



FINANCIAL SERVICES, INC.

TPO Mortgage SolutionsSM

Wholesale • Correspondent • Fulfillment

RIGHTON - JUMBO MORTGAGE GUIDELINES

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FAIR LENDING STATEMENT

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

UNDERWRITING PHILOSOPHY

All loans must be prudently underwritten utilizing the RightOn - Jumbo program guidelines and industry standard best practices. All loans must be manually underwritten and fully documented

All loans submitted to LHFS must conform to the Underwriting Guidelines.

For scenarios not specifically addressed in the following Underwriting Guidelines, please contact your sales representative, transaction manager or underwriting. Where RightOn's Underwriting Guidelines do not address an instance regarding the underwriting of a loan, TPO should default to the current version of Fannie Mae's selling guide.

PRODUCTS

PRODUCTS OFFERED

- Fully Amortizing Fixed Rate 30-year term.
- Fully Amortizing Fixed Rate 15-year term.
- Delayed Financing - Fully Amortizing Fixed Rate 30-year term.
- Delayed Financing - Fully Amortizing Fixed Rate 15-year term.

PRODUCT CODES & MATRIX

LHFS Program Name	Program Code	LHFS Program Name	Program Code
W Jumbo RightOn Fixed 30	WJ30-110	W Jumbo RightOn Delayed Finance Fixed 30	WJDF30-110
W Jumbo RightOn Fixed 15	WJ15-110	W Jumbo RightOn Delayed Finance Fixed 15	WJDF15-110

Purpose	Occupancy Status	No. of Units	Maximum Loan Amount	Maximum LTV/CLTV	Minimum FICO	Maximum DTI (%)	Minimum Reserves (Months)	Max Cash Out
Purchase & Rate Term Refinance	Primary Residence	1 Unit	\$1,500,000.00	90/90%	740	43	24	N/A
			\$1,500,000.00	80/80%	700	43	12	
			\$2,000,000.00	80/80%	700	43	15	
			\$2,500,000.00	75/75%	740	43	24	
				70/70%	720	43	24	
				75/75%	780	43	30	
		2 Unit	\$2,000,000.00	70/70%	740	43	30	
				70/70%	720	43	15	
	Second Home	1 Unit	\$1,000,000.00	80/80%	720	43	12	
			\$1,500,000.00	80/80%	740	43	18	
			\$2,000,000.00	75/75%	720	43	18	
	Investment Property	1 Unit	\$1,000,000.00	70/70%	720	43	18	
			\$1,500,000.00	70/70%	740	43	24	
			\$2,000,000.00	60/60%	760	43	24	
		2-4 Units	\$1,000,000.00	65/65%	720	43	18	
			\$1,500,000.00	65/65%	740	43	24	
			\$2,000,000.00	60/60%	760	43	24	
Cash Out Refinance	Primary Residence	1 Unit	\$1,000,000.00	80/80%	720	43	12	\$350,000.00
				75/75%	700	43	12	
			\$1,500,000.00	80/80%	740	43	15	
				75/75%	720	43	15	\$500,000.00
			\$2,000,000.00	75/75%	760	43	15	
				70/70%	740	43	15	
			\$2,500,000.00	65/65%	760	43	24	
	Second Home	1 Unit	\$1,000,000.00	70/70%	740	43	12	\$350,000.00
				65/65%	720	43	12	
			\$2,000,000.00	70/70%	760	43	15	
				65/65%	740	43	15	
			\$2,500,000.00	60/60%	760	43	24	
				60/60%	760	43	24	

BORROWER ELIGIBILITY

ELIGIBLE BORROWERS

RESIDENT AND IMMIGRATION STATUS

Lawful permanent or nonpermanent residents of the U.S. are eligible borrowers under the same terms-mortgage product, transaction type, occupancy status and LTV ratios-that are available to U.S. Citizens.

- US Citizens
- Non-US Citizens
 - Non-US Citizens who are lawful permanent or non-permanent residents of the United States, as defined by the INS, are eligible borrowers.
 - Identification Requirements:
 - Non-US Citizens must provide non-expired official identification to confirm and document the applicant's immigration status
 - Documentation must include:
 - Identification type and number
 - Place of issuance
 - Issue and expiration dates

PERMANENT RESIDENT, LAWFUL PERMANENT RESIDENT OR GREEN CARD HOLDER

A foreign national that has been officially granted immigration benefits, which includes permission to permanently reside and take employment in the US.

The borrower must maintain permanent resident status and can be removed from the US if certain conditions of this status are not met.

Required Documentation:

- Permanent Resident Card with photo (I-551) also known as a Green Card with no expiration

Or;

- Permanent Resident Card with photo (I-551) with expiration and accompanied by INS Form I-751 (to remove conditions)

Or;

- An unexpired foreign passport with an unexpired I-551 stamp and date.

NON-PERMANENT RESIDENTS

A foreign national who has been officially granted immigration benefits, which includes permission to temporarily reside and take employment in the US.

The visa holder must maintain the temporary US resident status and can be removed from the US if certain conditions of this status are not met (not including visa expiration).

Evidence of preliminary permission of a lawful non-immigrant is validated by issuance of a visa by a consulate outside of the US.

Required Documentation:

- Evidence of employment in the US including a USCIS Employment Authorization Document (EAD)(I-766)

Or;

- An unexpired non-immigrant visa stamp with an entry.
- The following Visas are acceptable:
 - E Series
 - G Series
 - H Series
 - L Series
 - O Series

PERMANENT RESIDENT ALIENS WITH EVIDENCE OF LAWFUL RESIDENCY

- Must be employed in the US for the past twenty-four (24) months.

NON-PERMANENT RESIDENT ALIENS MUST MEET THE FOLLOWING REQUIREMENTS

- Must have an unexpired passport from their country of citizenship containing INS form I-94 which must be stamped Employment Authorized
- An Employment Authorization Card along with a copy of the Petition for Non-Immigrant Worker (form I-140) in file
- The borrower(s) must have a minimum of 2 years residency, with the likelihood of employment continuance for at least 3 years
- Owner Occupied only, Single Family, PUD, and Condo
- Visas accepted are H1B, H2B, L-1, E-1, E-2, O, R-1 and G Series
- Visa must have a minimum remaining duration of 2 years with a letter of intent from the employer to renew
- Borrower must have a 5-year history in the same line of work
- Borrowers with diplomatic immunity or A1, A2, A3 Visas are ineligible

NON-OCCUPANT CO-BORROWERS ARE ALLOWED WITH THE FOLLOWING RESTRICTIONS

- Primary residence – One (1) Unit Property.
- Purchase and rate & term refinance transactions only.
- Max loan amount \$1,000,000
- Max LTV/CLTV 80% (or less depending on program).
- No minimum down payment required from the occupant borrower, down payment and reserves may be the occupant borrower or non-occupant co-borrower.
 - Additional six (6) months reserves required.
 - Non-occupant co-borrower must be a family member.
 - Blended ratios allowed with a maximum 43%DTI.
 - Transaction must be an arm's length transaction.

INTER VIVOS REVOCABLE TRUST

An inter vivos (living) revocable trust is a trust that (i) an individual creates during his or her lifetime, (ii) becomes effective during its creator's lifetime, and (iii) can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime. The Firm will accept vesting in an inter vivos revocable trust for a first lien mortgage that is secured by a one-family primary residence or a second home so long as the following eligibility criteria is satisfied.

- The inter vivos revocable trust must be established by a natural person. It may be established solely by one individual or jointly by more than one individual.
- No inter vivos revocable trusts that permit powers of attorney will be permitted.
- A copy of the fully executed trust agreement with all amendments must be provided to verify the terms of the trust, or for California loans, a Certification, pursuant to California Probate Code Section 18100.5, executed by all of the current trustee(s) of the named trust.
- An inter vivos revocable trust will be considered eligible vesting if it meets the following requirements:
 - The trust must be established by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime;
 - The trust must be one in which the individual establishing the trust has reserved to himself or herself the right to revoke the trust during his or her lifetime;
 - The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary; provided, that the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. For owner-occupied properties, at least one individual establishing the trust must occupy the security property and sign all applicable mortgage loan documents;
 - The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals, if there are two or more) or an institutional trustee that customarily performs trust functions in (and is authorized to act as trustee under the laws of) the relevant state; and
 - The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the “borrower(s)” under the mortgage or deed of trust note.
- The property must be a one-family primary residence, second home
- Title to the mortgaged property may be vested: (i) solely in the trustee(s) of the inter vivos revocable trust, or, (ii) jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or, (iii) in the trustee(s) of more than one inter vivos revocable trust;
- The title insurance policy (or ownership report, where applicable) must ensure full title protection to the Seller and must state that title to the mortgaged property is vested in the trustee(s) of the inter vivos revocable trust. Moreover, the title insurance policy must not list any exceptions with respect to the trustee(s) holding title to the mortgaged property or to the trust;
- Title held in the trust must not diminish the mortgagee’s rights as a creditor, including the right to have full title to the security property vested in the mortgagee should foreclosure proceedings have to be initiated to cure a default under the terms of the related mortgage; and
- The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a co-borrower).

FIRST-TIME HOMEBUYER

First-Time Homebuyer is defined as a borrower who has not owned a home in the last three (3) years. For loans with more than one (1) borrower, where at least one (1) borrower has owned a home in the last three (3) years, first-time homebuyer requirements do not apply.

- Maximum loan amount is \$1,500,000.
 - 720 Minimum FICO score
 - Primary residence only
 - Maximum 80% LTV/CLTV/HCLTV
 - Minimum of twelve (12) months reserves
 - Maximum LTV/CLTV of 80%

INELIGIBLE BORROWERS

- Borrowers with diplomatic status
- Foreign National Borrowers
- Life Estates
- Non-Revocable Trusts
- Guardianships
- LLCs, Corporations or Partnerships
- Land Trusts, except for Illinois Land Trust
- Borrowers with any ownership in a business that is federally illegal, regardless if the income is not being considered for qualifying.

MULTIPLE FINANCED PROPERTIES

The number of 1-4 unit financed properties, including the borrower's primary residence and subject property are limited to a maximum of four (4) properties.

Borrower(s) limited to four (4) 1-4-unit residential property loans with LHFS, and not to exceed \$5,000,000.

OCCUPANCY

PRIMARY RESIDENCE

Primary residences for 1-2 units (SFR, condo, townhome or PUD) property.

SECOND HOME

Second home residences for one (1) unit (SFR, condo, townhome or PUD) property.

- Must be a reasonable distance away from borrower's primary residence.
- Must be occupied by the borrower for some portion of the year.
- Must be suitable for year-round use.
- Must not be subject to a rental agreement and borrower must have exclusive control over the property.
- Any rental income received on the property cannot be used as qualifying income.

INVESTMENT PROPERTY (NON-OWNER OCCUPIED)

Investment properties for 1-4 units.

ELIGIBLE TRANSACTION TYPES

PURCHASES

ARM's Length Transaction

- The transaction is treated as a purchase if the funds from the permanent loan proceeds will be used for paying off an interim construction loan (which may or may not include repayment of lot financing) and/or to reimburse the borrower for documented acquisition or construction costs. See Construction Costs section in this chapter.
- If the lot was acquired 12 or more months before applying for the construction financing – or if the lot was acquired through an inheritance or gift (regardless of the date of acquisition) – the LTV/CLTV/HCLTV is based on the lesser of:
 - The current appraised value for the property (lot and improvements) or
 - The sum of the documented construction costs and the current appraised value of the lot. See Construction Costs section in this chapter.
- If the lot was acquired within the 12 months preceding the date of the application for construction financing, the LTV/CLTV/HCLTV is based on the lesser of:
 - The current appraised value for the property (lot and improvements) or
 - The total acquisition costs (the sum of construction costs and the lower of the sales price or current appraised value of the lot). See Construction Costs section in this chapter

Non-ARM's Length Transaction

See [Non-ARM's Length Transactions](#) section for eligibility.

REFINANCE TRANSACTIONS

RATE AND TERM REFINANCE

The new loan amount is limited to pay off the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaid items.

- If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve (12) months and total draws do not exceed \$2000 in the most recent twelve (12) months.
- A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months.
- A seasoned equity line is defined as not having draws totaling over \$2000 in the most recent twelve (12) months. Withdrawal activity must be documented with a transaction history.
- Max cash back at closing is limited to 1% of the new loan amount.

Properties inherited less than twelve (12) months prior to application date can be considered for a Rate and Term refinance transaction if the following requirements are met:

- Must have clear title or copy of probate evidencing borrower was awarded the property.
- A copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries.
- Borrower retains sole ownership of the property after the pay out of the other beneficiaries.
- Cash back to borrower not to exceed 1% of loan amount.

DELAYED PURCHASE REFINANCING

Delayed Purchase Refinancing is allowed with the following requirements:

- Property was purchased by borrower for cash within six (6) months of the loan application. HUD-1/CD from purchase reflecting no financing obtained for the purchase of the property. Preliminary title reflects the borrower as the owner and no liens.
- Funds used to purchase the property are fully documented and sourced and must be the borrower's own funds (no gift funds or business funds).

- Funds drawn from a HELOC on another property owned by the borrower, funds borrowed against a margin account or funds from a 401(k) loan are acceptable if the following requirements are met:
 - The borrowed funds are fully documented
 - The borrowed funds are reflected on the Closing Disclosure (CD) as a payoff on the new refinance transaction
- LTV/CLTV/HCLTV for Rate and Term refinances must be met. The loan is treated as a Rate and Term refinance except for primary residence transactions in Texas.

LIMITED CASH-OUT REFINANCE

The transaction is treated as a limited cash-out refinance when no loan proceeds are disbursed to the borrower and the proceeds are used to pay off an interim construction loan and allowable closing costs (which may include lot financing).

The borrower must hold legal title to the lot and be named as the borrower for the construction loan.

Desktop Underwriter, Loan Product Advisor and Manually Underwritten Loans Arm's Length / Non-Arm's length Transactions

See [Non-ARM's Length Transactions](#) section for eligibility.

If the lot was acquired 12 or more months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the current appraised value of the property (lot and improvements).

If the lot was acquired within 12 before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of:

- The current appraised value of the property (both the lot and improvements) or
- The total acquisition costs (the sum of construction costs and the lower of the sales price or the current appraised value of the lot). See [Construction Costs](#) section in this chapter.

Document the sales price of the lot with a copy of either the purchase contract or the related HUD-1/CLOSING DISCLOSURE/Closing Disclosure Statement.

Jumbo Loans Arm's length Transactions

The LTV/CLTV is based on the appraised value of the property (both lot and improvements); regardless of the length of time, the borrower had held title to the lot.

Non-Arm's Length Transactions

See [Non-ARM's Length Transactions](#) section for eligibility.

If the lot was acquired 12 or more months before applying for the construction financing, or if the lot was acquired through an inheritance or gift (regardless of the date of acquisition) the LTV/CLTV is based on the lesser of:

- The current appraised value for the property (lot and improvements) or
- The total acquisition costs (the sum of construction costs and the lower of the sales price or current appraised value of the lot). See the [Construction Costs](#) section in this chapter.

If the lot was acquired within the 12 months preceding the date of the application for construction financing, the LTV/CLTV is based on the lesser of:

- The current appraised value for the property (lot and improvements) or
- The total acquisition costs (the sum of construction costs and the lower of the sales price or current appraised value of the lot). See the [Construction Costs](#) section in this chapter.

Document the sales price of the lot with a copy of either the purchase contract or the related HUD-1/CLOSING DISCLOSURE/Closing Disclosure Statement.

CASH-OUT REFINANCE

The transaction is treated as a cash-out refinance when any loan proceeds are disbursed to the borrower as reimbursement for the undocumented costs of improvements paid with the borrower's own cash or for appreciated value (of the lot improvements).

Desktop Underwriter, Loan Product Advisor and Manually Underwritten Loans - Arm's Length / Non-Arm's Length Transactions

See [Non-ARM's Length Transactions](#) section for eligibility.

If the lot was acquired 12 or more months before applying for the construction financing, the LTV/CLTVH/CLTV is based on the current appraised value of the property (both the lot and improvements). If the lot was acquired within 12 months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of:

- The current appraised value of the property (both the lot and improvements) or
- The total acquisition costs (the sum of construction costs and the lower of the sales price or current appraised value of the lot). See [Construction Costs](#) section in this chapter.

Jumbo Loans Arm's Length Transactions

If the lot was acquired 12 or more months before applying for the construction financing, the LTV/CLTV is based on the current appraised value of the property (both the lot and improvements).

If the lot was acquired within the 12 months before applying for the construction financing, the LTV/CLTV is based on the lesser of:

- The current appraised value of the property (both the lot and improvements) or
- The total acquisition costs (sum of the construction costs and the lower of the sales price or current appraised value of the lot). See the [Construction Costs](#) section in this chapter.

A non-arm's length transaction is not eligible for a cash-out refinance transaction.

Borrower must have owned the property for at least six (6) months. If the property is owned free and clear and six (6) month seasoning is not met, refer to [Delayed Purchase Refinancing](#) section above.

Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand.

- Cash Out Limits
 - Cash out is defined as net proceeds distributed directly to the borrower, net of customary fees, prepayment fees and other related closing costs.
 - Cash out is limited to \$500k if subject property is lien free.
 - Refer to [matrix](#) for maximum cash out allowed.

Inherited properties may not be refinanced as a cash-out refinance prior to twelve (12) months ownership. See Rate and Term Refinances for requirements.

Cash-out refinances where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan or replenishing business funds used to purchase the property, the following guidelines apply:

- Cash-out limitation is waived if previous transaction was a purchase.
- Seasoning requirement for cash-out is waived (borrower does not have to have owned for six (6) months prior to subject transaction).
- Funds used to purchase the subject property must be documented and sourced.
- HUD-1/CD for subject transaction must reflect payoff or pay down of pledged asset/retirement account loan, secured loan, unsecured family loan or business asset account. If cash-out proceeds exceed payoff of loans, excess cash must meet cash-out limitations.
- The purchase must have been arm's length

CONSTRUCTION COSTS

For purposes of calculating the Loan-to-Value ratio on conversion of construction-to-permanent loans, the following factors must be considered when evaluating documented construction costs.

Construction costs generally include all material and labor attributed toward the completion of the subject dwelling (these costs are commonly identified as “hard” costs, or in trade lingo as “sticks and bricks”). In addition, certain limited “soft” costs may be included if they cover tangible products/services associated with the subject. Items such as professional fees for services such as architectural fees, building permits, engineering fees, and environmental impact fees, while considered soft costs, are deemed typical and an integral component of the cost of construction and can be included as construction costs.

Other “soft costs”, sometimes paid through construction loan draws, are not considered a component of the cost to construct calculation and should be deducted from the total documented costs. These non-allowed “soft costs” include, but are not limited to:

- Costs attributed to financing of the construction and/or permanent loan (construction loan closing costs)
- Real estate taxes on the property
- Insurance
- Legal
- Sweat equity

In the event the borrower is acting as general contractor, the following would not be considered allowable costs:

- Employment tax benefits paid on behalf of labor
- Profit
- Industry-related fees and dues
- Insurance premiums
- Checks made payable to “cash”
- Tools
- Hotel bills or costs for temporary housing or site visits

In certain areas, it has become common practice to tear down or raze an older dwelling and construct a new home on a highly desirable site. Typically, the original purchase price of the site included a value attributed to both the dwelling and the land beneath. While it may be acceptable to include the demolition costs in the construction costs of the new home, pay careful attention to the methodology applied when estimating the true land value versus the original purchase price of the land.

All costs incurred for material and labor on newly constructed premises should be substantiated by a construction contract.

In the absence of a construction contract, construction costs must be verified by invoices, lien waivers, or contracts for services or materials provided by sub- contractors (certain items may not be considered construction costs, e.g., bank fees, service charges, interest carry, etc.). Invoices must note the subject address or lot number and the builder or borrower's name. All costs paid must be documented by way of canceled checks, paid receipts, or a certified draw schedule from the construction lender itemizing specific work covered by each draw.

If any of these costs were covered by the borrower's own funds, all costs paid must be documented by way of canceled checks or paid receipts.

When the loan represents a non-arm's length transaction, as in the case of a borrower/builder, or an employee, relative or business associate of the builder, the cost of materials and labor plus the value of the lot must be documented. Builder's profit is not an allowable cost. If the lot was purchased less than 12 months prior to the application, the value of the lot will be based on the lower of the purchase price or land value indicated on the appraisal. The LTV will be based on the lower of the documented acquisition cost or appraised value.

CONSTRUCTION TO PERMANENT FINANCING

LHFS does not originate Construction to Permanent loans.

LHFS will consider these if the transaction was a Single-Close CTP loan, the construction and draw period have ended, and a Certificate of Occupancy issued.

The loan must be in the name of the borrower/buyer, not the builder. If the appraisal was completed with a "subject to" value, the original appraisal and final inspection (1004d) must be provided to substantiate the value and to confirm the subject property was completed according to plans and specs. A copy of the Certificate of Occupancy must also be provided

CONTINUITY OF OBLIGATION

When at least one (1) borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements has been met. If continuity of obligation is not met, the following permissible exceptions are allowed for the new refinance to be eligible:

- The borrower has been on title for at least twelve (12) months but is not obligated on the existing mortgage that is being refinanced and the borrower meets the following requirements:
 - Has been making the mortgage payments (including any secondary financing) for the most recent twelve (12) months, or
 - Is related to the borrower on the mortgage being refinanced.
- The borrower on the new refinance transaction was added to title twenty-four (24) months or more prior to the disbursement date of the new refinance transaction.
- The borrower on the refinance inherited or was legally awarded the property by a court in the case of divorce, separation or dissolution of a domestic partnership.

- The borrower on the new refinance transaction has been added to title through a transfer from a trust, LLC or partnership. The following requirements apply:
 - Borrower must have been a beneficiary/creator (trust) or 25% or more owner of the LLC or partnership prior to the transfer.
 - The transferring entity and/or borrower has had a consecutive ownership (on title) for at least the most recent six (6) months prior to the disbursement of the new loan.
- NOTE: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

SECONDARY FINANCING

- Institutional Financing only. Seller subordinate financing not allowed.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio.
- Full disclosure must be made of the existence of subordinate financing and the subordinate financing repayment terms. The following are acceptable subordinate financing types:
 - Mortgage terms with interest at market rate.
 - Mortgage with regular payments that cover at least the interest due, resulting in no negative amortization.
- Employer subordinate financing is allowed with the following requirements:
 - Employer must have an Employee Financing Assistance Program in place.
 - Employer may require full repayment of the debt if the borrower's employment ceases before the maturity date.
 - Financing may be structured in any of the following ways:
 - Fully amortizing level monthly payments
 - Deferred payments for some period before changing to fully amortizing payments
 - Deferred payments over the entire term.
 - Forgiveness of debt over time
 - Balloon payment of no less than five (5) years, or the borrower must have sufficient liquidity to pay off the subordinate lien.
- LTV/CLTV/HCLTV guidelines must be met for loans with subordinate financing.

TEXAS 50 (A) (6) REFINANCE (TEXAS EQUITY LOANS)

30-year fixed rate only.

CONSTRUCTION TO PERMANENT FINANCING

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower obtained to fund the construction of a new residence.

- Note: Units in a condo or co-op project and manufactured housing are not eligible for construction-to-permanent

A single disbursement to a builder for the purchase of a completed property is not considered a conversion of construction-to-permanent financing transaction. This is considered a standard purchase transaction.

The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the current transaction. The borrower must be the primary obligor on the mortgage or deed of trust note for the permanent financing. When paying off an interim construction loan, administer the loan using one of the following three methods.

NON-ARM'S LENGTH TRANSACTIONS

A non-arm's length transaction exists whenever the borrower has a personal or business relationship with parties to the transaction which may include the seller, builder, real estate agent, appraiser, lender, title company or other interested party. The following non-arm's length transactions are eligible:

- Family sales or transfers
- Property seller acting as their own real estate agent
- Relative of the property seller acting as the seller's real estate agent
- Borrower acting as their own real estate agent
- Relative of the borrower acting as the borrower's real estate agent
- Borrower is the employee of the originating lender and the lender has an established employee loan program.
- Evidence of employee program to be included in loan file.
- Originator is related to the borrower
- Borrower purchasing from their landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
- Gifts from relatives that are interested parties to the transaction are not allowed, unless it is a gift of equity. Real estate agents may apply their commission towards closing costs and/or prepaids if the amounts are within the interested party contribution limitations.
- Non-arm's length transactions may be acceptable on an exception basis.

INELIGIBLE PRODUCTS AND FEATURES

- High-Cost Loans (Federal, State or Local)
- Non-Standard to Standard Refinance Transactions (ATR exempt)
- Balloons
- Negative Amortization
- Graduated Payments
- Temporary Buy Downs
- Loans with Prepayment Penalties
- Convertible ARMs

NEW YORK SUBPRIME LAW

*New York – Subprime Home Loans:

Loans That meet the definition of a subprime home loan under New York law are not eligible.

LHFS will not fund loans under the RightOn program in New York for Primary residences, 1–4-unit properties, that meet the Fannie Mae conforming loan limits (to include High Balance loan amounts in certain high-cost counties). See FHFA Conforming Limits site:

<http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx>

As a reminder, the following loans are not included in the New York subprime definition:

- Primary residence, 1–4-unit properties, when loan amounts that are \$1 or more above the conforming limits (which include high balance loan amounts in certain high-cost counties)
- Second homes – any loans amount

CREDIT DOCUMENTATION REQUIREMENTS

For scenarios not specifically addressed below please contact your sales representative, transaction manager or underwriting.

CREDIT DOCUMENTS AGE

For all transaction types, credit documents may not be older than 90 days from the date of closing.

CREDIT SCORE

All borrowers must have a minimum credit score of 700.

The representative score for each borrower is:

- The middle score when three scores are obtained, or
- The lower score when two scores are obtained
- A minimum of two (2) credit scores must be available for each borrower.

TRADELINE REQUIREMENTS

- Minimum three (3) tradelines are required. The following requirements apply:
 - tradeline must be open for twenty-four (24) months and active within the most recent six (6) months.
 - remaining tradelines must be rated for twelve (12) months and may be opened or closed.

OR

- Minimum two (2) tradelines are acceptable if the borrower has a satisfactory mortgage rating for at least twelve (12) months (opened or closed) within the last twenty-four (24) months and one (1) additional open tradeline.
- Each borrower contributing income for qualifying must meet the minimum tradeline requirements; however, borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements.
- Authorized user accounts are not allowed as an acceptable tradeline.
- Non-traditional credit is not allowed as an acceptable tradeline.

DISPUTED TRADELINES

All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation can be provided that authenticates the dispute.

Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.

MORTGAGE HISTORY REQUIREMENTS

If the borrower(s) has a mortgage history in the most recent twenty-four (24) months, a mortgage rating must be obtained. The mortgage rating may be on the credit report or a VOM. Applies to all borrowers on the loan.

No more than 0X30 in the last twenty-four (24) months.

No notice of default (NOD) filed on any property in the past 7 years.

If the mortgage holder is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory mortgage history is required.

RENTAL HISTORY REQUIREMENTS

If the borrower(s) has a rental history in the most recent twenty-four (24) months, a VOR must be obtained. Applies to all borrowers on the loan.

No more than 0X30 in the last twenty-four (24) months.

If the landlord is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory rent history is required; otherwise if not related or a party to the transaction a satisfactory VOR can be provided.

DEROGATORY CREDIT

- Bankruptcy (Ch. 7, 11 and 13), Short Sale, Deed-in-Lieu, Charge-off of Mortgage Accounts – None less than seven (7) years
- Foreclosure – None in the last seven (7) years
- Judgment/Tax Lien/Collections/Charge-Offs
 - Judgments and Tax Liens must be paid
 - Medical collections are excluded regardless of amount
 - Any new charge-offs or non-medical collections within the last 12 months greater than \$1,000 per trade line, or the cumulative amount is greater than \$2,000, must be paid off.
- Consumer Credit Counseling – Borrowers who have experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Whether borrowers have or have not completed participation in the sessions before closing on the mortgage transaction is not relevant since it is the borrower's credit history that is of primary importance. (FNMA B3-5.2-01)

- Disputed Accounts – Disputed accounts are reviewed to determine current balance and derogatory information (a 30-day or more delinquency) within 2 years prior to the credit report date:
 - Zero balance and no derogatory information – no action required
 - Zero balance and derogatory information - remove and pull new credit report
 - A positive balance and no derogatory information– remove and pull new credit report
 - A positive balance and derogatory information– remove and pull new credit report A credit supplement is not allowed to document disputed accounts.

CREDIT INQUIRIES

If the credit report indicates inquiries within the most recent 120 days of the credit report, the seller must confirm the borrower did not obtain additional credit that is not reflected in the credit report or mortgage application. In these instances, the borrower must explain the reason for the credit inquiry.

If additional credit was obtained, a verification of that debt must be provided, and the borrower must be qualified with the monthly payment.

Confirmation of no new debt may be in the form of a new credit report, pre-close credit report or gap credit report.

CREDIT REPORTS-FROZEN BUREAUS

Credit reports with bureaus identified as “frozen” are required to be unfrozen and a current credit report with all bureaus unfrozen is required.

EMPLOYMENT AND INCOME

For information regarding employment and income requirements not addressed below please contact your sales representative, transaction manager or underwriting.

GENERAL DOCUMENTATION REQUIREMENTS

Residual Income Calculation required. All loans must meet a minimum of \$3,000 per month in residual income. Residual income equals Gross Qualifying Income less Monthly Debt (as included in the debt-to- income ratio).

Tax transcripts for personal tax returns for two (2) years are required when tax returns are used to document borrower's income or any loss and must match the documentation in the loan file.

W-2 transcripts for two (2) years are required to validate W-2 wages if tax transcripts are not provided and the borrower does not have any other income source or loss. The following W-2 type earnings will require tax transcripts:

- Borrower with commission-based income that is greater than 25% of borrower's total pay.
- Borrower employed by family.
- Borrower with ownership in company.

Income calculation worksheet or 1008 with income calculation. The Fannie Mae 1084, or Freddie Mac Form 91 or equivalent is required for self-employment analysis. The most recent Form 1084 or Form 91 should be used based on application date. Instructions per Form 1084 or Form 91 must be followed.

- Copy of liquidity analysis must be included in the loan file if the income analysis includes income from boxes 1, 2 or 3 on the K-1 that is greater than distributions indicated on the K-1.
- If a liquidity analysis is required and the borrower is using business funds for down payment or closing costs, the liquidity analysis must consider the reduction of those assets.

Paystubs must meet the following requirements:

- Clearly identify the employee/borrower and the employer.
- Reflect the current pay period and year-to-date earnings.
- Computer generated.

Paystubs issued electronically via email or internet, must show the URL address, date and time printed and identifying information.

Year-to-date pay with most recent pay period at the time of application and no earlier than sixty (60) days prior to the Note date.

W-2 forms must be complete and be a copy provided by the employer.

Verification of Employment Requirements below apply when income is positive and included in qualifying income:

- Verbal Verification of Employment (VVOE) must be performed no more than three (3) business days prior to the Note date. The Verbal VOE should include the following information for the borrower:
 - Date of contact
 - Name and title of person contacting the employer
 - Name of employer
 - Start date of employment
 - Employment status and job title
 - Name, phone #, and title of contact person at employer
 - Independent source used to obtain employer phone number
- Verification of the existence of borrower's self-employment must be verified through a third-party source and no more than thirty (30) calendar days prior to the Note date.

Third party verification can be from a CPA, regulatory agency or applicable licensing bureau. A borrower's website is not acceptable third-party source.

Listing and address of the borrower's business

Name and title of person completing the verification and date of verification.

- Written Verification of Employment may be required for a borrower's income sourced from commissions, overtime and or other income when the income detail is not clearly documented on W- 2 forms or paystubs. Written VOEs cannot be used as a sole source for verification of employment, paystubs and W-2s are still required.

Tax Returns must meet the following requirements when used for qualifying:

- Personal income tax returns (if applicable) must be complete with all schedules (W-2 forms, K-1s etc.) and must be signed and dated on or before the closing date.
- Business income tax returns (if applicable) must be complete with all schedules and must be signed.
- Tax transcripts must be provided to support tax returns.

TRADITIONAL VERIFIED INCOME / EMPLOYMENT

- Stable monthly income must meet the following requirements to be considered for qualifying:
 - Stable - two (2) year history of receiving the income
 - Verifiable
 - High probability of continuing for at least three (3) years

DECLINING INCOME

When the borrower has declining income, the most recent twelve (12) months should be used. In certain cases, an average of income for a longer period may be used when the decline is related to a one-time capital expenditure and proper documentation is provided. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. The employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

GAPS IN EMPLOYMENT

A minimum of two (2) years employment and income history is required to be documented.

- Gaps more than sixty (60) days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to include as qualifying income.

UNACCEPTABLE SOURCES OF INCOME

- Any unverified source
- Deferred compensation
- One-time occurrence income
- Rental income from primary residence – One (1) unit property or one unit property with accessory unit
- Rental income from second home
- Retained earnings
- Education benefits
- Trailing spouse income
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:
 - Foreign shell banks
 - Medical marijuana dispensaries
 - Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
 - Businesses engaged in any type of internet gambling.

EMPLOYMENT DOCUMENTATION REQUIREMENTS

SALARIED INCOME

- YTD paystub
- W-2s or personal tax returns – two (2) years
- W-2 transcripts or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment section.
- VVOE

HOURLY AND PART-TIME INCOME

- YTD paystub
- W-2s or personal tax returns – two (2) years
- W-2 transcripts or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment section.
- VVOE
- Stable to increasing income should be averaged over a two (2) year period.

COMMISSION INCOME

- YTD paystub
- Two (2) years W-2s if commissions are less than 25% of total income or
- Two (2) years tax returns and W-2 forms required if commissions are $\geq 25\%$ of the total income.
- W-2 transcripts or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment section.
- VVOE
- Stable to increasing income should be averaged for the two (2) years.

OVERTIME AND BONUS INCOME

- YTD paystub
- W-2s or personal tax returns –two (2) years
- W-2 transcripts or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment section.
- VVOE
- Stable to increasing income should be averaged for the two (2) years

EXPENSES

- Employee business expenses must be deducted from the adjusted gross income regardless of the income type.
- Two (2) years tax transcripts.

ALIMONY/CHILD SUPPORT/SEPARATE MAINTENANCE

- Considered with a divorce decree, court ordered separation agreement, or other legal agreement provided the income will continue for at least three (3) years.
- If the income is the borrower's primary income source and there is a defined expiration date (even if beyond three (3) years) the income may not be acceptable for qualifying purposes.
- Evidence of receipt of full, regular and timely payments for the most recent twelve (12) months.
- Two (2) years tax transcripts.

BORROWERS EMPLOYED BY FAMILY

- YTD paystub
- Two (2) years W-2s
- Two (2) years personal tax returns with two (2) years tax transcripts.
- VVOE
- Borrower's potential ownership in the business must be addressed.

CAPITAL GAINS

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

DISABILITY INCOME – LONG TERM (PRIVATE POLICY OR EMPLOYER-SPONSORED POLICY)

- Copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amount of payments, frequency of payments, and if there is an established termination date.
- Termination date may not be within 3 years of Note date; please note reaching a specific age may trigger a termination date depending on the policy.

DIVIDENDS AND INTEREST INCOME

- Personal tax returns – two (2) years with two (2) years tax transcripts with two (2) years tax transcripts.
- Documented assets to support the continuation of the interest and dividend income.

FOREIGN INCOME

- YTD paystub
- W-2 forms or the equivalent and personal tax returns reflecting the foreign earned income. Income must be reported on two (2) years US tax returns with two (2) years tax transcripts.
- VVOE
- All income must be converted to US Currency.

K-1 INCOME/LOSS ON SCHEDULE E

- If the income is positive, stable and not used for qualifying, the K-1 is not required.
- If less than 25% ownership with income used in qualifying:
 - Verification of Employment Requirements apply (see Income/Employment General Documentation Requirements).
 - Year-to-date income must be verified if the most recent K-1 is more than 90 days aged prior to Note date.
- If 25% or greater ownership with income used in qualifying:
 - Verification of Employment Requirements apply (see Income/Employment General Documentation Requirements).
 - Partnership/S-Corp and Self-Employment requirements apply.
- If the income is negative, the K-1s for the applicable years are required and if ownership is 25% or greater, see self-employment requirements below.
- Two (2) years tax transcripts.

NON-TAXABLE INCOME (CHILD SUPPORT, MILITARY RATIONS / QUARTERS, DISABILITY, FOSTER CARE, ETC.)

- Documentation must be provided to support continuation for three (3) years.
- Income may be grossed up by applicable tax amount. Tax returns must be provided to confirm income is non-taxable. Two (2) years tax transcripts to support tax returns.
- If the borrower is not required to file a federal tax return, gross-up to 125%.

NOTE INCOME

- Copy of the Note must document the amount, frequency and duration of the payment.
- Evidence of receipt for the past twelve (12) months and evidence of the Note income must be reflected on personal tax returns. Tax transcripts to support tax returns.
- Note income must have a three (3) year continuance.

PROJECTED INCOME

Projected income with an executed offer letter with employment starting within sixty (60) days of closing:

- All contingencies of the offer letter must be removed/satisfied.
- Two (2) year employment history/schooling in the same field prior to the start date.
- Borrower must qualify with base pay only.
- A paystub or written VOE (once employment has started) from the new job must be provided prior to funding.

RENTAL INCOME

All properties (except departing primary residence)

- Lease agreements must be provided if rental income is used for qualifying purposes.
 - Current lease for each rental property, including commercial properties listed in Part 1 of Schedule E of the 1040s. Rent rolls are not allowed.
 - If the current lease amount is less than the rental income reported on the tax returns, justification for using the income from the tax returns must be provided and warrant the use of the higher income. If there is no justification, the lease amount less expenses will be considered for rental income/loss.
 - For leases that have a roll over clause, or the property is in a state where all leases roll over, the following requirements must be met:
 - Copy of most recent lease.
 - Current documentation to evidence receipt of rent (copy of check or deposit into bank account) must be consistent with most recent lease.
- Personal tax returns – Two (2) years
 - For properties listed on Schedule E, rental income should be calculated using net rental income + depreciation + interest + taxes + insurance + HOA divided by applicable months minus PITIA.
 - If rental income is not available on the borrower's tax returns, net rental income should be calculated using gross rents X75% minus PITIA.
 - Two (2) years tax transcripts.
- Net rental income may be added to the borrower's total monthly income. Net rental losses must be added to borrower's total monthly obligations.
- If the subject property is the borrower's primary residence (one (1) unit property or one (1) property with an accessory unit) and generating rental income, the full PITIA should be included in the borrower's total monthly obligations.

RENTAL INCOME - DEPARTING PRIMARY RESIDENCE

- Departing residence positive rental income cannot be used to qualify. Departing residence PITIA can be offset by 75% of projected net rental income. Departing residence rental that produces a loss must be included in DTI
- Departing residence obligation can be excluded if:
 - If no contract in place –
 - Currently listed or signed letter of intent from borrower indicating they intend to list the departure residence for sale within ninety (90) days of closing on subject transaction
 - Equity in the departure residence must be documented with a 2055 exterior appraisal or full appraisal. Departure residence must have a minimum of 20% equity after deduction of outstanding liens to exclude the payment from the DTI. If less than 20% equity, the full payment must be included in the DTI
 - Required reserves for the departure residence are based on the marketing time indicated by the departure residence appraisal: If appraisal indicates marketing time of six (6) months or less = 12 months PITIA If appraisal indicates marketing time over six (6) months = 24 months PITIA
 - If under contract –
 - A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared / satisfied. The departure transaction must be closing within 30 days of the subject transaction. The pending sale transaction must be arm's length
 - No appraisal required for departure residence. The borrower must be netting a positive number from the sale of the property or assets must be accounted for to cover any funds the borrower may have to bring to closing on the sale of the departure residence

RESTRICTED STOCK AND STOCK OPTIONS

LHFS will utilize the cash sign-on bonus for Corporate new hires and recently hired employees who receive sign-on bonus supported by the future receipt of Restricted Stock Income (RSU).

- Required documentation:
 - Fully completed VOE
 - Most recent 2 years W2's
 - Two (2) most recent paystubs covering a thirty (30) day period (dated no earlier than 30 days prior to the initial loan application date)
 - Employment offer letter verifying first two (2) years sign-on bonus, if using this income to qualify.
 - Use the average of both years of bonus income if there is a decrease in the RSU's granted as a sign-on bonus.

- May be used as qualifying income if the income has been consistently received for two (2) years and is identified on the paystubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior two (2) years.
- A two (2) year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52-week average for the most recent twelve (12) months reporting at the time of application. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.
- Additional awards must be similar to the qualifying income and awarded on a consistent basis.
- There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.

RETIREMENT INCOME (PENSION, ANNUITY, 401(K), IRA DISTRIBUTIONS)

- Existing distribution of assets from an IRA, 401(k) or similar retirement asset must be sufficient to continue for a minimum of three (3) years.
 - Distribution must have been set up at least six (6) months prior to Note date if there is no prior history of receipt OR
 - Two (2) year history of receipt evidenced.
 - Distributions cannot be set up or changed solely for loan qualification purposes.
- Document regular and continued receipt of income as verified by any of the following:
 - Letters from the organizations providing the income.
 - Copies of retirement award letters.
 - Copies of federal income tax returns (signed and dated on or before the closing date) .
 - Most recent IRS W-2 or 1099 forms.
 - Proof of current receipt with two (2) months bank statements.
- Two (2) years tax transcripts.
- If any retirement income will cease within the first three (3) years of the loan, the income may not be used.

SOCIAL SECURITY INCOME

- Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first three (3) years of the loan, the income may not be used.
- Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least three (3) years.

TRUST INCOME

- Income from trusts may be used if guaranteed and regular payments will continue for at least three (3) years.
- Regular receipt of trust income for the past twelve (12) months must be documented.
- Copy of trust agreement or trustee statement showing:
 - Total amount of borrower designated trust funds
 - Terms of payment
 - Duration of trust
 - Evidence the trust is irrevocable
- If trust fund assets are being used for down payment or closing costs, the loan file must contain adequate documentation to indicate the withdrawal of the assets will not negatively affect income.

SELF-EMPLOYMENT

- Self-Employed borrowers are defined as having 25% or greater ownership or receive 1099 statement to document income. The requirements below apply for Self-Employed borrowers:
 - Income calculations should be based on the Fannie Mae Form 1084 or Freddie Mac Form 91 or equivalent income calculation form.
 - Year-to-date is defined as the period ending as of the most recent tax return through the most recent quarter ending one (1) month prior to the Note date. For tax returns on extension the entire unfiled year is also required.
 - For example: 2014 returns in file and Note date is 7/14/2015 would require 2015 YTD documentation through Q1 or through March 31, 2015. Note date of 8/14/2015 would require YTD documentation covering Q1 and Q2 or through June 30, 2015.

SOLE PROPRIETORSHIP

- Two (2) years personal tax returns signed on or before the closing date.
- Two (2) years tax transcripts to support.
- YTD profit and loss statement
- YTD balance sheet. Tax returns for prior year is not a substitute for balance sheet.
- Stable to increasing income should be averaged for two (2) years.

- NOTE: YTD P&L and YTD Balance Sheet may be waived if the borrower is a 1099 paid borrower who does not actually own a business if all the following requirements are met:
 - Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
 - Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a (Mortgage Interest, 20 (Rent/Lease) 26 (Wages) must indicate the borrower does not have expenses in these categories.
 - Analysis of Blocks 17 (Legal and Professional Services) and Block 18 (Office Expense) indicate nominal or \$0 expense.
 - Block C (Business Name) does not have a separate business name entity.
 - Year-to-date income in the form of a written VOE or pay history is provided by the employer paying the 1099. YTD income must support prior year's income.

PARTNERSHIP/S-CORPORATION

- Two (2) years personal tax returns signed on or before the closing date.
- Two (2) years tax transcripts to support.
- Two (2) years K-1s reflecting ownership percentage if counting any income from this source in qualifying (K-1 income, W-2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- Two (2) years business tax returns (1065s or 1120s) signed if 25% or greater ownership. Business returns are not required if the income reporting is positive, not declining and not counted as qualifying income.
- YTD profit and loss statement if 25% or greater ownership.
- YTD balance sheet if 25% or greater ownership.
- Stable to increasing income should be averaged for two (2) years.

CORPORATION

- Two (2) years personal tax returns signed on or before the closing date.
- Two (2) years tax transcripts to support.
- Two (2) years business returns (1120) signed if 25% or greater ownership.
- Business returns must reflect % of ownership for borrower.
- YTD profit and loss statement if 25% or greater ownership.
- YTD balance sheet if 25% or greater ownership.
- Stable to increasing income should be averaged for two (2) years.

DEBTS AND LIABILITIES

For information regarding the treatment of debts and liabilities not addressed below please contact your LHFS AE.

DEBT-TO-INCOME RATIO

Maximum DTI: 43.00%

Non-Occupant Co-Borrowers with Blended Ratios: 43.00%

QUALIFYING RATE AND RATIOS

Qualifying Rate:

- Fixed Rate loans qualify at the note rate

LIABILITY REQUIREMENTS

The monthly payment on revolving accounts with a balance must be included in the borrower's DTI, regardless of the number of months remaining. If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of \$10 or 5%.

If the credit report reflects an open-end or net thirty (30) day account, the balance owing must be subtracted from liquid assets.

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

For all student loans, whether deferred, in forbearance, or in repayment, a monthly payment must be included in the borrower's monthly debt obligation.

- If a monthly payment is provided on the credit report, the amount indicated for the monthly payment may be used in qualifying.
- If the credit report does not provide a monthly payment or if it shows \$0 as the monthly payment, the monthly payment may be one of the options below:
 - Loan payment indicated on student loan documentation indicating monthly payment is based on income-driven plan.

- For deferred loans or loans in forbearance:
 - 1% of the outstanding loan balance (even if this amount is lower than the actual fully amortizing payment) or
 - A fully amortizing payment using the documented loan repayment terms

HELOCs with a current outstanding balance with no payment reflected on the credit report may have the payment documented with a current billing statement. HELOCs with a current \$0 balance do not need a payment included in the DTI unless using for down payment or closing costs.

Lease payments, regardless of the number of payments remaining must be included in the DTI. Installment debts lasting ten (10) months or more must be included in the DTI.

Alimony payments may be deducted from income rather than included as a liability in the DTI.

If the most recent tax return or tax extension indicate a borrower owes money to the IRS or State Tax Authority, evidence of sufficient liquid assets to pay the debt must be documented if the amount due is within ninety (90) days of loan application date.

CONTINGENT LIABILITIES

Co-Signed Loans: The monthly payment on a co-signed loan may be excluded from the DTI if evidence of timely payments made by the primary obligor (other than the borrower) is provided for the most recent twelve (12) months and there are no late payments reporting on the account.

Court Order: If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided.

- Copy of court order.
- For mortgage debt, a copy of the document transferring ownership of property.
- If transfer of ownership has not taken place, any late payments associated with the repayment of the debt owing on the mortgage property should be considered when reviewing the borrower's credit profile.

Assumption with No Release of Liability: The debt on a previous mortgage may be excluded from DTI with evidence the borrower no longer owns the property. The following requirements apply:

- Payment history showing the mortgage on the assumed property has been current during the previous twelve (12) months or
- The value on the property, as established by an appraisal or sales price on the HUD-1/CD results in an LTV of 75% or less.

ASSETS AND SOURCE OF FUNDS

Beyond the minimum reserve requirements and to fully document the borrowers' ability to meet their obligations, borrowers should disclose all liquid assets.

Large deposits inconsistent with monthly income or deposits must be verified if using for down payment, reserves or closing costs. Lender is responsible for verifying large deposits did not result in any new undisclosed debt.

Asset verification by a Fannie Mae approved asset validation provider is allowed in lieu of 2 months statements provided by the borrower. The asset verification must provide 60 days of account activity and include all items normally indicated on bank statements.

Business funds can be used for down payment. Personal and business tax returns for the entity the funds are being withdrawn from and a year-to-date profit and loss statement and balance sheet are required. Business funds may not be counted towards cash reserves and a letter is required from a qualified disinterested third-party CPA confirming:

- the amounts of business assets that can be used must correspond to the borrower's percentage of ownership in the business,
- the funds are not a loan, and
- withdrawal of the funds will not adversely affect the business.

Asset Type	% Eligible for Calculation of Funds	Additional Requirements
Checking / Savings / Money Market / CDs	100%	Two (2) months most recent statements.
Publicly Traded Stocks / Bonds / Mutual Funds	100%	Two (2) months most recent statements. Non-vested stock is ineligible. Margin account and/or pledged asset balances must be deducted.
Retirement Accounts (401(k), IRAs etc.)	<p>If borrower is >59 ½, then 70% of the vested value after the reduction of any outstanding loans.</p> <p>If borrower is <59 ½, then 60% of the vested value after the reduction of any outstanding loans.</p>	<p>Most recent statement(s) covering a two (2) month period.</p> <p>Evidence of liquidation if using for down payment or closing costs.</p> <p>Evidence of access to funds required for employer-sponsored retirement accounts.</p> <p>Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves.</p>
Cash Value of Life Insurance / Annuities	100% of value unless subject to penalties.	Most recent statement(s) covering a two (2) month period.
Gift Funds	Gift funds may be used once borrower has contributed 5% of their own funds.	<p>Donor must be family member, future spouse, or domestic partner.</p> <p>Executed gift letter with gift amount and source, donor's name, address, phone number and relationship.</p> <p>TPO must verify sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account.</p> <p>Acceptable documentation includes the following:</p> <ul style="list-style-type: none"> Copy of donor's check and borrower's deposit slip. Copy of donor's withdrawal slip and borrower's deposit slip. Copy of donor's check to the closing agent. A settlement statement/CD showing receipt of the donor's gift check.

RESERVE REQUIREMENTS

Asset reserves are the borrower's accessible and liquid cash position (or near liquid assets) after the loan transaction has closed and funded. To be considered an asset reserve, the cash and other liquid assets must be easily converted to cash. Cash out from new loan transaction cannot be used to meet reserve requirement.

To determine the amount of reserves, the borrower's monthly housing expense is calculated, which is the sum of the: (i) principal and interest; (ii) hazard and flood insurance premiums; (iii) real estate taxes; ground rent; (iv) special assessments; any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit

("PITIA"). Asset reserves are measured by the number of months of PITIA that a borrower could pay using his or her financial assets.

When a mortgage is secured by a second home the PITIA for the borrower's mortgage which is their primary residence is considered part of the borrower's monthly housing expense, since it is an existing debt obligation.

Borrowers with multiple loans must meet the reserve requirements for each individual loan basis and each additional loan must have an additional two (2) months of reserves.

FINANCING / SELLER CONCESSIONS

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender or their affiliates and/or any other party with an interest in the real estate transaction. The following restrictions for interested party contributions apply:

- May only be used for closing costs and prepaid expenses and may not be used for down payment or reserves.
- Maximum interested party contribution is limited to 6% for primary and second home transactions with LTVs ≤80%.

All seller concessions must be addressed in the sales contract, appraisal and HUD-1/CD. A seller concession is defined as any interested party contribution beyond the stated limits (as shown in the prior section, financing concessions) or any amounts not being used for closing costs or prepaid expenses.

PROPERTY

ELIGIBLE PROPERTY TYPES

- 1-2 Unit Owner Occupied Properties
- 1 Unit Second Homes
- 1-4 Unit Investment Properties
- Condominiums – Attached – Warrantable
 - Limited review allowed for attached units in established condominium projects:
 - Eligible transactions as per Fannie Mae guidelines.
 - CPM or PERS allowed
 - Full Review allowed. Warranty to Fannie Mae full review guidelines
 - Projects with 2-4 units – no condominium review or condominium warranty is required. Fannie Mae basic requirements apply.
 - Condominium documents to support condominium eligibility review must be no older than 120 days from Note date.
- Condominiums – Detached (including site condominiums)
 - No condominium review or condominium warranty is required. Fannie Mae basic requirements apply.
- Cooperatives
 - In order for a co-op to be eligible, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The file must contain evidence regarding the project's compliance with Section 216 (See FNMA guides for more specifics).
 - The co-op housing project must be designed principally for residential use and consist of two or more units and be in an area that has a demonstrated market acceptance for the co-op form of ownership as reflected by availability of similar comparable sales for co-op units in the market area all projects must be owned fee simple.
 - TPO is responsible for determining that the co-op corporations hold title to the property of the co-op project, including dwelling units. Co-op projects where the borrower (not the co-op corporation) owns his or her dwelling unit in the project will not be eligible.
 - Co-op share loans in these projects are commonly referred to as “land-home” or “land- lease” co-op projects and are not acceptable.
 - The co-op corporation must have good and marketable title to the property, including the dwelling units and amenities.
 - The project premises must be free and clear of liens and encumbrances. Manufactured housing projects not allowed
 - Newly constructed or conversion of existing buildings are allowed.
 - All units, common areas, and facilities within the project must be 100% complete.
 - The project cannot be subject to additional phasing or annexation.

- All construction and rehabilitation for the project must be completed in a professional manner before funding.
- Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.
- The project's most recent operating budget audited financial statements, or corporate tax returns must be consistent with the nature of the project, provide for adequate cash flow to service the current debt and operating expenses, and must provide for adequate replacement and operating reserves.
- If the most recent budget is not available, the lender may rely on a review of the co-op corporation's most recent audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met.
- The project must have a good financial record, with no more than 15% of the owners being more than 60 days delinquent in the payment of their financial obligations to the co-op corporation.
- If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower's monthly liabilities for debt-to-income ratio qualifying purposes. The units in the project must be owned in fee simple.
- The co-op corporation must have the sole ownership interest in the project's facilities, common elements, and limited common elements, except as noted below.
- Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:
 - a description of the shared amenities subject to the arrangement;
 - a description of the terms under which unit owners in the project may use the shared amenities;
 - provisions for the funding, management, and upkeep of the shared amenities; and
 - provisions to resolve conflicts between the residential projects regarding the amenities.
 - Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.

- The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.
- Modular homes
- Planned Unit Developments (PUDs)
- Properties with ≤10 Acres
 - Maximum land value 35%
 - No income producing attributes
 - Properties with large acreage are eligible property types provided the property is non-agricultural, not zoned as rural, and no larger than ten (10) acres. It must be determined that the property is legal, conforming, and relatively common for the area. The appraisal must indicate that the current use of the property is “Highest and Best”, and includes at least one comparable similar in style, size, design and acreage (but no more than ten (10) acres).
 - Properties Subject to Existing Oil/Gas Leases must meet the following:
 - Title endorsement providing coverage to the lender against damage to existing improvements resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease.
 - No active drilling. Appraiser to comment or current survey to show no active drilling.
 - No lease recorded after the home construction date. Re-recording of a lease after the home was constructed is permitted.
 - Must be connected to public water.
 - NOTE: Properties that fall outside these parameters can be considered on an exception basis.
 - Miscellaneous: Properties with leased solar panels must meet Fannie Mae requirements.
- Acceptable Forms of Ownership:
 - Fee Simple with title vesting as:
 - Individual
 - Joint Tenants
 - Tenants in Common
 - Leaseholds must meet Fannie Mae requirements.
 - Deed/Resale Restrictions must meet Fannie Mae requirements.

Escrows may be established for funds collected by the originator or servicer. In general, loans with escrow accounts must comply with the terms and limits set forth in the Real Estate Settlement Procedures Act and its implementing Regulation X, 12 C.F.R. §1024.17, and all other applicable laws of the originator, Seller, and the loan. The use of the funds from an escrow account may include, but are not limited to: taxes, insurance (hazard, flood, and mortgage) premiums, HOA fees in the jurisdictions where the use of the escrow account for such fees is legally permitted and otherwise advisable, special assessments, ground rents, water, sewer, and other governmental impositions. Loans (including, without limitation, loans where the related properties are located in jurisdictions where a lien in favor of a HOA is superior to the lien of the related mortgage may be created through the non-payment of related HOA fees) without escrows established are subject to a price adjustment. At a minimum, taxes must be escrowed in order to avoid the loan level price adjustment.

Escrow for HPMLs: For any loan that is determined to be a Higher Priced Mortgage Loan (HPML) under TILA and its implementing regulation, 12 C.F.R. §1026.35, as may be amended from time to time, an escrow account must be established for the borrower prior to the consummation of the loan for the payment of property taxes and premiums for mortgage-related insurance, among other fees and charges. Notwithstanding the prior statement, an escrow account is not required for transactions that are otherwise exempt under 12 C.F.R. §1026.35(b)(2), though such loan may be subject to loan level price adjustments if the loan is not escrowed for tax payments.

INELIGIBLE PROPERTIES

- Condominiums
- Manufactured Homes/Mobile Homes
- Mixed-use properties
- Model Home Leasebacks
- Properties with condition rating of C5/C6
- Properties with construction rating of Q6
- Properties located in Hawaii in lava zones 1 & 2
- Properties located in areas where a valid security interest in the property cannot be obtained
- Properties >10 acres
- Properties with a private transfer fee covenant unless the covenant is excluded under 12CFR 1228 as an excepted transfer fee covenant
- Tenants-in-Common projects (TICs) Unique properties
- Working farms, ranches or orchards

PROPERTIES LISTED FOR SALE

Properties currently listed for sale (at the time of application) are not eligible.

Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met.

- Rate and Term refinance only.
- Primary and second homes only.
- Documentation provided to show cancellation of listing.
- Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing.

Cash-out refinances are not eligible if the property was listed for sale within twelve (12) months of the application date.

APPRAISAL REQUIREMENTS

Transferred appraisals are not allowed.

Appraisals must be completed for the subject transaction.

Recertification of value is not allowed. If appraisal is over 120 days old, a new full appraisal is required.

Collateral Desktop Analysis (CDA) with accompanying MLS sheets ordered from Clear Capital or an approved alternative vendor, with a similar product, is required to support the value of the appraisal. The Seller is responsible for ordering the CDA.

- If the CDA returns a value that is “Indeterminate” or if the CDA indicates a lower value than the appraised value that exceeds a 10% tolerance, then one (1) of the following requirements must be met:
 - A Clear Capital BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation of Three Reports is required. The Value Reconciliation will be used for the appraised value of the property. The Seller is responsible for ordering the BPO and Value Reconciliation through Clear Capital.
 - A field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. The Seller is responsible for providing the field review or 2nd full appraisal.

If two (2) full appraisals are provided, a CDA is not required.

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

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

Higher-Priced Mortgage Loans (HPML)

- If the property was acquired by the seller less than 90 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 10% then a second full appraisal is required. Bank owned properties are not exempt.
- If the property was acquired by the seller between 91-180 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 20% then a second full appraisal is required. Bank owned properties are not exempt.
- If a second appraisal is required for one of the above two reasons, the borrower may only be charged for one of the appraisals.

Appraisal requirements based on loan amount:

- Loan amounts up to \$1,500,000 requires 1 full appraisal
- Loan amounts more than \$1,500,000 requires 2 full appraisals

When two (2) appraisals are required, the following applies:

- Appraisals must be completed by two (2) independent companies.
- The LTV will be determined by the lower of the two (2) appraised values if the lower appraisal supports the value conclusion.
- Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled.
- If the two appraisals are done "subject to" and 1004Ds are required, it is allowable to provide one (1) 1004D. If only one (1) 1004D is provided, it should be for the appraisal that the value of the transaction is being based upon.

DISASTER DECLARATIONS AND RECERTIFICATION

Whenever an area is declared a disaster area, the Federal Emergency Management Agency (FEMA) releases disaster declaration announcements. FEMA makes available individual and public assistance when a disaster occurs.

If an area containing the subject property is eligible to receive individual assistance and/or public assistance, as designated by FEMA, the property will require a recertification of value as follows:

- An appraisal completed in an area after the disaster declaration was released (incident date) does not require a recertification. Ideally, the appraiser will comment that the property is free from damage and the disaster had no effect on the property.
- If the appraisal was completed prior to the disaster, at a minimum a re-inspection stating the property is free from damage and the disaster had no effect on the property value and marketability is required (including exterior photos of the property).
- Payment for necessary re-inspections will be the responsibility of the borrower or seller

Interior photos may be required on a case-by-case basis

The re-certification must be obtained as promptly as possible (but not until after the disaster is active) in order to ensure a timely closing, and funding of the loan.

DOCUMENTATION

- All loans must be manually underwritten and fully documented. No documentation waivers based on AUS recommendations permitted.
- Income calculation worksheet or 1008 with income calculation. Current Fannie Mae Form 1084, Freddie Mac Form 91 or equivalent is required for self-employment analysis.
- Full income and asset verification is required.
- All credit documents, including title commitment must be no older than ninety (90) days from the Note date.
- All appraisals must be no older than 120 days from the Note date. Recertification of value is not allowed. A new appraisal is required.
- Loan file must document the eight (8) Ability to Repay (ATR) rules identified in Part 1026-Truth-in-Lending (Regulation Z).
- Residual income calculation must be provided and meet the residual income requirements indicated in the Income/Employment section of this guide.
- If subject transaction is paying off a HELOC that is not included in the CLTV/HCLTV calculation, the loan file must contain evidence the HELOC has been closed.
- If the 1003, title commitment or credit documents indicate the borrower is a party to a lawsuit, additional documentation must be obtained to determine no negative impact on the borrower's ability to repay, assets or collateral.

ESCROW HOLDBACKS

- Not allowed.