only if it:</p> <ul style="list-style-type: none"> • Has been received for the past two years; and • Is expected to continue. <p>If the interest-bearing asset will be liquidated as a source of the cash investment, the Broker must appropriately adjust the amount.</p>
Farm Income or Loss (from Schedule F)	<p>Any depreciation shown on Schedule F may be added back to the adjusted gross income. Do not allow the use of Farm income from the subject property in qualifying ratios.</p>
IRA Distributions, Pensions, Annuities, and Social Security Benefits	<p>The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.</p>
Adjustments to Income	<p>The following income add-back adjustments are ineligible:</p> <ul style="list-style-type: none"> • IRA and Keogh retirement deductions; • Penalties on early withdrawal of savings; • Health insurance deductions; • Alimony payments.
Employee Business Expenses	<p>Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.</p>

INCOME ANALYSIS: CORPORATE TAX RETURNS (IRS FORM 1120)

Description: Corporation

A corporation is a State-chartered business owned by its stockholders.

Need to Obtain Borrower Percentage of Ownership Information

- Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the:
 - Corporate tax returns IRS Form 1120; and
 - Individual tax returns.
- When a borrower's percentage of ownership does not appear on the tax returns, the Broker must obtain the information from the corporation's accountant, along with evidence that the borrower has the right to any compensation.

Analyzing Corporate Tax Returns

- In order to determine a borrower's self-employed income from a corporation, the adjusted business income must:
 - Be determined; and
 - Be multiplied by the borrower's percentage of ownership in the business.
- The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description of Adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income. Travel and entertainment expenses should be deducted when calculating corporation earnings.
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability.
Fiscal Year vs. Calendar year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.
Mortgage Notes Due and Payable within the tax year	All mortgage notes due within the tax year must be deducted from the borrower's business income, unless evidence can be provided to show the account has since been paid in full and closed.

INCOME ANALYSIS: "S" CORPORATION TAX RETURNS (IRS FORM 1120S)

Description: "S" Corporation

- An "S" corporation is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.
- Income for owners of "S" corporations comes from IRS Form W-2 wages, and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's individual IRS Form 1040.

Analyzing "S" Corporation Tax Returns

- "S" corporation depreciation and depletion may be added back to income in proportion to the borrower's share of the corporation's income.
- In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one year, **unless documentation can be provided to support the account has been paid in full and closed. Travel and entertainment expenses must also be deducted when calculating the income.**

Important: The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating and must be considered in the income analysis.

The following guidance should be considered when using self-employment income for qualifying:

- If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required.
- If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying:
 - the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and
 - the business has adequate liquidity to support the withdrawal of earnings.

INCOME ANALYSIS: PARTNERSHIP TAX RETURNS (IRS FORM 1065).

Description: Partnership

- A partnership is formed when two or more individuals form a business and share in profits, losses, and responsibility for running the company.
- Each partner pays taxes on his/her proportionate share of the partnership's net income.

Analyzing Partnership Tax Returns

- Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040.
- The Broker must review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the borrower's share of income.
- Income must also be reduced proportionately by the total obligations payable by the partnership in less than one year, **unless documentation can be provided to support the account has been paid in full and closed. Travel and entertainment expenses must also be deducted when calculating the income.**

Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating and must be considered in the income analysis.

- **The following guidance should be considered when using self-employment income for qualifying:**
 - If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required.
 - If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying:
 - the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and;
 - the business has adequate liquidity to support the withdrawal of earnings.

NON-EMPLOYMENT RELATED BORROWER INCOME

Alimony, Child Support, and Maintenance Income Criteria

Alimony, child support, or maintenance income maybe considered effective if:

- Payments are likely to be received consistently for the first three years of the mortgage;
- The borrower provides the required documentation, which includes a copy of the:
 - Final divorce decree;
 - Legal separation agreement;
 - Court order; or
 - Voluntary payment agreement; and
- The borrower can provide acceptable evidence that payments have been received during the last 12 months, such as:
 - Cancelled checks;
 - Deposit slips;
 - Tax returns; or
 - Court records.

Notes:

- Periods **between 10 and 12 months** may be acceptable, provided the Broker can adequately document the payer's **on-time pay history**. **There can be no evidence of arrearages.**
- Child support may be "grossed up" under the same provisions as non-taxable income sources.

INVESTMENT AND TRUST INCOME

Analyzing Interest and Dividends

- Interest and dividend income maybe used as long as tax returns **and** account statements support a two-year receipt history and **three-year continuance from the date of closing**. This income must be averaged over the two years.
- Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.

ELITE MORTGAGE PRODUCT GUIDELINES

Trust Income or Loss

- Income from trusts may be used if constant payments will continue for at least the first three years of the mortgage term as evidenced by trust income documentation.
- Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:
 - Amount of the trust;
 - Frequency of distribution; and
 - Duration of payments.
- Trust account funds may be used for the required cash investment if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

Notes Receivable Income

- In order to include notes receivable income, the borrower must provide:
 - A copy of the note to establish the amount and length of payment, and
 - Evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns.
- If the borrower is not the original payee on the note, LHFS must establish that the borrower is able to enforce the note.
- **Income from notes receivable must continue for three years from the date of closing to be considered qualifying income.**

Eligible Investment Properties (Calculation is ineligible for subject investment property purchase transactions)

Follow the steps in the table below to calculate an investment property's income or loss if the property to be subject to a mortgage is an eligible investment property **(if the property was acquired subsequent to the last income tax filing)**.

1	<p>Subtract the monthly payment (PITIA) from the monthly net rental income of the subject property.</p> <p>Note: Calculate the monthly net rental by subtracting the 25% reduction for vacancies and repairs from the gross rents.</p>
2	<p>Does the calculation in Step 1 yield a positive number?</p> <p>If yes, add the number to the borrower's monthly gross income.</p> <p>If no, and the calculation yields a negative number, consider it a recurring monthly obligation.</p>

MILITARY, GOVERNMENT AGENCY, AND ASSISTANCE PROGRAM INCOME

Military Income

- Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as:
 - Income from variable housing allowances;
 - Clothing allowances;
 - Flight or hazard pay;
 - Rations; and
 - Proficiency pay.
- These types of additional pay are acceptable when analyzing a borrower's income, as long as the probability of such pay to continue is verified in writing.

Note: The tax-exempt nature of some of the above payments should also be considered.

VA Benefits

- Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the Broker receives documentation from the VA.
- Education benefits used to offset education expenses are not acceptable.

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..
- Unemployment income **may only be used for qualifying when related to seasonal unemployment and** must be reported for a minimum of two-years, **expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.**

Note: Social Security income is acceptable as provided in [Social Security Income](#).

Mortgage Credit Certificates

- If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments may be considered as acceptable income.
- Either type of subsidy may be added to gross income or used directly to offset the mortgage payment before calculating the qualifying ratios.

Home Ownership Subsidies

Home ownership subsidies that are not assistance from a public housing agency are ineligible.

- A monthly subsidy may be treated as income, if a consumer is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.
- If the consumer is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as nontaxable income and be “grossed up” by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the consumer's income from employment and/or other sources.
- Creditors may treat this subsidy as an “offset” to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios). The subsidy payment must not pass through the consumer's hands.
- The assistance payment must be:
 - Paid directly to the servicing creditor; or
 - Placed in an account that only the servicing creditor may access.

Note: Assistance payments made directly to the consumer must be treated as income

RENTAL INCOME

Analyzing the Stability of Rental Income

Rent received for properties owned by the borrower is acceptable, as long as the Broker can document the stability of the rental income through:

- A current lease **from a non-interested third party;**
- An agreement to lease from an **arms-length party;** or
- A Rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation).
- **Rental income from the subject investment property on a purchase transaction is not eligible for qualifying purposes.**
- A yearly lease which has since converted to a month-to-month lease; may only be considered acceptable when the original lease clearly contains a specific month-to-month clause, and no additional information contained in the loan file indicates the tenant named in the original lease has severed or violated the contract.
- Any gaps in documentation greater than 3 months will be ineligible. If the borrower has filed an extension for the previous year tax filing, it may be necessary to provide evidence of additional month's receipt of rental income.

A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application.

Note: The underwriting analysis may not consider rental income from any property being vacated by the borrower, except under the circumstances described in [Policy Exceptions](#) below.

Rental Income from Borrower Occupied Property

- The rent for multiple-unit property, where the borrower resides in one or more units and charges rent to tenants of other units, may be used for qualifying purposes.
- Projected rent for the tenant-occupied units only may:
 - Be considered gross income, only after deducting vacancy and maintenance factors, **if newly acquired from the time the borrower filed their most recent 1040.**
 - Not be used as a direct offset to the mortgage payment.
- **If rental income has previously been reported on the 1040(s), income would be based on the average of rental income reported on the 1040 Schedule E.**

Income from Roommates or Boarders in a Single-Family Property

- **Rental income from roommates or boarders in a single-family property occupied as the consumer's primary residence is ineligible for qualifying.**

Documentation Required to Verify Rental Income

Analysis of the following required documentation is necessary to verify all borrower rental income:

- **Two years' IRS Form 1040 Schedule E (One-year IRS Form 1040 Schedule E will be considered when rental history is less than 24 months); and**
- Current **12-month** leases/rental agreements.
- **Income from short-term rentals or e-commerce rental properties (e.g. Airbnb) is ineligible for use in qualifying**

Analyzing IRS Form 1040 Schedule E

- The IRS Form 1040 Schedule E is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss.
- Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability.
- The Broker must confirm that the borrower still owns each property listed, by comparing Schedule E with the real estate owned section of the Uniform Residential Loan Application (URLA).

Using Current Leases to Analyze Rental Income

- The borrower can provide a current signed **12-month** lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on Schedule E.

ELITE MORTGAGE PRODUCT GUIDELINES

- In order to calculate the rental income:
 - Reduce the gross rental amount by 25% for vacancies and maintenance;
 - Subtract PITI and any homeowners association dues; and
 - Apply the resulting amount to income (if positive) or recurring debts (if negative).

Exclusion of Rental Income from Property Being Vacated by the Borrower

Underwriters may not consider any rental income from a borrower's principal residence that is being vacated in favor of another principal residence, except under the conditions described in [Policy Exceptions](#) below.

Notes:

- This policy assures that a borrower either has sufficient income to make both mortgage payments without any rental income or has an equity position not likely to result in defaulting on the mortgage on the property being vacated.
- This applies solely to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040).

Policy Exceptions Regarding the Exclusion of Rental Income from a Principal Residence Being Vacated by a Borrower

When a borrower vacates a **current** principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis under the circumstance listed in the table below.

Exception	Description
Relocation	<p>The consumer is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.</p> <p>A properly executed lease agreement (that is, a lease signed by the consumer and the lessee) of at least one year's duration after the loan is closed is required.</p> <p>Evidence of the security deposit and/or evidence the first month's rent was paid to the homeowners must be obtained. Additionally, all criteria below in blue must be met.</p>
Sufficient Equity in Vacated Property	<p>The borrower has a loan-to-value ratio of 70% or less, as determined either by:</p> <ul style="list-style-type: none"> • A current (no more than six months old) residential appraisal, or • Comparing the unpaid principal balance to the original sales price of the property is not an option for determining value. <p>Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1073/Freddie Mac 465. Exterior-only appraisals are not acceptable in determining the equity position.</p>
Leased to Unrelated Third Party	The current 12-month lease must be to an unrelated arm's-length third party and must be effective as of the first payment due date of the subject mortgage loan.
Additional Documentation	Must provide evidence that the security deposit and first month's rent has been received and deposited.

NON-TAXABLE AND PROJECTED INCOME

Types of Non-Taxable Income

Certain types of regular income may not be subject to Federal tax. Such types of non-taxable income include:

- Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income;
- Certain types of disability and public assistance payments;
- Child support;
- Military allowances; and
- Other income that is documented as being exempt from Federal income taxes.

Adding Non-Taxable Income to a Borrower's Gross Income

- The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.
- The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.
- LHFS:
 - Must document and support the amount of income grossed up for any non-taxable income source, and
 - Should use the tax rate used to calculate the borrower's last year's income tax.
- **Foreign income is not eligible for use in qualifying.**

Note: If the borrower is not required to file a Federal tax return, the tax rate to use is 25 percent.

Analyzing Projected Income.

- Projected or hypothetical income is not acceptable for qualifying purposes. See below regarding projected income for new job.

Projected Income for New Job. (Executed Employment Contracts)

- Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
- The creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes fall under this category.
- The income does not qualify if the loan closes more than 60 days before the consumer starts the new job.
- **Verbal Verification of employment to support the borrower's employment has begun must be provided.**

BORROWER LIABILITIES: RECURRING OBLIGATIONS

Types of Recurring Obligation. Recurring obligations include:

- All installment loans;
- Revolving charge accounts;
- Real estate loans;
- Alimony;
- Child support; and
- Other continuing obligations.

Debt-to-Income Ratio Computation for Recurring Obligations

The Broker must include the following when computing the debt-to-income ratios for recurring obligations:

- Monthly housing expense; and
- Additional recurring charges extending ten months or more, such as:
 - Payments on installment accounts;
 - Child support or separate maintenance payments;
 - Revolving accounts **(must be included when outstanding balance exists);** and
 - Alimony.
- Debts lasting less than ten months must be included if the amount of the debt affects the borrower's ability to pay the mortgage **(43%)** during the months immediately after loan closing, **unless** the borrower has sufficient reserves **over-and-above the reserve requirements stated in these Elite Jumbo Underwriting Guidelines necessary to pay the debt in full.**

Note: Monthly payments on revolving or open-ended accounts, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less **(unless evidence exists in the file to show account has been paid in full, and the funds necessary to pay the account have been sourced).**

Revolving Account Monthly Payment Calculation

If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:

- 5% of the balance; or
- \$10

Note: If the actual monthly payment is documented from LHFS, or LHFS obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

Reduction of Alimony Payment for Qualifying Ratio Calculation

The reduction of an alimony payment from the borrower's gross income for qualifying ratios calculation is not an eligible method of income calculation.

BORROWER LIABILITIES: CONTINGENT LIABILITY

Definition: Contingent Liability

A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

Application of Contingent Liability Policies

The contingent liability policies described in this topic apply unless the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

Contingent Liability on Mortgage Assumptions

Contingent liability must be considered when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that:

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

Exemption from Contingent Liability Policy on Mortgage Assumptions

An exemption from a contingent liability on mortgage assumptions is not eligible.

Contingent Liability on Cosigned Obligations

- Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:
 - A car loan;
 - A student loan;
 - A mortgage; or
 - Any other obligation.
- If LHFS obtains documented proof **in the form of 12 months cancelled checks** that the primary obligor has been making regular payments during the previous 12 months and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

BORROWER LIABILITIES: PROJECTED OBLIGATIONS AND OBLIGATIONS NOT CONSIDERED DEBT

Projected Obligations

- Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by Broker as anticipated monthly obligations during the underwriting analysis.

All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans:

- A payment that when made will fully amortize the loan and is documented by one of the following options:
 - the credit report, or
 - the student loan creditor documentation, or
 - A payment based on 1% of the outstanding balance of the loan.
- A calculated payment that will fully amortize the loan based on the documented repayment terms provided in the file.

Debt payments deferred to a period outside the 12-month timeframe must be classified as projected obligations.

Balloon-payment notes that come due within twelve months of loan closing must be considered in the underwriting analysis.

Obligations Not Considered Debt

Obligations not considered debt, and therefore not subtracted from gross income, include:

- Federal, State, and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Automatic deductions to savings accounts;
- Child care; and
- Voluntary deductions.