



## Correspondent Manual

### Introduction

#### About Windsor Mortgage Correspondent Solutions

Windsor Mortgage, a service provided by Plains Commerce Bank, provides an ideal platform for banks and credit unions that already have a mortgage business. As a Correspondent client of Windsor Mortgage, you will have a dedicated team of professionals to help you every step of the way as we provide easy file delivery options, training, and industry expertise. Windsor Mortgage's culture and client-centric team remain focused on the seller and the seller's business model.

#### About the Correspondent Manual

The purpose of the Windsor Mortgage Correspondent Manual (hereinafter, the "Manual") is to provide the Correspondent Seller (hereinafter, the "Seller") with information regarding ongoing support, seller approval criteria, loan program requirements, pricing policies, and loan operation procedures.

#### Updates and Revisions to Seller's Guide

- Windsor Mortgage will update and revise the guide based on pertinent changes to policies, program guidelines, federal and state laws, and regulations. Windsor Mortgage will communicate to the Seller about any updates or revisions to company policies and procedures via email or posts to the website.
- At no time does the Manual supersede any agency selling guide. If there is a difference between the Manual and an agency selling guide at any time, the more restrictive of the two will supersede. Every effort will be made to keep the Manual updated.

### Seller Eligibility and On-Boarding

#### Seller Eligibility Overview

- To initially be approved by and maintain approved Seller status with Windsor Mortgage, Sellers must meet eligibility requirements considered in assessing Seller creditworthiness, character, capacity, and collateral, as well as the adequacy of the Seller's operations and control environment. In addition, approved Sellers must maintain these standards as outlined in the Seller's Mortgage Loan Purchase Agreement (MLPA), related documents, and this Manual.
- Upon entering into an agreement with Windsor Mortgage, Sellers assume certain obligations and responsibilities and agree to provide specified information to Windsor Mortgage periodically. The Seller also agrees to notify Windsor Mortgage of certain events that may impact their ability to retain their eligibility and perform their obligations under the Agreement.

## Prior Notification of Events

- **Seller is required to notify Windsor Mortgage immediately if a change occurs or is anticipated to occur:**
  - Ownership, broker of record, executive management, or corporate structure
  - Name or licensing of the company.
  - The main point of contact
  - The financial condition of the company
  - Warehouse line minimum amounts
- **The seller must immediately notify Windsor Mortgage in writing if Seller's company, individual, or entity owner(s) (10% or greater), principal offer(s), or principal director(s):**
  - Fails to maintain any applicable license or registration in each jurisdiction governing Seller's company activities
  - Becomes subject to any enforcement or investigative proceeding by any licensing or regulatory authority or agency.
  - Is named as a party or becomes involved in any material litigation.
  - Is placed on Fannie Mae's or Freddie Mac's exclusionary list, HUD's limited denial of participation list, or any other agency or private investor's exclusionary list
  - Becomes the subject of bankruptcy or has incurred or is likely to incur a material, adverse change in its/their financial condition.
  - Is a party to any investigative actions, proceedings, or lawsuits that relate to or concern Seller's agreement with Windsor Mortgage or any mortgage loans subject to that agreement
  - Is a party to an investigation, proceeding, litigation, or other events which, if resolved adversely, could have a material adverse effect on Seller's ability to originate loans or perform Seller's obligations under Seller's agreement with Windsor Mortgage?
- The seller must notify Windsor Mortgage of any adverse audit reports issued by a state or federal regulator, government agency, or government-sponsored entity within 15 business days of receipt. In addition, the Seller must immediately notify Windsor Mortgage if, at any time, the Seller is notified of any disciplinary action taken by any such regulator, agency, or enterprise agency, including any formal enforcement actions, suspension, or termination of the Seller's selling or servicing right. Seller to include a summary of findings and corrective actions prescribed.

## New Seller Approval Process Overview

- **Becoming a Windsor Mortgage Seller is a three-step process involving:**
  - Submission of a Windsor Mortgage application form and supporting documents
  - Due diligence eligibility review by Windsor Mortgage
  - Mortgage Loan Purchase Agreement execution and activation by Windsor Mortgage

## Process Requirements

### Use of Seller-Provided Documents by Windsor Mortgage

- Full file documentation and Notes must be delivered for purchase within 60 days from the Note date.
- Windsor Mortgage reviews policies, procedures, reports, and other documents provided by prospective Sellers in the initial due diligence performed by Windsor Mortgage and during the active Seller monitoring and re-certification process. In addition, Windsor Mortgage reviews those documents to determine whether Sellers meet the eligibility criteria established by Windsor Mortgage for determining Seller eligibility under its guidelines, assessing opportunities for improvement, and other lawful business-related purposes.
- In reviewing such policies, procedures, and documents, Windsor Mortgage is in no way rendering an opinion on those sufficiencies. Sellers are responsible for ensuring the adequacy of their policies and processes relating to their risk management framework and the regulatory and other requirements to which the Seller is subject. Sellers represent and warrant to Windsor Mortgage that their policies and procedures and any Mortgage Loans they sell to Windsor Mortgage meet all applicable legal and regulatory compliance requirements at the time of Mortgage Loan sale.
- All Verification of Deposit (VOD), Verbal Verifications for Employment (VVOE), Written Verifications of Employment (WVOE [form 1005]), and Verifications of Mortgage or Rent (VOM) must be sent directly by the lender and received back directly to the lender without being transmitted through the applicant or any other party. We do not allow verifications to be hand carried. Windsor Mortgage reserves the right to reverify any information provided on VVOE, WVOE, VOM, or VOD with the borrower's employer/asset holder.
- Seller is responsible for providing a copy of their fraud report (i.e., Loan Safe, Data Verify, etc.) run prior to closing for all loans submitted.

### FHA UFMIP Paid by Windsor Mortgage

- Loan must be purchased by cut off within 7 business days from the closing date or disbursement date, whichever is later, or the loan will be subject to a late fee of 4% of the UFMIP fee. Fee will be deducted on the Purchase Advise.
- Loans not purchased by cut off within 27 days from date of closing will be subject to a one-time late fee based on the current interest rate of the US Treasury Current Value of Funds Rate. This late fee will appear on the Purchase Advise if available at time of purchase or invoiced separately.
- If you choose to opt in, this will apply to all FHA loans submitted to Windsor Mortgage for purchase and cannot be handled on a case-by-case basis.
- \*UFMIP paid by the Seller will not be subject to any late fees.

### Verbal VOE Requirements

- The broker/correspondent must independently obtain a phone number and, if possible, an address for the borrower's employee. This can be accomplished by, but not limited to, using a telephone book, the internet, directory assistance, or contacting the applicable licensing bureau.
- The broker/correspondent must contact the employer, verbally or in writing, and confirm the borrower's current employment status within ten days prior to the closing date. Alternatively, the VVOE may be obtained after closing, up to the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery to Windsor Mortgage.
- If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the call's date, and the phone number's source. The written documentation should also include the name and title of the person who performed the verification for the broker/correspondent.
- **A third-party source must verify the borrower's business. Acceptable third-party sources include the following:**
  - CPA, regulatory agency, or the applicable licensing bureau, if possible.
  - By verifying a phone listing and address for the borrower's business using the internet or directory assistance
  - The business's existence must be documented within 120 days prior to the note date. Alternatively, the VVOE may be obtained after closing at the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery to Windsor Mortgage.

### Document Expiration

**The document's age is measured from the date of the document to the date the note is signed unless otherwise indicated.**

- The maximum age of credit documents is 120 days for existing construction and 120 for new construction. Credit documents include credit reports and employment, income, and asset documentation.
- For appraisals, the maximum age is 120 days.
- For Fannie Mae, on the loan application date, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date. If the last paid to date is more than 45 days, it is required to obtain documentation (e.g., VOM, credit supplement, etc.)
- The title must be dated within 90 days of closing. If greater than 90 days, a gap letter will be required, which will allow the title to be extended an additional 60 days, or an updated title commitment must be provided.

### Seller Quality Control Plan

- Windsor Mortgage required that Sellers establish and maintain Quality Control standards and procedures that comply with Agency requirements, as applicable (references below). In addition, sellers must provide Windsor Mortgage with a copy of their Quality Control Plan.
- **Agency requirements include:**
  - Fannie Mae Selling Guide (Part D, Subpart D1)
  - Freddie Mac QC requirements (Single Family Seller/Service Guide, Chapter 3401)
  - Veterans Administration Pamphlet 26-7 (Chapter 1, Section 15)
  - USDA Handbooks and publications, including HB-1-3555, Chapter 3, and Attachment 3A.

### Windsor Mortgage Quality Control Findings on Seller's Mortgage Loans

- Windsor Mortgage will apply its own Quality Control Plan and procedures to Mortgage Loans originated by the Seller and will report findings to the Seller, at the sole discretion of Windsor Mortgage, for the Seller's use in the prevention of similar occurrences. Sellers are required to respond to any significant material findings of which Windsor Mortgage notifies them. Sellers should investigate and respond with their results, supporting documentation, and specifications of the actions that were or are being taken to remedy the situation. Responses must be submitted within the time frame outlined in the notice provided.
- In addition, Seller is responsible for reporting fraud and material defects discovered due to their Quality Control process or otherwise to Windsor Mortgage and other investors, insurers, guarantors, and governmental or regulatory bodies as required by regulations or contractual agreements between the Seller and those parties.
- Mortgage Loan level information and findings from Windsor Mortgage are confidential and should be maintained and used only in compliance with Applicable Laws and regulations.
- Severe issues with Mortgage Loan quality or material findings trends, failure to report incidents of fraud or serious material defects to Windsor Mortgage, or failure to respond to Windsor Mortgage findings can result in corrective action up to and including termination of the Seller's Agreement with Windsor Mortgage. In addition, Windsor Mortgage, at its discretion or in fulfillment of Applicable Laws or investor guidelines, may report its Quality Control findings regarding Seller's Mortgage Loans to governmental or regulatory bodies, investors, insurers, or guarantors.

#### Monitoring and Recertification Process Overview

- Once approved, active Sellers are subject to ongoing monitoring and at least annual renewal. The requirement is triggered at approximately every anniversary of the Seller's initial approval date. Recertification is required for Sellers to maintain approved and active Seller status. Therefore, recertification might occur more frequently than annually if required by Windsor Mortgage.
- During the Recertification process, Windsor Mortgage assesses and analyzes the Seller's good standing, financial soundness, viability, and operational soundness, like the new Seller approval process.

## Locks

### Lock Desk Hours of Operation

- An approved seller may lock a single loan via Windsor Mortgage's online portal using the best-effort delivery option as soon as the daily rate sheet is available.
- Due to the nature of the capital markets, pricing is subject to change at any time throughout the business day without notice. Therefore, Windsor Mortgage will suspend pricing during a price change and notify that pricing is suspended. An updated rate sheet will be sent once the revised pricing has been determined. Any locks received during the suspended period are subject to the new pricing.
- **Windsor Mortgage's Lock Desk is available Monday through Friday, 7:00 am to 7:00 pm (Central Standard Time)**
  - Lock of conforming files is available from 9:30 to 11:59 pm (Central Standard Time)
  - Locking of Non-conforming files is available 9:30 am-5:30 pm (Central Standard Time)

### Best Effort Lock Policy and Process

- A Best Effort lock commitment is a lock for a specific borrower(s) with a specific property. The seller is required to deliver the loan by the commitment expiration date. The Best-Efforts price for a specific Mortgage Loan can be obtained in TPO Connect. The price displayed is an all-in price, including base price, Loan level price adjustors (LLPAs), fees, and Service Release Premiums (SRPs).
- Sellers are responsible for notifying Windsor Mortgage of any changes to committed mortgage Loans as soon as a change is discovered, irrespective of mortgage loan delivery status. Mortgage Loan changes are evaluated and assessed by Windsor Mortgage for the impact on commitment terms, price, or eligibility. Mortgage Loan changes that materially differ from commitment confirmation terms may result in re-price, relock, lock cancellation, or mortgage loan ineligibility.
- Changes to Borrower(s) or property are not allowed on committed Mortgage Loans.
- **Corrections to the Borrower name(s), Borrower information, or property address must be reviewed by the Commitment Desk. They may be subject to Worst Case Pricing, defined as the lesser of the following:**
  - Commitment price as of the most recent Lock, Relock, or Worst-Case Pricing event, plus accumulated Extension/Relock fees, plus Relock fee (as noted on the Rate Sheet in effect as of the Relock date/date)
  - The Rate Sheet Price is in effect at the date and time of this Relock for the relevant Relock Commitment term.
- Commitments expire at 11:59 pm, Central Standard Time, on the commitment's delivery due date. When the commitment associated with a mortgage loan expires, TPO Connect will not permit a mortgage loan to be delivered until it is relocked.
- A complete Mortgage Loan file must be delivered to Windsor Mortgage on or before the Delivery Due Date.

### Lock Confirmations

- If the lock submission is successful, a lock confirmation is available for Sellers to view or download shortly after submitting the lock request. Sellers with appropriate system access can view and print lock confirmations in TPO Connect.
- If you choose a lock period that expires on a weekend or holiday, the system will automatically extend the expiration date to the following business day.
- Sellers should review all lock confirmations immediately. Any questions or concerns must be communicated to the lock desk before the end of the same business day of issuance, if during lock Desk hours, or by 10 AM Central Standard Time the following business day.
- Sellers receiving multiple lock confirmations for a single mortgage loan should rely on the latest issuance, provided it is accurate in all material respects.

## Extensions on Undelivered Loans

A Rate Lock may be extended for a maximum of thirty (30) days **cumulated** and is subject to the following conditions:

- The Rate Lock Extension Fee is two bps (0.02) per day.
- Maximum three (3) extensions are permitted per loan.
- If the first extension is 30 days, the cost will be reduced to 50 bps (0.50)
- Rate lock extensions are not allowed on expired loans.
- Lock extensions must be applied no later than the actual expiration date.
- Rate lock extensions cannot expire over the weekend or Federal Holiday:

For example, if a rate lock expires on Friday, April 29, 2022, to extend the lock to Monday, May 2, 2022, a 3-day extension needs to be applied to the lock

## Extensions on Delivered Loans

A delivered loan is defined as a loan in which Windsor Mortgage receives a complete credit and legal package. Upon receipt of a delivered loan prior to the lock expiration date, Windsor Mortgage will update the extension date to the later of 7 calendar days from the delivery date or existing lock expiration date. If the loan is not in a 'clear to purchase' status on or before the new expiration date, the lock will be automatically extended five days at a cost of .020%. The maximum number of automatic extensions is (6) 5-day increments. If the loan is 'clear to purchase' prior to 4 PM CST on the lock expiration date, the lock will be automatically extended one day for free to allow for purchasing the following day. If the loan is still not purchased and has reached the maximum number of extensions, the relock will be subject to worse-case pricing.

## Relocks

All expired locks are subject to relock price. Relocking is subject to the following conditions:

- Relocking is only permitted for 15 or 30 days.
- Only one (1) relock is permitted per loan.
- Only one (1) extension is permitted on relocked loans for a maximum of 15 days.
- Relocking is based on worse-case pricing plus a relock fee as outlined below:
  - The 15-day relock fee is 25 bps (0.25)
  - The 30-day relock fee is 50 bps (0.50)
- 15-day relock is only permitted for files in underwriting approval or higher milestone
- Relock fees will be waived if the current market is better by 50 bps (0.50)
- Rate locks that have expired for 30 days or more are subject to the current market price.
- Relocks can be requested via TPO Connect but will be processed and approved only during lock desk hours.

Worse-case pricing is calculated between the price of the initial lock and the current market price for the same product and interest rate, plus the relock fee mentioned above.

## Cancellations for Mortgage Loans That Do Not Close

- Best Efforts Locks may be canceled (withdrawn by Seller) prior to Mortgage Loan delivery, generally without fees being incurred by the Seller if the mortgage loan never closes with respect to the borrower. Sellers are encouraged to cancel as soon as such action is deemed necessary.
- Best efforts Lock cancellations for mortgage loans that have not been delivered to Windsor Mortgage are executed through TPO Connect. Sellers may contact their account representative to request lock cancellations for mortgage loans delivered to Windsor Mortgage.

## Canceled in Error

Contact the lock desk immediately if a Best-Efforts Lock is canceled in error. If the lock desk does not receive the request to re-instate the best-efforts Lock before the end of business day, the Lock might be lost, and the mortgage loan may be subject to re-price and re-lock at the current market price.

## Renegotiation

Due to market volatility in interest rates, it may be necessary to renegotiate a borrower's rate lock. Rate lock renegotiations are considered under the following terms:

- The current market price for the same rate and loan product of the **initial lock** must show at least 100 bps (1 point) improvement in price.
- Only one (1) renegotiation is allowed per loan.
- Renegotiation will be considered on loans in conditionally approved or higher milestones.
- Renegotiation will be granted with the **only** purpose of benefiting the borrower by either improving the price (for Wholesale & Full-Service Channels only) or reducing the interest rate (all channels)
- Extension fees will carry over on a renegotiated file.
- Renegotiations are not allowed on relocked loans.
- The renegotiation price is capped at 50% of the market improvement \*\*Wholesale & Full-Service Channels only.

\*\*\*NDC Channel is limited to improving the Locked Rate Only on a Renegotiation

*Please get in touch with the Lock Desk for renegotiation.*



## Product Requirements

### Eligible Products

- **Windsor Mortgage will purchase non-delegated loans eligible for sale to the following agencies:**
  - Fannie Mae (FNMA)
  - Freddie Mac (FHLMC)
- **Home Mortgage Disclosure Application (HMDA)**
  - Windsor Mortgage will report Home Mortgage Disclosure Application (HMDA) data for all loans submitted to Windsor Mortgage for underwriting; Windsor Mortgage will report those applications for which Windsor Mortgage made the credit decision (whether they closed in the Seller's name).

### Equal Credit Opportunity Act (ECOA) – Non-Delegated Loans

- The Equal Credit Opportunity Act (ECOA) requires creditors to provide written notice of approval, adverse action, or counteroffer to an applicant within 30 calendar days of receiving a complete application.
- If the loan request is declined, Windsor Mortgage shall directly provide the applicant a written Adverse Action Notice that contains, at a minimum, the name and address of Windsor Mortgage and the nature of the action taken. In addition to the Adverse Action Notice, Windsor Mortgage shall provide an ECOA notice to the applicant that includes the identity of the federal agency responsible for enforcing compliance with the act. Finally, Windsor Mortgage shall disclose to the applicant that they have the right to request the reason(s) for denial within 60 days of receipt of the Adverse Action Notice, along with the name, address, and telephone number of the person who can provide the specific reason(s) for the adverse action.

### Eligibility Restrictions

- **Minimum Loan Amounts:** \$50,000.00
- **Prepayment Penalties:** Not Eligible for any loan programs
- **High-Priced Mortgages:** The Seller must confirm that the loan complies with all state and federal laws, Regulation Z, and Home Mortgage Disclosure Act (HMDA) requirements. The loan must also adhere to all underwriting and consumer protection requirements. This includes but is not limited to, the additional requirements provided within individual program guidelines (i.e., evidence of ability to repay, verification the loan meets the APOR threshold, etc.)

### Ineligible Properties

- Properties with more than one accessory unit (Granny Unit, In-Law unit, etc.)
- Vacant land or land development properties
- Properties that are not readily accessible by roads that meet local standards.
- Income-producing farms or ranches (Property must be residential to be eligible)
- Units in condo or co-op hotels
- Boarding houses
- Bed and breakfast properties.
- Properties that are not suitable for year-round occupancy, regardless of location.
- Unique properties as determined by Windsor Mortgage Underwriting

## Loan to Value

### Calculation of the LTV Ratio

- **Purchase Money Transactions**
  - Divide the original loan amount by the property value. The property value is the lower of the sales price or the current appraised value.
- **Refinance Transactions**
  - Divide the original loan amount by the property value. The property value is the current appraised value.
- **Mortgages with Financed Mortgage Insurance**
  - Divide the original loan amount plus the financed mortgage insurance by the property value. The property value is the lower of the sales price or the current appraised value.

### Calculation of the TLTV Ratio

- The lender must calculate the LTV and TLTV ratios for first mortgage loans subject to subordinate financing. For first mortgage loans subject to a HELOC, see the "Calculation of the HTLTV Ratios" guidance below. For all other subordinate liens, see the "Secondary Financing" topic subsequently presented in this document for additional information.
- **The TLTV ratio is determined by dividing the sum of the items listed below by the lesser of the sales price or the appraised value of the property.**
  - The original loan amount of the first mortgage,
  - The drawn portion (outstanding principal balance) of a HELOC and
  - The unpaid principal balance of all closed-end subordinate financing. (With a closed-end loan, a borrower draws down all funds on day one and may not make any payment plan changes or access any paid-down principal once the loan is closed.)

### Calculation of the HTLTV Ratio

- The lender must calculate the HTLTV ratio for first mortgages with subordinate financing under a HELOC. This is determined by dividing the sum of the items listed below by the lesser of the property's sales price or appraised value.
  - The original loan amount of the first mortgage,
  - The total amount of any HELOCs, whether funds have been drawn, and
  - The unpaid principal balance of all closed-end subordinate financing.

## Purchase Requirements

### Purchase

- **Fannie Mae requires at least one borrower to complete homebuyer education for the following transactions:**
  - HomeReady purchase transactions when all occupying borrowers are first-time homebuyers, regardless of the LTV.
  - Purchase transactions with LTV/CLTV/HCLTV greater than 95% when all borrowers are first-time homebuyers.
- **Meeting the Homeownership Education Requirements**
  - At least one borrower must complete the online education program or one of the below alternatives prior to the loan closing. In addition, a copy of the certificate of completion for homeownership education must be retained in the mortgage loan file.
- **Freddie Mac requires at least one borrower to complete homeownership education for the following transactions:**
  - HomePossible when all occupying borrowers are first-time homebuyers.
  - HomeOne, when all borrowers are first-time homebuyers

## Meeting the Homeownership Education Requirements

- At least one qualifying borrower must complete homeownership education before the Note date. A copy of the certificate of completion for homeownership education must be retained in the mortgage loan file. Education must be provided by one of the following:
  - An approved Mortgage Insurance Company- Essent, Genworth, MGIC, or Radian
  - A program that meets the standards of the National Industry Standards for Homeownership Education and Counseling ([www.homeownershipstandards.com](http://www.homeownershipstandards.com))
  - Freddie Mac education curriculum, CreditSmart Homebuyer U (<http://www.freddie.mac.com/creditsmart/tutorial.html>).

## Refinance Requirements

### Refinance

#### **Rate and Term (Limited Cash-out) Refinances**

A limited cash-out refinance transaction enables borrowers to pay off their existing mortgage by obtaining a new first mortgage secured by the same property. A limited cash-out will include only those loans that involve:

- The payoff of the outstanding principal balance of an existing first mortgage
- The payoff of the outstanding principal balance of an existing subordinate mortgage that was used in whole to acquire the subject property.
  - Freddie Mac only- A pay-down of the subordinate lien used to acquire the subject property is acceptable under a limited cash-out if the borrower qualifies with the remaining balance and the lien is subordinated.
- The payoff of non-delinquent real estate taxes and insurance may only be financed if an escrow account is established.
  - If state law prohibits a lender from requiring an escrow account, non-delinquent taxes and insurance due at closing may be included, and a loan is classified as a rate-and-term refinance without establishing an escrow account.
- Fannie Mae - The financing of closing costs, including prepaid expenses, if an escrow account is being established and cash back to the borrower in an amount no more than the lesser of 2% of the balance of the new refinance or \$2,000, except Texas.
- Freddie Mac - The financing of closing costs, including prepaid expenses, if an escrow account is being established and cash back to the borrower in an amount no more than the greater of 1% of the balance of the new refinance or \$2,000, except Texas.
- A short-term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage is considered a cash-out transaction. In addition, any refinance of that loan within six months will also be considered a cash-out transaction.
- Properties currently listed for sale must be taken off the market, and documentation to support the property is no longer listed must be provided before the loan is in place in a Final Clear to Close status.
- Transactions that pay off builder financing, refinancing a property from the builder's company to the builder's name is not eligible.

## Refinances to Buy Out an Owner's Interest

- **Fannie Mae**
  - A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
  - All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. In addition, except in the case of recent inheritance of the subject property, documentation must be provided to indicate that all parties jointly owned the security property for at least 12 months preceding the disbursement date of the new mortgage loan.
  - Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to Fannie Mae's underwriting guidelines.
- **Freddie Mac**
  - Freddie Mac will only consider a buy-out as a result of a divorce decree to be treated as a limited cash-out refinance if the borrower who will be acquiring the property receives no cash-out of the proceeds from the transaction, is on the mortgage being paid off and can document the borrower and co-owner jointly occupied the subject as their primary residence for a minimum of twelve months prior to the initial loan application. A copy of the final divorce decree mandating this is necessary.

## Cash-Out Refinances

- A cash-out refinance transaction enables a borrower to pay off their existing mortgage by obtaining a new first mortgage secured by the same property or enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it. The borrower can take out much of the equity they have in the property and use the proceeds for any purpose subject to applicable LTV restrictions. The mortgage amount for cash-out refinance transactions may include the unpaid principal balance of the existing first mortgage, closing costs, points, the amount required to satisfy any outstanding subordinate mortgage liens of any age, and additional cash that the borrower may use for any purpose.
- Fannie Mae and Freddie Mac consider any transaction paying off a junior lien not acquired in whole for the initial purchase transaction to be a cash-out refinance.
- All transactions involving the payoff of a blanket mortgage (multiple properties secured under one lien) will be treated as a cash-out refinance loan, and the remainder of the blanket mortgage must be paid in full.
- **A property must have been purchased or acquired by the borrower at least six months prior to the disbursement date of the new mortgage loan, except for the following:**
  - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property, e.g., divorce, separation, or dissolution of a domestic partnership.
  - The delayed financing requirements are met.
  - Fannie Mae – If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time the LLC held it might be counted towards meeting the borrower's six-month ownership requirement. To close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
  - Properties listed for sale must have been taken off the market, and documentation to support the property is no longer listed must be provided prior to the loan being in place in a Final Clear to Close status.

## Student Loan Cash-Out Refinances (Fannie Mae)

**The student loan cash-out refinance feature allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all the following requirements are met:**

- The loan must be underwritten in DU. DU cannot specifically identify these transactions but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind underwriters about the specific requirements below; however, the underwriter must confirm the loan meets all the requirements outside of DU.
- The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply; please refer to the applicable product description.
- At least one student loan must be paid off with proceeds from the subject transaction with the following criteria:
  - Proceeds must be paid directly to the student loan servicer at closing.
  - At least one borrower must be obligated on the student loan(s) being paid off.
  - The student loan must be paid in total – partial payments are not permitted.
- The transactions may also be used to pay off one of the following:
  - An existing mortgage loan (including an existing HELOC in first-lien position)
  - A single-closing construction-to-permanent loan to pay for construction costs to build the home may include paying off an existing lot lien.
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. However, exceptions are allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements.
- The transaction may be used to finance the payment of closing costs, points, and prepaid items. Except for real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount if an escrow account is established, subject to applicable law or regulation.
- The borrower may receive cash back in an amount of 2% of the new refinance loan amount or \$2,000, whichever is less.
- Unless otherwise stated, all other standard cash-out refinance requirements apply.

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a delayed financing cash-out refinance if all the following requirements are met.

## Delayed Financing

**Borrowers who purchased the subject property within the past six months, measured from the date on which the property was purchased to the disbursement date of the new mortgage loan, are eligible for a cash-out refinance if all the following requirements are met:**

- The original purchase transaction was an arms-length transaction.
- The borrower(s) must meet borrower eligibility requirements.
- The borrower(s) may have initially purchased the property as one of the following:
  - A natural person.
  - An eligible inter vivos revocable trust is when the borrower is both the individual establishing the trust and the beneficiary.
  - An eligible land trust is when the borrower is the beneficiary of the land trust or
  - An LLC or partnership in which the borrower(s) have individual or joint ownership of 100%.
  - The original purchase transaction is documented by a Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed [or similar alternative] confirming the amount paid by the grantee to the trustee may be substituted for a Settlement Statement if a Settlement Statement was not provided to the purchaser at the time of sale.)
- The preliminary title search or report must confirm that there are no existing liens on the subject property.
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the Settlement Statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. In addition, any remaining payments from the original loan balance must be included in the debt-to-income ratio calculation for the refinance transaction.
  - *Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.*
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/TLTV/HTLTV ratios for the cash-out transaction based on the current appraised value).
- All other cash-out refinance eligibility requirements are met.

## Continuity of Obligation

If a property being refinanced is owned free and clear, we must have satisfactory title work prior to closing, evidencing no liens.

### **Freddie Mac**

For all refinance transactions, a continuity of obligation must exist. An acceptable continuity of obligation, assuming that there is an outstanding lien against the property, exists when one of the following conditions is met:

- At least one borrower on the refinance mortgage was a borrower on the mortgage being refinanced or
- At least one Borrower on the refinance mortgage held title to and resided in the mortgaged Premises as a Primary Residence for the most recent 12-month period. The mortgage file contains documentation evidencing that the borrower either:
  - Has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 12-month period.
  - Is a Related Person to a borrower on the mortgage being refinanced?
- At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged Premises (for example), in the case of divorce, separation, or dissolution of a domestic partnership)
- If none of the Borrowers have been on the title to the subject property for at least six months prior to the note date of the cash-out refinance mortgage, the following requirement(s) must be met:
  - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation, or dissolution of a domestic partnership) or
  - Must meet the delayed financing requirements

## Land Contract Refinances

### Purchase

- When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract, also known as a contract or bond for deed, that was executed (signed) within the 12-month proceeding the date of the loan application the transaction will be treated as a purchase.
- The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost, defined as the purchase price indicated in the land contract, plus any costs the borrower expended for rehabilitation, renovation, or energy conservation improvements, or the appraised value of the property at the time the new mortgage loan is closed. The borrower must fully document the expenditures included in the total acquisition cost.

### Rate and Term Refinance

- When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract, also known as a contract or bond for deed, that was executed (signed) more than 12 months before the date of the loan application, the transaction will be treated as a rate and term refinance. Therefore, twelve months of seasoning must be verified with a copy of the signed land contract and 12 months of canceled checks.
- The LTV ratio for the mortgage will be determined by dividing the new loan amount by the property's appraised value when the new mortgage loan is closed.
- Cash-out refinances are not eligible when paying off a land contract.

## Texas Refinances

All refinance loans in the State of Texas will be reviewed to determine the applicable guidelines under which they must be originated, underwritten, and closed. In addition, the underwriter must review the title commitments to verify if any prior lien was a Texas Home Equity or 50(a)(6) lien.

### Refinance Eligibility

#### **Refinance loan applications must be reviewed for eligibility as follows:**

- If the existing loan(s) is not a Texas Home Equity lien, the subject transaction may be considered a rate and term transaction without applying Texas Home Equity, TX (a)(6) requirements if the following criteria are met:
  - The new loan amount is less than or equal to the unpaid principal balance, reasonable closing costs, and prepaids.
  - The new loan amount is also paying off a purchase money second.
  - A new loan also pays off or down an existing secured home improvement loan (mechanic lien).
  - A new loan is used to satisfy a court-ordered divorce equity buyout. See Exception requirements below.
  - No cash back may be received at closing.
- If it is determined that any subordinate financing to be paid off with the proceeds of the loan is not a purchase money second and not classified as a Texas Home Equity lien, the new loan will be treated as an agency cash-out transaction; however, identified as non-Texas Home Equity cash-out refinance.
- If the title commitment shows a lien originated as a Texas Home Equity lien, TX (a)(6) lien, the following criteria must be followed:
  - If the existing lien is being paid off from the proceeds of the new first mortgage, the loan will be underwritten as a Texas Home Equity cash-out refinance transaction. However, even if no new cash-out is sought, the refinance is subject to the same disclosures and closing requirements as new Texas Home Equity loans as listed below.
  - If an existing Texas Home Equity or 50(a)(6) lien is being fully subordinated (only non-(a)(6) loan(s) being paid off), the new loan can be underwritten as a rate/term.
- A refinance Conversion of a TX 50(a)(6) into a Non-TX 50(a)(6) standard refinance must meet the following:
  - The refinanced loan is signed at least a year after the original home equity loan was signed.
  - The refinanced loan cannot provide additional money to the borrower other than to cover the costs of the refinancing.
  - The refinanced loan cannot exceed 80% of the fair market value of the house, and
  - The borrower must be provided with the Notice Concerning Refinance of Existing Home Equity loan to Non-Home Equity Loan Disclosure within three days of the application and at least 12 or more days before the refinance date.

Eligible Homesteads
<ul style="list-style-type: none"> <li>• The subject property must be a one-unit primary residence, the borrower's homestead, as that term is defined under Texas law. In addition, the subject property must be residential and not be a farm, ranch, or used for any agricultural purposes.</li> <li>• Second homes and investment properties are ineligible and must have homestead exemption removed prior to closing.</li> <li>• Eligible property types are attached or detached dwellings, a unit in a condominium project, or a unit in a Planned Unit Development. In addition, eligible property types may be further restricted by the applicable loan program guidelines.</li> <li>• Homesteads located in urban areas must be no larger than 10 acres and may consist of one or more contiguous lots, together with any improvements thereon. A homestead is urban if the property is: <ul style="list-style-type: none"> <li>○ It is located within the limits of a municipality or its extraterritorial jurisdiction or a platted subdivision.</li> <li>○ Served by police protection, paid or volunteer</li> </ul> </li> </ul>
Eligibility Criteria
<ul style="list-style-type: none"> <li>• Refinance lien, fixed-rate or intermediate-term ARM with an initial fixed-rate period of not less than two years, fully amortizing, level payment, conventional mortgage. Balloon mortgages and short-term ARMs are not eligible.</li> <li>• The maximum LTV/CLTV allowable is 80% (or less based on the applicable loan program guidelines)</li> <li>• Full appraisal is required on either Form 1004 or Form 1073</li> <li>• All other Fannie Mae, Freddie Mac, or non-Agency guidelines must be met.</li> <li>• See the Texas Homestead Cash-Out Refinance product description for eligible products, additional fee limitations, and closing requirements.</li> </ul>
Applications with New Cash-Out
<p>Loan applications intended to refinance existing mortgage indebtedness, if any, and to withdraw equity from the property will be underwritten as Texas Home Equity cash-out refinance transactions. Such loans must be originated under the guidelines in Section 50(a)(6), Article XVI, of the Texas Constitution and accompanying regulations.</p>
Exception
<ul style="list-style-type: none"> <li>• Fannie Mae considers a buy-out as a result of a divorce settlement to be treated as a rate-and-term refinance and allows up to a 90% LTV if the borrower who will be acquiring sole ownership of the property receives no cash-out of the proceeds from the transaction. A copy of the final divorce decree mandating the buy-out is necessary. Freddie Mac considers such transactions a standard cash-out refinance, a non-Texas Home Equity cash-out refinance. The type of cash-out transaction, Texas Home Equity or non-Texas Home Equity, will determine the eligible loan programs, property types, loan-to-value ratios, and the disclosures and closing requirements that must be observed.</li> <li>• Loan applications not determined to fall under the requirements of Section 50(a)(6) of the Texas Constitution will follow the same eligibility standards outlined within the applicable loan program guidelines.</li> </ul>



<b>Miscellaneous Provisions</b>
<ul style="list-style-type: none"> <li>• All borrowers and all owners on the title and their respective spouses, regardless of whether owners on title or spouses' borrowers on loan, must each sign a Notice Concerning Extensions of Credit, Doc. #3640 or VMP Form 8032 (TX), as defined by Section 50(a)(6), Article XVI, Texas Constitution) as a Prior to Close condition.</li> <li>• Non-occupant co-borrowers are not allowed; all borrowers must occupy the subject property as their primary residence.</li> <li>• Power of Attorney may not be used on a Texas Home Equity loan.</li> <li>• Borrowers may only obtain one (1) Texas Home Equity loan in any 12-month period.</li> <li>• Borrowers may only obtain one (1) Texas Home Equity loan filed against the property.</li> </ul>
<b>Cooling Off Period</b>
Each Texas Home Equity/50(a)(6) loan requires a cooling-off period of at least 12 days prior to closing. The cooling off period begins from the latter of the application date or the date the last borrower, owner, or spouse signs the Notice Concerning Extensions of Credit, Doc. #3640 or VMP Form 8032 (TX) (as defined by Section 50(a)(6), Article XVI, Texas Constitution).
<b>Title Insurance</b>
<p><b>At closing, each Texas Home Equity/50(a)(6) loan requires a commitment of title insurance provided on Form T-2 and must include all standard endorsements plus the following:</b></p> <ul style="list-style-type: none"> <li>• Equity Loan Mortgage Endorsement (Form T-42)</li> <li>• Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1)</li> </ul>
<b>Texas Home Equity/50(a)(6) Right of Rescission</b>
<ul style="list-style-type: none"> <li>• In addition to the Federal Right of Rescission for primary residence refinance transactions, Section 50(a)(6), Article XVI of the Texas Constitution, provides for an additional rescission period under state law for Texas Home Equity/50(a)(6) loans.</li> <li>• The Texas 3-day right of rescission and Federal 3-day right of rescission must run after closing. The Texas 3-day right of rescission refers to calendar days, while the Federal 3-day right of rescission refers to business days. Therefore, compliance with the Federal rescission period satisfies the Texas rescission period.</li> </ul>
<b>Subordinate Financing</b>
Generally, we can approve first mortgages that are subject to first mortgage subordinate financing held by another investor if the subordinate lien is recorded and will be subordinate to our mortgage lien. The loan file must disclose subordinate financing repayment terms to the underwriter and the appraiser. Any subordinate lien(s) secured by the subject, regardless of the obligated party, must be considered when calculating the CLTV/HCLTV.
<b>Purchase Transactions</b>
For purchase transactions, a copy of the approval of the subordinate financing is required to confirm eligible terms prior to closing. In addition, a copy of the note and mortgage/deed of trust will be required at closing time.
<b>Refinance Transactions</b>
A copy of the current note and mortgage/deed of trust must be provided for refinance transactions. In addition, a recorded subordination agreement is required for all loans closing with subordinated financing.

Acceptable Subordinate Financing Types
<ul style="list-style-type: none"> <li>• Variable payment mortgages that comply with the following terms:</li> <li>• Except for HELOCs, when the repayment terms provide a variable interest rate, the monthly payment must remain constant for each 12-month period over the subordinate lien mortgage. For HELOCs, the monthly payment does not have to remain constant. <ul style="list-style-type: none"> <li>○ The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur.</li> <li>○ If the subordinate financing is from the borrower's employer. The financing may be either an unsecured loan or a mortgage and does not have to require regular payments of either principal and interest or interest-only.</li> </ul> </li> <li>• Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.</li> <li>• Mortgage terms that require interest at a market rate. If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession, and the subordinate financing amount must be deducted from the sales price.</li> </ul>
Eligible Variable Payment Terms
<p><b>Variable payments for subordinate financing are eligible if the following provisions are met:</b></p> <ul style="list-style-type: none"> <li>• Except for HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. However, the monthly payment does not have to remain constant for HELOCs.</li> <li>• The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur, except for employer subordinate financing that has deferred payments.</li> </ul>
Eligible Repayment Terms for Employer Subordinate Financing
<ul style="list-style-type: none"> <li>• If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest-only. Employer subordinate financing may be structured in any of the following ways:</li> <li>• <b>Fully amortizing level monthly payments</b> <ul style="list-style-type: none"> <li>○ Deferred payments for some period before changing to fully amortizing level payments.</li> <li>○ Deferred payments over the entire term</li> <li>○ Forgiveness of the debt over time</li> </ul> </li> <li>• The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated, either voluntarily or involuntarily, before the maturity date of the subordinate financing.</li> </ul>
Unacceptable Subordinate Financing
<ul style="list-style-type: none"> <li>• Subordinate financing with wrap-around terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage.</li> <li>• Mortgages with negative amortization except for employer subordinate financing that has deferred payments.</li> <li>• Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage, except for employer subordinate financing that has deferred payments. Subordinate loans with less than five years remaining will be acceptable if the balance owing on the subordinate lien is less than 20% of the balance owed on the 1st mortgage or if the borrower has sufficient reserves to pay off subordinate financing.</li> <li>• Community Second liens cannot be subordinated to cash-out transactions for conventional loans.</li> <li>• ELTAP lien</li> <li>• PACE liens, except for properties in CA, where the PACE obligation will subordinate</li> </ul>

## Maximum Total Loan-to-Value Ratio

- The TLTV ratio is determined by combining the unpaid principal balances of the first mortgage and all subordinate mortgages and dividing that sum by the property's value, which is the lower sales price or appraised value.
- HELOC: For mortgages that are subject to subordinate financing under a home equity line of credit, the HTLTV is obtained by dividing the sum of the first lien mortgage amount and the total HELOC credit line limit and any other secondary financing by the lesser of the purchase price or appraised value. If the credit line is reduced to qualify, documentation must be provided before closing.

## Income and Employment

### Income and Employment

- A stable and reliable flow of income is a critical consideration in mortgage loan underwriting. Therefore, individuals who change jobs frequently but can earn consistent and predictable income are also considered to have a reliable flow of income for qualifying purposes.
- To demonstrate the likelihood that a consistent income level will continue to be received for borrowers with less predictable sources of income, the lender must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial overtime pay, or employment subject to time limits, such as contract employees or tradespeople.
- When underwriting a loan in conjunction with LPA and DU, documentation requirements as outlined on the feedback/findings reports generated by LPA and DU must be obtained. The income information must be input correctly in terms of amount but categorically, e.g., commission income in the appropriate section, borrower indicated as self-employed, etc. DU and LPA may grant the ability to obtain reduced documentation to document a borrower's income. Income verification will depend upon product requirements and current Windsor Mortgage policy, i.e., when a 4506-C is required, what type of verbal verification must be performed, etc.

### Calculating Income

Individuals either receive a fixed, regular annual income, usually paid monthly, semimonthly, biweekly, or weekly, or they may work and get paid by the hour, day, or week. All receive regular compensation as a paycheck, and year-end income is reported via a W-2. However, each type of qualifying income is calculated differently.

- **Hourly:**  $\text{Hourly Rate} \times \# \text{ of Hours} \times 52 \text{ weeks} / 12 = \text{Monthly Base Income}$
- **Weekly:**  $\text{Weekly Base Salary} \times 52 \text{ weeks} / 12 = \text{Monthly Base Income}$
- **Biweekly:**  $\text{Biweekly Base Salary} \times 26 \text{ weeks} / 12 = \text{Monthly Base Income}$
- **Semi-Monthly:**  $\text{Semi-Monthly Base Pay} \times 24 \text{ pay periods} / 12 = \text{Monthly Base Income}$
- **Monthly:** Monthly Base Pay as shown (without overtime, bonus, or commissions)
- **Annually:**  $\text{Annual Rate of Pay, without overtime, bonus, or commissions} / 12 = \text{Monthly Base Pay}$

### Unacceptable Source of Income

- **Income derived from any of the following may not be used in calculating qualifying income:**
  - Income based on future wage increases.
  - Draw Income
  - VA Education Benefits
  - Income not listed on Tax Returns or income that cannot be documented and verified.
  - Income derived from self-employed Marijuana/Cannabis businesses.
- Special consideration may need to be given to income sources other than wages and salaries. Specific treatment for the other types of income is discussed in more detail in the following sections.

## Types of Income

### Alimony or Child Support

- For alimony or child support to be an acceptable stable income, it must continue for at least three years after the mortgage application date. We will accept as verification that alimony or child support will continue to be paid with a copy of the divorce decree or separation agreement if the divorce is not final that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received; any other type of written legal agreement or court decree that describes the payment terms for the alimony or child support; or any applicable state law that requires alimony, child support, or maintenance payments and specifies the conditions under which the payments must be made. Voluntary or proposed payments may not be used as income. When determining the acceptability of this type of income, the lender should take into consideration the stability of the borrower's regular receipt of the full payment due and any limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid. If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income when qualifying the borrower.
- The borrower must provide acceptable evidence of their receipt of funds for alimony or child support or maintenance payments, such as deposit slips, court records, copies of signed federal income tax returns that were filed with the IRS, or copies of the borrower's bank statements that show the regular deposit of these funds. A lender's underwriting analysis should consider the regularity and timeliness of the payments and whether the borrower received all or only part of the full amount that was due.
- Document no less than six months of the borrower's most recent regular receipt of the full payment. Full, regular, and timely payments must have been received for six months or longer to be considered stable income. Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. When a borrower receives full, regular, and timely payments for alimony or child support or maintenance for fewer than six months, the income may not be considered stable. However, if the income is adequately documented, the lender may use it to justify a higher qualifying ratio.
- When a borrower has been receiving full or partial payments for alimony or child support or maintenance on an inconsistent or sporadic basis, the income may not be considered stable or used to justify a higher qualifying ratio.

### Boarder Income

#### **Fannie Mae**

- Rental income from boarders in a 1-unit property that is also the borrower's principal residence or second home is not generally considered acceptable stable income except for the following:
  - When a borrower with disabilities receives rental income from a live-in personal assistant, whether that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income, in an amount of up to 30% of the total income that is used to qualify the borrower for the mortgage. Personal assistance typically is paid by Medical Waiver funds and includes room and board, from which rental payments are made to the borrower.
  - HomeReady has an additional exception; refer to Fannie Mae HomeReady

#### **Freddie Mac**

- Rental income from boarders in a 1-unit property that is also the borrower's principal residence, including an accessory unit, is not generally considered acceptable stable income except for the following:
  - When a borrower with disabilities receives rental income from a live-in-aide, personal aides typically are paid by Medical Waiver funds and include room and board, from which rental payments are made to the borrower. Must have receipt of income for the most recent 12 months and may be considered in an amount up to 30% of the total income used to qualify.

### Variable Income

- All income calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours or income that includes commissions, bonuses, or overtime.
- **History of Receipt:** Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered acceptable income if the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.
- **Frequency of Payment:** The lender must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below). Examples:
  - If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to calculate the current monthly bonus amount accurately. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average.
  - If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have cyclical overtime income (transportation employees who operate a snowplow in winter and package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

### Capital Gains Income

- Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered part of the borrower's stable monthly income. However, suppose the borrower needs to rely on the income from capital gains to qualify for the mortgage. In that case, copies of the borrower's signed federal income tax returns filed with the IRS for the past two years, including the related Capital Gains and Losses (Schedule D to IRS Form 1040), must be obtained. When the borrower's tax returns show that they have realized capital gains for the last two years, develop an average income from capital gains and use that amount as part of the borrower's qualifying income, if the borrower provides evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage payments.
- The sale of real estate is not acceptable as qualifying income unless documentation can establish that the borrower does this for a living.

## Minister/Clergy/Housing/Parsonage Income

- Clergy income must be reported as wage, parsonage, housing, or honorarium on filed returns to qualify. Income cannot be documented solely with a WVOE (form 1005). If the parsonage or honorarium income is not reported on the filed returns but is reflected in box 14 of the W2 or box 3 of 1099, the income can be used for qualifying purposes.
  - For example, suppose the borrower is considered self-employed, and the income is not reported on the filed returns. In that case, the income can be used for qualifying purposes if the borrower provides the IRS Form 4361, Application for Exemption from Self-Employed Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners that is marked approved and is signed by a director with the IRS. Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.
- **Freddie Mac**
  - For a newly hired transferred employee purchasing a new primary residence under an employee relocation program, a housing allowance may be considered as stable income without documented evidence of 12 months' receipt. Allowance must be likely to continue for three years.

## Converting From Part Time to Full Time

When a borrower is converting from part-time to full-time with the same employer, the income must be documented with a paystub reflecting 30 days of year-to-date earnings of full-time employment along with a WVOE (Form 1005) to document the date the borrower transitioned to full time to use the current wages.

## Disability Income – Long Term

- Disability benefit payments should be treated as acceptable income unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Benefits with a defined expiration date must have a remaining term of at least three years from the date of the mortgage application to qualify the borrower.
  - For example, suppose a borrower is receiving disability benefits that are scheduled to be discontinued when they reach a certain age. The borrower will reach that age within three years of loan closing. In that case, the lender should not count the disability benefit as a stable income. When a borrower receives short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the lender must use the amount of the long-term payments to determine the borrower's stable income.
- Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Verification of long-term disability must be documented with one of the following:
  - Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer. (insurance company, employer, or other qualified, disinterested party) to determine:
    - The borrower's current eligibility for disability benefits, and
    - The amount and frequency of the disability payments, and
    - If there is a contractually established termination or modification date
- **Freddie Mac**
  - In addition to the copy of benefits listed above, the current receipt of disability must also be verified. A bank statement must be provided if the benefit verification letter or pay statement does not support the current receipt.
  - If the policy has a pre-determined expiration date (e.g., policies provided by the employer and private insurers), obtain a copy of the certificate of coverage or other equivalent documentation evidencing the policy term.

## Employment Contracts

### Fannie Mae

- When a borrower has an employment contract but will not start prior to the close, the income may be used for qualifying, provided all the following requirements have been met:

### Eligibility

- Purchase transaction
- Principal residence
- One-unit property
- The borrower is not employed by a family member or by an interested party in the transaction.
- The borrower is qualified using only fixed-based income
- The employment start date, as shown on the employment offer or contract, must be within 90 days of the note date

### Documentation

**The borrower's offer or contract for future employment must be provided. The employment offer or contract must:**

- Identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower.
- Identify the terms of employment, including position, type, rate of pay, and start date.
- Be non-contingent. Note: If conditions of employment exist, the underwriter must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.

## Reserves

- **The underwriter must document, in addition to the number of reserves required by DU or for the transaction, one of the following:**
  - Financial reserves are sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months.
  - Financial reserves or current income sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. Current income refers to income currently being received by the borrower (or co-borrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. Current income may be used instead of or in addition to financial reserves.
- For this purpose, the underwriter may use the income the borrower expects to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, and no employment verification is required. For calculation purposes, consider any month's portion as an entire month.
- On primary residence, one-unit, and purchase transactions, when the years and months on the job in DU are 0 or blank, DU will issue a message specifying the requirements specific to these transactions. The message will indicate that if the lender does not obtain a paystub and confirms the borrower has started employment before delivery of the mortgage loan, the lender must confirm the loan meets the additional eligibility requirements of the updated policy.
- **Freddie Mac**
  - For borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided all requirements for option one in the following table are met.
- Employment and income must meet the following requirements:
  - Income must be from new primary employment or a future salary increase with the current primary employer.
  - Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and
  - The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction.
  - The start date of the new employment or future salary increase must be no later than 90 days after the note date.
  - The mortgage must be a purchase or rate and term.
  - The property must be a 1-unit primary residence.
- In addition to funds required to be paid by the Borrower and Borrower reserves, the underwriter must verify additional funds in the Borrower's depository or securities account(s) that equal no less than the sum of the monthly housing expense (PITIA) and all other monthly liabilities multiplied by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for this calculation.
- The amount of the required additional funds may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note date and start date of the new employment, whether this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase.
- Income used to reduce reserves but not qualify the borrower must follow standard income documentation requirements (e.g., paystub, W2, and VVOE).



## Employment Related Assets as Qualifying Income for Fannie Mae

The following provides the requirements for employment-related assets that may be used as qualifying income:

### Asset Requirements:

- Assets used for the monthly income stream must be owned individually by the borrower, or the co-owner of the asset must be a co-borrower of the subject property. In addition, assets must be liquid and available to the borrower.
  - Non-self-employed severance package or non-self-employed lump sum retirement package, i.e., a lump sum distribution, must be documented with a distribution letter from the employer (1099R) and deposited to a verified asset account.
  - 401(k) or IRA, SEP, or KEOGH retirement accounts, the borrower must have unrestricted access to the funds in the accounts and can only use the account if the distribution is not already set up or the distribution amount is not enough to qualify. In addition, the account and its composition must be documented with the most recent monthly, quarterly, or annual statement.
  - If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.
  - If the employment-related assets are in the form of stocks, bonds, and mutual funds, 70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets.
  - A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, or Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).
  - Ineligible Assets
  - Non-employment related assets (e.g., stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, divorce proceeds, etc.)
  - Net Documented Assets
  - Net documented assets are equal to the sum of eligible assets minus:
    - The penalty amount would apply if the account were wholly distributed at the calculation time.
    - The number of funds used for the down payment, closing costs, and required reserves.
    - 30% of the remaining value of any stocks, bonds, or mutual funds' assets

## Loan Parameters for Employment-Related Assets

Parameter	Transaction Requirements
Maximum LTV/CLTV/HCLTV	70%*
Minimum Credit Score	620 Credit Score
Loan Purpose	Purchase and Limited Cash-Out Refinance Only
Occupancy	Principal Residence and Second Home Only
Number of Units	Fannie Mae: 1 to 4 Units
Income Calculation/Payout Stream	Divide "Net Documented Assets" by the amortization term. of the mortgage loan (in months)

\*80% when the asset owner is at least 62 years old at the time of loan closing. If the asset(s) is jointly owned, all owners must be borrowers on the loans, and the borrower whose employment-related asset is being used as income must be at least 62 years old at the time of closing.

## Assets as a Basis for Repayment of Obligations for Freddie Mac

- Assets that the Borrower will use to repay their monthly obligations may qualify the Borrower for the Mortgage, provided that the requirements listed below are met. The Uniform Residential Loan Application should include information pertaining to the Borrower's employment and income, even if the Borrower qualifies for the Mortgage solely based on assets.
- **Mortgage Eligibility Requirements**
  - The assets described in the table below may only be used to qualify the Borrower if the Mortgage meets all the following requirements:
    - The Mortgage is secured by a 1- or 2-unit Primary Residence or a second home.
    - The Mortgage is either a purchase transaction or rate and term refinance.
    - The Mortgage has a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio of 80%.
- **Asset Calculation for Establishing the Debt Payment-to-Income Ratio**
  - To determine the amount used to establish the debt payment-to-income ratio, the underwriter must use the net eligible assets (as described below) divided by 240 months, regardless of the loan term.
  - The amount of net eligible assets is calculated by subtracting the following from the total eligible assets:
    - Any funds required to be paid by the Borrower to complete the transaction (e.g., Down Payment and Closing Costs)
    - Any gift funds and borrowed funds, and
    - Any portion of assets pledged as collateral for a loan or otherwise encumbered

## Asset Eligibility and Documentation Requirements

The assets described below may be used to qualify the Borrower for the Mortgage, provided that the assets meet the following requirements:

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
<ul style="list-style-type: none"> <li>• Retirement Assets</li> </ul>	<ul style="list-style-type: none"> <li>• The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA)</li> <li>• The borrower must be the side owner.</li> <li>• The asset must not currently be used as a source of income by the borrower.</li> <li>• As of the Note Date, the borrower must:</li> <li>• Have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or</li> <li>• Otherwise encumbered, without being subject to a penalty or an additional early distribution tax</li> <li>• The borrower's rights to the funds in the account must be fully vested</li> </ul>	<ul style="list-style-type: none"> <li>• Most recent retirement asset account statement</li> <li>• Documentation evidencing asset eligibility requirements are met</li> </ul>

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
<ul style="list-style-type: none"> <li>• Depository Accounts and Securities</li> </ul>	<ul style="list-style-type: none"> <li>• The Borrower must solely own assets or, if the asset is owned jointly, each asset owner must be a Borrower on the Mortgage or the title to the subject property.</li> <li>• At least one Borrower who is an account owner must be at least 62 years old.</li> <li>• As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty.</li> <li>• Account funds must be in a United States or State regulated financial institution and verified in U.S. dollars.</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined Accept: Provide an account statement covering one month or a direct account verification (i.e., VOD)</li> <li>• Standard Documentation: Provide account statement(s) covering two months or a direct account verification (i.e., VOD)</li> <li>• OR, regardless of the Documentation Level: For securities only if the Borrower does not receive a stock/security account statement.</li> <li>• Provide evidence the Borrower owns the security, and</li> <li>• Verify value using stock prices from a financial publication or web site.</li> <li>• Documentation evidencing asset eligibility requirements are met.</li> <li>• Sourcing deposits:</li> <li>• The underwriter must document the source of funds for any deposit exceeding 10% of the Borrower's total eligible assets in depository accounts and securities and verify the deposit does not include gifts or borrowed funds or reduce the eligible assets used to qualify the Borrower by the amount of the deposit.</li> <li>• When the source of funds can be identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset sources in the Mortgage file, the underwriter is not required to obtain additional documentation.</li> </ul>

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
<ul style="list-style-type: none"> <li>Assets from the sale of the Borrower's business</li> </ul>	<ul style="list-style-type: none"> <li>The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account.</li> <li>Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the Borrower's business.</li> <li>The proceeds from the sale of the business must be immediately accessible in their entirety.</li> <li>The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest, or seller-held notes to a buyer of a business.</li> </ul>	<ul style="list-style-type: none"> <li>Most recent three months' depository or securities account statements</li> <li>Fully executed closing documents evidencing the final sale of the business, including sales price and net proceeds</li> <li>Contract for sale of business.</li> <li>Most recent business tax return prior to the sale of the business</li> <li>Satisfactorily documented evidence of the following:</li> <li>Funds verified in the non-retirement account and used for qualification must have been derived from the sale of the Borrower's business</li> </ul>
<b>Employed by Family</b>		
<p>Borrowers must provide the preceding two years signed and dated individual tax returns with all supporting schedules and a 4506-C for all applicable tax returns for prior years to document less than 25% ownership. For example, a borrower may be an officer of a family-operated business but not an owner. If the borrower owns less than 25% of income must be documented per DU or LPA.</p>		
<b>Foreign Income</b>		
<ul style="list-style-type: none"> <li>Foreign income is income that is earned from a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use the foreign income to qualify if the following requirements are met.</li> <li>All income must be converted to US dollars based on the exchange rate at the time of underwriting for qualifying purposes.</li> <li>All written communication must be presented in English or translated to English by a certified translator.</li> </ul>		
<b>Foster Care Income</b>		
<ul style="list-style-type: none"> <li>Income that a borrower receives from a state or county-sponsored organization for providing temporary care for one or more children may be considered as acceptable stable income if the borrower has a two-year history of providing foster care services and is likely, in the foreseeable future, to continue to provide services at a level that supports the amount of income needed for qualifying for the mortgage. In addition, Fannie Mae may count the income as stable if less than 24 months but more significant than 12 months when income is not more than 30% of the total gross income used to qualify. Follow DU and LPA response requirements for length of receipt and additional restrictions, if applicable.</li> <li><b>Foster care income may be verified by:</b> <ul style="list-style-type: none"> <li>Letters from the organization providing the income,</li> <li>Copies of the borrower's signed federal income tax returns that were filed with the IRS or</li> <li>Copies of the borrower's deposit slips or bank statements that confirm the regular deposits of the</li> </ul> </li> </ul>		

## Interest and Dividends

- Interest and dividend income may be used as acceptable stable income if it is properly documented and has been received for the past two years. It is expected to continue to be received for a minimum of three years from the date of the mortgage application. An average income received for the past two years must be used to qualify the borrower. Copies of signed federal income tax returns filed with the IRS or account statements may be used to verify this income.
- Interest and dividend income may be used as acceptable stable income if it is appropriately documented and ownership of the assets on which the interest or dividend income was earned is verified. However, the income cannot be counted if the borrower uses the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.
- Document a two-year history of the income, as verified by:
  - Copies of the borrower's signed federal income tax returns or
  - Copies of account statements.
  - Develop an average of the income received for the most recent two years. See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information.
  - Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

## Military Income

- **Military personnel may be entitled to different pay types besides base pay. The following may be considered stable income provided there is documentation verifying the income will continue for at least three years:**
  - Flight pay.
  - Hazardous duty pay.
  - Rations
  - Clothing allowance (usually paid yearly)
  - Housing allowances
  - *Education benefits may not be used to calculate qualifying income.*
- **Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments, allowances, estimated time in service, and the amount of net and gross pay. Also, obtain and verify the following information from the borrower's latest Leave and Earnings Statement (LES):**
  - Military rank
  - Social Security Number
  - Military address
  - Length of active service to date
- The tax-free income from housing (BAQ), rations, uniforms, food, flight pay, etc., can be used to qualify for the loan. The grossing up of this income is subject to the standard. The LES statement must show at least 12 months remaining in servicing. Otherwise, the tax-free income cannot be used to qualify for the loan. If at least 12 months remain before the borrower's "out date" (as verified on the LES), verbal employment verification is not needed.

<b>Mortgage Credit Certificates</b>
<ul style="list-style-type: none"> <li>• States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by their primary residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. In addition, the borrower is permitted to reduce the withholding on their wages by the tax credit amount to ensure that they will have an adequate cash flow and the ability to make periodic mortgage payments.</li> <li>• When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income rather than as a reduction to the borrower's mortgage payment amount. Use the following calculation when determining the available income: <ul style="list-style-type: none"> <li>○ <math>(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC}\%) / 12</math></li> </ul> </li> <li>• The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file. Correspondent loans utilizing an MCC cannot close in Windsor Mortgage's name.</li> </ul>
<b>Mortgage Differential Payments Income</b>
<p>An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered acceptable stable income if the borrower's employer verifies its subsidy in writing, stating the amount and the duration of the payments is a minimum of 3 years. For refinance transactions where the income is continuing with the new loan, the recent receipt must comply with the allowable age of credit document guidelines. The differential payments should be added to the borrower's gross income when calculating the qualifying ratio. They cannot be used to offset the mortgage payment directly, even if the employer pays them to the mortgage lender rather than the borrower.</p>
<b>Notes Receivable</b>
<p>Payments on notes receivable must continue for at least three years from the date of the mortgage application to be considered acceptable stable income. We require a copy of the note to establish the amount and length of payment. Borrowers must provide evidence the funds have been received for the past 12 months. Acceptable evidence includes deposit slips, copies of signed federal income tax returns filed with the IRS, or copies of the borrower's bank statements that show consistent deposits of these funds. Payments on a newly executed note that specifies a minimum duration of three years may not be used as a stable income. Still, they may be used to justify a higher qualifying ratio.</p>
<b>Non-Occupying co-borrowers Income</b>
<p>For loans underwritten in conjunction with LPA or DU, you must indicate to the automated underwriting system the non-occupancy of the co-borrower. If correctly identified with a non-occupant co-borrower, LPA and DU will determine the acceptability of housing and debt ratios. The maximum LTV/CLTV/HCLTV for loans with a non-occupant co-borrower underwritten with LPA or DU is 95% if an Accept or Approve response is received.</p>

### Part-Time/Secondary Income

- Secondary employment income is income derived from the borrower's second or multiple jobs. It may be considered a stable income if it can be verified as uninterrupted for the previous two years and has a strong likelihood of continuation. In addition, the lender must verify the following:
  - Verification of a minimum history of two years of uninterrupted secondary employment income is recommended. However, income received for a shorter period (no less than 12 months) may be considered acceptable income if there are positive factors to offset the short income history reasonably.
  - A borrower may have a history that includes different employers, which is acceptable if the income has been consistently received.
  - Second job income must be documented by obtaining the following:
    - a completed Request for Verification of Employment or
    - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
  - A verbal VOE is also required from each employer. See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.
- When a borrower relies on the income from a second job to qualify for a mortgage, it should be determined if there has been any change in the borrower's overall employment status that might jeopardize the continuance of income from the second job. For example, if a borrower recently accepted a new primary job but arranged to continue working at their old job as a second job, the borrower would have a history of receiving income from what is now considered a second job. Still, there would be no history of their ability to handle two jobs continuously. Therefore, the income from his second job would not be acceptable for qualifying the borrower.

### Seasonable Job Income

Seasonal, part-time, or second-job income, including seasonal unemployment compensation, can be considered as stable income if the borrower has worked the same job, or line of seasonal work, for the past two years and the borrower's employer indicates that there is a reasonable expectation that the borrower will be rehired for the next season. Examples of borrowers with seasonal jobs include outdoor laborers, landscapers, construction workers, etc., income tax preparers, supplemental department store personnel who work during Christmas shopping or another holiday period, etc. Seasonal unemployment compensation should not be used to qualify the borrower unless it is appropriately documented, clearly associated with seasonal layoffs, expected to recur and reported on the borrower's federal income tax returns.

### Professional Gambler

When the borrower has income derived from gambling, the following requirements must be used for qualifying:

- The income must be reported as self-employed and
- Two years' tax returns must be provided to document that income has not declined

### Public Assistance

- **Verification requirements for public assistance income are as follows:**
  - Document the borrower's receipt of public assistance income with letters or exhibits from the paying. Agency that states the amount, frequency, and duration of the benefit payments.
  - Verify that the income can be expected to continue for a minimum of three years from the mortgage application date.
  - If the income is nontaxable, the lender can develop an adjusted gross income for the borrower.
- Monthly Section 8 voucher payments are also an acceptable source of qualifying income. There is no requirement, however, for the Section 8 voucher payments to have been received for any period prior to the date of the mortgage application or for the payments to continue for any period prior to the date of the mortgage application, or for the payments to continue for any period from the date of the mortgage application. Verification must be obtained from the public agency that issued the voucher to the borrower of the monthly payment amount and that the income is non-taxable.

Rental Income		
<ul style="list-style-type: none"> <li>Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following: <ul style="list-style-type: none"> <li>a two- to four-unit primary residence property in which the borrower occupies one of the units or</li> <li>a one- to four-unit investment property.</li> </ul> </li> <li>Generally, rental income from the borrower's primary residence (a one-unit primary residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, Fannie Mae does allow certain exceptions to this requirement for boarder income in their Home Ready program. If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with the requirements below).</li> </ul>		
Rental Income from the Security Property		
Does the Borrower Have a History of Receiving Rental Income from Property?	Documentation Requirements	Calculate Monthly Net Rental Income (or Loss)
<ul style="list-style-type: none"> <li>Yes</li> </ul>	<ul style="list-style-type: none"> <li>Document the rental cash flow by obtaining a copy of the most recent year filed tax return, pages 1 and 2, and Schedule E.</li> <li>A signed lease may be used if the property was out of service during any period of the prior year due to renovations as supported by schedule E reflecting repair costs and reduced number of days in use. Documentation is required to ensure the expenses support a significant renovation to support the time the property was out of service</li> </ul>	<ul style="list-style-type: none"> <li>Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns or</li> <li>75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses if allowable.</li> <li><u>Freddie Mac</u></li> <li>Use the lesser of Schedule E or lease agreement versus market rent as indicated on Form 1000. If higher income is needed, a written analysis for discrepancy and justification for use to qualify the borrower as stable and reasonably expected to continue must be provided.</li> </ul>



Does Borrower Have a History of Receiving Rental Income from the Property?	Documentation Requirements
<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<p><b>Purchase</b></p> <ul style="list-style-type: none"> <li>• For a purchase transaction of an investment property, the following must be met for the borrower to use rental income to qualify:</li> <li>• Copy of the fully executed lease agreement.</li> <li>• If the property is not currently rented, lease agreements are not required, and market rent supported by Form 1007/1000 or form 1025/72, as applicable, may be used to qualify the borrower; and</li> <li>• Meet the minimum reserve requirement based on investor type.</li> </ul> <p><b>Fannie Mae</b></p> <ul style="list-style-type: none"> <li>• When the borrower is purchasing a 2–4-unit principal or a 1–4-unit investment property:</li> <li>• If the borrower currently owns a primary residence (or has a current housing expense) and has at least one year of property management experience, there is no restriction to the amount of rental income used to qualify.</li> <li>• If the borrower currently owns a primary residence (or has a current housing expense) and has less than one year of property management experience, the rental income may only offset the PITIA of the subject.</li> <li>• If the borrower does not own a principal residence and does not have a current housing expense, rental income for the subject may not be used, regardless of history of receiving rent or property management.</li> </ul> <p><b>Freddie Mac</b></p> <ul style="list-style-type: none"> <li>• The borrower must own a Principal Residence to use rental income to qualify when purchasing a new rental property in the current calendar year.</li> <li>• Rental income may only be used to offset the PITIA of a new investment subject property, and no positive rental income may be used to qualify unless the borrower has a minimum of one year of investment property management experience.</li> <li>• Leases must be current with a minimum term of one year. If the lease is assigned from the seller and is in the automatically renewable month-to-month phase of an original one-year term lease, then the month-to-month term is acceptable.</li> </ul> <p><b>Refinance</b></p> <ul style="list-style-type: none"> <li>• Leases can only be used if a property is not listed on Schedule E because it was acquired after filing the tax return.</li> </ul>

Rental Income from Property Other Than the Security Property		
Does the Borrower Have a History of Receiving Rental Income from Property?	Documentation Requirements	Calculate Monthly Net Rental Income (or Loss)
<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain copies of the borrower's most recent year signed federal income tax returns and the related Schedule E, or a copy of the current lease agreement(s) (only if a property is not listed on Schedule E because it was acquired after filing the tax return).</li> <li>• A signed lease may be used if the property was out of service during any period of the prior year due to renovations as supported by schedule E reflecting repair costs and reduced number of days in use. Documentation is required to ensure the expenses support a significant renovation to support the time the property was out of service.</li> <li>• Freddie Mac</li> <li>• In addition to a lease agreement, one of the following must be provided:</li> <li>• Form 1000 or 72 to support income from lease due to property being out of service during the prior year; OR</li> <li>• Documentation (e.g., canceled checks, bank statements showing deposits, or electronic transfers) supporting no less than two months' receipt of rental income.</li> <li>• Obtain copies of current lease agreements (only if a property is not listed on Schedule E because it was acquired after filing the tax return).</li> <li>• Freddie Mac</li> <li>• In addition to a lease agreement, one of the following must be provided:</li> <li>• Form 1000 or 72 to support income from lease due to property being out of service during the prior year; OR</li> <li>• Documentation (e.g., canceled checks, bank statements showing deposits, or electronic transfers) supporting no less than two months' receipt of rental income.</li> </ul>	<ul style="list-style-type: none"> <li>• Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns, or 75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses if allowable.</li> </ul>

## Rental Income from Property Other Than the Security Property

- **The lender must establish a history of property management experience by obtaining one of the following:**
  - The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365.
  - If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return or
  - A current signed lease might be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.
- **Treatment of the Income (or Expense)**
  - The amount of monthly net rental income (or loss) that is considered as part of the borrower's total monthly income (or expenses) and its treatment in the calculation of the borrower's total debt-to-income ratio will vary depending on whether the borrower occupies the rental property as their principal residence.
- **If the net rental income (or loss) relates to the borrower's principal residence:**
  - The monthly net rental income (as defined above) must be added to the borrower's total monthly income.
  - Any net rental loss must be added to the borrower's total monthly obligations.
  - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
  - If the net rental (or loss) relates to a property other than the borrower's principal residence:
    - The monthly net rental income (as defined above but excluding the full amount of the related mortgage payment) must be added to the borrower's total monthly income.
    - Any monthly net rental loss must be added to the borrower's total monthly obligations.
    - The full PITIA for the rental property is factored into the net rental income (or loss) amount. Therefore, it should not be counted as a monthly obligation.
    - The full PITIA for the borrower's principal residence must be counted as a monthly obligation.
- When Schedule E is used to calculate rental income, the full PITIA must be accounted for. Any listed depreciation, interest, taxes, insurance, or HOA expenses will be added back to the borrower's cash flow. Please refer to the Fannie Mae Cash Flow Analysis Form 1084 dated 10/2001 or the Freddie Mac Income Analysis Form 91 dated 4/2010.
- When the borrower uses the rental income to qualify for the mortgage, the entire PITIA of the property must be considered when evaluating property cash flow regardless of the obligated party.

### Rental Property Reported Through a Partnership or an S Corporation

When a borrower is personally obligated on a mortgage debt with the gross rents and related expenses reporting through a Partnership (1065) or S Corporation (the 1120s), the following requirements must be met to offset the borrower's obligation:

- Property must be disclosed in the real estate section of the application,
- Form 8825 from the business returns is used to calculate the rental net cash flow of the property to offset the borrower's obligation, up to but not exceeding the PITIA.
- A standard analysis of the business returns is required to determine any applicable income or loss. See the Self-Employed Borrower section for additional requirements.

## Restricted Stock (RS) and Restricted Stock Units (RSU) – Freddie Mac Only

Employers increasingly include RS and RSU as a component of employee compensation. RS are company shares grants representing an equity interest in the company. RSUs are grants valued in terms of company shares that do not represent an equity interest in the company. RS and RSU are subject to a restriction period during which recipients are not permitted access to granted shares until vesting requirements are met. Vesting requirements are based on varying criteria, but the most common types are:

- Performance-based (e.g., a certain percentage of total granted shares vest based on individual or corporate performance)
- Time-based (e.g., a certain percentage of total granted shares vest after a pre-determined period of employment)

Income Type	Stables Monthly Income Requirements	Documentation Requirements	Or all the following:	Additional Documentation Requirements Applicable to All Documentation Levels:
<ul style="list-style-type: none"> <li>• RS and RSU are subject to performance-based vesting provisions.</li> </ul>	<ul style="list-style-type: none"> <li>• History of receipt:</li> <li>• Two years, consecutive</li> <li>• To be considered for the history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer without restriction.</li> <li>• Continuance: Must be likely to continue for at least the next three years. The underwriter is not required to obtain documentation to verify income continuance absent any knowledge, information, or documentation that the income is no longer being received or is likely. To cease.</li> </ul>	<ul style="list-style-type: none"> <li>• All the following:</li> <li>• YTD paystub (s) documenting all YTD earnings, including payout(s) of RS or RSU, W-2 forms for the most recent two calendar years, and ten days prior to close verbal verification of employment. Income verification obtained through a third-party verification service provider is not permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• Written Verification of employment (form 1005) documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years, and a 10-day prior to close verbal verification of employment. Employment and income verifications obtained through a third-party verification service provider are permitted, providing that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU.</li> </ul>	<ul style="list-style-type: none"> <li>• Evidence the stock is publicly traded; and</li> <li>• Documentation verifying that the vesting provisions are performance-based (e.g., RS or RSU agreement, offer letter); and Vesting Schedule(s) currently in effect detailing past and future vesting; and</li> <li>• Evidence of receipt of the previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, includes the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax)</li> </ul>

Calculation	
Subject	Requirements and Guidance
<ul style="list-style-type: none"> <li>• Yes</li> </ul>	<ul style="list-style-type: none"> <li>• Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), the seller must use the applicable method(s) below to calculate the monthly income:</li> <li>• RS or RSU is distributed as shares.</li> <li>• Multiple the 52-week average stock price as of the application received to date by the total number of vested shares distributed (pre-tax) to the borrower in the past two years, then divide by 24.</li> <li>• (e.g., if 200 vested shares were distributed (pre-tax) in the past two years and the 52-week average stock price as of the application received to date is \$10, multiply 200 x \$10, then divide by 24 = \$83.33 monthly income)</li> <li>• RS or RSU is distributed as the cash equivalent.</li> <li>• Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24. Refer below for more information about fluctuating earnings</li> </ul>
<ul style="list-style-type: none"> <li>• RS and RSU are subject to time-based vesting provisions</li> </ul>	<ul style="list-style-type: none"> <li>• Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income:</li> <li>• RS or RSU is distributed as shares.</li> <li>• Multiply the 52-week average stock price as of the Application Received Date by the number of vested.</li> </ul>
Analysis of Income Fluctuation and Stability	
<p>The determination of stability for RS and RSU income used to qualify must include an analysis of changes in the company's stock price and past and future distributions detailed in a vesting schedule. If the YTD earnings are consistent with the previous year(s) earnings or trending upward, then the underwriter must use the applicable calculation method(s) below to determine the monthly income. However, suppose the earnings are not consistent (i.e., the value of vested shares distributed decreases substantially year-over-year). In that case, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income.</p>	
Eligible Assets	
<p>Stock with limitations on its accessibility (e.g., the restricted stock that has not vested and been distributed to the recipient) is not the eligible source of borrower funds. It may not be used for reserves or closing costs.</p>	

#### Eligible Assets

**Verification requirements for retirement, annuity, and pension income are as follows:**

- Document regular and continued receipt of the income, as verified by:
  - letters from the organizations providing the income,
  - copies of retirement award letters,
  - copies of signed federal income tax returns,
  - IRS W-2 or 1099 forms, or
  - proof of current receipt.
- If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition:
  - The borrower must have unrestricted access, without penalty, to the accounts and
  - If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.
- Documentation of asset ownership must follow the Allowable Age of Credit Documents guidelines.
- The nontaxable portion of such recurring income must be added to the borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in the "General Income Information" subtopic previously presented in this topic. If the income from these sources is determined to be nonrecurring, the income must be deducted from the borrower's cash flow.

#### Eligible Assets – Freddie Mac (Existing and Established Retirement Income Requirements:

- Document source, benefit type, payment frequency, pre-determined payment amount, and current receipt of one or more of the following documents(s), as needed: a benefit verification letter, award letter, pay statement, 1099, bank statement, or other equivalent documentation. Separate verification of receipt of income is not required if the documentation obtained to support income type, source, payment frequency, and amount also verifies the current receipt of income.
- History of receipt of not required for income to be considered stable

#### Eligible Assets – Freddie Mac (Newly Established Retirement Income Requirements:

- Document the finalized terms of the newly established income, including, but not limited to, the source, type, effective date of income commencement, payment frequency, and pre-determined payment amount with the benefit verification letter, notice of award letter, or other equivalent documentation from the payer that provides and establishes these terms.
- The income must commence prior to or on the first Mortgage payment due date.
- Documentation must be dated no more than 120 days prior to the Note Date
- Verification of the current receipt is not required.
- Distributions from retirement accounts recognized by the IRS (e.g., 401(k), IRA):
- May not be subject to penalty (e.g., early withdrawal penalty):
- Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt (as applicable), and history of receipt (as applicable) must be documented as follows:
  - Copy of retirement account statement, the financial institution holding retirement account that verifies regularly scheduled distribution arrangements, 1099(s) or equivalent documentation; Copy of bank statement of equivalent document evidencing current receipt. If the retirement distributions are not scheduled monthly payments, e.g., annual, semi-annual, quarterly, the most recent distribution verified through a retirement account statement, 1099, and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt, and
  - Evidence of sufficient assets to support the qualifying income with a three-year continuance.
- If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule (i.e., excise tax penalty applies if distributions are not taken), and evidence of current receipt of the required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.
- Due to the multiple variables inherent with distributions from retirement accounts, including but not limited to fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances. As with all income, the underwriter must determine that the source and amount of the income are stable. Factors that the underwriter must consider when determining that the income used to qualify the borrower is stable and when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to, the following:
  - Frequency and regularity of the distributions
  - Length of time the distributions have been taken and whether they establish a stable pattern of receipt over a given period. For example, consider whether the distributions are fixed amounts occurring with regular frequency or are fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed in order to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt in order to determine the amount and stability of the qualifying income while taking into consideration whether the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter.
  - Rules governing distributions, e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions (RMD), employer retirement plan rules, and designs governing scheduled distribution terms. Certain rules may provide support for the frequency and regularity of receipt as well as continued receipt, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount.
- A written rationale explaining the analysis used to determine that qualifying income must be provided, regardless of the underwriting path. This can be documented on the Form 1008.

Royalty Payment Income
<ul style="list-style-type: none"> <li>• Verification requirements for royalty income are as follows:</li> <li>• <b>Obtain copies of the:</b> <ul style="list-style-type: none"> <li>○ Royalty contract, agreement, or statement confirming the amount, frequency, and duration of the income.</li> <li>○ Borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.</li> <li>○ Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three years after the date of the mortgage application.</li> </ul> </li> </ul>
Self-Employed Borrowers
<ul style="list-style-type: none"> <li>• Borrowers with a 25% or greater ownership interest are considered self-employed. The lender must document and underwrite the loan application using the requirements for self-employed borrowers.</li> <li>• <b>The following factors must be analyzed before approving a mortgage for a self-employed borrower:</b> <ul style="list-style-type: none"> <li>○ The stability of the borrower's income</li> <li>○ The location and nature of the borrower's business</li> <li>○ The demand for the product or service offered by the business.</li> <li>○ The financial strength of the business</li> <li>○ The ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.</li> </ul> </li> <li>• Generally, a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received. However, a person who has a shorter history of self-employment — 12 to 24 months — may be considered if the borrower's most recent signed federal income tax returns reflect the receipt of such income as the same (or greater) level in a field that provides the same products or services as the current business or in an occupation in which they had similar responsibilities to those undertaken in connection with the current business. In such cases, the lender must consider the nature of the borrower's level of experience and the amount of debt the business has acquired; for loans designated to Freddie Mac, documentation of the business being in operation for five years must be in the file.</li> </ul>
Verification of Income
<ul style="list-style-type: none"> <li>• The lender may verify a self-employed borrower's employment and income by obtaining from the borrower copies of their signed federal income tax returns (both individual returns and, in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).</li> <li>• Alternatively, the lender may use IRS-issued transcripts of the borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years—if the information provided is complete and legible and the transcripts include the information from all the applicable schedules.</li> <li>• <b>When two years of signed individual tax returns are provided, the lender may waive the requirement for business tax returns if:</b> <ul style="list-style-type: none"> <li>○ the borrower is using their own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements,</li> <li>○ the borrower has been self-employed in the same business for at least five years and</li> <li>○ the borrower's individual tax returns show an increase in self-employment income over the past two years.</li> </ul> </li> <li>• <b>The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:</b> <ul style="list-style-type: none"> <li>○ Partnership — reported on IRS Form 1065, Schedule K-1.</li> <li>○ S corporation — reported on IRS Form 1120S, Schedule K-1; and</li> <li>○ LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.</li> </ul> </li> </ul>



## Sole Proprietorships

- A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the business. The income, expenses, and taxable profits of a sole proprietorship are reported on the owner's IRS Form 1040, Schedule C, and are taxed at the tax rates that apply to individuals.
  - When evaluating a sole proprietorship, the lender must:
  - Review the owner's most recent signed federal income tax returns to ensure that there is sufficient. And stable cash flow to support both the business and the payments for the requested mortgage, and
  - determine whether the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses.
- **Evaluating the Business Income for a Partnership and LLC**
  - A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses according to predetermined proportions that are set out in the partnership agreement.
- **Borrower's Proportionate Share of Income or Loss for an S Corporation**
- The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year, as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), considering any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation verifying that.
- The borrower has ownership of the income (Schedule K-1 may be used to document ownership share) and
- Alternatively, the lender can obtain documentation verifying that:
  - The business has adequate liquidity (e.g., working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.

## Earnings from a Corporation (1120)

### Fannie Mae

- This can only be taken into consideration if the borrower owns 100% of the business.

### Freddie Mac

- It is only required to document access to business income if the borrower is less than 100% owner of the business (i.e., 1120) and the income is not reporting on the borrower's personal tax returns.

### Adjustments to Business Cash Flow for Partnership, LLC and S Corporation

- Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring. The following items should be subtracted from the business cash flow:
  - Meals and entertainment exclusion,
  - Other reported income that is not consistent and recurring, and
  - The total amount of obligations on mortgages or notes that are payable in less than one year.
- These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

Sole Proprietorships		
<ul style="list-style-type: none"> <li>Income from partnerships, LLCs, estates, or trusts can only be considered if the lender obtains documentation verifying that: <ul style="list-style-type: none"> <li>The borrower has ownership of the income (Schedule K-1 may be used to document ownership share)</li> <li>The income was distributed to the borrower.</li> </ul> </li> </ul> <p><b>Alternatively, the lender can obtain documentation verifying that:</b></p> <ul style="list-style-type: none"> <li>The borrower has access to the income through a partnership agreement, LLC operating agreement, or other documentation that the lender determines is appropriate unless the borrower(s) own 100% of the business, in which case confirmation of access to the income is not required.</li> <li>The business has adequate liquidity (e.g., working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.</li> </ul> <p><b>Ownership in the Business &lt;25%</b></p> <ul style="list-style-type: none"> <li>For borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided: <ul style="list-style-type: none"> <li>The borrower can document ownership share (may use Schedule K-1),</li> <li>The borrower can document access to the income and</li> <li>The business has adequate liquidity (e.g., working capital) to support the withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.</li> </ul> </li> </ul>		
Social Security Income		
<ul style="list-style-type: none"> <li>Social Security income for retirement or long-term disability that the borrower is drawing from their own account/work record will not have a defined expiration date and must be expected to continue.</li> <li>However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.</li> </ul>		
Calculation		
Type of Social Security Benefit	Borrower is Drawing Social Security Benefits from Own Account/Work Record	Borrower is Drawing Social Security Benefits from Another Person's Account/Work Record
Retirement	Bank statement(s) to document current receipt; or	SSA Award Letter,  Proof of current receipt AND  Three-year continuance (e.g., verification of beneficiary's age)
Disability	SSI Award letter AND Executed SSA-3288 Consent for Release of Information	
Survivor Benefits	N/A	
Supplement Security Income (SSI)	SSA Award Letter AND Bank statement(s) to document current receipt	N/A

Tax Exempt Income
<p>When needed for qualification, if income is verified to be nontaxable and its tax-exempt status is likely to continue, the following requirements must be met to gross up the income:</p> <ul style="list-style-type: none"> <li>• Income must be from a non-taxable source such as social security, retirement payments, child support, disability, workers' compensation benefits, or certain public assistance payments.</li> <li>• A copy of the complete federal individual tax return for the most recent year or other documentation evidencing the income, or a portion of it, is tax-exempt must be provided.</li> <li>• The non-taxable portion of the income may be grossed up by using a calculation of either. <ul style="list-style-type: none"> <li>○ 25% of the tax-exempt portion of the income</li> <li>○ The current federal and state income tax withholding tables</li> </ul> </li> </ul>
Temporary Leaves of Absence
<p>Temporary leave from an employer may encompass various circumstances (e.g., family and medical, short-term disability, maternity, and other temporary leaves with or without pay). During a temporary leave, a borrower's income may be reduced and/or completely interrupted during their absence from work.</p> <p>If the borrower will be on temporary leave at the time of closing and the borrower's income is needed to qualify, the following must be used to determine the allowable income and confirmation of employment:</p> <ul style="list-style-type: none"> <li>• For borrowers returning to their current employer prior to the first mortgage payment due date:</li> <li>• The borrower's regular employment gross monthly income amount that will be received upon the borrower's return to their current employer may be used.</li> <li>• For borrowers returning to their current employer after the first mortgage payment due date, the lesser of below must be used for qualification: <ul style="list-style-type: none"> <li>○ The borrower's regular employment gross monthly income or</li> <li>○ The borrower's temporary monthly gross leave income (if any): <ul style="list-style-type: none"> <li>▪ The use of temporary leave income should be classified as "other" income, and</li> <li>▪ If temporary income is less than the regular employment income, the temporary income may be supplemented with available liquid reserves. <ul style="list-style-type: none"> <li>• Assets that are required for the transaction (e.g., down payment, closing costs, and reserves) may not be considered as available assets to supplement the income. Assets used for income must be reduced from the available asset balance(s)</li> <li>• The number of months of supplemental assets for income is based on the number of months from the first mortgage payment date to the date the borrower will begin receiving regular employment income, rounded to the next whole month.</li> </ul> </li> </ul> </li> </ul> </li> </ul>
Documentation Requirements
<ul style="list-style-type: none"> <li>• <b>The following documents must be retained in the loan file:</b> <ul style="list-style-type: none"> <li>○ Verification of the Borrower's pre-leave income and employment</li> <li>○ Documentation from the current employer confirming the borrower's statutory right to return to work or the employer's commitment to permit the borrower to return to work. The confirmation date of return and the borrower's post-leave employment and income.</li> <li>○ A written statement signed by the borrower confirming that the borrower will return to their current employer stating the confirmation date of return that has been agreed upon between the borrower and the employer.</li> </ul> </li> <li>• <b>In addition, the following documentation is required for borrowers returning to their current employer after the first mortgage payment due date:</b> <ul style="list-style-type: none"> <li>○ Documentation evidencing amount, duration, and consistency of all temporary leave income sources being used to qualify the borrower, e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer, which are being received during the temporary leave.</li> <li>○ All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements of and be verified.</li> </ul> </li> </ul>

Tip Income
<ul style="list-style-type: none"> <li>• Tip income may be used to qualify the borrower if the borrower has received it for the last two years and the employer indicates that the tip income will, in all probability, continue. An average of the past two years' tip income must be entered in DU or LPA as Other Income.</li> <li>• In some cases, the full amount of the tip income earned by the borrower may not be reported by the employer on the WVOE (Form 1005), paystub, and W-2 form. However, the borrower may report additional tip income to the IRS using Form 4137, Social Security, and Medicare Tax on Unreported Tip Income when filing their tax returns. Fannie Mae will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137.</li> </ul>
Trust Income
<ul style="list-style-type: none"> <li>• Trust Income may be used as acceptable stable income if the following documentation requirements are met:</li> <li>• <b>Fannie Mae</b> <ul style="list-style-type: none"> <li>○ Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments</li> <li>○ Verify that the trust income will continue for at least three years from the date of the mortgage application. Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy.</li> </ul> </li> <li>• <b>Freddie Mac</b> <ul style="list-style-type: none"> <li>○ Copy of the trust agreement</li> <li>○ Evidence of the amount, frequency, and duration of payments. A history of receipt is not required for the income to be considered stable; however, the trust income must be likely to continue for at least the next three years.</li> </ul> </li> <li>• The trust income must continue for at least three years from the date of the mortgage application for it to be considered as income. Lump sum distributions made before the loan closing may be used for down payment or closing costs if they are verified by a copy of the check or the trustee's letter that shows the distribution amount.</li> </ul>
Unemployment Benefits
<p>Unemployment benefits, such as those received by seasonal workers, may be considered acceptable income if the income is properly documented, has been received for the past two years, and is predictable and likely to continue (as discussed for seasonal unemployment compensation). Copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years should be used to establish a history of the receipt of these benefits.</p>

Union Workers
<ul style="list-style-type: none"> <li>● Union workers are members of a specific trade union and are often skilled tradespersons (e.g., electricians, plumbers, roofers, etc.) Workers can work for a single employer on a long-term basis or for more than one employer throughout the year. At the completion of a job, the Union will then refer the individual to a new employer. During the individual's course of employment with the assigned employer, they are paid directly by the employer, not the Union. Their jobs may be seasonal, and it is not uncommon for individuals to receive unemployment during down time. If the borrower is in a line of work that is deemed seasonal (e.g., roofing) and is not working at the time of the loan application or closing, they may still be eligible for financing. Verify that the borrower is a member of the union and in good standing. It is not necessary to verify the union dues or count them as a liability. If the borrower is a member of a local trade union and obtains employment via these means, income can be verified by the following: <ul style="list-style-type: none"> <li>○ Paystubs for the current year, two years of tax returns, and two years of W-2s or</li> <li>○ A WVOE (Form 1005) from the Union for earnings from all employers during the current year and a W-2 from the prior year.</li> </ul> </li> <li>● <b>Fannie Mae</b> <ul style="list-style-type: none"> <li>○ When verifying employment for borrowers who work in occupations that result in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union that facilitates the borrower's placement in each assignment can provide the following: <ul style="list-style-type: none"> <li>▪ Verbal verification of employment for a union member who is currently employed.</li> <li>▪ An executed employment offer of contract for future employment for a union member who is not scheduled to begin employment until after the loan closes.</li> </ul> </li> </ul> </li> <li>● <b>Freddie Mac</b> <ul style="list-style-type: none"> <li>○ When verifying employment for a borrower who works in an industry where they may switch employers frequently, the union facilitates the next position, and the borrower has a stable and consistent employment and income history, the union may provide: <ul style="list-style-type: none"> <li>▪ VOE for a union member who is currently employed or may or may not be in between employers at the time of closing.</li> </ul> </li> </ul> </li> </ul>
VA Benefits
<p>Most VA benefits are acceptable stable income if they are documented by a letter or distribution forms from the Department of Veterans Affairs and will continue for at least three years from the date of the mortgage application. Education benefits are not acceptable income because education expenses offset them.</p>

## Income Documentation Requirements

- The lender may use the Request for Verification of Employment (Form 1005 or Form 1005(S)) to document income for a salaried or commissioned borrower. The date of the completed form must comply with "Allowable Age of Credit Documents and Federal Income Tax Returns" guidance.
- If a WVOE (Form 1005) is provided, white-outs and un-initialed corrections are not acceptable.
- When the borrower authorizes the lender to obtain verifications of employment and income directly from the employer, the lender must have the borrower sign Form 1005 or Form 1005(S).
- Alternatively, the lender may have the applicant sign a signature authorization form, which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness.
- **Alternative documentation may include:**
  - Most recent two years' W-2s (employee copy)
  - Computer-generated copies of paystubs for the most recent 30-day period (a single year-to-date paystub is acceptable if it covers at least a 30-day period) that display:
    - The borrower's name or social security number
    - Total current and year-to-date
    - Employer's name
  - If the borrower receives handwritten or non-computer-generated paystubs, a WVOE (Form 1005) and a 4506-C are required prior to closing.
  - Telephone confirmation from the borrower's employer from the Human Resources or Personnel Department, or if the company doesn't have such a department, from the borrower's supervisor. The processor's certification must be for all employers for the previous two years of employment.
- When supplied income documentation (paystub, W-2s, and/or WVOE (Form 1005)) shows "rounded"? earnings, we may require the 1040s to support the income figures provided.
- All submitted 4506-Cs will be executed. If any material misrepresentations are found, the purchase commitment will become null and void. A 4506-C is required on all full documentation loans with an LTV of 95% or greater. Tax Transcripts must show that borrowers requiring a tax return for qualification have filed tax returns for the previous tax year(s) or show evidence of a valid filing an extension to be eligible.
- For Fannie Mae and Freddie Mac, paystubs or payroll earning statements that the borrower downloads from the internet are also acceptable.
- You must independently confirm the telephone number that the borrower provided by using the telephone book, calling directory assistance, etc. You must, at a minimum, obtain the employer's confirmation that the firm employs the borrower. You must attempt to verify earnings and probability of employment. If they do not respond, you must state so. The confirmation must state the employer's name, the title of the person, the lender employee's name (other than the commissioned loan officer), the date verified, and the employer's response to the date of hire, salary, and probability of continued employment.
- Fannie Mae and Freddie Mac generally require verification of the borrower's employment for the two full years that precede the mortgage application. However, when a borrower who is new to the workplace cannot document income and employment for this length of time, the documentation should relate to the length of time that they have been employed.
- A non-U.S. citizen borrower who is exempt from filing federal income tax returns due to being employed in the United States in an official capacity, i.e., diplomat, may have income verified by obtaining either a Verification of Employment form (Form 1005) or a letter from an official of the foreign government which documents the borrower's previous two years of earning, comments on the probability of their continued employment and provides the borrower's current earning statement.

### Use of IRS W-2 Transcripts in Lieu of W-2s

When lenders verify employment income for borrowers whose income is used to qualify for the mortgage loan, borrower-provided paystubs, and IRS W-2, forms are one option that can be utilized to document the income. In lieu of W-2 forms, other documentation options are a VVOE (Form 1005) or the final year-to-date paystub. Fannie Mae will also now permit an IRS "Wage and Income Transcript" (W-2 transcript) in lieu of the actual W-2 forms.

### Verbal VOE Requirements for Hourly, Salary, and Commission Income

- The broker/correspondent must independently obtain a phone number and, if possible, an address for the borrower's employee. This can be accomplished by using a telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.
- The broker/correspondent must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 days prior to the closing date. Alternatively, the VVOE may be obtained after closing at the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery.
- If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification for the broker/correspondent.

### Verbal Verification of Employment for Self-Employed

- The existence of the borrower's business must be verified from a third-party source. Acceptable third party sources include the following:
  - CPA, regulatory agency, or the applicable licensing bureau, if possible, or
  - By verifying a phone listing and address for the borrower's business using the internet or directory assistance.
  - The existence of the business must be documented within 120 days prior to the note date. Alternatively, the VVOE may be obtained after closing at the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery.

## Assets

### Asset Requirements

- Funds must be verified to substantiate that a borrower(s) has sufficient cash deposits and other assets available to complete the mortgage transaction, as well as adequate reserves after closing when required.
- The following assets are considered liquid and may be used as funds for closing (closing cost and prepaids), down payment, and reserves:
  - Bonds
  - bridge loans
  - certificates of deposit (CDs)
  - checking accounts
  - gifts
  - money market funds
  - mutual funds
  - net equity
  - retirement funds
  - savings accounts
  - secured borrowed funds.
  - stock
  - trust funds

## Asset Documentation

- The number of consecutive months of account statement(s) as determined by DU or LPA unless otherwise noted in the guidelines.
- All statements must clearly identify the borrower as the account holder and include the account number, the time period covered by the statement, all deposits and withdrawal transactions (for depository accounts) or all purchase and sale transactions (for a financial portfolio account), and the ending account balance.
- Monthly bank statements must be dated within 45 days of application.
- Quarterly statements must be dated within 90 days of application.
- Verifications of the source of funds may be dated up to 120 days before the date of the note.
- Any indications of borrowed funds, such as a recently opened account, a recently received large deposit, or an account balance that is considerably greater than the average balance over the previous few months, will be investigated.

## Bank Transaction Printouts

**A computer-generated transaction history downloaded by the borrower from the Internet or by a financial institution representative from the institution's system is acceptable. The transaction history must include the below information:**

- Identify the financial institution.
  - Statements downloaded from the internet with the presence of the URL identifying the financial institution or depository are acceptable.
  - Printouts obtained by a financial institution representative must identify the financial institution or depository.
- Identify the account owner(s)
- Identify the account number, which, at a minimum, must include the last four digits.
- Show all transactions.
- Show the period covered.
- Show the ending balance.
- Show any outstanding loans secured by the asset.

## Truncated Asset Account Numbers

Fannie Mae has updated their policy to permit truncated account numbers, or masked account numbers, which display at least the last four digits of the borrower's asset account on the loan application in DU or on the asset documentation. This change will help provide a greater degree of protection for borrowers' non-public information.

## Verification of Deposit Form (VOD)

- The Request for Verification of Deposit (Form 1006 or 1006(S)) may be used to verify activity in the borrower's depository accounts when the borrower authorizes the lender to obtain, by signing the individual form(s) or a borrower's signature authorization form. The borrower should not handle the Verification of Deposit.
- **When a VOD is used for verification, the source of funds must be verified if:**
  - Accounts opened within the last 90 days of the application date and/or
  - Account balances that are considerably greater than the average balance reflected on the VOD.



## Business Assets

- **Withdrawal of business funds may not have a detrimental impact on the business.**
- Fannie Mae Requirements
  - The individual federal income tax returns must be evaluated, including, if applicable, the business federal income tax returns for that business (non-Schedule C).
  - The borrower must be listed as an owner of the account, and the account must be verified with a verification of deposit or bank statements and
  - The underwriter must review the bank statement (number of months determined by DU) and perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business.
- Freddie Mac Requirements
  - A minimum of the most recent two months' statements is required regardless of LPA response. If using business income for qualification, additional statements may be required, as indicated below.
  - Documentation of large deposits into business accounts is not required provided that the following:
    - Review a minimum of the most recent two months of the business account statements and
    - Determines the deposits are typical for the borrower's business.
  - When income from the business is used for qualification, the factors contributing to the determination that the withdrawal will not negatively impact the business must be included in the underwriter's written analysis of the income source and amount.
    - In addition to a review and analysis of the personal and business tax returns, the underwriter may review and analyze either the current financial statement (e.g., P&L or balance sheet) and/or the last three months of the business bank statements to confirm the deposits, withdrawals, and balances are supportive of a viable business and are aligned with the level and type of income and expenses reported on the business tax returns.

## Individual Development Accounts (IDA)

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home, referred to as individual development accounts, or IDAs. Funds that the borrower deposited into an individual development account may be used for either the down payment or closing costs. In some cases, "matching" funds deposited by a nonprofit agency may also be used for some or all the borrower's down payment and closing costs (including prepaid items):

- If the nonprofit agency requires repayment of the "matching" funds, defers (or forgives) the repayment, or files a lien against the property, the borrower may use the matching funds to supplement the down payment provided they have met the minimum borrower contribution requirements.
  - The minimum contributions must come from the borrower's own funds unless:
    - The LTV/CLTV is less than or equal to 80% or
    - The borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contributions.
- If the nonprofit agency does not require repayment of the "matching" funds (and does not file a lien against the property), the ratio of the agency's "matching" funds to the borrower's deposits may be 4:1 or less. The borrower may use the "matching" funds to make a cash payment for some or all the down payment. (The funds may also be used to pay closing costs, including prepaid items.)

<b>Documentation Requirements:</b>
<ul style="list-style-type: none"> <li>• The agency may not be affiliated with the seller or any party that participates in the mortgage origination process.</li> <li>• Describes the nonprofit agency's individual development account program to verify the rate at which the agency "matches" the borrower's deposits into the account.</li> <li>• Determines that the borrower has satisfied any vesting requirements of the program; and</li> <li>• Show that the borrower has made regular payments into the account and that the agency made regular deposits of the matching funds into the account.</li> <li>• Determine the Vested balance or percentage of vesting.</li> </ul>
<b>Life Insurance Net Cash Value</b>
<ul style="list-style-type: none"> <li>• The net proceeds from a loan against the cash value or from the surrender of a life insurance policy may be used with the following requirements:</li> <li>• Verify the terms of the loan against the cash value of the policy or net surrender value.</li> <li>• If funds are required for closing, liquidation is required and documented with a copy of the check or payout statement issued by the insurer.</li> <li>• Payments on a loan do not have to be considered long-term debt when qualifying the borrower if any penalty for failure to repay the loan is limited to the surrender of the policy. However, any additional obligation must be factored into the total debt-to-income ratio or subtracted from the borrower's financial reserves.</li> </ul>
<b>Pooled Savings (Community Savings Funds)</b>
<p>Funds from a community savings account or any other type of pooled savings may be used for the down payment. Pooled savings arrangements give individuals who customarily use cash for their expenses and do not keep their savings in depository institutions a disciplined way of accumulating funds. In order to use funds of this nature, the following requirements must be met:</p> <ul style="list-style-type: none"> <li>• Confirmation from the party managing the pooled savings fund of the borrower's interest and available. Funds.</li> <li>• Documentation to evidence borrower's regular participation in contributing to the savings fund.</li> <li>• The borrower's obligation to continue making on-going contributions under the pooled savings arrangement should be considered as part of their total debt when calculating the debt-to-income ratio.</li> </ul>
<b>Retirement Accounts</b>
<p>Vested funds from individual retirement accounts (IRA/Keogh accounts) and tax-favored retirement savings accounts (401k accounts) may be used.</p> <ul style="list-style-type: none"> <li>• Refer to DU or LPA response for requirements.</li> <li>• If a retirement account is used for qualification purposes, the terms and conditions must be documented to verify the borrower's ability to withdraw.</li> </ul>

## Stocks, Bonds, and Mutual Funds

**The net value of stocks, bonds, and mutual funds may be used with the following restrictions:**

- Refer to DU or LPA response for requirements.
- Non-vested restricted stock and non-vested stock options are not acceptable sources of funds.
- Vested Stock Options are eligible sources of borrower funds and reserves and must be documented with the following:
  - Account statements covering two months or direct account verification (i.e., VOD) confirming the number of vested shares and current value.
  - If the borrower does not receive a stock/security account statement for the stock options, the originator must:
    - Provide a statement verifying the number of vested shares owned by the borrower.
    - Provide the current stock price from a published source to determine the value.

## Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source if the borrower has immediate access to them with the following requirements:

- The trust manager or trustee must verify the value of the trust account.
- Confirm the conditions under which the borrower has access to the funds.
- Confirm the effect, if any that the withdrawal of funds from the account will have on any trust income that is used in qualifying the borrower for the mortgage must also be documented.

## Borrowed Funds Secured by an Asset

Borrowed funds that are secured by an asset represent a return of equity and, therefore, may be used. Assets that may be used to secure funds include automobiles, artwork, collectibles, or financial assets (such as savings accounts, certificates of deposit, stocks, bonds, and 401k accounts) with the following requirements:

- The terms of the secured loan must be documented.
- Verify that the party providing the secured loan is not a party to the sale or financing of the property.
- Confirm that the funds have been transferred to the borrower.
- Consider monthly payments for the secured loan as debt when qualifying the borrower. If the loan does not require a payment an equivalent payment should be calculated and considered as debt. However, when the loan is secured by the borrower's financial assets (i.e., 401k), monthly payments for the loan do not have to be considered as long-term debt when qualifying the borrower.
- If the same financial asset is also used as part of the borrower's financial reserves, the adequacy of the borrower's reserves must take into consideration the fact that the value of the asset has been reduced by the proceeds from the secured loan (and any related fees).

## Bridge or Swing Loans

- A short-term loan secured by the borrower's current home that allows the proceeds to be used for closing. A new house before the present home is sold may be used with the following requirements:
- It may not be cross-collateralized against the new property.
- Borrower must qualify with payment on the new home and all other payment obligations including the current home payment and payment on the bridge loan.
- There is no specified limitation on the terms of the bridge loans.

#### Documentation Requirements:

- Provide bridge loan documents to verify collateral and terms.
- Provide a settlement statement or Closing Disclosure to verify net proceeds or document proceeds have been deposited into the borrower's account.

#### Credit Card Financing

- The cost paid early in the application process (e.g., lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees) may be charged to the borrower's credit card because these fees do not represent extraordinary amounts, and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card charges before closing. Under no circumstances may credit card financing be used for the down payment.
- Credit card financing for the payment of common and customary fees paid outside of closing is allowable up to a maximum of 2% of the loan amount when:
  - The borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that they will be paying) or
  - The credit card payment is updated to account for the new charges in the qualifying ratio calculation.
- Freddie Mac
  - Under an employee relocation program, which specifically states the employer will reimburse the borrower for the balance of fees (e.g., appraisal, credit report, origination fees) charged or paid by the borrower in conjunction with the purchase, regardless of the amount, the payment is not required to be updated for the qualifying ratio nor additional assets verified.

#### Disaster Relief Grant or Loan

- State and federal agencies, including the Federal Emergency Management Agency, may use grants or loans to provide immediate housing assistance for individuals who are displaced because they have uninsured property losses resulting from a widespread natural disaster that affected their locality. Disaster relief loans, which are generally administered by the Small Business Administration (SBA), are low-interest-rate loans that may be either secured or unsecured.
- Borrowers may use lump-sum disaster relief grants or loans to satisfy minimum contribution requirements; no borrower contribution is required.
- Documentation Requirements
  - Document terms of grant or loan
  - Verify the borrower's receipt of funds from the grant or loan

## Employer Assistance

- Mortgage secured by a principal residence may use funds provided by an employer for all or part of the down payment or closing costs:
  - The loan is subject to the Minimum Borrower Contribution Requirements.
  - It may also be used for financial reserves for all types of assistance except for unsecured loans (which may only be used for the down payment and closing costs).
  - Employer assistance funds are not allowed on a second home or an investment property.
  - Funds must come directly from the employer, including through an employer-affiliated credit union.
  - When employer assistance is extended as a secured second mortgage, the transaction may be structured as an eligible Community Seconds, or it must satisfy Fannie Mae's eligibility criteria for mortgages that are subject to Subordinate Financing.
  - If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.
  - If the secured second mortgage or unsecured loan does not require regular payments, there is no need to calculate an equivalent payment for consideration as part of the borrower's monthly debt.
- Documentation Requirements
  - The program is an established company program, not just an accommodation developed for an individual employee.
  - The dollar amount of the employer's assistance.
  - An unsecured loan from an employer with an award letter or legal agreement from the note holder must disclose the terms and conditions of the loan.
  - The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
  - That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

### Employer Assistance – Freddie Mac

- For funds provided in the form of gifts, grants, or affordable second, the Agency aiding may not be affiliated with the seller or mortgage origination process.
- Unsecured loans may be fully repayable, deferred payment, or forgivable with the following requirements:
  - Funds from an unsecured loan may only be used to fund all or part of the down payment or closing costs.
  - The terms may not require repayment in full unless:
    - The borrower terminates their employment for any reason or
    - The employer terminates the borrower for any reason other than long-term disability, elimination of position, or reduction-in-force.
  - If the monthly payment begins on or after the 61<sup>st</sup> monthly payment under the first mortgage or if the repayment is due only on sale or default, the monthly payment may be excluded from the debt-to-income ratio.
    - If part of an employee relocation program, the payment is excluded if the monthly payment begins on or after the 24<sup>th</sup> monthly payment under the first mortgage.
- Secured secondary financing must meet the requirements of Subordinate Financing.
  - The terms may not require repayment in full unless:
    - The borrower terminates their employment for any reason or
    - The employer terminates the borrower for any reason other than long-term disability, elimination of position, or reduction-in-force.
  - If the monthly payment begins on or after the 61<sup>st</sup> monthly payment under the first mortgage or if repayment is due only on sale or default, the monthly payment may be excluded from the debt-to-income ratio.
    - If part of an employee relocation program, the payment is excluded if the monthly payment begins on or after the 24<sup>th</sup> monthly payment under the first mortgage.

### Personal Unsecured Loans

- Generally, personal unsecured loans are not an acceptable source of funds for the down payment, closing costs, or reserves. Examples of unsecured borrowed funds include signature loans, lines of credit-on-credit cards, and overdraft protection on checking accounts.
- In addition, repayment of a personal loan to the borrower is not normally an acceptable source of funds for any part of the transaction.

### Contributions by Interested Parties

Some closing costs and prepaid settlement costs generally are paid by the property purchaser, while other costs are the responsibility of the property seller. When any costs that the property purchaser normally pays are paid (indirectly or directly) by someone else, they are contributions. All contributions may be paid by any interested party to the property sale transaction, although limitations will be imposed on the amount of the contributions.

### Corporate Relocations

- The borrower's employer is allowed to contribute for closing costs and prepaids only subject to the limitations in the Maximum Contributions section; contributions from an employer cannot fund any part of a down payment.
- Freddie Mac**
- See Credit Card Financing for additional flexibilities when an employee relocation program reimburses the borrower for loan costs paid through a credit card or line of credit.

## Down Payment Assistance Programs

- There are several "down payment assistance," "homeownership programs," etc. organizations that provide funds to borrowers toward the purchase of a new home. Some of these organizations include:
  - Nehemiah Program, AmeriDream Charity, HART, Responsible Homeownership Program, Family Home Providers, Neighborhood Gold (The Buyers Fund), Partners in Charity, Freedom Outreach, Horizon, AJH, Genesis Down Pymt Assistance Program, DPA Alliance, Futures, Homes For All, Home Down Payment Gift Foundation & National Home Down Payment Gift Funds, FHLB, and various State HFA's.
- For conventional loans, we do not allow funds from these organizations for down-payment and only a limited level for closing costs and prepaids. Any funds put into a conventional transaction from these organizations must meet the seller concession percent limitation rules. These funds are considered a seller concession. If the LTV is 95%, the maximum seller concession is 3%, and the total maximum amount of combined funds from the seller and these organizations Combined is 3%. The seller cannot put in 3% and the organization another 3%; the total combined limit is 3%.

## Interested Party Contributions

- Interested Party Contributions (IPC) are either a financing concession or a sales concession. A financing concession is a financial contribution from an interested party and provides a benefit to the borrowers in the financing transaction.
  - Financing concessions that are paid on the borrower's behalf are subject to our IPC limits. Fees and/or closing costs that a seller typically pays in accordance with local customs (known as common and customary fees or costs) are not subject to these limits.
  - Financing concessions in excess of Maximum Contributions requirements are considered sales concessions. Sales concessions may also include contributions provided by an interested party that benefit the borrower but are not integral to the financing transaction.
    - All sales concessions must be deducted from the sales price when calculating loan-to-value (LTV) and combined loan-to-value (CLTV) ratios for underwriting and eligibility purposes.
- A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.
- Fannie Mae Lender Contributions
  - Lender-sourced contributions to fund closing costs and prepaid fees that are normally the responsibility of the borrower are permitted, provided the lender-sourced contribution is not:
    - Used to fund any portion of the down payment.
    - Subject to repayment requirements or required financial obligation apart from the subject mortgage.
    - passed to the lender from a third party

## Financing Concessions

IPCs that are payments or credits related to acquiring the property or paying for financing terms, including prepaids, are considered financing concessions. Financing concessions include, but are not limited to:

- Origination fees
- Discount points.
- Commitment fees
- Appraisal costs
- Transfer taxes.
- Stamps
- Attorney fees
- Survey charges.
- Title insurance premiums or charges
- Real estate tax service fees
- Funds to subsidize a temporary or permanent interest rate buydown.
- Prepaid items such as:
  - Interest charges (limited to no more than 30 days of interest)
  - Real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment)
  - Hazard insurance premiums (limited to no more than 14 months)
  - Initial and/or renewal mortgage insurance premiums and any escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.
  - HOA fees for up to 12 months.

## Maximum Contributions

For underwriting purposes, a downward adjustment must be made to the sales price of the property to reflect the amount of any contributions that exceed our limitations.

Occupancy Type	LTV/TLTV Ratio	Maximum IP
Primary Residence or Second Home	Greater than 90%	3%
75.01-90%	6%	
75% or Less	9%	Investment Property
All TLTV Ratios	2%	



Personal Property	
<p>Personal property that is permanently affixed or difficult to remove should be considered as part of the sales price, may remain on the sales contract, and do not require the underwriter to establish a value. Examples include but are not limited to:</p> <ul style="list-style-type: none"> <li>• Built-in appliances such as stoves, refrigerators and dishwashers</li> <li>• Swing sets.</li> <li>• Above-ground pools</li> <li>• Window treatment</li> <li>• Pool tables</li> <li>• Wet Bar</li> </ul> <p>Personal property items which are not permanently affixed or difficult to remove, must have an established value not to exceed an aggregate value of \$500. Tools such as eBay, Craig's List, and Google can be used to establish a value and documentation retained in the file.</p>	
Total Aggregate Value	Requirement
Equal to or less than \$500	A supplement to purchase contract indicating no value to personal property.
Over \$500	<p>Total Value impact to the LTV must be considered.</p> <p>Ensure the following scenarios are considered:</p> <p>-If the deduction in sales price puts the LTV greater than 80%, the borrower must come in with the cash to close to maintain an LTV of 80% or less.</p> <p>LTV must meet product requirements.</p>
Realtor Commissions	
<p><b>Fannie Mae</b></p> <ul style="list-style-type: none"> <li>• When the borrower is a realtor and represents themselves during the purchase process, the commission earned can be used to reduce the closing costs. Still, during the underwriting process, the borrower must show sufficient cash to close without the credit.</li> </ul> <p><b>Freddie Mac</b></p> <ul style="list-style-type: none"> <li>• When the borrower is a realtor and representing themselves during the purchase process, the commission earned can be used to document sufficient funds to close and is not subject to the IPC limit.</li> </ul>	
Sales Concessions	
<p>IPCs that take the form of non-realty items such as cash, fully furnished homes, automobiles, decorator allowances, moving costs, or other "giveaways" are considered sales concessions. The value of sales concessions must be deducted from the sales price when calculating the LTV and CLTV ratios for underwriting and eligibility purposes.</p>	

### Undisclosed Seller Contributions

- Seller Contributions, such as moving expenses, payment of various fees on the borrower's behalf, silent second mortgages held by the property seller, principal and interest (P&I) abatements, and other contributions not disclosed contributions tend to reduce the effective sales price of a property; therefore, they many compromise the LTV ratio for a mortgage. Consequently, a mortgage with undisclosed seller contributions is not eligible for delivery.
- Funds contributed by the lender from premium pricing are not considered to be contributions and may be used toward closing costs only.

### Credit for Value of Lot

When the borrower holds title to the lot on which a property is being constructed under a purchase transaction (e.g., there is no interim construction financing or contractor liens), the value of the lot may be credited toward the down payment for the mortgage. The borrower's equity contribution will be the difference between any outstanding liens against the lot and the recognized value of the lot. The recognized value of the lot is determined based on when the borrower acquired the lot:

- If the borrower acquired the lot more than 12 months before the date of the mortgage application—or if the borrower acquired the lot at any time as a gift or inheritance—the value of the lot will be its current appraised value.
- If the borrower acquired the lot 12 or fewer months before the date of the mortgage application, the value of the lot will be the lesser of its sales price or its current appraised value.
  - Document cash investment with a copy of Closing Disclosure, warranty deed with no outstanding liens or copy of release of any prior liens.

### Rent Credit for Options to Purchase

The property seller may give the purchaser credit toward the down payment for a portion of previous rent payments made. Rent credit may be used toward a borrower's minimum contribution requirement, if applicable. The following requirements must be met:

- Copy of the rental purchase agreement must show an original term of at least 12 months.
- Acceptable verification of rental payments paid by the borrower for a minimum of 12 months.
- Appraiser determination of the market rent for the subject. Credit is calculated by the difference between the market rent and the actual rent paid for the last 12 months.

### Earnest Money Deposit (EMD)

The deposit on a sales contract is an acceptable source of funds for both the down payment and the closing costs. To apply for an EMD, the following requirements must be met:

- If the deposit is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source:
  - A copy of the canceled check, and
  - Required months of bank statements showing the check has cleared the account or VOD covering up to and including the date the check cleared.
- If the EMD is not required to meet a minimum contribution requirement, and the borrower has sufficient funds for closing and reserves, a canceled check is not required.
  - Document the funds have changed hands (e.g., copy of check or letter from agent holding funds) and
  - The deposit is to be backed out of the balance of the borrower's acceptably documented assets. Projected funds (e.g., anticipated net proceeds from the sale of the home) are not considered an eligible source of funds.

Gifts
<ul style="list-style-type: none"> <li>• A borrower of a mortgage loan secured by a principal residence or second home may use funds received from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to Minimum Borrower Contribution requirements. Gifts are not allowed for investment property transactions.</li> <li>• The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.</li> </ul>
Donations from Entities
<p>Owner-occupant borrowers may use donated gifts or grant funds from acceptable entities to pay or supplement part of the closing costs or part of the financial reserves. Acceptable entities include churches, municipalities, and nonprofit organizations, excluding credit unions and public agencies.</p>
Gift of Equity
<ul style="list-style-type: none"> <li>• The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction. The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity.</li> <li>• Documentation Requirements <ul style="list-style-type: none"> <li>○ The following documents must be retained in the loan file: <ul style="list-style-type: none"> <li>▪ Signed gift letter.</li> <li>▪ The Closing Disclosure listing the gift of equity.</li> <li>▪ An appraisal is required; an appraisal waiver is not eligible.</li> </ul> </li> </ul> </li> </ul>
Personal Gift
<p>Acceptable Donors</p> <ul style="list-style-type: none"> <li>• A gift can be provided by: <ul style="list-style-type: none"> <li>○ Relative is defined as the borrower's spouse, child, or other dependent or by any other individual who. It is related to the borrower by blood, marriage, adoption, or legal guardianship.</li> <li>○ Fiancé, fiancée, or domestic partner <ul style="list-style-type: none"> <li>▪ Domestic Partner - An unrelated individual who shares and intends to continue sharing a committed relationship with a borrower who signs the Note.</li> </ul> </li> </ul> </li> </ul>

## Documentation Requirements

- Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:
  - Specify the dollar amount of the gift.
  - Specify the date the funds were transferred.
  - Include the donor's statement that no repayment is expected and
  - Indicate the donor's name, address, telephone number, and relationship to the borrower.
- When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment on a new primary residence (see Exceptions under Minimum Borrower Contribution Requirements), the following items must also be included:
  - A certification from the donor stating that they have lived with the borrower for the past 12 months and will continue to do so in the new residence and
  - Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

## Verifying Donor Availability of Funds and Transfer of Gift Funds

- Documentation must be provided to show the transfer of gift funds to the borrower's account or directly to the escrow or title agent with the following:
  - Copy of the donor's check and the borrower's deposit slip
  - Copy of the donor's withdrawal slip and the borrower's deposit slip.
  - Wire transfer to a borrower with customer information matching donor information.
  - Certified check to a borrower with a letter from the bank that issued the check stating the funds came from the donor's account.
  - If the gift is sent to the title or escrow agent, provide a copy of the check, wire transfer, or certified check, along with a letter from the agent confirming receipt of gift funds from the donor.
- Gift funds transferred directly to the settlement agent at closing is allowable with the following documentation:
  - A gift letter must be provided prior to close.
  - Copy of a certified check, official check, or wire transfer with a letter from the settlement agent confirming receipt of funds from the donor must be completed at closing. Information from the agent must match the gift letter.
  - Closing Disclosure to reflect gift funds with matching donor name

## Proceeds from the Sale of Assets or Property

- Anticipated or Actual Net Proceeds From Sale of Property
  - If the borrower's currently owned home is listed for sale but has not been sold, we may qualify the borrower based on their anticipated sales proceeds based on the following formulas.
  - If the sales price has been established with a sales contract:
    - $\text{Sales Price} - (\text{Sales Costs} + \text{All Liens}) = \text{Estimated Proceeds}$
  - If the sales price has not been established, anticipated equity may be calculated by using a 10% adjustment. A higher adjustment factor may be needed based on current market conditions:
    - $90\% \text{ of Listing Price} - \text{All Liens} = \text{Estimated Proceeds}$
- Documentation Requirements
  - The fully executed settlement statement on the existing home, before or simultaneously with the settlement on the new home, must be provided to show sufficient net cash proceeds to consummate the purchase of the subject

### Employee Relocations Buy-Out

In connection with a corporate relocation plan, a copy of the executed buy-out agreement may be used to document the source of funds when the employer assumes responsibility for paying off the existing mortgage. A photocopy of a sales contract or a listing agreement may not be used as verification of the actual proceeds from the sale.

### Sale of Personal Assets

- Proceeds received from a sale of personal assets are an acceptable source of funds for the down payment, closing costs, and financial reserves if the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. When the borrower relies on the sale of personal assets as a source of funds, documentation must be obtained to evidence:
  - The ownership of the asset, such as title
  - The value of the asset as determined by an independent and reputable source, such as blue book value.
  - The transfer of ownership of the asset with its sale, such as a bill of sale
  - The receipt of the proceeds of the sale, such as a deposit slip, bank statement, or copy of the purchaser's check.
- Depending on the significance of the funds in question, we may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution. On the other hand, a borrower who says that they raised \$1,000 from a yard sale of various personal items may be able to prove that funds were received but generally will not be able to produce proof of ownership, value, and the actual transfer of ownership for each item. Therefore, this sale of assets should not be considered as part of the borrower's funds.

### Section 1031 Tax Deferred Exchanges

A 1031 exchange involves the selling of one real property, giving the proceeds of the sale to an exchange company, and eventually taking back those funds for the purpose of purchasing another real property.

- Eligible Property Types - A 1031 exchange is only allowed on properties other than primary residences. Primary residences are not eligible. The home being sold cannot be a primary residence or the newly purchased property. The exchange company will typically not enter the transaction unless they are certain that the property type is eligible.
- Benefit - The benefit is not having to pay capital gains tax on the proceeds of the sale of the first property sale.
- Exchange Companies - The following entities are not permitted to act as the exchange company, relatives, and controlled business entities or the applicant's realtor, CPA, or attorney.
- Proceeds - All proceeds from the first property sales do not need to be reinvested. Escrow may be instructed to disburse a portion of the funds to the applicant and the balance to the new title company as cash to close on the new purchase. Disbursement to the applicant at the close of the sale or unused funds at the close of the exchange will not disqualify the exchange. However, any cash received by the applicant can be recognized by the IRS as a gain and taxed accordingly.
- Required Documentation - A copy of the exchange documents showing the borrower(s) as the owner of the funds and showing adequate funds in the exchange escrow required to close.

## Trade Equity

- The property seller may take the borrower's existing property or an asset other than real estate in trade as part of the down payment. For Fannie Mae, the borrower must meet minimum contribution requirements from own funds prior to the use of trade equity.
- Documentation Requirements
  - Copy of trade-in contracts, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.
  - A current full appraisal to determine value.
  - For real property:
    - A copy of land records to verify the ownership and existing liens.
    - The property seller must provide proof of title transfer and satisfaction of any existing liens.
    - Transfer deed must be recorded.

## Minimum Borrower Contribution Requirements

- Mortgage insurance companies may have additional restrictions not listed within this document. Please refer to each mortgage insurance company's website for complete eligibility details.
- When a mortgage has an LTV ratio of 80% or lower or a combined loan-to-value (CLTV) ratio for mortgages that have subordinate financing, gift funds from an acceptable donor may be used to make the entire down payment.

Occupancy	LTV, CLTV, or HCLTV		Fannie Mae	Freddie Mac
Primary Residency	≤ 80%		Minimum borrower contribution from the borrower’s own funds are not required.	
	>80%	1 Unit	Minimum borrower contribution from the borrower’s own funds are not required.	
		2 to 4 Unit	The borrower must make a 5% minimum borrower contribution from their own funds before gift funds may be used.	A minimum borrower contribution from the borrower’s own funds is not required.
Second Home	≤ 80%		Minimum borrower contribution from the borrower’s own funds are not required.	
	>80%		The borrower must make a 5% minimum borrower contribution from their own funds before gift funds may be used.	
Investment Property	≤ 80%		All funds used for the transaction must be the borrower’s own funds. Gift Funds are not allowable.	
	>80%			

## Fannie Mae & Freddie Max Exceptions to Borrower Minimum Contributions

Borrowers may use gift funds for some or all the minimum contributions in the following situations:

- Borrowers may pool their funds with gift funds received from one of the following sources:
  - A relative or domestic partner who has lived with the borrower for the last 12 months.
  - A fiancé or fiancée, if both individuals will use the home being purchased as their principal residence.

### Large Deposits

- A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan.
- All large deposits, regardless of transaction type, should be reviewed for indications of recently opened liabilities resulting from borrowed funds or any indication that the funds used to cover the down payment, closing costs, or reserves generated from an unacceptable source.
- If the source of a large deposit is readily identifiable on the account statement(s), such as a direct payroll deposit, the Social Security Administration, tax refund, or a transfer of funds between verified accounts, no further action is required.

Transaction Type	Evaluation Requirements
Refinance Transaction	Documentation or explanation for large deposits is not required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase Transaction	<p>If funds from a large deposit are needed to complete the purchase transaction (used for the down payment, closing costs, or financial reserves), then the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all the documentation required to confirm the source of a deposit.</p> <p>In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile.</p> <p>Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support the receipt of gift funds.</p> <p>The lender must place in the loan file written documentation of the rationale for using the funds. Verified funds must be reduced by the amount (or portion) of the undocumented large deposit, and the remaining funds must be sufficient for the down payment, closing costs and reserves. When a single deposit consists of both verified and unverified portions, only the unverified amount is used to determine whether the deposit is considered a large deposit.</p>

## Reserve Requirements

- Liquid financial reserves are those liquid or near-liquid assets that are available to a borrower after the mortgage closes. Examples of liquid financial assets that can be used for reserves include readily available funds in:
  - Checking or savings accounts.
  - Investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts.
  - The amount vested in a retirement savings account and
  - the cash value of a vested life insurance policy.
- Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using their financial assets. Funds to close are subtracted from available assets when considering sufficient assets for reserves.
- For loan casefiles underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan casefile and the minimum reserves that may be required for the transaction. Reserves may be considered a compensating factor in DU's risk analysis and may serve to improve the underwriting recommendation.
- If a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculations for the other financed properties on the number of financed properties determined by DU. See the "Calculation of Reserves for Multiple Financed Properties" section below for additional details.

### Calculation of Reserves for Multiple Financed Properties

- If the borrower owns other financed properties (determined in accordance with the requirements outlined in the "Multiple Financed Properties for the Same Borrower" subtopic presented in this document), additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's primary residence. The other financed properties' reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:
  - 2% of the aggregate UPB if the borrower has one to four financed properties,
  - 4% of the aggregate UPB if the borrower has five to six financed properties or
  - 6% of the aggregate UPB if the borrower has seven to ten financed properties.
  - The aggregate UPB calculation does not include the mortgages and HELOCs that are on
    - the subject property,
    - the borrower's primary residence,
    - properties that are sold or pending sale, and
    - accounts that will be paid by closing.
- The lender must verify all reserves required by the Loan Product Advisor, as stated on the Feedback Certificate.



Mortgages secured by second homes and investment properties require the following additional reserves:

Number of Financed Properties	Additional required reserves for second home or investment property mortgages
When each borrower individually, and all borrowers collectively, are obligated on one to six financed properties, including the subject property and the borrower's primary residence.	Two months of the monthly payment amount (PITIA) on each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated.
When each borrower individually, and all borrowers collectively, are obligated on seven to ten financed properties, including the subject property and the borrower's primary residence.	Eight months of the monthly payment amount (PITIA) on each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated.
For refinance mortgages, the cash-out proceeds from the subject cash-out refinance transaction and any cash back received on the subject "no cash-out" refinance transaction are not eligible sources of funds for reserves.	
<b>Credit Score Requirements</b>	
<i>Mortgage Insurance companies may impose their own restrictions.</i>	
<b>Borrower(s) with a Valid Credit Score</b>	
<ul style="list-style-type: none"> <li>• All borrowers with at least one valid credit score are eligible. The credit report(s) must also meet the following tradeline requirements: <ul style="list-style-type: none"> <li>○ 2 tradelines with a minimum 12-month history or</li> <li>○ One tradeline with a minimum 12-month history and a 12-month housing reference evidenced by canceled checks.</li> </ul> </li> <li>• All reports used for borrowers with credit scores to qualify must meet the tradeline requirement in total, not individually. Nontraditional credit may not be utilized to supplement a lack of traditional tradelines or derogatory credit when a borrower has a valid credit score.</li> </ul>	

Borrower(s) without a Valid Credit Score
<ul style="list-style-type: none"> <li>• Borrower(s) without any credit score may be eligible subject to the following requirements:</li> <li>• Eligibility Requirements <ul style="list-style-type: none"> <li>○ At least 1 borrower on the loan must have a valid credit score that meets the product parameters.</li> <li>○ Purchase, and Rate and Term Refinance transactions only.</li> <li>○ The subject must be a 1-unit primary residence.</li> <li>○ All borrowers must occupy the property as their primary residence.</li> <li>○ The loan product must be an eligible Fixed Rate Agency Product offered by Fannie Mae or Freddie Mac.</li> <li>○ The loan must receive a DU Approve/Eligible or LPA Accept</li> <li>○ All requirements of AUS must be met.</li> <li>○ If the borrower(s) without a credit score are contributing 50% or more of the qualifying income additional nontraditional credit history is required. See below the requirements for acceptable nontraditional credit.</li> </ul> </li> <li>• Additional Fannie Mae Restrictions <ul style="list-style-type: none"> <li>○ The loan amount must meet conforming loan limits. High Balance loans are not eligible.</li> <li>○ LTV, CLTV, and HCLTV ratios may be no more than 90%.</li> </ul> </li> <li>• Additional Freddie Mac Restrictions <ul style="list-style-type: none"> <li>○ When nontraditional credit requirements apply, all credit references must be from within the United States.</li> </ul> </li> </ul>
Nontraditional Credit Requirements for Borrower(s) without a Credit Score
<p>All borrowers without a valid credit score must document a 12-month satisfactory payment history of nontraditional credit from no less than two sources when their income is 50% or more of the qualifying income.</p> <ul style="list-style-type: none"> <li>• At least one nontraditional credit history must be housing-related (rent) verified with either canceled checks with a copy of the lease or a VOR, indicating 0x30 latest within the last 12 months.</li> <li>• At least one borrower without a credit score can document a rental history to meet this requirement. If multiple borrowers are on the loan without a credit score, the other borrowers must provide two additional credit sources.</li> <li>• In the event multiple borrowers without a credit score have individual housing payments, all housing references must be verified.</li> <li>• If the housing expense is a shared obligation between two or more borrowers (e.g., both names are on the lease in which they are living), the documentation counts as a nontraditional source for each borrower.</li> </ul> <p>Secondary nontraditional credit sources must verify no more than 1x30 in the last 12 months.</p> <ul style="list-style-type: none"> <li>• Direct verification from the creditor is acceptable with the following criteria indicated. <ul style="list-style-type: none"> <li>○ Name of creditor along with telephone number</li> <li>○ Name of payor</li> <li>○ Name and position of the individual providing the reference.</li> <li>○ Account number.</li> <li>○ Nature of obligation (utility, insurance, etc.)</li> <li>○ Payment, outstanding balance, and high balance</li> <li>○ Historical account history with a format of or like 0x30, 0x60, etc. Alternative statements such as “current,” “paid as agreed,” or “satisfactory” are not acceptable to validate the payment history.</li> </ul> </li> <li>• In lieu of verification from the creditor, the borrower may provide documentation indicating the terms of the debt repayment along with a 12-month history via canceled checks, bank statements clearly showing the credit name as payee, or copies of the creditor statements showing payment.</li> </ul>

## Disputed Credit Report Tradelines

### **Fannie Mae**

- For loans submitted to DU that receive an Approve/Eligible response, DU will assess the risk of the loan case file using the tradelines reported as disputed by the borrower. Follow the direction of the DU response for requirements.

### **Freddie Mac**

- For loans submitted to LPA that have received an Accept response and the borrower has a disputed account, it is not required to review the credit report for disputed tradelines and confirm the accuracy of the disputed tradelines. The disputed tradelines have already been included in the LPA assessment; no further action is required.

## Extended Fraud Alerts or Active Military Alerts

- Applicants with credit reports containing extended fraud alerts or active military alerts will be contacted by a Windsor Mortgage employee prior to a commitment letter being issued.
- When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records, or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

## Underwriting Borrowers with Frozen Credit

### **Fannie Mae**

- For loans for a borrower with credit data frozen at one of the credit repositories, the credit report is still acceptable if the following requirements are met:
- Credit data is available from two repositories.
- A credit score is obtained from at least one of those two repositories.
- The lender requested a three-in-file merged report.

### **Freddie Mac**

- No more than one credit repository can have frozen credit information, regardless of the LPA response.

Credit History
Verification of Mortgage or Rent (VOM/VOR)
<p><b>Fannie Mae</b></p> <ul style="list-style-type: none"> <li>• Mortgage history verification is required for all mortgages not reporting on the credit report. All mortgage tradelines must be updated within 45 days of application. If more than 45 days have elapsed since the last reporting, it is required to document the mortgage is current.</li> <li>• Rental history must be documented when required, with 12 months of canceled checks if not provided by a professional management company.</li> </ul>
Credit Inquiries
<p>The report must list all inquiries that were made in the previous 120 days. All loan applicants will be required to provide an explanation for all inquiries that were made in the previous 90 days on their credit report and any new debt must be added to the liabilities section of the 1003 and be supported by applicable documentation. All applicants will be required to provide a signed letter of explanation for all credit inquiries found during the loan process.</p>
Disputed Credit Information
<ul style="list-style-type: none"> <li>• If a borrower indicates that any significant information in the credit file is inaccurate, such as reported accounts that do not belong to the borrower or derogatory information that is reported in error, the borrower should request the credit reporting company that provided the information to confirm its accuracy. <ul style="list-style-type: none"> <li>○ If the credit reporting company confirms that the disputed information is incorrect, the information should be corrected, and a new report should be obtained if the erroneous information significantly affects the underwriting of the file. If there are multiple disputed tradelines or a dispute on a mortgage tradeline, the credit score cannot be used for underwriting.</li> </ul> </li> <li>• The applicants may contact the repositories or bureaus if there are disputed issues. The telephone numbers and addresses are as follows:</li> <li>• <b>Freddie Mac</b> <ul style="list-style-type: none"> <li>○ Direct verification of housing payment history is not required if all borrowers have a usable credit score, and LPA issued an Accept response. The payment amount of any qualifying housing debt must still be documented.</li> </ul> </li> </ul>

## Mortgage Delinquency

DU and LPA apply the following guidelines to the processing of loans with mortgage delinquencies:

- If any borrower's credit report contains a mortgage tradeline that is  $\geq 60$  days past due, when the account was last reported by the creditor, and the account was reported within the 12 months prior to the credit report date, the loan will receive a Refer with Caution/IV recommendation and will be ineligible for delivery.
- If an account is reported on the credit report as a non-mortgage tradeline, and yet the account is listed on the loan application as a mortgage, DU will analyze the credit history of the tradeline as a mortgage. For example, if the credit report identifies an account as a revolving account and the account is listed as a HELOC on the loan application, DU will evaluate the credit history of the account as a mortgage. Any late payments in the credit report will be treated by DU as delinquent mortgage payments.
- If there is a mortgage that is disclosed on the loan application but not reported on the credit report, DU will issue a message requiring the lender to confirm that the account is not two or more payments past due as of the date of the application and that it has not been past-due by two or more payments in the last 12 months. If the lender determines that the borrower does have a mortgage that is past due by two or more payments or has been past due by two or more payments in the last 12 months, then the loan is not eligible for delivery to Fannie Mae.
- Borrowers may not bring past-due mortgage accounts current prior to closing to circumvent Fannie Mae's guidelines regarding past-due mortgages. However, the lender may apply some discretion about the application of this policy if it determines and documents that the past due account status was not the fault of the borrower. For example, if the servicer misapplied or lost the borrower's payment.
- Loan casefiles will receive an Ineligible recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on their credit report that has one or more 60, 90, 120, or 150-day delinquency reported within the 12 months prior to the credit report date.
- When DU identifies a mortgage delinquency on the credit report, once the lender has documented the information is inaccurate, the lender may instruct DU to disregard the mortgage delinquency information on the credit report. This is done by entering "Confirmed Mtg Del Incorrect" in the Explanation field for question f. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the mortgage delinquency information on the credit report will not be used.
  - If the lender enters "Confirmed Mtg. Del Incorrect", the lender must document that the mortgage is not currently 60 days or more past due and has not been 60 days or more past due in the last 12 months.

The above policies will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, and HELOC transactions.

### Significant Derogatory Credit Events

The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk.

#### Bankruptcy, Foreclosure, Deed-in-Lieu, Short Sale

- The underwriter must determine the significance of the derogatory event and verify sufficient time has elapsed since the date of the last derogatory event based on the distribution date of the new loan.
- A bankruptcy, foreclosure, deed-in-lieu of foreclosure, or short sale within the past seven years, disclosed by the credit report or within the loan file, must be correctly identified in the declarations section of the application.

#### **Fannie Mae**

- An acceptable response of Approve Eligible (DU) is required and must meet the required recovery periods. See Extenuating Circumstances for requirements pertaining to additional flexibilities and reduced waiting periods for bankruptcies, foreclosures, and other alternatives to foreclosure.
- The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to determine whether the waiting period has been met. Loans receiving a Refer response due to the waiting period must obtain an updated credit report after the required time has elapsed and obtain an Approve response. Derogatory events with incomplete dates reporting or events not reporting on credit must have the required waiting periods met.
- If a bankruptcy is not reported in a public record, but a tradeline is reported with a bankruptcy status of closed, verify the actual filed and discharged dates to determine that the bankruptcy meets the DU 48-month guideline.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy – Chapter 7 or 11	A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.	A two-year waiting period is permitted if extenuating circumstances can be documented and are measured from the discharge or dismissal date of the bankruptcy action.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy – Chapter 13	<p>A distinction was made between Chapter 12 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows: Two years from the discharge date or four years from the dismissal date.</p> <p>The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.</p>	<p>A two-year waiting period is permitted for Chapter 13 dismissal if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after Chapter 13 discharge.</p>

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Multiple Bankruptcy Filings	<p>For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.</p> <p>Note: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative and do not constitute multiple bankruptcies. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy, this is not considered a multiple bankruptcy.</p>	<p>A three-year waiting period is permitted if extenuating circumstances can be documented and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.</p>

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Foreclosure	A seven-year waiting period is required and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.	<p>A three-year waiting period is permitted if extenuating circumstances can be documented and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include:</p> <p>Maximum LTV, TLVT, HTLTV ratios of the lesser of 90% or the maximum LTV, TLTV, or HTLTV ratios for the transaction type.</p> <p>The purchase of a primary residence is permitted.</p> <p>Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time.</p> <p>Note: The purchase of second homes or investment properties and cash-out refinances, any occupancy type, are not permitted until a seven-year waiting period has elapsed.</p>



Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
<p>Deed-in-Lieu of Foreclosure, Preforeclosure Sale/Short Sale, or Mortgage Charge-Off</p>	<p>A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure sale/short sale or charge-off as reported on the credit report or other documents provided by the borrower.</p> <p>Note: These transaction types are completed as alternatives to foreclosure.</p> <p>A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through remarks codes as "Forfeit deed-in-lieu of foreclosure."</p> <p>A preforeclosure sale or short sale is the sale of a property in lieu of foreclosure, resulting in a payoff of less than the total amount owed, which was pre-approved by the service. These are typically identified on the credit report through remarks codes such as "Settled for less than full balance."</p> <p>A charge-off of a mortgage account occurs when a creditor has determined that there is little or no likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and is identified on the credit report with a manner of payment (MOP) code of 9.</p>	<p>A two-year waiting period is permitted if extenuating circumstances can be documented.</p> <p>Note: Deeds-in-lieu and preforeclosure sales/short sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies.</p>

<b>Inaccurate Derogatory Credit Events – Fannie Mae</b>
When DU identifies a potentially inaccurate credit event on the credit report, a bankruptcy or foreclosure, and the lender has documented the information is inaccurate, DU may be instructed to disregard the information in the eligibility assessment as addressed in the DU findings. The appropriate waiting period must be documented as being met based on the corresponding derogatory event.
<b>Mortgage Discharged Through Bankruptcy – Fannie Mae</b>
If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting period and not the foreclosure waiting period. Lenders must obtain documentation to verify that the mortgage debt in question was, in fact, discharged as part of the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.
<b>Extenuating Circumstances for Bankruptcy, Foreclosure, Deed-in-Lieu, Short Sales – Fannie Mae</b>
<p>Extenuating circumstances are nonrecurring events that are beyond the borrower’s control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. In order to support an extenuating circumstance and follow the reduced recovery time listed above, the following requirements must be met:</p> <ul style="list-style-type: none"> <li>○ Documentation to support the borrower’s claim must be provided. Examples include: <ul style="list-style-type: none"> <li>○ Copy of divorce decree</li> <li>○ Medical bills</li> <li>○ Notice of job layoff or severance papers</li> <li>○ Additional documents that illustrate an inability to resolve the derogatory event. <ul style="list-style-type: none"> <li>▪ Insurance paper or claim settlements.</li> <li>▪ Property listing agreements</li> <li>▪ Lease agreements.</li> <li>▪ Tax returns covering the periods to, during, and after the loss of employment.</li> </ul> </li> </ul> </li> <li>● Letter from the borrower explaining the relevance of the documentation and supporting claims of the extenuating circumstances that led to the event. Letter to illustrate the borrower had no reasonable options other than the default on their financial obligations.</li> <li>● When DU identifies a bankruptcy or foreclosure on the credit report and the lender properly documents the extenuating circumstances, DU may be instructed to disregard the derogatory credit information as addressed in the DU findings.</li> </ul>
<b>Freddie Mac</b>
For Freddie Mac mortgages with an Accept response from LPA, the significance of the derogatory event (bankruptcy, foreclosure, deed-in-lieu, or short sale) has been considered in the risk assessment, and the borrower’s credit reputation has been deemed acceptable. No further documentation or recovery time period must be met.
<b>Judgments, Garnishments, and Liens</b>
Open judgments, garnishments, and all outstanding liens that are in the public records section of the credit report will be identified and must be paid off prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be obtained.

## Past-Due, Collections, and Charge-Off of Non-Mortgage Accounts

### Fannie Mae

- Accounts that are reported as past-due, not reported as collection accounts, must be brought current.
  - For 1-unit, owner-occupied properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs, regardless of the amount, provided the collection will not threaten first-lien position.
  - For 2 to 4-unit, owner-occupied, and second-home properties, collections, and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to closing.
  - For investment properties, individual collections and non-mortgage charge-off accounts equal to or greater than \$250 and accounts more than \$1,000 must be paid in full prior to closing.

### Freddie Mac

- Past-due, collections, and charge-off accounts are not required to be paid off when receiving an Accept response from LPA.

## Authorized User Tradelines

### Fannie Mae

- When the credit report contains authorized user accounts, and the underwriter has determined that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation, the Loan Product Advisor – Desktop Underwriter decision may be deemed valid. The borrower must qualify with the payment unless the authorized user tradeline belongs to another borrower on the mortgage loan or it can be documented someone else other than the borrower is making the payment. See Non-Mortgage Debts Paid by Others Section in the Conventional Underwriting Guidelines.

### Freddie Mac

- When the decision repository file used to create the selected borrower's credit report contains tradelines for accounts for which the borrower is not the primary account holder but is listed as an authorized user, an Accept response from LPA will return a feedback message indicating when the following requirements must be met:
- The LPA feedback certificate will provide messaging regarding authorized user account(s); the message will indicate the following requirements:
  - The Mortgage file must contain documentation evidencing that for each authorized user account:
    - Another Borrower on the Mortgage owns the Tradeline in question or
    - The Borrower's spouse owns the Tradeline or
    - The Borrower has been making the payments on the account for the last 12 months,
- If the underwriter is unable to document one of the above requirements for each authorized user account, the underwriter may determine that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation. The underwriter should base its determination on the number of the borrower's own tradelines, as well as the age of the tradeline, type, size, and payment history, as compared to the authorized user accounts. The underwriter must document its determination in the Mortgage file.

### Alimony and Child Support

- When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments must continue to be made for more than 10 months, the payments must be considered as part of the borrower's recurring monthly debt to income ratio. Voluntary payments do not need to be taken into consideration. Child support is treated as a liability for qualification.
- For alimony, when reduced from the qualifying income, a copy of the divorce decree or other court order equivalent documentation must be provided.

#### **Fannie Mae**

- Alimony may either be treated as a reduction to income or entered as a liability. When the borrower is responsible for paying alimony, the underwriter must submit the loan to DU with alimony listed as a liability. If DU returns a recommendation of ineligible or refer with caution due to ratios, the underwriter can then remove the alimony from liabilities and deduct it from the borrower's gross monthly income by entering the obligation as a negative figure under the income type of Alimony/Child Support.

#### **Freddie Mac**

- Alimony must be deducted from the borrower's gross monthly income by entering the obligation as a negative figure under the income type of Alimony/Child Support.

### Bridge Loan

When a borrower obtains a bridge, or swing, loan that is collateralized by his or her present home so that the funds from that loan can be used for closing on a new home before the present home is sold, the borrower has a contingent liability. The debt may only be excluded if a fully executed sales contract for the current secured residence is received and confirmation that any financing contingencies have been cleared.

### Business Debt in Borrower's Name

When a self-employed borrower claims that the borrower's business is paying a monthly obligation that appears on his or her personal credit report, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis for the borrower's business. The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency.
- The business provides acceptable evidence that the obligation was paid out of company funds, such as 12 months of canceled company checks.
- The cash flow analysis of the business considered payment of the obligation.
- The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:
  - If the business does not provide sufficient evidence that the obligation was paid out of company funds.
  - If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation, such as an interest expense and taxes and insurance, if applicable, equal to or greater than the amount of interest one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan. It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, which relates to the account in question.

### Calculating Monthly Real Estate Tax Payment – Subject Property

Real estate tax amounts included in the monthly housing expense must be based on the value of the improvements plus the value of the land.

- When calculating the real estate tax payment for existing (not new construction) properties, the following documentation must be used:
  - The taxes listed on the title commitment or property tax bill/cert unless a change to taxes based on transfer of ownership is disclosed or
  - When disclosed that a property is in a jurisdiction where transfer of ownership causes or results in a recalculation of taxes (e.g., purchase of an investment property with current homestead exemption), the monthly housing expense must include an estimate of the recalculated tax amount using the information provided on the title commitment, tax bill or local assessor's office; or
  - Evidence from the local assessor's office of the current tax rate calculated by the appraised value.
- If the transaction is a new construction and the property has not been fully assessed, the taxes may be calculated based on the current tax rate as obtained from the local tax assessor's office or 1.5% of the appraised value. If the disclosed tax rate is higher, it must be used for qualification over the 1.5%.
- For purchases of new and existing properties in California only, property taxes may be calculated using the higher rate of 1.25% of the purchase price, the current tax bill, or the current tax rate as obtained from the local tax assessor's office.
- If a special assessment levied against the property is not part of the annual tax payments or paid at loan closing, the monthly payment must include 1/12 of any estimated annual payment toward the assessment.
- A tax abatement may be used to qualify at a reduced monthly expense provided there is evidence of the tax reduction or abatement and documentation to show continuance for at least 5 years after the Note date. If the abatement increases annually, the annual taxes that will be required at the end of the 5th year after the first mortgage payment date must be used for qualification.

### Court-Ordered Assignment of Debt

When a borrower has an outstanding debt that was assigned to another party by court order, such as under a divorce decree or separation agreement, and the creditor does not release the borrower from liability, the borrower has a contingent liability. The lender can confirm this information by obtaining evidence of the transfer of ownership, if applicable, and a copy of the applicable pages from the court order. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations. Although we do not require the lender to evaluate the payment history for the assigned debt after the effective date of the assignment, the lender should not disregard the borrower's payment history for the debt before its assignment.

### Current Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, the PITIA for the borrower's current primary residence pending sale may be excluded from the monthly debt payment-to-income ratio if the following requirements have been met:

- An executed sales contract for the property-pending sale. If the executed sales contract includes a financing contingency, the mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale or
- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s). There cannot be any financing contingencies and the relocation agreement must be fully executed by both the borrower and relocation company with no right to cancel.
  - For Freddie Mac, an unexecuted buy-out agreement may be used with the following requirements:
    - The borrower has sufficient reserves, above those required on the LPA response, to pay the monthly payment amount for the property pending sale until the expiration date of the buy-out as indicated in the agreement and
    - The borrower(s) provide a signed statement indicating his intention to accept the buy-out agreement if the current primary residence is not sold prior to the expiration date of the agreement.

### Non-Mortgage Debts Paid by Others

#### **Fannie Mae**

- When a borrower is obligated on a non-mortgage debt but is not the party who is repaying the debt, the debt may be excluded from the borrower's recurring monthly obligations with satisfactory documentation. This guideline applies whether the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment, revolving, lease payments, alimony, child support, and separate maintenance.
- The mortgage loan file must obtain the most recent 12 months' canceled checks (or bank statements) from the other party documenting a 12-month satisfactory payment history. There must be no delinquent payments for that debt in order to exclude it from the borrower's debt-to-income ratio.

#### **Freddie Mac**

- A non-mortgage debt may be excluded from the monthly DTI ratio when a party other than the borrower has been making timely payments on the debt for the most recent 12 months and the following requirements are met:
- A party other than the borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt), and
- The party making the payments is not an interested party to the subject real estate or Mortgage transaction

Deferred Installment Debt
Deferred installment debt must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly payment that will be payable at the end of the deferment period, a copy of the borrower's payment letter or forbearance agreement should be provided to document the payment amount to use in calculating the borrower's total monthly obligations. For information about deferred student loans, see the Student Loan section.
Federal Tax Installment Plans
<p>The monthly payment due under an IRS income tax installment agreement can be included in the DTI ratio (in lieu of full payment), provided the following requirements are met:</p> <ul style="list-style-type: none"> <li>• There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.</li> <li>• The underwriter must obtain the following documentation: <ul style="list-style-type: none"> <li>○ An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and</li> <li>○ Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date of the next payment owed and due date. At least one payment must have been made prior to closing.</li> </ul> </li> </ul>
Home Equity Lines of Credit
When the mortgage that is being delivered to us also has a home equity line of credit that provides for a monthly payment of principal and interest or interest only, the payment on the home equity line of credit must be considered as part of the borrower's recurring monthly debt obligations. If the home equity line of credit does not require a payment, there is no recurring monthly debt obligation, so the lender does not need to develop an equivalent payment amount.
Installment Debt
Generally, all installment debt that is not secured by a financial asset, including student loans, automobile loans, and home equity loans, should be considered as part of the borrower's recurring monthly debt obligations only if more than 10 monthly payments remain to be paid on the account. However, an installment debt with $\leq 10$ monthly payments remaining should also be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations.
Lease Payments
Because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house, we require that lease payments always be considered a recurring monthly debt obligation, regardless of the number of months remaining on the lease.
Loan Secured by Financial Assets
When a borrower uses his or her financial assets, life insurance policies, 401k accounts, individual retirement accounts, certificates of deposits, stocks, bonds, etc., as security for a loan, the borrower has a contingent liability. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations if the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy a financial reserve requirement, the value of the asset (the account balance, in most cases) must be reduced by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

## Mortgage Assumptions

When a borrower sells a mortgaged property that they own and the property purchaser assumes the outstanding mortgage, this contingent liability does not have to be counted as part of the long-term debt that is used in determining borrower's ratios if a formal assumption agreement, with or without a release of liability, was executed. Evidence must be provided of the transfer of ownership and a copy of the executed assumption agreement. Freddie Mac will not require verification of the property purchaser payment record for the assumed mortgage; Fannie Mae does require that if the borrower is unable to document timely payments during the most recent 12-month period on the assumed property, the entire PITI payment must be included in the borrower's total debt ratio.

## Mortgage Paid by Others

When a borrower is obligated on a mortgage debt but is not the party who is repaying the debt, the monthly mortgage payment may be excluded from the calculation of the DTI ratio if the following can be documented:

- The party making the payments is obligated on the mortgage debt and
- Document that someone other than the borrower makes the payments by obtaining copies of canceled checks, bank statements, etc., and
- Most recent 12-month payment history with no delinquencies within the most recent 12 months; and
- The borrower is not using rental income from the applicable property to qualify, and
- The mortgaged property must still be included in the borrower's multiple financed property count, and
- Meet guideline Reserve Requirements and
- Freddie Mac Only
  - The party making the payments is not an interested party to the subject real estate or mortgage transaction.

## Open 30-Day Charge Accounts

- An Open 30-day account (an account in which the balance is required to be paid in full monthly) is not required to be included in the borrower's monthly obligations. For an open 30-day account that does not reflect a revolving monthly payment on the credit report, lacks documentation in the file to indicate a revolving monthly payment, or credit reflects the monthly payment is identical to the outstanding balance, sufficient assets must be verified to cover the account balance. The verified funds must be in addition to any funds required for closing and reserves based on the transaction type.
- For AUS to recognize accurately, the liability must be marked as an Open 30-day account type, and the payment must equal the balance.

### Fannie Mae

- DU findings will include the balance of the 30-day charge account in the required reserves to be verified. When a borrower is receiving cash back from the transaction the required amount will be reduced by the cash back up to the full balance of the account.

### Freddie Mac

- LPA findings will not include the balance in the assets to be verified; the balance will need to be manually calculated by adding the balance to the assets required by the AUS response. Cash back is not an eligible source of funds unless the balance is being paid off with the transaction.



<b>Payments on Real Estate Co-Owned</b>
When the borrower is on title to a property as an owner but is not a signor on the note or mortgage, they must qualify with the taxes and insurance for the said property.
<b>Payments on Real Estate Mortgages</b>
When the borrower owns mortgaged real estate other than investment properties, the full mortgage payment, i.e., principal, interest, taxes, and insurance that the borrower is obligated to pay is considered as part of the borrower's recurring monthly debt obligations.
<b>Payoff or Paydown of Debt for Qualification</b>
<ul style="list-style-type: none"> <li>Payoff or pay-down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. As a rule of thumb: <ul style="list-style-type: none"> <li>Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the borrower's long-term debt.</li> <li>If a revolving account is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income ratio.</li> <li>Open 30-day charge accounts must be paid off at or prior to closing if: <ul style="list-style-type: none"> <li>The borrower is unable to document sufficient assets to cover the unpaid balance or</li> <li>The borrower is unable to document that the charges will be reimbursed by their employer.</li> </ul> </li> <li>Collections, Charge-Offs, Judgments, Garnishments, and Liens: <ul style="list-style-type: none"> <li>Delinquent credit, including taxes, judgments, and charged-off accounts. See below for exceptions. Tax liens, mechanics,' or material-men's liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's equity must be paid off at or prior to closing.</li> <li>Collection accounts or charged-off accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than \$250 or the total balance of all accounts is \$1,000 or less.</li> </ul> </li> </ul> </li> <li>Collection accounts or charged-off accounts that exceed the above limits do not have to be paid off at or prior to closing, provided all the following are documented: <ul style="list-style-type: none"> <li>A strong credit profile.</li> <li>Meaningful financial reserves</li> <li>Evidence that the accounts pose no threat to Fannie Mae's first mortgage lien.</li> <li>Evidence that the outstanding accounts are not likely to affect the borrower's equity position.</li> </ul> </li> </ul>
<b>Property Settlement Buy-Out</b>
When a borrower's interest in a property is bought-out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations if documentation can be obtained to confirm the transfer of title to the property.

## Revolving Charge Accounts

- Revolving charge accounts and unsecured lines of credit are open-ended. They should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations.
- These tradelines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a required minimum payment amount, use an amount equal to 5% of the outstanding balance.

## Student Loans

### Fannie Mae

- For all student loans, whether deferred, in forbearance, or in repayment, not deferred, a monthly payment must be used when qualifying the borrower. Use one of the options below to determine the repayment amount:
  - The monthly amount is provided on the credit report. If the credit report does not provide a monthly payment for the student loan or if the credit report shows \$0 as the monthly payment (which may be the case for deferred loans or loans in forbearance), the lender must calculate a qualifying monthly payment using one of the options below:
    - 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment) or
    - A fully amortizing payment using the documented loan repayment terms.
  - For student loans associated with an income-driven repayment (IDR) plan, even if the payment is \$0, this can be used to qualify the borrower only if the loan is not in deferment.

### Freddie Mac

- Student loans in repayment, deferment, or forbearance:
  - If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation or
  - If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report.
- Student loan forgiveness, cancellation, discharge, and employment-contingent repayment programs:
  - The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the mortgage file contains documentation that indicates the following:
    - The student loan has 10 or fewer monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged, or, in the case of an employment-contingent repayment program, paid or
    - The monthly payment on a student loan is deferred or is in forbearance, and the full balance of the student loan will be forgiven, canceled, discharged, or, in the case of an employment-contingent repayment program, paid at the end of the deferment or forbearance period; and
    - The borrower is eligible or approved for the student loan forgiveness, cancellation, discharge, or employment-contingent repayment program, as applicable, and the Seller is not aware of any circumstances that will make the borrower ineligible in the future. Evidence of eligibility or approval must come from the loan program or employer, as applicable.

## Borrowers

- Windsor Mortgage will purchase mortgages made to natural persons. We require that title to the property be in the name of the individual borrower(s). However, we will accept an inter vivos revocable trust as an eligible borrower under certain conditions outlined in the Closing in Trust section. A mortgage is not eligible for delivery to us if the borrower is another type of legal entity – such as a corporation, general partnership, limited partnership, or real estate syndication.
- A borrower is any credit applicant(s) whose credit is used for qualifying purposes to meet loan eligibility requirements. A co-borrower is used to describe any borrower(s) other than the primary borrower who is listed on the application.

### Closing in Trust

The following guidelines must be met for a loan to close in the name of a Trust:

- The trust must be a living revocable trust, also known as a family trust or an inter vivos trust.
- Land Trusts are not eligible.
- Texas 50(a)(6) loans may not close in trust. These loans must close in an individual's name only.
- All property and occupancy types are eligible.
  - For owner-occupied transactions, at least one individual establishing the trust (settlor) must occupy the subject property and sign the loan documents as a borrower.
- The title company must agree to insure over the trust with no exceptions for the trust or trustees.
- A copy of the full trust agreement must be provided.
  - Fannie Mae- allows for only the pertinent pages within the trust to be provided to document closing in trust requirements have been met.
- Title vested in Trust:
  - Fannie Mae- title to be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.
  - Freddie Mac- full title to the property must be vested in the trust; there may be no other owners.
- The settlor(s) must be the primary beneficiary of the trust.
  - If the income or assets of at least one of the grantors or settlors will be used to qualify for the mortgage and the grantor or settlor will occupy the property and sign the mortgage instruments in their individual capacity, there may be more than one primary beneficiary on the trust.
- The trust document must give the trustee or trustees the authority to mortgage trust assets, to incur debt on behalf of the trust, and to hold legal title to and manage trust assets.

### Co-Signers and Non-Occupant Co-Borrowers

- Loans underwritten in conjunction with LPA or DU, if correctly identified with a non-occupant co-borrower, AUS will determine the acceptability of housing and debt ratios. The maximum LTV/CLTV/HCLTV for loans with a non-occupant co-borrower underwritten with LPA or DU is 95% if an Accept or Approve response is received.
- A guarantor or co-signer is a credit applicant who does not have an ownership interest in the security property. A borrower with an interest in the property sales transaction (e.g., property seller, the builder, the real estate broker) is not an eligible co-signer or guarantor.

Non-Arms-Length Transactions
<p>Non-arm's-length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property, including, but not limited to:</p> <ul style="list-style-type: none"> <li>• Applicants related by blood or marriage to the seller.</li> <li>• Fiancé, fiancée, or domestic partner</li> <li>• Employer or business partner</li> <li>• Renters buy from the landlord.</li> <li>• Trading properties with seller</li> <li>• Builder/developer</li> </ul>
Ineligible Non-Arms-Length Transactions
<p>Non-arm's length transactions are not eligible for the following transactions:</p> <ul style="list-style-type: none"> <li>• Second Home New Construction</li> <li>• Investment Property New Construction</li> </ul>
Number of Borrowers
<ul style="list-style-type: none"> <li>• Desktop Underwriter <ul style="list-style-type: none"> <li>○ The maximum number of borrowers Desktop Underwriters can assess on a single loan is four.</li> </ul> </li> <li>• Loan Product Advisor <ul style="list-style-type: none"> <li>○ The maximum number of borrowers a Loan Product Advisor can assess on a single loan is five. However, we limit the number of borrowers per application to four.</li> </ul> </li> </ul>
Resident and Immigration Status
<ul style="list-style-type: none"> <li>• Non-U.S. citizens who are lawful permanent or non-permanent residents of the United States are eligible under the same terms, mortgage product, transaction type, occupancy status, and loan-to-value ratios that are available to United States citizens. Borrowers who are not citizens must currently reside in the United States to be eligible. All borrowers must have a valid social security number.</li> <li>• Windsor Mortgage must be able to evaluate a borrower's credit history to determine whether the borrower has demonstrated the willingness to meet credit obligations. Borrower must have a valid two-year work history, be employed within the U.S. and income must be expected to continue for the next three years.</li> <li>• Loans requiring MI may have additional restrictions.</li> </ul>

## Permanent Resident Alien

- A permanent resident alien (immigrant) is an individual who is lawfully accorded the privilege of residing permanently in the United States. Refugees and others seeking political asylum who are immigrating to and seeking permanent residency in the United States are classified under the permanent resident alien status. The INS has special immigration programs that enable these individuals to seek and accept employment while they are in the process of obtaining their permanent resident alien status, which generally will take from two to three years.
- Documentation
  - Permanent Resident Alien status must be documented with a copy of the borrower(s)' green card.
  - Refugees and asylees may provide valid form I-94 with the indicator of refugee or asylum admission status and a copy of the EAD card.
- Document Expiration
  - Conditional 2-year green card- borrower must provide evidence of petition for permanent resident status if the card is expiring within 90 days of the application.
  - Permanent green card with 10-year renewal- If the green card contains an expiration date and will expire within 6 months of the application, the borrower must provide evidence of filing an I-90 form to replace the card. Note: an expired 10-year green card does not impact the borrower's status to reside in the United States lawfully.
  - Refugee and Asylum status- If an EAD card expiration is within six months of the application, the borrower must show evidence that they have applied for an extension

## Acceptable Visa Types:

- E Series (E-1, E-2, E-3)
- G Series (G-1, G-2, G-3, or G-4 only), which must document that the borrower does not have diplomatic immunity. Verification that the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, or the U.S. Department of State's Diplomatic List [here](#). The transmittal summary requires a comment indicating that the borrowers' visa status does not require the payment of taxes and, therefore, tax transcripts are not available.
- H Series (H1-B, H1-C, H-2, H-3, H-4)
- L Series (L-1A, L-1B, L-2)
- Series (O-1)
- NATO (TN-1 and TN-2) For NAFTA professionals from Canada and Mexico, a VISA or EAD card is not required if the borrower(s) has an unexpired passport that is stamped with the H1B status.
- I-797 Notice of Action/Approval with valid dates. The document must refer to an acceptable visa classification as indicated above.
- Document Expiration
  - Acceptable Visa:
    - If the expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
    - If the Visa has expired, a valid form I-797A with detachable I-94 must be provided.
  - EAD- If the expiration is within six months of the application, the borrower must show evidence they have applied for an extension or provide a letter from the employer indicating they will continue to sponsor their employment.

Tax Identification Numbers	
All borrowers must have a valid social security number.	
Mortgage Premises Occupied by Borrower's Parent or Disabled Child	
<ul style="list-style-type: none"> <li>The following describes the conditions under which the subject may be considered a primary residence even though the borrower will not be occupying the property.</li> <li>In the Declarations section, the non-occupying borrower may select Yes for the question, Does the Borrower intend to occupy the property as their primary residence?</li> <li>Windsor Mortgage, at its discretion, may determine that a property is not a primary residence.</li> </ul>	
<b>Fannie Mae</b>	
Borrower Types	Requirements for Owner-Occupancy
Parents wanting to provide housing for their disabled adult child	If the child is unable to work or does not have sufficient income to qualify for a mortgage on their own, the parents are considered the owner/occupant.
Children wanting to provide housing for elderly parents	<p>If the parent is unable to work or does not have sufficient income to qualify for a mortgage on their own, the child is considered the owner/occupant.</p> <p>Parents must take title to the property being purchased. Must provide 1-year Tax Return for parents to support on a fixed income and unable to qualify for housing.</p>
<b>Freddie Mac</b>	
Borrower(s) may provide principal residence mortgage financing for their parents or a disabled individual when the borrower is the parent of the legal guardian.	

## Properties

### Second Homes

- Second homes must meet the following criteria:
  - Must be located a reasonable distance away from the borrower's principal residence.
  - Must be occupied by the borrower for some portion of the year.
  - They are restricted to 1-unit dwellings.
  - Must be suitable for year-round occupancy.
  - The borrower must have exclusive control over the property.
  - Must not be subject to any timeshare arrangement or other shared ownership agreement.
  - Cannot be subject to any agreements that give a management firm control over the occupancy of the property.
  - It must not be used as a rental property. When a property is classified as a second home, rental income may not be used to qualify the borrower.
- Freddie Mac
  - Allow property with seasonal limitations on year-round occupancy (e.g., lack of winter accessibility), provided the appraiser includes at least one comparable with similar seasonal limitations to demonstrate marketability.
  - Property may be rented out on a short-term basis provided the following requirements are met:
    - The borrower must keep the subject property available for personal use for more than half of the calendar year, and
    - The property is not subject to rental pools or agreements that require the borrower to rent, give a management company or entity control over occupancy of the property, or involve revenue sharing between owner and developer or another party. Underwriting validation must be completed to confirm (e.g., property cannot be listed on a rental property management site such as Airbnb.com, and tax returns do not indicate payments to a management company that controls occupancy)
    - Rental income from the subject property may not be used.
- Properties occupied by a party other than the borrower will be considered investment property.
- The determination of the second home status's acceptability may be scrutinized and Windsor Mortgage, in its discretion, may determine that a property is not a second home.

### Investment Properties

- A one-to-four-family property that the borrower does not occupy.
- While rent information may not be required by AUS when the borrower qualifies without any rental income from the property, the monthly rent information is required when delivering the loan to Fannie Mae and Freddie Mac. One of the following documents is required:
  - Lease agreement.
  - Form 1007/1000
  - Letter from seller, realtor, or borrower indicating the estimated market rent.
  - For refinance transactions, the amount from the REO section of the 1003 can be used.
  - The income listed on schedule E from the borrower's 1040's.
  - Zestimate from Zillow.com. The Zestimate must be retained in the mortgage file.

<b>Valid First Lien</b>
<p>The Mortgage is properly recorded and is a valid, existing, enforceable, and perfected first lien on the Mortgaged Property, including all buildings and improvements on the Mortgaged Property and all installations and mechanical, electrical, plumbing, heating, and air conditioning systems located in or annexed to such buildings, and all additions, alterations, and replacements made at any time with respect to the preceding, subject only to Permitted Encumbrances. The mortgaged premises must be free and clear of all liens and encumbrances and no rights may be outstanding that could give rise to such liens, except for liens for real estate taxes and special assessments not yet due and payable. Any additional liens to the mortgage must be either paid off or subordinated with a recorded and approved subordination agreement.</p>
<b>Validity of Mortgage Loan Documents</b>
<p>The Mortgage Loan Documents are genuine and complete in all respects. Each is the Mortgagor's legal, valid, and binding obligation enforceable in all respects in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, receivership, or other similar laws affecting creditors' rights generally from time to time in effect and general principles of equity and Seller has taken all action necessary to transfer such rights of enforceability to Windsor Mortgage. All parties to the Mortgage Note and related Mortgage had the legal capacity to enter the Mortgage Loan, to execute and deliver the Mortgage Note and related Mortgage, and did duly and properly execute the Mortgage Note and related Mortgage.</p>
<b>Customary Provisions</b>
<ul style="list-style-type: none"> <li>• The Mortgage Note and related Mortgage are on forms acceptable for sale and securitization to the Agencies, conform to the requirements of the Agreement, and contain customary and enforceable provisions such as to render the rights and Remedies of the holder thereof adequate for the realization against the Mortgaged Property of the benefits of the security provided thereby, including (i) in the case of a Mortgage designated as a deed of trust by trustee's sale, and (ii) otherwise by judicial or non-judicial foreclosure. Upon default by a Mortgagor on a Mortgage Loan and foreclosure on, or trustee's sale of, the Mortgaged Property pursuant to the proper procedures, the holder of the Mortgage Loan will be able to deliver good and merchantable title to the Mortgaged Property. There is no homestead or other exemption or right available to the Mortgagor or any other person or restriction on Seller or any other Person, including without limitation, any federal, state, or local law, ordinance, decree, regulation, guidance, attorney general action, or other pronouncements, whether temporary or permanent, which would interfere with, restrict or delay, the ability of Seller, Windsor Mortgage, any servicer or any successor to any of them, to (i) sell the Mortgaged Property at a trustee's sale or otherwise, or (iii) foreclose on the related Mortgage.</li> <li>• The terms of the Mortgage Note and the Mortgage have not been impaired, waived, altered, or modified in any respect except by written instruments that are in the Mortgage Loan File and have been or will be recorded, if necessary, to protect the interests of Windsor Mortgage, and that have been delivered to Windsor Mortgage, all in accordance with the Agreement. The substance of any such waiver, alteration, or modification has been approved by the primary mortgage guaranty insurer, if any, and by the title insurer to the extent required by the related policy; its terms are reflected in the Mortgage Loan documents and data and its terms have been approved in writing by Windsor Mortgage.</li> <li>• No Mortgagor has been released, in whole or in part, and no Mortgage Loan is subject to an assumption agreement.</li> <li>• No Mortgagor has been granted a forbearance.</li> </ul>



## Documentation

### Recordation and Transfer of Mortgage Loans

Each original Mortgage was recorded and, except for those Mortgage Loans subject to the MERS® System, all subsequent assignments of the original Mortgage (other than the assignment to Windsor Mortgage) have been recorded in the appropriate jurisdictions wherein such recordation is necessary to perfect the lien thereof as against creditors of Seller or is in the process of being recorded. If the Mortgage is not subject to the MERS® System, the Assignment of Mortgage, upon the insertion of the name of the assignee and recording information, is in state-specific recordable form (other than the name of the assignee if in blank) and is acceptable for recording under the laws of the jurisdiction in which the related Mortgaged Property is located.

### MERS

- The Mortgage Loan is covered by an ALTA or CLTA lender's title insurance policy, acceptable to the Agencies, issued by a title insurer acceptable to the Agencies and qualified to do business in the jurisdiction where the Mortgaged Property is located, insuring Seller, its successors and assigns as to the first priority lien of the Mortgage in the original principal amount of the Mortgage Loan and, with respect to ARM Mortgage Loans, against any loss by reason of the invalidity or unenforceability of the lien resulting from the provisions of the Mortgage providing for adjustment in the Mortgage Interest Rate or Monthly Payment.
- Where required by state law or regulation, the Mortgagor has been given the opportunity to choose the carrier of the required mortgage title insurance. Additionally, such lender's title insurance policy affirmatively insures ingress and egress and against encroachments by or upon the Mortgaged Property or any interest therein. Seller and its successors and assigns are the sole insureds of such lender's title insurance policy. Such a lender's title insurance policy is in full force and effect. It will be in full force and effect upon the consummation of the transactions contemplated by the Agreement. It will inure to the benefit of Windsor Mortgage and its assigns without any further act.
- Seller warrants that no claims have been made under such title insurance policy, neither seller nor any prior holder of the mortgage has done anything which would impair the coverage of such title insurance policy, and that nothing contemplated in the Agreement, or any transfer to Windsor Mortgage, will impair the coverage of such title insurance policy. If a married borrower wishes to take title to the mortgaged property without their spouse, the lien created by the mortgage must be superior to any interest in the mortgaged property the spouse may have under the law or otherwise.
- Only the borrower(s) applying for a mortgage loan are allowed to be on the Note and security instrument. A borrower(s) applying for a mortgage loan must appear on the title. A spouse is allowed to sign the security instrument (Mortgage or Deed of Trust) to be added to the title without applying for a mortgage loan.

#### The title commitment must meet the following requirements:

- The proposed insured dollar amount must be equal to the loan amount referenced in the Deed of Trust or Mortgage.
- The legal description of the property agrees with the Deed of Trust or Mortgage and appraisal.
- Copy of the survey or plat map, if required by the title company
- Alta Address Supplement, if available in the subject state
- Attorney's Opinion Letter, if applicable, in the state in which the property is located.
- Environmental protection lien and endorsement for all loans
- Latest ALTA form of title insurance policy (required post-closing). In states where ALTA forms are not used, similar coverage is required.
- The chain of title evidences twelve months of property ownership.
- Title commitment cannot show any exceptions unless permitted by applicable agencies (Fannie, Freddie, FHA, VA, and USDA).

#### Endorsements Requirements:

- All loans: 8.1 Environmental Protection
- Condominiums: ALTA 4-06 or 4.1-06 or CLTA 115.1
- PUD: ALTA 5-06 to 5.1-06 or CLTA 115.2
- Comprehensive Endorsement: ALTA 9 or CLTA 100 or its equivalent
- Location Endorsement: ALTA 22.1 or CLTA 116 or its equivalent
- The following are required for title insurance policies for mortgage loans covering each unit in a condominium or PUD project:
- The legal description for the PUD or Condo must include all components of the unit estate, including:
  - Name of the project.
  - The unit itself.
  - The undivided interest in the common elements (for condominium units).
  - The non-exclusive easement to use the common areas and facilities (for a PUD unit or other kind of project unit that has separately owned common elements or facilities) and
  - Any significant limited common elements or exclusive easements over the common areas.
  - Ownership must be reflected in the policy if the unit owners possess the common areas of the project as tenants. The policy may explain limited common elements or exclusive easements specifically or by reference to the constituent documents.
  - The Title Insurance policy for Condos and Planned Unit Developments (PUDs) must include coverage that protects by:
    - It ensures that the mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a first or second mortgage lien, the policy must ensure that those assessments have been paid through the effective date.
    - It is insuring against any impairment or loss of title of the Windsor Mortgage first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. The title insurance policy must specifically insure against any loss that results from a violation that existed as of the date of the policy.
    - It ensures that the unit does not infringe or encroach on another unit or any of the common elements, areas, or facilities. This policy must also ensure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.
    - It is ensuring that a unit secures the mortgage in a condominium project that has been created in compliance with the applicable enabling statutes.
    - Ensuring that real estate taxes are assessable and lienable only against the individual condominium unit and its undivided interest in the common elements rather than against the project as a whole and
    - Ensuring that the owner of a PUD unit is a member of the homeowners' association and that the membership is transferable if the unit is sold.
- If the homeowners' association owns the common elements, areas/facilities of a project separately (or holds them in a leasehold estate), insurance on those areas is required to ensure that ownership.
- The title must be free and clear of any objectionable liens and encumbrances, including any statutory or mechanics' liens for labor or materials related to improvements in the common areas that began before the title policy was issued.

## Survey Requirements

Windsor Mortgage requires that any survey exception be deleted from the final title policy. Unless it is covered by a master title insurance policy that insures against loss due to survey-related matters, a plat or improvement survey must be provided. If the title company requires a new survey in order to delete the exception, then the Seller will be required to obtain a new survey. The survey must indicate the location of the subject plot, any easements, encroachments, building lines, street lines, boundary lines, structures, and/or improvements.

## Property Appraisal

- All loans submitted to Windsor Mortgage require an interior and exterior inspection regardless of AUS requirements unless an Appraisal Waiver is utilized as indicated in AUS. Appraiser waivers are not eligible in certain circumstances, as outlined in the agency's guidelines. In addition, if a purchase transaction is the result of the sale of an REO property or the last transaction on the property being purchased was a foreclosure, an appraisal based on an interior and exterior property inspection reported on Form 1004 is required.
- All appraisals, valuations, and associated services used in valuing the collateral property for Mortgage Loans delivered for purchase by Windsor Mortgage must be fully compliant with all applicable federal and state regulatory requirements, including the Uniform Standards of Professional Appraisal Practice (USPAP), the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA), the Dodd-Frank Act Section 1472, TILA 129E, Appraisal Independence Requirements, and others as they may apply.
- Sellers must subscribe to the Uniform Appraisal Dataset and Uniform Collateral Data Portal (UCDP) for the submission of electronic appraisal data provided to Freddie Mac and Fannie Mae.
- Any physical deficiencies stated on the appraisal that affect the health or safety of the property's occupants must be corrected. If the appraised value is "subject to" by an appraiser, the appraiser must give a final "as-is" value after the requested conditions are met and reviewed by the same appraiser. Please also note that while Fannie Mae does permit an appraiser to add some certifications to appraisal report forms, Fannie Mae will not purchase a mortgage for which the appraiser has added, modified, or deleted a Limiting Condition on the appraisal report.
- Properties in C5 and C6 condition are not saleable. The property must have a condition rating of C1, C2, C3, or C4, and the appraisal completed as is.

## Appraisal Forms

The applicable required appraisal report forms listed below for all conventional appraisal reports must be included in the UCDP submission.

- Uniform Residential Appraisal Report (Fannie Mae 1004/Freddie Mac Form 70)
- Small Residential Income Property Appraisal Report (Fannie Mae 1025/Freddie Mac Form 72)
- Individual Condominium Unit Appraisal Report (Fannie Mae 1073/Freddie Mac Form 465)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075/Freddie Mac Form 466)
- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055/Freddie Mac Form 2055)
- Fannie Mae Only Forms
  - Individual Cooperative Interest Appraisal Report (Fannie Mae Form 2090)
  - Exterior-Only Inspection Individual Cooperative Interest Appraisal
- All new construction requires a full appraisal (Fannie Mae 1004/Freddie Mac Form 70). Reduced appraisals are not allowed on new construction property.

All appraisal reports must include photographs of the kitchen, main living area, and all bathrooms. All appraisals are subject to Fannie Mae/Freddie Mac and USPAP guidelines.

### Appraisal Report Requirements

- Appraisers must give special attention to the valuation of the one-to-four-family dwellings intended for or currently used as rental properties. For 2 to 4-unit properties, the appraiser must use the Small Residential Income Property Appraisal report. Fannie Mae form 1025/Freddie Mac form 72. The income approach would be given equal consideration with the market approach in the appraiser's final value reconciliation. The appraisal must include:
  - The property's legal description
  - Layout sketches showing unit entries.
  - A location map.
  - Clear photos of property, street scene, and comparable used
  - Operating Income Statement, Fannie Mae Form 216 (except when rental income is not used to qualify)
- On the single-family properties that will be rented, the appraiser must use the Single-Family Comparable Rent Schedule (Fannie Mae Form 1007) as an attachment, provided the borrower does not qualify for the full payment. The appraiser must develop an income approach to value that is supported by rent comparables and must consider that information in the final reconciliation. The appraiser must state the effect of the value of any non-realty items included in a sale, such as closing costs paid by the seller or any subordination agreements with the property.

## Comparables

- The appraisal should contain a minimum of two conventional comparable sales, preferably three. Land contract comparables are unacceptable. Generally, the appraiser should use comparable sales that have been closed within the 12 months preceding the effective date of the subject property appraisal. More specifically, comparables should have closed within the average marketing time for the area, as indicated by the appraiser. However, the appraiser may use older comparable sales as additional supporting data if they believe that it is appropriate. The appraiser must comment on the reasons for using any comparable sales that are more than six-month-old and/or exceed the marketing time for the area. Each comparable should be like and located near the subject property. For properties located in a declining market, the appraiser should provide comparables dated within three to six months.
- In selecting the comparables, the appraiser should keep in mind that re-sales from within the subject neighborhood or project are preferable sales more distant from the subject property. Sales prices of comparables should be in the same general range as the property. If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, the appraiser must explain as to why they used the specific comparable sales in the appraisal report. Because rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. This means that the appraiser will often need to select comparable sales that are located a considerable distance from the subject property. The appraiser should include an explanation of why the comparables were selected.
- The appraiser must fully disclose the 12-month listing history of the subject property, complete with the dates and prices the subject was listed for, as well as the source of the listing information. If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, Fannie Mae requires that the appraiser explain why they used the specific comparable sales in the appraisal report. If the subject has not been listed, the appraiser must list the data source(s) used to confirm that the subject has not been listed. "Public records" is not an acceptable data source. The 36-month history must be provided for all comparables.
- Sources of Comparable Market Data: The appraiser needs to ensure that the data they are providing in the appraisal report is accurate. When the appraiser is provided with comparable sales data by a party that has a financial interest in either the sale or financing of the subject property, the appraiser is required to verify the data with a party that does not have a financial interest in the subject transaction. However, when appraising new construction, the appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through typical data sources such as public records or multiple listing services. In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the Closing Disclosure from the builder's file.
- The dollar value of the net adjustments of each comparable should not exceed 15% of the comparable sale prices. The gross adjustment should not exceed 25%. The appraiser must comment on the reason for any adjustments exceeding these limits.

Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs
<ul style="list-style-type: none"> <li>• If the subject property is in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. <ul style="list-style-type: none"> <li>○ One comparable sale from the subject subdivision or project,</li> <li>○ One comparable sale from outside the subject subdivision or project and</li> <li>○ The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property.</li> </ul> </li> <li>• In the event there are no closed sales inside a new subject project or subdivision because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project or subdivision in lieu of one closed sale. When the appraiser is using two pending comparable sales in lieu of a closed sale, the appraiser must also use at least three closed comparable sales from projects or subdivisions outside of the subject property's project or subdivision.</li> <li>• To meet the requirement that the appraiser utilize one comparable sale from inside the subject subdivision or project, the appraiser may need to rely solely on the builder of the property they are appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder's file.</li> <li>• When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale.</li> </ul>
Zoning
<ul style="list-style-type: none"> <li>• Zoning of the property must constitute a legally permissible use of the land. The property must represent the highest and best use of the land. Non-conforming property must have the city zoning authority letter or an appraiser's addendum stating that it is a legal non-conforming use. Confirmation of buildability in the event of a partial/total loss from the city zoning authority must be included. Comparable must have the same zoning influence.</li> <li>• Properties that are subject to coastal tideland, wetlands, or setback laws and/or regulations that prevent the rebuilding of the property improvements if they are damaged or destroyed are ineligible.</li> </ul>
Individual Condominium Unit
<p>The Individual Condominium Unit (Fannie Mae 1073/Freddie Mac 465) form is used to report an appraisal, based on an interior and exterior inspection, of the following properties:</p> <ul style="list-style-type: none"> <li>• a unit in a condominium project or</li> <li>• a condominium unit in a planned unit development (PUD)</li> </ul>
Requirements for New Condo Projects
<p>For units in new (or recently converted) condominium projects, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject project. The comparison should help demonstrate market acceptance of new developments and the properties within them.</p>

### Requirements for Established Condo Projects

If the subject property is in an established condominium, subdivision, or PUD, the appraiser should use comparable sales from within the subject subdivision or project.

### Required Exhibits

- The appraiser needs to include the following exhibits on all Fannie Mae 1004/Freddie Mac Form 70:
  - Street map that shows the location of the subject property and all comparables used.
  - The building sketch shall include all completed levels above grade, all basement areas (both finished and unfinished), and any finished living areas that were not included in the gross living area.
  - The appraiser must also include calculations to show how they arrived at the estimate for the gross living area.
  - Clear (color) photographs that show the front, back, and street scenes of the subject property.
  - Clear (color) photographs of the following:
    - Kitchen
    - All bathrooms
    - Main living room
    - Examples of physical deterioration, if present
    - Examples of recent updates, such as restoration, remodeling, and renovations, if present
  - Clear (color) photographs that show the front of each comparable sale and that are appropriately identified.
- The appraiser needs to include the following exhibits on all Fannie Mae 1073/Freddie Max 465:
  - A street map that shows the location of the subject property and all comparables that the appraiser used.
  - A sketch of the subject unit that must indicate interior perimeter unit dimensions rather than exterior building dimensions.
  - A floor plan/building sketch with exterior dimensions is required on all transactions.
  - Clear (color) photographs of the following:
    - Kitchen
    - All bathrooms
    - Main living room
    - Examples of physical deterioration, if present
    - Examples of recent updates, such as restoration, remodeling, and renovations, if present
  - Clear (color) photographs that show the front of each comparable sale and that are appropriately identified

## Appraisal Age

- The appraisal, or other collateral valuation as applicable, must be dated within 120 calendar days or 4 months (depending on the Agency requirement) of the Note date. If the appraisal is greater than 120 calendar days but no more than 12 months, and the loan has not closed, please see below for requirements.
  - For loans targeted to Fannie Mae, the appraiser must perform an update on form 1004D, which includes:
    - Inspection of the exterior of the property, and
    - Review of the current market data to determine whether the property has declined in value since the date of the original appraisal. If the appraiser indicates the property value has declined, a new appraisal will be required.
  - For loans targeted to Freddie Mac, one of the following is required:
    - An appraisal update reported on Form 442, Appraisal Update, and/or Completion Report. If the appraiser indicates the property value has declined, a new appraisal will be required, or
    - A new appraisal based on an exterior-only inspection and reported on the appropriate Freddie Mac form based on the property type. If the appraiser indicates the property value has declined, a new appraisal will be required, or
    - A new appraisal based on an interior and exterior inspection and reported on the appropriate Freddie Mac form based on the property type.
  - For both Fannie Mae and Freddie Mac, if the original appraisal is more than 12 months, a full new appraisal report will be required.
- The appraiser who performed the original appraisal should perform the appraisal update. However, another appraiser can perform the appraisal update. If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.

## Re-use of an Appraisal Report for a Subsequent Transaction

When an appraisal is required for a subsequent transaction secured by the mortgaged premises, the original appraisal report may be re-used if the following requirements are met:

- The subsequent transaction may only be a Limited Cash-Out Refinance
- The appraisal report must not be more than 12 months old on the note date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the note and mortgage, then an appraisal update is required. Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update, must be met.
- The property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transactions.

## Multiple Appraisals for Subject Property

If more than one appraisal for a loan is due to applicable law, regulation, lender policy, or otherwise, the lender must:

- Adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value.
- Document the reasons for relying on the appraisal.
- Submit the appraisal selected by the lender through the UCDP prior to delivery.



### Well and Septic

We will not require a well and septic test unless required by the appraiser; there is evidence to suggest a failure of the system, the purchase agreement requires an inspection, appraiser notes property is in the vicinity of environmental hazards with potential for contamination based on proximity or required by agency guidelines.

### Site Adjustments

- The appraisal must include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel. For properties with larger than normal lots or considerable acreage that do not have comparables with the same type of lots or acreage, any excessive, plus adjustments will be subtracted from the final value of the comparable, and the new adjusted value will be used for loan-to-value calculations.
- The appraiser's analysis of a property must take into consideration all factors that influence value. To ensure that this is done in the development of the sales comparison approach to value, we require the appraiser to analyze closed sales, contract sales, as well as current and expired listings of properties that are the most comparable to the subject property (although we require the appraiser to report only the comparable sales in the appraisal report). The appraiser should always include in the appraiser report or in an addendum any other information that Windsor Mortgage will need to make a prudent underwriting decision. In arriving at the sales comparison approach to value, the appraiser must make appropriate adjustments.  
"Time" adjustments are acceptable if they reflect the time elapsed between the contract date for the comparable sales and the effective date of the appraisal. These adjustments must be representative of the subject market and supported by market data that is reported in the appraisal report.

### Solar Panels – Borrower Owned

If the borrower is the owner of the solar panels, standard eligibility requirements apply for example, appraisal, insurance, and title.

## Requirements for Established Condo Projects

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

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
  - Provide delivery of a specific amount of energy at a fixed payment during a given period and
  - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.

Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio.

- The lease or a power purchase agreement must indicate that:
  - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment, and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and
    - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's insurance policy covering the residential structure to which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy and
- In the event of foreclosure, the lender or assignee has the discretion to
- Terminate the lease/agreement and require the third-party owner to remove the equipment.
- Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party or
- Enter into a new lease/agreement with the third party under terms no less favorable than the prior owner.

## Accessory Units

- An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.
- If the property contains an accessory unit, the property is eligible under the following conditions:
  - The property is defined as a one-unit property.
  - There is only one accessory unit on the property; multiple accessory units are not permitted.
  - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
  - The borrower qualifies for the mortgage without considering any rental income from the accessory unit.

Property Condition
Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported. Examples of minor conditions and deferred maintenance include worn floor finishes or carpets, minor plumbing leaks, holes in window screens, or cracked window glass.
Physical Deficiencies that Affect Safety, Soundness, or Structural Integrity of Subject Property
<ul style="list-style-type: none"> <li>The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to the completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.</li> <li>If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies, and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based on the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to confirm that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to confirm the necessary alterations or repairs have been completed prior to delivery of the loan.</li> </ul>
Infestation, Dampness, or Settlement
If the appraisal indicates evidence of wood-boring insects, dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements.
Properties Affected by a Disaster
<ul style="list-style-type: none"> <li>When a disaster may have damaged the property, the lender must take prudent and reasonable actions to determine whether the condition of the property may have materially changed. If a property is in a condo or co-op project, both the condition of the unit and the condition of the building in which the unit is located must be assessed.</li> <li>The following criteria must be used to determine if the mortgage loan is eligible: <ul style="list-style-type: none"> <li>If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance: <ul style="list-style-type: none"> <li>Must obtain documentation of the professional estimates of the repair costs and</li> <li>Ensure sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.</li> </ul> </li> <li>If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired, and an appraisal update on Fannie Mae Form 1004D (Freddie Mac 442) must be provided before the loan may close.</li> </ul> </li> </ul>
Properties Affected by a Disaster
An appraisal waiver (PIW or ACE/PIA), offered on loan in process at the time of a disaster, may be exercised if the natural disaster requirements above have been met and the final DU/LPA response retains the eligibility for the waiver.

Escrow Accounts
<ul style="list-style-type: none"> <li>Unless in violation of Applicable Law, Windsor Mortgage requires that all Mortgage Loans with a loan-to-value ratio greater than 80% and all Government Loans, regardless of LTV/CLTV, must have an escrow/impound account established at Loan close. If the property requires flood insurance an escrow account is required for the payment of Flood Insurance, no matter the LTV/CLTV.</li> <li>Due to servicing limitations, Windsor Mortgage does not permit escrows for optional items, such as optional flood and earthquake insurance or utility assessments. At the time the Loan is purchased by Windsor Mortgage, the Loan may not have a “negative” escrow account balance. See the Required Escrow Cushion below.</li> </ul>
HPML Escrow Rule:
<p>Escrow/impound accounts must also be established for primary residence Mortgage Loans at any LTV if required by any applicable regulatory guidelines, including but not limited to the TILA HPML escrow rule. The HPML Escrow Rule requires escrows for taxes and insurance (except for condo/PUD master association insurance) to be in place for at least 5 years (other details apply) when the Mortgage Loan is a Higher Priced Mortgage Loan (see 12 CFR 1026.35), regardless of the origination LTV.</p>
Aggregate Accounting:
<ul style="list-style-type: none"> <li>Sellers must use aggregate accounting in the calculation of the escrow account. Escrow accounts for the payment of taxes, ground rents, special assessments, private mortgage insurance, hazard insurance, and flood insurance must be established by the Seller at closing when required. Adequate funds must be calculated and collected at closing by the Seller to ensure that enough will be available to pay the next installment of taxes and insurance.</li> <li>The Closing Package must contain an Initial Escrow Disclosure Statement calculated in accordance with the principles of aggregate accounting.</li> </ul>
Required Escrow Cushion:
<ul style="list-style-type: none"> <li>Windsor Mortgage requires that when an escrow for taxes and insurance (hazard and flood) is established at closing, the escrow account be calculated using the maximum cushion permitted by the mortgage loan documents or applicable Law, whichever is lower. Note: If a lesser amount is escrowed, there may be a change in monthly payments shortly after the servicing transfer of the Loan, which may result in a negative borrower experience. No cushion is needed for PMI/MIP.</li> <li>Unless in violation of applicable state law, the maximum cushion that the Seller may maintain in the escrow/impound account is two months, except the cushion for private mortgage insurance (PMI), which is zero months. The account balance must reach the minimum balance at least once every 12 months. The Seller must use month-end accounting.</li> </ul>
Escrow for Postponed Improvements or Repairs (Holdbacks)
<p>Mortgage Loans with allowable escrow holdbacks for postponed improvements or repairs are eligible subject to meeting applicable Agency and Windsor Mortgage requirements. The Seller remains responsible for timely managing the transaction through the closure of the escrow holdback, including any delays and/or disputes that may arise in the process of the completion of postponed improvements.</p>

## Number of Financed Properties

### **Fannie Mae**

- If a second home or investment property secures new mortgage financing, each borrower individually and all borrowers collectively may not own more than ten properties, which includes their principal residence, that are currently being financed. This limit applies to any combination of ownership in 1 to 4-unit properties.

### **Freddie Mac**

- If a second home or investment property secures a new mortgage, each borrower individually and all borrowers collectively must not be obligated on (e.g., notes, land contracts, and/or any other debt or obligation) more than ten 1-to-4-unit properties, including their principal residence, which are currently being financed. This limit applies to any combination of ownership in 1- to 4-unit properties.
- For borrowers who own more than one financed investment property, the new subject investment property mortgage must be a 15-, 20-, or 30-year fixed rate mortgage or a 7/1 or 10/1 ARM only.
- Ownership of a property that is held in the name of the borrower's business and the borrower, in their individual capacity, is obligated on (e.g., Notes, land contracts, and/or any other debt or obligation), must be included in the total number of financed properties.

## Power of Attorney

Windsor Mortgage allows a Power of Attorney (POA) for closing documents in connection with a loan if the following conditions are satisfied:

- The application and purchase agreement, if applicable, must be signed by all parties to the loan. A POA is not allowed to sign the application or the purchase agreement.
- The transaction must be a purchase or rate/term refinance only.
- The property must be an owner-occupied principal residence or second home. Investment properties are allowed on an exception basis.
- All signatures on the POA must be notarized and a Windsor Mortgage underwriter must review the POA. Signatures on the POA must match signatures in the file to Windsor Mortgage's satisfaction.
- The POA must be specific to Windsor Mortgage's loan, indicating the property address unless it is a Military Durable POA, which does not have to indicate the specific property.
- General Powers of Attorney are not acceptable.
- There must be more than one borrower on the loan and at least one borrower present at the closing.
- The title policy must not make any exceptions based upon the use of the Power of Attorney.
- Except as required by applicable law, the person acting as attorney-in-fact may not be employed by or affiliated with any party to the loan transaction other than the borrower.

Fannie Mae will allow an interested party to act as the attorney-in-fact if the person is related to the borrower.

- Any loan documents signed with a Power of Attorney must be completed with the indication that the person is signing in their name on behalf of the borrower, as an Attorney-In-Fact (AIF) or as a Power of Attorney (POA) to be valid. Though not required to reflect AIF or POA, it is strongly recommended.
- The original POA must be recorded with the Mortgage (Security Instrument), and a certified copy must be delivered with the Note.
- The POA meets all legal requirements of the state in which it was executed.

## Hazard Insurance

- A Valid, in-force hazard insurance policy must be provided on all closed loans at the time of submission for purchase consideration. The Seller must be listed on the hazard insurance policy with an effective date prior to or on the date of closing. On purchase transactions, the policy effective date can't be more than 30 days prior to the closing of the loan. The insurance company issuing the policy must meet all agency guidelines. The insurance company must be authorized by law or licensed in the appropriate state in which the property is located.
- All buildings or other customarily insured improvements upon the Mortgaged Property are insured by a Qualified Insurer generally acceptable to the Agencies and to prudent mortgage lending institutions against loss by fire, hazards of extended coverage, and such other hazards as are required in the Agency Guides as well as all additional requirements set forth herein, pursuant to an insurance policy conforming to the requirements of customary servicing procedures and providing coverage in an amount equal to the lesser of
  - (i) the full insurable value of the Mortgaged Property as determined by the property insurer, or (ii) the greater of (A) the unpaid principal balance owing on the Mortgage Loan, or (B) 80% of the insurable value of the improvements required to compensate for damage or loss on a replacement cost basis. All such insurance policies are in full force and effect and contain a standard mortgagee clause naming Seller, its successors, and assigns as mortgagee, and all premiums thereon have been paid.
- We will not accept hazard insurance policies that limit or exclude coverage, in whole or in part, windstorms, hurricanes, hail damages, riots, civil disturbances, aircraft, vehicles, smoke, or any other perils that are normally included under an extended coverage endorsement. Damage from earthquakes, floods, and mudslides may be excluded from the policy coverage.
- Policies cannot include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.
- The Mortgage obligates the Mortgagor thereunder to maintain all such insurance at the Mortgagor's cost and expense and, on the Mortgagor's failure to do so, authorizes the holder of the Mortgage to maintain such insurance at the Mortgagor's cost and expense and to seek reimbursement therefor from the Mortgagor. Where required by state law or regulation, the Mortgagor has been given an opportunity to choose the carrier of the required hazard insurance, provided the policy is not a "master" or "blanket" hazard insurance policy covering the common facilities of a planned unit development or condominium. The hazard and/or flood insurance policy is the valid and binding obligation of the insurer, is in full force and effect, and will be in full force and effect and inure to the benefit of Windsor Mortgage upon the consummation of the transactions contemplated by the Agreement. Seller has not engaged in, and has no knowledge of the Mortgagor having engaged in, any act or omission which would impair the coverage of any such policy, the benefits of the endorsement provided for herein, or the validity and binding effect of either, including, without limitation, no unlawful fee, commission, kickback or other unlawful compensation or value of any kind has been or will be received, retained or realized by any attorney, firm or other person or entity. No such unlawful items have been received, retained, or realized by Seller.
- The maximum deductible allowed for insurance covering a property (including common elements in a PUD, condo, or co-op project) is 5% of the face amount of the policy or the applicable Agency requirement.
- USDA requires that Borrower occupied properties should have replacement cost coverage in an amount equal to the insured value of the improvements or the unpaid principal balance with deductible(s) which does not exceed the greater of either \$1,000 or 1 percent of the policy coverage, or the minimum deductible offered by the borrower's chosen insurance carrier.
- Policy/Binder must contain the lender's name, ISAOA/ATIMA, lender's address, and loan number.

### Purchase Transactions:

At the time of closing package submission, the Seller must provide either a valid in-force hazard insurance binder with a paid receipt for one full year's premium paid in advance, or the final hazard insurance policy evidencing coverage is paid in full, or no payment is due.

### Refinance Transactions:

The borrower's current policy must be paid in full as evidenced by a paid receipt, Closing Disclosure or evidence insurance showing no payment is due. Within 10 days of purchase, the Seller is required to send a notice to the insurance company advising of the change in the loss payee to Plains Commerce Bank.

## Condominium Hazard Insurance Requirements

- Insurance must be in an amount and form acceptable to the applicable Agency guidelines. All required hazard insurance coverage, including H0-6, must be in effect on or before the Loan disbursement date—hazard insurance term for information regarding effective date requirements.
- For Fannie Mae Loans, follow Fannie Mae requirements in the applicable sections of the Fannie Mae Selling Guide, including, as applicable: B7-3, Property and Flood Insurance, B7-4, Additional Project Insurance and Project Standards Condo, Co-op, and PUD Project Requirement Requirements.
- For Freddie Mac transactions, follow the requirements in the applicable sections of the Freddie Mac Guide, including Chapter 8202: Property Insurance.
- For FHA, USDA, and VA, follow those Agency's respective guidelines and requirements.
- In general, the following are required for all condominium hazard insurance policies, if required by the applicable Agency for the applicable product or program:
  - The PUD or condominium owners' association or the fee simple landowner/lessor of the ground lease community must maintain commercial general liability (CGL) insurance covering all common areas, common elements, commercial spaces, and public ways in the PUD or condominium.
  - The current master condominium insurance policy must provide at least \$1 million in liability coverage.
  - "Severability of interest" clause or specific endorsement to preclude the insurer's denial of a unit owner's negligence claim is required.
  - An acceptable fidelity bond is required on condominium projects with more than 20 units. (Freddie Mac requirements changed with Bulletin 2016-03; see the Freddie Mac Selling Guide for requirements.)
  - The policy should provide at least ten calendar days' written notice to the homeowners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project. (This requirement was removed by Fannie Mae with SEL 2016-03, see the Fannie Mae Selling Guide for requirements.)
  - 100% of the insurable replacement cost coverage for the complete project and unit (interior and exterior of the condominium unit).
- Windsor Mortgage has no overlays to the applicable Agency guidelines unless otherwise stated in the applicable Program Guide. Insurance for the project and unit (walls-in) must meet the applicable Agency requirements. Generally, both are insured at 100% replacement cost. If not, the project and unit (walls-in) must both be insured at guaranteed replacement cost. Generally, if the master condo insurance policy does not cover the unit (walls-in), then:
  - The walls-in (H0-6) policy or equivalent must state that it provides coverage for 100% of the insurable value of the improvements and betterments. The amount of coverage must be sufficient to restore the unit to its condition prior to a loss claim event or
  - Provide the breakdown or "cost estimator" from the insurance company on how they determined the amount of coverage provided to restore the unit to its condition prior to a loss claim event or
  - Obtain a statement from an insurance company that this is the maximum they will insure and that this is sufficient to restore the unit to its condition prior to a loss claim event.
  - The walls-in coverage must meet the percentage of appraised value or sales price required by the applicable agency. (For Non-Agency loans, follow any applicable Fannie Mae requirements.)
  - The master policy must state the number of units.
- For Agency alternative property inspection products, use the value provided in the final Desktop Underwriter® (DU®) approval or Loan Product Advisor® (LPA®).

### PUD Hazard Insurance Requirements

- PUD hazard insurance must be in an amount and form acceptable to the applicable Agency guidelines. For Windsor Mortgage Non-Agency Loan Programs, follow Fannie Mae's requirements. In general, requirements for 1- to 4-unit properties apply to similar residential properties within a Planned Unit Development (PUD) or a ground lease community.
- Generally, if the individual units are covered by insurance purchased by their respective owners or leasehold lessees, the PUD homeowners' association or the fee simple landowner/lessor of the ground lease community must maintain "all risk" coverage for common areas and property for 100% of their insurable value and provide for loss or damage settlement on a replacement cost basis. The association or fee simple landowner/lessor must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location, and use, including the following where applicable and available:
  - Agreed amount.
  - Demolition cost
  - Increased cost of construction
  - Boiler and machinery
- The insurer's minimum liability per accident under boiler and machinery coverage must meet applicable Agency requirements. For Non-Agency, follow Fannie Mae.
- If acceptable to the respective Agency, Windsor Mortgage will also accept blanket insurance covering all units in the PUD or ground lease community as well as insurable common areas and property, if called for in the PUD's governing documents or the lease. Such coverage must meet the requirements applicable to each PUD or ground lease community unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage under the terms and conditions permitted by the applicable Agency.
- The PUD's or ground lease community fee simple owners' insurance policy must name the insured in substantially the same language as follows: Association of the Owners of the Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

### Flood Insurance Policy and Coverage Requirements

- Flood insurance is required if any part of the principal structure is located within an SFHA or if a residential-detached structure on a property securing a Mortgage Loan has any part located in an SFHA. As announced with Fannie Mae SEL 2014-16, and effective with H. R. 3370, the final rule which took effect in March of 2014, flood insurance is not required for any structure that is part of a residential property but is detached from the primary residential structure and does not serve as a residence.
- Flood insurance policies should be in the form of a standard policy issued under the NFIP or an acceptable private policy. The Declaration page of the policy is acceptable evidence of coverage. Policies that meet NFIP requirements, issued by licensed property and casualty insurance.
- Companies that are authorized to participate in NFIP's Write Your Own" program or private policy are acceptable. (See the Private Flood Insurance Policies section below.)
- If flood insurance is required, an acceptable flood insurance policy must be in place. The flood insurance policy or the application signed by the insurance agent for such insurance reflecting the flood zone as listed on the standard flood hazard determination, along with a paid receipt evidencing the first full year's premium has been paid in full, is required prior to underwriting approval.



#### Coverage Amount

- Insurance must be placed on a property located in an area where flood insurance is required by the National Flood Insurance Act of 1968, as amended. The minimum amount of flood insurance coverage for individual insurance must be equal to the lesser of the:
  - 100% of the insurable value of the improvements (with losses to be paid at replacement cost) as determined by the amount of insurance listed on the hazard policy or
  - NFIP maximum for the improvements, or
  - The unpaid principal balance of the Mortgage Loan.
- The waiting period must have lapsed prior to the Mortgage Loan being eligible for purchase.
- A PUD unit is its own separate building, which requires its own separate flood insurance coverage unless covered by a blanket master insurance policy.

#### Unmapped Properties – Participating Areas

- When FEMA has not mapped a property, the Mortgage Loan might still be eligible for purchase by Windsor Mortgage if:
  - A current Standard Flood Hazard Determination is in the Loan file.
  - The flood zone determination indicates Flood Zone “None,” “No NFIP Map.”
  - A life-of-loan flood service (also may be referred to as a Third-Party Flood Certificate) is documented in the Loan file.
- Flood insurance may be required later if FEMA maps the property to a Special Flood Hazard Area (SFHA).

## Private Mortgage Insurance

- Mortgage insurance is required on all conventional loans with an initial loan-to-value ratio 80% or greater; the LTV and CLTV will be determined by the lesser of the appraised value or sales price. Refer to the New York Properties section for a deviation from this guideline regarding certain loans originated in New York.
- The seller must follow AUS findings and individual mortgage insurance company requirements for coverage. AUS findings will identify the specific coverage amount required.
- It is the responsibility of the loan originator to disclose all fees and charges to all applicants properly and to ensure that the lowest premium insurance is being offered ultimately. Windsor Mortgage is not responsible for ensuring that the borrower is disclosed and that the loan closes with the correct MI coverage and premiums.

If a loan closes with insufficient MI coverage, regardless of whether Windsor Mortgage ordered the certificate, the originating correspondent will be responsible for purchasing additional MI coverage to satisfy the investor's coverage requirement.
- Anytime a loan has an increase in interest rate, the MI Company must approve the increase prior to closing, and the file must be returned to the underwriter to be reviewed. MI must be disclosed on the Loan Estimate, First Payment Letter and Closing Disclosure.
- Fannie Mae will allow loans with financed mortgaged insurance with the following guidelines being met:
  - The mortgage amount after adding the financed MI premium cannot exceed the maximum mortgage amount limits set forth in the Maximum Mortgage Amounts section.
  - The level of required MI coverage may be based on the LTV of the mortgage before the financed MI premium is added if the lender obtains a Financed MI Premium Endorsement to the mortgage insurance policy that states the MI company will adjust its claim calculation if needed so that it will be based on any higher level of coverage that would be required for the LTV that applies after addition of the financed MI premium. If such an endorsement is unattainable, then the level of MI coverage must be based on the LTV of the mortgage after the financed premium is added.
  - For all 90% LTV financed single premium mortgages that include interested party contributions greater than 3%, the following documentation will be required:
    - The appraiser must state that the interested party's contributions on the property being appraised are not more than contributions generally paid by interested parties in a similar transaction in that market.
    - The appraiser must note and take into consideration such contributions in arriving at the appraised value.
- Freddie Mac will allow loans with financed MI with the following guidelines being met:
  - Loans receiving an Accept response:
    - The mortgage insurance premium must be paid with a single premium payment.
- Fannie Mae allows the seller to pay for the one-time up-front mortgage insurance premium or the first-year premium for a renewable MI policy. This amount must be included and not exceed the maximum allowable financing concession limit. Fannie Mae and Freddie Mac allow the initial mortgage premium or the one-time single premium to be paid, not financed, by the lender, the borrower's employer, or the property seller. If the lender or the seller pays the mortgage insurance, the contribution must be included in the calculation of the total value of the financing concessions.

### Lender Paid Mortgage Insurance (LPMI)

- MI Certificate must be ordered at the time the interest rate is locked to ensure correct pricing.
- If the loan is locked prior to obtaining the LPMI certificate, the loan may be subject to re-pricing.
- Ineligible Private Mortgage Insurance Programs
  - Windsor Mortgage does not accept the following:
    - Monthly Lender Paid MI or any MI where the premium is paid out of the mortgage interest received.
    - Reduced MI levels
    - MI that does not meet applicable Local, State, or Federal laws or regulations.
    - MI that does not meet the requirements of the (Agency or) investor for the Mortgage Loan Program (e. g., Fannie Mae or Freddie Mac, as applicable).

### New York Properties

The handling of MI coverage for purchase transactions with a property address in the state of New York is handled differently than in the rest of the country. The rule for loans with a property address in the state of New York is as follows:

- Under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the “fair market value” of the property. The term “fair market value” is not defined in the statute but has been defined by the New York insurance regulator as being the “appraised value.”
- As a result, the determination of value for properties in New York is different from the standard definition of value that is used to calculate the LTV ratio. The following table identifies the value calculation that is to be used for mortgage loans secured by properties in New York for requirements that are based on the LTV ratio.

LTV Ratio Calculation	Guidelines
LTV ratio based on the appraised value	Lenders must base their determination of when mortgage insurance is required solely on the appraised value of the property. If the appraised value of the property exceeds the sales price, this determination may result in mortgage insurance not being placed on a mortgage loan as would otherwise be required using the standard definition of value.
LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation)	Irrespective of the used of appraised value for determining whether mortgage insurance is required, this standard LTV ratio calculation must be used to determine the level of mortgage insurance coverage that is required on the mortgage loan.

## 4506-C Requirements

- A signed, executed 4506-C is to be obtained at the time of underwriting and at closing for all loans. The borrower must sign an additional form 4506-C for each partnership or corporation prior to closing, and it must state such on the form (i.e., John Smith, owner of XYZ Corporation or Partnership). IRS form 4506-C is only valid for a specific limited time. Fannie Mae requires lenders to have each borrower whose income (regardless of income source) is used to qualify for the loan to complete and sign a separate IRS Form 4506-C.
- Lenders must:
  - Fill in as the recipient of the tax documents — either its name or the name of the servicer, if servicing will be transferred within 120 days of the taxpayer signing the form.
  - Indicate that the request is for documentation concerning the year or years for which the borrower's income was or will be used in underwriting the loan and
  - date the form(s) with the date on which the borrower signs the form (or ascertain that the borrower dates the form when they sign it).

## Tax Transcripts

- The lender must obtain the borrower's most recent federal income tax return(s) for certain types of income and/or employment characteristics if using the income to qualify the borrower. Income types and/or employment characteristics include the following:
  - Tip income – Cash and charge tips reported on IRS Form 4137
  - Income from employment by a family member, property seller, broker, or other interested party to the transaction
  - Employed income from a foreign source.
  - Income reported on IRS Form 1099
  - Self-employed income
  - Dividend and interest income
  - Capital gains income.
  - Royalty payments
  - Trust income
  - Non-employment/non-self-employment income from a foreign source
  - Tax-exempt income (optional)
  - Rental income
- When tax returns are used to document income, tax transcripts are required. The number of years required is based on agency guidelines. If tax returns have been amended, a Record of Account transcript will also be required.

### **Fannie Mae**

- When the borrower is employed by an interested party in the property sale or purchase, the borrower must provide their most recent two years' federal income tax returns.

### **Freddie Mac**

- When the borrower is employed by the property seller, real estate broker, or other interested party to the transaction, the borrower must provide their most recent federal income tax returns.

Guide Owner: Kevin Nelson	Implementation Date: 04.2020
Revised 03.21.24	Grammatical errors
Revised 05.09.2024	The number of borrowers is limited to 4
Revised 01.22.2026	Add FHA UFMIP paid by Windsor