

Select LPA – Conforming & Super Conforming (Fixed)



Primary Residence – Owner Occupied			
Transaction	FICO	Number of Units	Maximum LTV/CLTV
Purchase, Rate / Term	620	1 – Units	95%
		2 – Units	85
		3 – 4 Units	80
Cash-Out Refinance	620	1 - Unit	80
		2-4 Units	75
Second Home			
Transaction	FICO	Number of Units	Maximum LTV/CLTV
Purchase, Rate / Term	620	1 – Unit	90
Cash-Out Refinance	620	1 – Unit	75
Investment Property – Non-Owner Occupied			
Transaction	FICO	Number of Units	Maximum LTV/CLTV
Purchase, Rate / Term	620	1 – Unit	80
		2 - 4 Units	75
Cash-Out Refinance	620	1 – Unit	75
		2 - 4 Units	70

Select Conforming Fixed LPA Product Codes:			
15 Year Fixed LP	1301-05	15 Year LP LPMI	1320-05
20 Year Fixed LP	1201-05	20 Year LP LPMI	1220-05
25 Year Fixed LP	1101-05	25 Year LP LPMI	1120-05
30 Year Fixed LP	1001-05	30 Year LP LPMI	1020-05
Select Super Conforming Fixed LPA Product Codes:			
15 Year Fixed Super Conforming	1353-05	15 Year Fixed Super Conforming LPMI	1354-05
30 Year Fixed Super Conforming	1053-05	30 Year Fixed Super Conforming LPMI	1054-05

Highlights

Topic	Highlights
1031 Exchange	Allowed for the purchase of investment properties. Refer to the “Assets” section of the below guidelines for details.
4506 Transcripts	Transcripts are required per income documentation type included in the loan file.
Appraisals	<ul style="list-style-type: none"> • Transferred appraisals are not allowed. • Interior photographs must be provided in addition to standard exhibits.
Assets	<p>Freddie Mac’s policy for assets as a basis for mortgage qualification is not allowed.</p> <p>Assets generated from illegal activities are not allowed. All asset sources must be legal in accordance with all applicable federal, state, and local laws, rules and regulations, without conflict.</p> <p>Assets are to be reviewed for patterns of unusual payments, deposits, and/or gift funds, regardless of when they were provided to the borrower that could be indicative of structuring to avoid compliance with the laws and regulatory reporting requirements of the United States or foreign countries. Unusual patterns may include large cash deposits, large and numerous gifts, and any other unexplained activity not typical for the borrower.</p> <p>Any indication of possible structuring and/or unsourced assets, even if not used for closing/reserves, requires an increased level of review by the underwriter.</p> <p>Red Flags:</p> <ul style="list-style-type: none"> • A borrower receives multiple gifts of similar amounts wired outside the U.S. • A borrower receives gift funds in the form of a wire transfer from an individual with no ties to the borrower or the transaction. • A borrower receives a wire from a business not associated with the transaction and it is explained as payment for services rendered or products provided. • A borrower receives large deposits listed as tuition expenses co-mingled with funds for down payment from the same account.

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	<ul style="list-style-type: none"> A borrower receives gift funds from a donor that transferred the funds through multiple financial institutions prior to the deposit of the funds into the borrower's account.
AUS	An LPA "Accept" decision is required.
Citizenship	<p>The following is required:</p> <ul style="list-style-type: none"> Each borrower on the loan must have a valid social security number. ITINs are not allowed. A copy of the Permanent Resident Alien card (front and back) is required for all permanent resident aliens. All Non-Permanent Resident Aliens must provide evidence of a valid, acceptable Visa or Employment Authorization Document (EAD). A copy of the Visa or EAD card must be in the file. The following Visas are eligible: <ul style="list-style-type: none"> A Series – A-1, A-2, A-3 E-1 Treaty Trader and E-2 Treaty Investor E-3 G Series – G-1, G-2, G-3, G-4, G-5 H-1, H-1B, H1-C, H-4 Temporary Worker L-1, L-2, Intra-Company Transferee O-1A, O-2 TN, NAFTA TC, NAFTA Loans to Foreign Nationals and individuals with diplomatic immunity are not allowed including embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity can be determined by reviewing the Visa, passport, or the U.S. Department of State's <i>Diplomatic List</i> at https://www.state.gov/s/cpr/rls/ <p>Refer to the Select guidelines for further details regarding eligible Visas.</p>
Condominium Projects	<ul style="list-style-type: none"> Loans secured by existing and new condominium projects must meet Freddie Mac's condominium project guidelines.
Construction to Permanent	Not Eligible
Credit Card Payment of Fees	<p>A credit card may be used to pay for certain fees associated with the loan. Acceptable fees are:</p> <ul style="list-style-type: none"> Appraisal Credit Report Origination Fee Commitment Fee Lock-In Fee Extended Lock Fee <p>Acceptable Credit Cards are:</p> <ul style="list-style-type: none"> Visa MasterCard Discover <p>The loan must meet all of the following requirements:</p> <ul style="list-style-type: none"> A copy of the charge receipt must be included in the file. The Closing Disclosure must reflect the amount charged in the "borrower-paid before closing" column.
Credit Repair	<p>Credit repair is not allowed:</p> <ul style="list-style-type: none"> The use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score is prohibited. If the use of credit repair services is revealed at any time during the loan process the loan will be determined to be ineligible.
DAPs/MCCs	Not Eligible
Deed Restrictions	Not Eligible
Delayed Financing	<ul style="list-style-type: none"> Delayed financing transactions must meet Freddie Mac requirements. In addition the following apply: <ul style="list-style-type: none"> To reduce property fraud risk from inflated appraisals, loan amounts exceeding 80% of the purchase price of the transaction being refinanced are not allowed. If the appraised value has increased more than 10% underwriters must consider the reason for the increase and may reduce the loan amount or take other action to ensure that the value is supported.

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Escrow Accounts	Escrows for taxes and insurance are required for all loans with LTVs > 80% with the following exceptions: <ul style="list-style-type: none"> • California, where the LTV requirements are $\geq 90\%$ • New Mexico, where the LTV requirements are $\geq 80\%$
Flip Transactions	A flip transaction is defined as a purchase transaction for a property that has been recently acquired by the seller and is being sold for a quick profit. A flip transaction is evident if the title reveals several changes in ownership in the course of a few months. Flip transactions are not eligible.
Flood Insurance	<ul style="list-style-type: none"> • An escrow impound account must be established for payment of the flood insurance premiums for all loans regardless of the LTV and/or federal exemptions. • Replacement cost is defined as 100% of the insurable value of the improvements as determined by the amount of hazard insurance coverage obtained. • A PUD unit requires its own separate flood insurance policy unless the HOA has worked with FEMA to be covered by a Residential Condominium Building Association Policy (RCBAP) in the HOA's name. • The coverage must be in full effect. Any waiting periods must have expired. • Residential detached structures (generally defined as having a food preparation area, bathroom, and/or sleeping area) valued greater than \$10,000 in a Special Flood Hazard Area require flood insurance coverage at 100% of the insurable value. • For detached structures that include some but not all three facilities (food preparation area, bathroom, and sleeping area) make a good faith determination and provide documentation clearly detailing whether the detached structure serves as, or is intended to serve as, a residence. If the structure is not intended to serve as a residence, follow Fannie Mae guidelines with respect to flood insurance requirements on non-residential detached structures.
Foreign Assets	Any funds used in the loan transaction that originate from a foreign institution must be deposited into a United States bank account prior to closing.
Frozen Credit	Loans where credit is frozen at the time of the credit decision are ineligible .
Gifts of Equity	<ul style="list-style-type: none"> • Gift equity in the subject property is an acceptable source of funds as long as the amount of equity has been verified. • The donor must provide a gift letter. • Equity gifts are only allowed after the required minimum down payment has been made from the borrower's own funds.
Identity of Interest/Non-Arms-Length/At Interest Transactions	<p>Identity of interest transactions may be considered on a case-by-case basis subject to the following additional requirements:</p> <ul style="list-style-type: none"> • Second home and investment properties must be a one-unit single family residence. • For newly constructed properties, the loan is an ineligible transaction when: <ul style="list-style-type: none"> ▪ The property is a second home or investment property; and ▪ The borrower has a relationship or business affiliation (any ownership interest or employment) with the builder, developer, or seller of the property. • Verification that the borrower is not now, or has been in the previous 24 months, on title to the property. • A payment history for the existing mortgage (verification of the seller's mortgage) on the subject property must be obtained and show no pattern of delinquency within the past 12 months. • The borrower must provide a written explanation for purchasing the subject property. • Appraisal Considerations: <ul style="list-style-type: none"> ▪ A Generic VECTOR Automated Valuation Model (AVM) from <i>CoreLogic</i> Valuation Solutions is required to validate the appraisal. ▪ If no AVM is allowable, available, or the AVM value is more than 10% less than the full appraisal a field review or second appraisal full appraisal is required. <p>A non-arm's length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. Common types of non-arm's length transactions include:</p> <ul style="list-style-type: none"> • Family Sales • Property is an Estate • Employer/Employee Sales • Flip Transactions <p>An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction such as a party who plays more than one role in the transaction (selling/listing agent and mortgage broker, for example). At-interest transactions carry</p>

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	<p>increased risks due to the greater vested interest in the transaction by one of the parties. Examples of at-interest transactions include:</p> <ul style="list-style-type: none"> • Builder also acting as Realtor/Broker • Realtor/Broker selling their own property • Realtor/Broker acting as Listing/Selling Agent as well as the Mortgage Broker <p>All non-arm's length transactions are considered at-interest transactions; however, at-interest transactions are not always non-arm's length transactions.</p>
<p>Income Analysis</p>	<ul style="list-style-type: none"> • Income Received from an Illegal Activity: <ul style="list-style-type: none"> ▪ All sources of income must be legal in accordance with all applicable federal, state, and local laws, rules and regulations, without conflict. ▪ Any indication of income obtained from illegal sources makes the transaction ineligible. • Self-Employed Borrowers: If the borrower or co-borrower is self-employed and the self-employment income is not used for qualification purposes, obtain pages 1 and 2 of the borrower's federal individual income tax returns and the applicable schedules (Schedule C, Schedule E) to determine if there is a business loss that may have an impact on the stable monthly income. <ul style="list-style-type: none"> ▪ If a business loss is reported and the borrower qualifies with the loss, further documentation relating to the business is not required. ▪ If a business loss is reported and the borrower does not qualify with the loss, perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time nonrecurring event justify a reduction of the reported loss when calculating the stable monthly income. Obtain any additional documentation needed, such as business tax returns, final or otherwise, or evidence of a one-time nonrecurring event, in order to fully evaluate the loss and support the analysis. <p>If the tax returns or other documentation in the loan file reflect positive income from self-employment but that income is not used to qualify, additional documentation is not required.</p>
<p>Ineligible Programs</p>	<ul style="list-style-type: none"> • Sweat Equity • Minimum Level Mortgage Insurance Option • <i>Refi Plus</i> • Timely Payment Rewards • Streamlined Purchase Money Mortgage Program • <i>HomePath</i> Mortgage Program • <i>HomePath</i> Renovation • Lease Purchase • Community Land Trust <p>Less than Standard MI Coverage</p>
<p>Illinois Land Trusts</p>	<p>Illinois Land Trusts are allowed subject to the following:</p> <ul style="list-style-type: none"> • All beneficiaries are individuals. • The borrower(s) must be one of the beneficiaries of the trust. • The trustee must be a corporation or financial institution customarily engaged in the business of acting as trustee under Illinois Land Trusts. • The beneficiaries are obligated as individuals under the terms of the Note. • The borrower(s) have been underwritten and are qualified borrowers under the requirements of the product. • All such land trust mortgages are secured by a primary residence, second home, or investment property (1-4 units). • The term of the trust agreement is at least as long as the term of the Security Instrument. • The subject property must be the only asset of the Illinois Land Trust. <p>Refer to the Select guidelines below for complete requirements.</p>

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Ineligible Properties	<ul style="list-style-type: none"> • Assisted Living Facilities • Bed and Breakfast Establishments • Board and Care Facilities • Boarding houses • Condotels • Co-ops • Dome or Log Homes • Hawaiian Properties Located in Lava Zones 1 and 2 • Houseboats • Indian Leased Land • Indian Tribal Trust Land • Leaseholds • Legal Non-Conforming Properties where zoning regulations prohibit re-building • Mobile Homes • Properties Located Outside the 50 United States and District of Columbia • Properties with C5, C6, or Q6 Ratings • Properties that are not readily accessible by roads that meet local standards • Properties that are not suitable for year-round occupancy regardless of location • Single Wide Manufactured Homes • Timeshares <p>Working Farms or Ranches</p>
Interest Only Transactions	Not Allowed
Investment Quality	<p>Loans approved for the Select program should be readily salable and have reasonable likelihood of timely repayment. An investment quality loan is one that:</p> <ul style="list-style-type: none"> ▪ Has been prudently underwritten to Select guidelines; ▪ Contains adequate documentation to support the underwriter's decision; ▪ Has been reviewed with a diligent approach to any questionable elements of the transaction; and ▪ Is able to be sold and is not later subject to a demand for repurchase.
Life Estates	Not Allowed
Manual Underwriting/Non-Traditional Credit	Not Allowed
Manufactured Homes	Not Allowed
Marijuana Related Business / Employment	Income from a marijuana related business or employment may not be used as qualifying income.
Mortgage Insurance	<p>Loans with a DTI greater than 45% and a credit score < 700 are not allowed.</p> <p>LPMI must be ordered through Genworth</p> <p>Eligible Mortgage Insurance Options</p> <ul style="list-style-type: none"> • Borrower paid mortgage insurance (BPMI) • Lender paid mortgage insurance (LPMI) – Single-premium (up-front) option only <p>Ineligible Mortgage Insurance Options</p> <ul style="list-style-type: none"> • Financed mortgage insurance • Lender paid mortgage insurance (LPMI) – Monthly or annual options • Loans originated with custom or lower cost PMI options <p>Refer to the Select guidelines for additional details.</p>
PACE/HERO Obligation	Not Allowed
Power-of-Attorney	<p>The Power of Attorney (POA) may only be used for closing documents and must comply with the following:</p> <p>Ineligible Transaction Types: Powers of Attorney are not permitted with the following transaction types:</p>

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	<ul style="list-style-type: none"> • Cash-Out Refinances • Non-Owner-Occupied Transactions • Title Taken as a Trust • Identity of Interest or Non-Arm's Length Transactions • Non-Occupant Co-Borrowers may not use a POA. <p>Requirements:</p> <ul style="list-style-type: none"> • At least one borrower must be present at closing, unless a face-to-face interview has been conducted with all applicants. • A separate, executed POA must exist for each borrower not present at closing and the Attorney-in-Fact must execute all closing documents at Settlement. • The POA must be Specific, Special, Limited or Military. • The POA must specifically identify the subject property address. • The POA must clearly reflect that the borrower is appointing an Attorney-in-Fact. • General Powers-of-Attorney are not acceptable. • The Attorney-in-Fact may not be: <ul style="list-style-type: none"> ▪ The lender, affiliate of the lender, employee of the lender or lender's affiliate, originator, title company, closing agent, property seller, appraiser, realtor, a party to the transaction, a party with a direct or indirect financial interest in the transaction, or any other party deemed ineligible by Freddie Mac. • The borrower's name(s) on the POA must match the name(s) on the Note, security instrument and other documents. • The POA must be signed and dated by the borrower such that it was valid at the time the Note or security instrument was executed. • A notarized signature of the grantor is required. If executed outside the U.S., it must be notarized at a U.S. Embassy or a U.S. military installation. • The POA must bear the Recorder's stamp, if previously recorded. • The POA must be a durable Power-of-Attorney in full force and effect on the closing date, must survive subsequent disability, and must be revocable only in writing or alternatively gives a specific expiration date which survives the closing date. • The initial 1003 Loan Application must be signed by the borrower, and not the Attorney-in-Fact except: <ul style="list-style-type: none"> ▪ When the borrower is on military service with the U.S. armed forces servicing outside the U.S. or deployed aboard a U.S. vessel, as long as the POA: <ul style="list-style-type: none"> ○ Expressly states an intention to secure a mortgage loan on the subject property; or ○ Complies with the requirements in the VA Lender's Handbook for POA. • The title company must insure that the lender or assignee is in first lien position without exception to the POA. • The original POA must be recorded with the security instrument and a certified copy delivered with the Note subject to the following: <ul style="list-style-type: none"> ▪ A duplicate or conformed copy of the Power-of-Attorney is acceptable, together with a certificate of receipt from the recording office, certifying that such copy represents a true and complete copy of the original and that such original has been or is currently submitted to be recorded; or <p>If the original Power-of-Attorney or other such instrument has been delivered for recording in the appropriate public recording office of the jurisdiction where the subject property is located, the original must follow as a final document.</p>
<p>Residual Income</p>	<p>Residual Income Evaluation</p> <ul style="list-style-type: none"> • A residual income evaluation must be performed on all Qualified Mortgages submitted for purchase that have a rebuttable presumption of compliance as defined under TILA.

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- Residual income is the qualified gross income less the gross monthly debt. The debt and income used to calculate the debt-to-income ratio should be used for the residual income evaluation per the base program/product guidelines.
- The test must be performed prior to loan consummation and evidence sufficient residual income by the borrowers to meet monthly living expenses after paying their mortgage and other debts. Residual income is the qualified gross monthly income less the gross monthly debt.

Minimum Residual Income Criteria

- The following is the minimum residual income thresholds and reserve requirements which must be applied to QM Ability-to-Repay rebuttable presumption loans regardless of the loan amount.

Primary Residence	
If monthly residual income is....	Then the minimum reserves required are:
\$2500 or greater	<ul style="list-style-type: none"> No minimum reserve requirement based on the residual income evaluation. <p>Note: Comply with any minimum reserve requirements of the loan program.</p>
≥\$800 < \$2500	The greater of: <ul style="list-style-type: none"> Three (3) months liquid* PITI reserves are required <p>OR</p> <ul style="list-style-type: none"> Minimum reserve requirements for the loan program <p>Note: Consider requiring additional reserves for loans with higher layered risks.</p>
< \$800	N/A. The loan is not eligible.

Second Home and Investment Properties	
If monthly residual income is....	Then the minimum reserves required are:
\$2500 or greater	The loan is eligible for purchase with acceptable RIE in file.
≥\$800 < \$2500	The greater of: <ul style="list-style-type: none"> Six months liquid* PITI reserves are required; <p>OR</p> <ul style="list-style-type: none"> Minimum reserve requirements for the loan program. <p>Note: Consider requiring additional reserves for loans with higher layered risk.</p>
<\$800	N/A. The loan is not eligible.

***Apply the definition of "liquid" reserves as defined by Fannie Mae/Freddie Mac**

Documentation to evidence residual income evaluation:

- There is no specific form to evidence the completed residual income evaluation.
- The Residual Income Evaluation worksheet must be dated to confirm the evaluation was completed prior to loan consummation.

Sales Contract

Assigned Sales Contracts are not allowed.

Re-negotiated purchase agreements that increase the sales price **after** the original appraisal has been completed are not acceptable if:

- The appraised value is higher than the contracted sales price provided to the appraiser; and
- The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received; and
- The only change to the purchase agreement is an increase in sales price.

If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the LTV will be based on the lower of the original purchase price or the appraised value, unless:

- Re-negotiation was only for seller paid closing costs and/or prepaids where seller paid closing costs/prepaids are common and customary for the market and supported by the comparable sales.

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	<ul style="list-style-type: none"> An amended purchase agreement for new construction property is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changes an updated appraisal must be obtained to verify the value of the modifications.
State Requirements	<ul style="list-style-type: none"> Properties located outside of the United States or properties located in a Territory, Province or Commonwealth in which the United States has an interest are not eligible. <ul style="list-style-type: none"> Properties that would not be eligible include those located in Guam, Puerto Rico, and the Virgin Islands. Properties located in Hawaii in Lava Zone 1 and 2 are not eligible. Cash-out refinances in Texas are not eligible. Properties located in Ohio originated under any reduced doc program are not eligible.
Student Loans	<p>For student loans in repayment, use the greater of:</p> <ul style="list-style-type: none"> The monthly payment amount reported on the credit report; or 0.5% of the original loan balance or the outstanding loan balance, as reported on the credit report, whichever is greater. <p>For student loans in deferment or forbearance, use the greater of:</p> <ul style="list-style-type: none"> The monthly payment amount reported on the credit report; or 1% of the original loan balance or the outstanding balance, as reported on the credit report, whichever is greater. <p>The student loan payment may be excluded from the monthly debt-to-income ratio provided the loan file contains documentation that indicates the following:</p> <ul style="list-style-type: none"> The student loan has ten or less monthly payments remaining until the full balance of the student loan is forgiven, cancelled, 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, cancelled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period <p>AND</p> <ul style="list-style-type: none"> The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and there is no evidence of circumstances that will make the borrower ineligible in the future.
Student Loan Cash-Out Refinance	Not Eligible
Tax Returns	<ul style="list-style-type: none"> Amended tax returns that increase the borrower's income are not allowed for qualifying purposes. When the tax return reflects monies are owed to the IRS, evidence of payment to the IRS is required.
Temporary Buy Downs	Not Allowed
Third Party Originated (TPO) Loans	Loans that are originated by a mortgage broker (Wholesale TPO) with lender-paid broker compensation where the broker charges third-party processing fees as a separate fee paid by the borrower, seller or other third party are not eligible.
Validation Lists	<p><u>TPO Lists</u></p> <ul style="list-style-type: none"> If any entity appearing on the investor's <i>Third-Party Originators List</i> as of the Note date the loan is ineligible. <p><u>Settlement Agents List</u></p> <ul style="list-style-type: none"> If any entity appearing on the investor's <i>Settlement Agents List</i> as of the Note date provided settlement services (title insurance, closing, etc.) for the loan it is ineligible. <p><u>Any Roles List</u></p> <ul style="list-style-type: none"> If an individual or entity appearing on the investor's <i>Any Role-Individuals List/Any Role-Entities List</i> as of the Note date played any role in the origination or sale of the loan or the related real estate transaction, the loan is ineligible.
Verification of Employment/Verification of Deposit/Verification of Mortgage/Rent	<ul style="list-style-type: none"> The use of a Verification of Employment (VOE) and/or a Verification of Deposit (VOD) only is not allowed. <ul style="list-style-type: none"> At a minimum paystubs and bank statements are required. When the borrower's current mortgagee or landlord is a private party, the use of a Verification of Mortgage (VOM) or Verification of Rent (VOR) is not allowed. <ul style="list-style-type: none"> Copies of the borrower's most recent, consecutive 12 months cancelled checks will be required.

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Credit Philosophy

The Lenox/WesLend philosophy is to offer the Select Conventional LP program with minimal overlays to our client. All loans are evaluated in accordance with the following principals:

- All loans must be submitted to Loan Product Adviser (LPA).
- Each loan is evaluated in accordance with Freddie Mac, the corresponding overlay matrix, and the policies outlined within this Program Guide.
- Each loan applicant is underwritten individually and all credit standards are applied consistently to each borrower.
- All factors are considered when evaluating a loan file. The underwriting decision is not based on any single item or factor.

Application Package

Contents of the Application Package

The Loan Application

- *Form 65, Uniform Residential Loan Application* must be used for all loan applications.
- *Form 65A, Statement of Assets and Liabilities*, may be used to supplement *Form 65* if needed.
- A completed *Form 65* is used to begin the process of determining the borrower's credit reputation and capacity to repay the loan.
- Information on the initial application must be entered as originally provided by the borrower whether handwritten or typed. The liability portion of the loan application may be completed directly from the credit report either manually or through an automated process.
- The information given by the borrower(s) on the application must be consistent with both the identifying information in the credit report as well as with the verifications in the loan file. For any loan where there is a material discrepancy, obtain a written explanation for the discrepancy.
- The final *Form 65* must reflect accurate and complete information as of the Note date. All of the borrower's debts incurred through the Note date must be included on the final *Form 65* and *Form 65A*, if used, and must be considered in the calculation of the borrower's debt-to-income ratio.
- The final *Form 65* must be complete, legible, dated and signed by the borrower(s) signing the Note.

Electronic and Fax Copies of the Loan Application

- An initial *Form 65* and *Form 65A*, if necessary, may be received as an electronic record or as a fax copy.
- The *Form 65* and *Form 65A* contain language in the acknowledgement and agreement section that permits the borrower to:
 - Physically sign a paper *Form 65* with pen and ink and deliver a fax copy of the signed *Form 65* via facsimile transmission; or
 - Electronically sign an electronic *Form 65* using an electronic signature and deliver the electronic *Form 65* as an electronic record via the Internet or other form of electronic transmission.

Verifying Documents

- Written verifications must meet all of the following requirements:
 - Standard verification forms, such as the original Verification of Employment (VOE), Verification of Deposit (VOD), direct verification of trade lines and non-credit payment references including mortgage payment histories and verification of rental payments must be sent directly to the borrower's employer, depository institution, creditor or landlord, and upon completion, returned directly from that entity.
 - Facsimile verification forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source and may be considered to be originals. Verifications provided by any other source, such as the agent or the builder, are not acceptable.
 - The original documents may not contain any alterations, erasures, correction fluid or correction tape.

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- An electronic verification is a computer generated document, accessed and printed from the Internet that may be used to verify information such as the borrower's employment, income or funds on deposit. This includes on-line bank statements, investment account statements, and employment and income statements. The borrower may provide the verification directly or the originator may obtain it directly from the employer, depository or other institution.
- The borrower may provide verification of income, employment and assets in the form of a photocopy, facsimile or electronic verification.

Foreign Documents

- All documents of foreign origin must be filled out in English or a translation must be provided, attached to each document, and the translator must warrant that the translation is complete and accurate.
- All foreign currency amounts must be converted to U.S. dollars.

Age of Documentation

- Verifications of employment, income, current receipt of income, source of funds and payment history must be dated no more than 120 days before the Note date.
- Any information verified more than 120 days before the Note date must be re-verified.
- The borrower's employment must be confirmed by obtaining a pre-closing verification of employment no more than ten business days prior to the Note date.
- For a self-employed borrower verification of the current existence of the borrower's business must be obtained no more than 120 calendar days prior to the Note date.

Eligibility

Borrower Eligibility

Permanent and Non-Permanent Resident Aliens

- A non-U.S. citizen who is lawfully abiding in the United States as a permanent or non-permanent resident alien is eligible for a mortgage under the same terms as a U.S. citizen.
- A mortgage to a non-U.S. citizen who has no lawful residency status in the United States is not eligible.

Non-U.S. Citizens

- Each borrower on the loan must have a valid social security number. **ITINs are not eligible.**
- A copy of the Permanent Resident Alien card (front and back) is required for all permanent resident aliens.
 - While the card itself states "Do Not Duplicate" for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.
- All non-permanent resident aliens must provide evidence of a valid, acceptable Visa or an Employment Authorization Document (EAD). An unexpired copy of the Visa or EAD card must be in the file. The following Visas are eligible:
 - A Series – A-1, A-2, A-3
These Visas are given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the Visa, are allowed.
 - E-1 Treaty Trader and E-2 Treaty Investor
This Visa is essentially the same as an H-1 or L-1; the title refers to the foreign country's status with the U.S.
 - E-3
Given to Australian nationals employed in a specialty occupation.
 - G Series – G-1, G-2, G-3, G-4, G-5

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These Visas are given to employees of international organizations that are located in the U.S. Some examples include the United Nations, Red Cross, World Bank, UNICEF, and the International Monetary Fund. Verification that the borrower does not have diplomatic immunity must be obtained from the borrower's employer and/or by viewing the borrower's passport.

- H-1, H-1B, H-1C, Temporary Worker
This is the most common Visa given to foreign citizens who are temporarily working in the U.S.
- H-4
These Visas are given to dependents (spouse and unmarried children under 21 years of age) of a qualified H-1 Visa holder. When income is being used to qualify, a current (unexpired) Employment Authorization Document (EAD) issued by USCIS is also required.
- L-1, Intra-Company Transferee
An L-1 Visa is given to professional employees whose company's main office is in a foreign country.
- L-2
These Visas are given to dependents, spouse and unmarried children under 21 year of age, of a qualified L-1 Visa holder. When income is being used to qualify, a current (unexpired) EAD issued by USCIS is also required.
- O-1A
Individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures or television industry)
- O-1B
Individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry
- O-2
Individuals who will accompany an O-1, artist or athlete, to assist in a specific event or performance
- TN, NAFTA
Used by Canadian or Mexican citizens for professional or business purposes.
- TC, NAFTA
Used by Canadian citizens for professional or business purposes.

Expired Visa Requirements

- A borrower with an expired Visa may be considered subject to each of the following:
 - The Visa classification is one of the eligible Visas listed above.
 - Confirmation is obtained that the borrower has submitted an application for extension of the Visa or an application for a Permanent Resident Alien card. Documentation includes:
 - USCIS Form I-797 – issued when an application or petition is approved.
 - USCIS Form I-797C or I-797E – must not state that the application has been declined.
 - Application for extension of current Visa (USCIS Form I-539 or equivalent) or a copy of the application for a Permanent Resident Alien card (USCIS Form I-485 or equivalent) and electronic verification of receipt from the USCIS website.
 - If the borrower is sponsored by an employer, the employer may verify that they are sponsoring the Visa renewal.

Employment Authorization Document (EAD)

- A current (unexpired) Employment Authorization Document (EAD) issued by the United States Citizenship and Immigration Services (USCIS) may be provided in lieu of a Visa.
- If the EAD will expire within one year, the following must be provided:
 - One previous EAD renewal must be documented; or
 - If there are no prior EAD renewals, the likelihood of renewal must be determined based on information from the USCIS.

- All standards for determining stable monthly income, adequate credit history, and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are non-permanent resident aliens.
- **Foreign Nationals:** Foreign nationals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and **are not eligible**.
- **Diplomatic Immunity:** Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to U.S. jurisdiction **are not eligible**.
 - This includes embassy personnel with diplomatic immunity.
 - Verification the borrower does not have diplomatic immunity can be determined by reviewing the borrower's Visa or passport or by reviewing the U.S. Department of State's Diplomatic List at <http://www.state.gov/s/cpr/rls/>

Non-Occupying Co-Borrower

- When a mortgage includes a non-occupying borrower the following apply:
 - For accept mortgages it is not necessary to calculate or evaluate the occupant borrower's monthly housing expense-to-income ratio or the occupant borrower's monthly debt-to-income ratio.

Guarantor and Surety

- A mortgage with a personal endorser, guarantor and/or surety may be eligible provided the following requirements are met:
 - The endorsement, guaranty or surety agreement must not be qualified or limited in any manner.
- For an "Accept" mortgage a non-occupying endorser, guarantor or surety is permitted when the LTV ratio is equal to or less than 95%.
- The endorser, guarantor or surety may not be an interested party to the transaction such as the builder, seller or broker.

Illinois Land Trusts

- Illinois Land Trusts are allowed subject to the following:
 - All beneficiaries are individuals.
 - The borrower must be one of the beneficiaries of the trust.
 - The trustee must be a corporation or financial institution customarily engaged in the business of acting as trustee under the Illinois Land Trusts.
 - The beneficiaries have sole power of direction over the land trust and trustee.
 - All beneficiaries are obligated as individuals under the terms of the Note.
 - The borrower has been underwritten and is a qualified borrower under the terms of this loan program.
 - All such land trust mortgages are secured by a primary residence, second home, or investment, one-to-four unit property.
 - The term of the trust agreement is at least as long as the term of the Security Instrument.
 - The subject property must be the only asset of the Illinois Land Trust.
- When the property is to be held in a land trust, all of the following additional documentation must be provided:
 - Land trust rider to the Mortgage/Deed of Trust
 - Land trust rider to the Note
 - Documentation evidencing the beneficiaries of the land trust holding the power of direction as provided in the trust documents have authorized and directed the trustee of the trust to execute the Mortgage documents. If the trust documents require more than one beneficiary holding the power of direction to so authorize and direct the trustee, then the documentation must evidence that the requisite number of beneficiaries have so directed the trustee.
 - A certified copy of the collateral assignment of beneficiary interest, or similar form that grants the lender a security in the beneficiary's rights.
- The trust agreement must be reviewed by the underwriter. No additions, deletions, or other riders to the standard forms are permitted. The trust agreement must indicate that no other assets are held by the land trust.

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- The Note, Mortgage, and documents required above must be completed and executed as follows:
 - The Note and Mortgage must include the number of the trust and the date on which the trust was created. This information should follow the name of the trustee on these documents.
 - The beneficiaries must execute the Note and land trust rider to that Note.
 - The trustee must execute the Mortgage, the Note, and the land trust rider to each.
 - The beneficiaries must assign their beneficial interest in the Note and trust agreement to the lender.
 - The trustee must agree to and/or endorse the collateral assignment of beneficiary interest.
 - The riders must be dated and executed the same day as the Mortgage and Note.

Inter-Vivos Revocable Trust as Eligible Borrower

- Living *inter-vivos* trusts must comply with local and state regulations and the below requirements.
- The be eligible the borrower must be:
 - The settlor, or the person who created the trust; and
 - The beneficiary, or the person who is designated to benefit from the trust; and
 - The trustee or the person who will administer the trust for the benefit of the beneficiary, the borrower.
 - One or more borrowers with one living trust; or
 - Two or more borrowers with separate living trusts; or
 - Multiple borrowers with one or more holding title as an individual and one or more holding title as a living trust.
- A trust certification is acceptable documentation when allowable under state law in the state where the subject property is located.
- When state law does not allow for a trust certification, the following requirements must be met:
 - An attorney's opinion letter must be obtained from the borrower's attorney verifying all of the following:
 - The trust was validly created and is duly existing under applicable law;
 - The trust is revocable;
 - The borrower is the settlor of the trust and the beneficiary of the trust;
 - The trust assets may be used as collateral for a loan; and
 - The trustee is:
 - ✓ Duly qualified under applicable law to serve as trustee;
 - ✓ Is the borrower;
 - ✓ Is the settlor; and
 - ✓ Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets.
 - Obtain a complete copy of the trust documents certified by the borrower to be accurate **OR** a copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements.

Power of Attorney

- When a borrower is using a power of attorney (POA), the following requirements apply:
 - The initial loan application and intervening documents must be signed by the borrower. The final application may be signed via POA in the presence of a notary public.
 - The initial loan application and intervening documents may be signed by POA if:
 - The borrower is in the military and deployed (POA must comply with VA requirements); or
 - A relative or lawyer was granted attorney-in-fact prior to the borrower becoming incapacitated.
 - In these instances, the POA may sign intervening documentation between the initial loan application and closing documents as long as the POA signed the initial loan application.
 - Parties who are connected to the transaction (at interest) may not act as POA. At-interest parties include:
 - Realtors
 - Settlement agents;

- Lenders, affiliates of the lender, or employees of the lender; and
- The loan originator, employer, or employee of the loan originator.
- The POA must be transaction specific except when the POA is due to military duty or when the POA was drafted prior to the borrower becoming incapacitated.
- **A POA may not be used for cash-out transactions.**

Identity of Interest

Definitions

- Certain transactions pose an increased risk and additional precautions must be taken to evaluate that risk. In-depth analysis of transactions between parties with family or business relationships may reveal unsupported values, straw borrowers, non-arms-length or at-interest influences, inflated sales prices, or excessive fees or disbursements.
- A **non-arms-length transaction** is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. Common types of non-arms-length transactions include:
 - Family Sales
 - Property in an Estate
 - Employer/Employee Sales
 - Flip Transactions
- An **at-interest transaction** involves persons who are not closely tied or related but may have a greater vested interest in the transaction such as a party who plays more than one role in the same transaction (selling/listing agent and mortgage broker, for example).
- At-interest transactions carry increased risks due to the greater vested interest in the transaction by one of the parties. Examples of at-interest transactions include:
 - Builder also acting as Realtor/broker
 - Realtor/broker selling own property
 - Realtor/broker acting as listing/selling agent as well as the mortgage broker
- All non-arms-length transactions are considered at-interest transactions; however, at-interest transactions are not always non-arms-length.
- Primary residence, second home and investment property transactions are eligible for consideration subject to additional scrutiny by the underwriting, closing and quality control functions. Refer to the “Identity of Interest” guidelines for further details.
- Primary residence, second home, and investment property transactions are eligible.

Additional Risk

- Underwriters should exercise additional scrutiny when reviewing Identity of Interest transactions
- Additional risks that may be posed by an Identity of Interest transaction include:
 - Absence of equity or down payment.
 - Purchase price may not represent actual consideration given.
 - Financial bailouts or attempts to hide poor credit.
 - Occupancy concerns.
 - Financing of unsold builder inventory, especially in soft real estate markets.
 - Inflated appraised value.

Red Flags

- Transactions which include any of the following characteristics should be also be given additional scrutiny by the underwriter.
 - Seller price exceeds listing price.
 - Seller on Closing Disclosure does not match the title work or appraisal.

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- Disbursements on the seller section of the Closing Disclosure to the borrower or an entity controlled by the borrower, or to a company owned by the property seller.
- Closing Disclosure shows a payoff in excess of \$5,000 but no corresponding lien reflected on the preliminary title policy.
- Large payments to a homeowners association.
- Lien amount verified on the title work or credit report is not consistent with the payoff shown on the Closing Disclosure.
- Excessive closing costs, beyond reasonable and customary settlement charges.
- Questionable sources of funds to close, including DAPs and other assistance programs not in compliance with Fannie Mae/Freddie Mac published requirements.
- Borrower, subject property and originating lender are located in three different states.

Identity of Interest Transactions

- Identity of Interest Transactions includes both non-arm's length and at-interest transactions. Non-arm's length or at-interest transactions may be considered when the borrower is purchasing the property as a primary residence, second home, or investment property.
- **Assignment of Sale Contract:** Transactions where the purchase contract has been assigned to the borrower are generally not acceptable but may be eligible for consideration provided there was no increase in sales price and the explanation for the assignment appears to be reasonable. If earnest money is being transferred it is treated as a sales concession and deducted from the sales price.
- **Employer/Employee Sales:** This is a transaction where the builder or developer is selling a property to one of its employees who does not hold a principal ownership interest.
- **Flip Transactions:** A flip transaction is generally defined as a purchase transaction for a property that has recently been acquired by the seller and is being sold for a quick profit. A flip transaction is evident if the title reveals several changes in ownership in the course of a few months. Flip transactions are not eligible.
- **Family Sales:** This is a transaction where one family member is selling to another. Often there is no real estate agent involved or the agent may also be a family member. These transactions carry the potential for increased risk as they may be bailout situations such as the seller has financial problems and is unable to refinance.
- **Gift of Equity:** Gift equity in the subject property is an acceptable source of down payment, as long as the amount of equity has been verified. The donor must provide a gift letter. Equity gifts are only allowed after the required minimum down payment from the borrower's own funds.
- **Title Changes:** Title changes from LLC or partnership to an individual are not allowed.

Identity of Interest Requirements

- Identity of Interest transactions may be considered subject to the following additional requirements:
 - Second home and investment properties must be a one-unit single family residence;
 - For newly constructed properties, the loan is not an eligible transaction when:
 - The property is a second home or investment property; and
 - The borrower has a relationship or business affiliation (any ownership interest or employment) with the builder, developer, or seller of the property.
 - Verification that the borrower is not now, or has been in the previous 24 months, on title to the property.
 - A payment history for the existing mortgage (verification of the seller's mortgage) on the subject property must be obtained and show no pattern of delinquency within the past 12 months.
 - The borrower must provide a written explanation stating the relationship to the seller and their reason for purchasing the subject property.
- Appraisal Considerations:
 - A Generic VECTOR Automated Valuation Model (AVM) from CoreLogic Valuation Solutions is required to validate the first full appraisal.
 - If no AVM is allowable, available, or the AVM value is more than 10% less than the full appraisal:
 - A field review or a second full appraisal is required.

Mortgage Eligibility

Primary Residence Mortgages

- A mortgage will not qualify to be an owner-occupied property mortgage unless the borrower is an individual or individuals and at least one of the borrowers is occupying all or part of the subject property as a primary residence.

Second Home Mortgages

- **Second home mortgages must be secured by a one-unit property** owned by the borrower and occupied by the borrower for some portion of the year.
- The property must be:
 - In such a location as to function reasonably as a second home;
 - Suitable for year-round occupancy; and
 - Available for the borrower's exclusive use and enjoyment.
- The property must not be:
 - Subject to any timesharing or other shared ownership arrangement;
 - An ineligible property such as a unit in a condo hotel;
 - Subject to any rental pools or agreements that require the borrower to rent the property;
 - Gives a management company control over the occupancy of the property; or
 - Involve revenue sharing between any owners and the developer or another party.
- **A two-unit property used as a second home is considered an investment property and must meet all of the requirements for investment properties.**
- Each second home mortgage must meet the following requirements:
 - For a newly constructed home that is a purchase transaction the borrower may not be affiliated with or related to the builder, developer, or the property seller.
 - Each borrower individually and all borrowers collectively must not be obligated on more than six one-to-four unit financed properties including the subject property and the borrower's primary residence. Examples of financed properties that do not have to be counted in this limitation include:
 - Commercial Real Estate;
 - Multi-Family (five or more units) Real Estate;
 - Timeshares;
 - Undeveloped Land;
 - Manufactured Homes not titled as real property;
 - Property that is titled in the name of the borrower's business provided that the borrower is not obligated on the Note(s), land contract(s), and any other debt or obligation related to the business property;
 - Property titled in the name of a trust where the borrower is a trustee provided that the borrower is not obligated on the Note(s), land contract(s), or any debt or obligation related to such property.
- Rental income from the borrower's second home may not be used in qualifying the borrower for the mortgage.
- The monthly housing expense related to the borrower's current primary residence must be used in computing the borrower's housing ratio.
- The monthly payment amount on the second home must be considered in calculating the borrower's debt-to-income ratio.
- The applicable reserve requirements must be met.

Investment Property Mortgages

- The following loan terms are allowed:
 - An eligible fixed-rate, level payment loan; or
 - A 7/1 or 10/1 ARM.
 - 5/1 ARMs are not eligible.
- An investment property must meet the following requirements:
 - For newly constructed homes that are purchase transactions the borrower may not be affiliated with or related to the builder, developer, or the property seller.

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- Each borrower individually and all borrowers collectively must not be obligated on more than six one-to-four unit financed properties including the subject property and the borrower's primary residence. Examples of financed properties that do not have to be counted in this limitation include:
 - Commercial Real Estate;
 - Multi-Family (five or more units) Real Estate;
 - Timeshares;
 - Undeveloped Land;
 - Manufactured Homes not title as real property;
 - Property that is titled in the name of the borrower's business provided that the borrower is not obligated on the Note(s), land contract(s), and any other debt or obligation related to the business property;
 - Property titled in the name of a trust where the borrower is a trustee provided that the borrower is not obligated on the Note(s), land contract(s), or any debt or obligation related to such property.
- The monthly housing expense related to the borrower's current primary residence must be used in calculating the borrower's monthly housing expense ratio regardless of whether rental income from the subject property is used in qualifying.
- All reserves requirements must be met.
- Gift funds, gifts of equity, or grants are not allowed

Secondary Financing

Subordinate Financing Terms

- The terms of a HELOC may provide for a balloon or call option within the first five years after the Note date of the first mortgage.
- For transactions which include subordinate financing, the following requirements apply for both **HELOC and Closed End loans**.
 - The subordinate financing must be recorded and clearly subordinate to the first mortgage.
 - The maximum LTV/TLTV/CLTV may not exceed the guideline limits for this product and occupancy type.
 - If there is/will be an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio.
 - Negative amortization is not allowed. Scheduled payments must be sufficient to cover at least the interest due.
 - Equity share or shared appreciation is not allowed.
 - Subordinate financing from the borrower's employer may not include a provision requiring repayment upon termination.

New Closed End Subordinate Financing

- The maturity date or amortization basis of the junior lien must not be less than five years after the Note date of the first lien mortgage unless the junior lien is fully amortizing.
- The loan cannot have a balloon or call option within five years of the date of the Note.

Acceptable Documentation

- The terms of any subordinate financing must be verified. The following sources of verification are acceptable:
 - Existing subordinate loans that will be re-subordinated:
 - A copy of the credit report; or
 - A copy of the mortgage Note; or
 - A direct verification from the lender; or
 - A copy of the loan statement.
 - New Subordinate loans obtained prior to or at closing:
 - A copy of the mortgage Note; or
 - A direct verification from the lender; or

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- A copy of the commitment letter from the lender; or
 - A copy of the final Closing Disclosure evidencing proceeds.
- **Reminder for HELOCs:** If an existing HELOC is reduced without modifying the original Note, the original line limit must be used to calculate the CLTV.
- Whether the subordinate financing is existing or new, a full underwrite of the documentation provided is required to ensure the subordinate financing meets the requirements identified in this section.
- If the subordinate lien's terms cannot be verified in their entirety with a single source of verification, the use of a combination of the above documentation options is acceptable.

Loan Purpose

Refinance Mortgages

General Requirements

- When an existing mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:
 - At least one borrower on the refinance transaction is a borrower on the existing loan being refinanced; or
 - At least one borrower on the refinance mortgage holds title to and has resided in the subject property as his/her primary residence for the most recent 12 month period and documentation is obtained that the borrower has either:
 - Been making timely mortgage payments including the payment for any secondary financing for the most recent 12 month period; or
 - Is a related person to a borrower on the mortgage being refinanced; or
 - At least one borrower inherited or was legally awarded the subject property through divorce, separation or dissolution of a domestic partnership.

No Cash-Out Refinance Transactions

- A no cash-out refinance is a mortgage for which the proceeds may only be used to:
 - Payoff the first mortgage lien regardless of its age;
 - Payoff any junior liens that were used in their entirety to acquire the subject property;
 - Pay related closing costs;
 - Disburse cash out to the borrower not to exceed 2% of the new loan amount or \$2,000 whichever is less;
 - Payoff a Property Assessed Clean Energy (PACE) or PACE-like obligation;
 - Payoff the outstanding balance of a land contract for deed. For the transaction to be considered a no cash-out refinance transaction:
 - The land contract or contract for deed must have been executed at least 12 months prior to the loan application date.
 - The LTV ratio must be calculated using the current appraised value of the subject property.
 - The loan file must include third party documentation evidencing payments in accordance with the land contract or contract for deed for the most recent 12 month period; and
- In the event there are remaining proceeds from the no cash-out refinance mortgage after the proceeds are applied as described above:
 - The loan amount must be reduced; or
 - The excess amount must be applied as a principal curtailment to the new refinance loan at closing and must be clearly reflected on the Settlement/Closing Disclosure Statement.
- Under no circumstances may cash disbursed to the borrower, or any other payee, exceed the maximum permitted for no cash-out refinance mortgages.
- The borrower is not required to satisfy outstanding junior liens secured by the subject property provided that the junior liens meet all of the requirements for secondary financing.
- If a junior lien is paid off as part of a no cash-out refinance transaction, obtain documentation demonstrating that the full amount of the lien was used for the purchase of the subject property.

Cash-Out Refinance Transactions

- A cash-out refinance is a mortgage where the use of the cash out is not limited to a specific purpose.
- A mortgage placed on a property owned free and clear by the borrower is always considered a cash-out refinance.
- At least one borrower must have been on title to the subject property for at least six months prior to the Note date except as specified in the Delayed Financing section below.
- 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, the following requirement must be met:
 - At least one borrower inherited or was legally awarded the subject property in the case of divorce, separation or dissolution of a domestic partnership.

Delayed Financing

- The purchase transaction must have been an arm's length transaction.
- The Settlement/Closing Disclosure Statement from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement was not used for the purchase transaction.
- The preliminary title report for the refinance transaction must reflect the borrower as the owner of the subject property and must reflect that there are no liens on the subject property.
- The source of funds used to purchase the subject property must be fully documented.
- If funds were borrowed to purchase the subject property, those funds must be reflected on the Settlement/Closing Disclosure Statement for the refinance transaction and those funds must be repaid.
- The amount of the cash-out refinance must not exceed the sum of the original purchase price and related closing costs as documented by the Settlement/Closing Disclosure Statement for the purchase transaction, less any gift funds used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement was not used for the purchase transaction.
- **If the appraised value has increased more than 10% the underwriter must consider the reason for the increase and may reduce the loan amount or take other action to ensure that the value is supported.**
- **To reduce property fraud risk from inflated appraisals, loan amounts exceeding 80% of the purchase price of the mortgage being refinanced must be submitted to the investor for prior approval.**

Student Loan Cash-Out Refinances

- Not Eligible

Texas 50(a)(6) Transactions

- Not Eligible

Special Purpose Cash-Out Refinance

- A cash-out refinance mortgage where the owner of a property uses the proceeds of the refinance transaction to buy out the equity of a co-owner is a special purpose cash-out refinance.
- The loan amount of a special purpose cash-out refinance is limited to amounts used to buy out the equity of the co-owner which may include:
 - Paying off the first mortgage regardless of age;
 - Paying off junior liens secured by the subject property; and
 - Paying related closing costs.
- In addition the following conditions must be met:
 - The borrower and the co-owner receiving the buy-out proceeds must have jointly owned the property for a minimum of 12 months prior to the initial loan application.
 - Parties who inherited an interest in the property are exempt from this requirement.
 - The borrower and the co-owner receiving the buy-out proceeds must provide evidence that they occupied the subject property as their primary residence.

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- Parties who inherited an interest in the property are exempt from this requirement.
- The borrower and the co-owner receiving the buy-out proceeds must provide a written agreement, signed by all parties, stating the terms of the property transfer and the disposition of the proceeds from the refinancing transaction.
- The borrower who retains sole ownership of the property may not receive any of the proceeds from the refinance transaction.
- The borrower is not required to satisfy outstanding junior liens secured by the subject property provided the junior lien meets all junior lien requirements listed in the Secondary Financing section of these guidelines.

Loan Product Advisor

General Information

Access to and Use of Loan Product Advisor (LPA)

- Loan Product Advisor is an automated loan assessment system that indicates whether a loan will be eligible provided all other conditions are met.
- Use of Loan Product Advisor can eliminate many of the manual processing and underwriting requirements of traditional mortgage processing.
- Loan Product Advisor may be accessed through Lending QB. Loan Product Advisor uses the information obtained from:
 - Data input by the originator;
 - Credit repositories; and
 - HVE
- Loan Product Advisor uses statistical models and judgmental rules to analyze the data received and then returns a Feedback Certificate. Loan Product Advisor will return credit information and for certain loans will provide HVE support for the subject property.

Loan Product Advisor Mortgages

- In order for a loan to qualify as a Loan Product Advisor mortgage, all of the following criteria must be met:
 - Be submitted LPA no more than 120 days before and no later than the Note date.
 - Have all credit reports, including the Loan Product Advisor credit reports, dated no more than 120 days before and not later than on the Note date.
 - Receive an automated underwriting service (AUS) status of “complete” on the Feedback Certificate based on the last submission to Loan Product Advisor on or before the Note date.
 - Have a Settlement Date that is not more than 12 months after the Note date.
- Loans that are submitted to Loan Product Advisor and receive a status of ineligible, invalid or incomplete **are not eligible**. An “Accept” decision is required.
 - **Manual underwriting is not allowed.**
- For each loan submitted to Loan Product Advisor consider each application without regard to the borrower’s race, color, religion, national origin, age, sex, marital status, familial status or handicap.
- The last Feedback Certificate must be based on true, complete and accurate data and must be retained in the loan file.
- Loan Product Advisor cannot evaluate more than four borrowers on a single application.

Key Number

- The Key Number is a unique number assigned to a mortgage by Loan Product Advisor when the loan is first submitted to LPA. The Key Number is returned on the Feedback Certificate and is used to identify an individual mortgage from application through closing and delivery.
- A Key Number is valid for use with only one mortgage. Once that mortgage has closed, the Key Number may be used only for delivering the loan or for the Quality Control process.
- The Key Number from a previously closed mortgage may not be re-used to process or originate another loan. If the borrower has more than one loan in process, each loan must have a separate application and different Key Number.

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- Any resubmission to Loan Product Advisor must use the original Key Number.
- Accuracy of Data and Loan Product Advisor Risk Class**
- Because Loan Product Advisor is an automated system, it relies heavily on information from other sources therefore, accurate data and accurate data entry are critical.
 - Underwriters are responsible for the accuracy and completeness of the data submitted to LPA.
 - Ensure that the identifying information for any borrower and property (name, current and previous address and social security number and property address) are true, complete and accurate and that they are properly input into LPA on or before the Note date.
 - All data that was submitted to Loan Product Advisor for the last Feedback Certificate must be true, complete and accurate.
 - The Risk Class on the Feedback Certificate establishes the extent of underwriting required. Based on its analysis of the data LPA will return a Risk Class of:
 - Accept; or
 - Caution
 - An “Accept” Risk Class confirms that Loan Product Advisor has determined that the borrower’s creditworthiness is acceptable and that the layering of risk is acceptable. Underwriters do not have to make this determination.
 - The “Caution” Risk Class indicates that the loan is unlikely to comply with eligibility and underwriting requirements because there is a strong indication of excessive layering of risk.
 - Loans with a “Caution” Risk Class or “Caution with an A Minus Offering” are not eligible.

Documentation Requirements

- The Documentation Level shown on the Feedback Certificate indicates the minimum level of documentation that will be acceptable for the mortgage.
- A “Streamlined Accept” documentation mortgage requires significantly less documentation than a “Standard” documentation mortgage.
- Specific feedback messages will describe the type of documentation needed for employment, income and asset verification based on the data input into Loan Product Advisor. The specific feedback messages **are for guidance purposes only**.
- Underwriters are responsible for ensuring that all information in the loan file is properly documented and must make sure that the information submitted to Loan Product Advisor matches the documentation.
- The Minimum Assessment Feedback (MAF) shown on the Feedback Certificate will advise as to the type of appraisal report required.

Resubmission Requirements/Loan Product Advisor Tolerances

- A loan may be resubmitted to Loan Product Advisor however, the Risk and/or Documentation Class might change. Loan Product Advisor minimizes the number of times that the Documentation Class will change even if the Risk Class changes.
- The Risk Class and Documentation Level on the Feedback Certificate must be based on submission of accurate data to Loan Product Advisor. Resubmission of a loan to Loan Product Advisor is required if:
 - Information on the previous submission was not true, complete or accurate.
 - The most recent submission on or before the Note date exceeds the date requirements. Resubmission must occur on or before the Note date.
 - Any of the information submitted to Loan Product Advisor changes except as noted below.
- **Debts/Income:** A change from the previous submission involving the following does not require resubmission:
 - The monthly debt payment decreases;
 - The income for any borrower increases;
 - The income for any borrower decreases and/or the monthly debt payment increases; and
 - The total difference does not change the total debt-to-income ratio by more than three percentage points; and
 - The total debt-to-income ratio on the previous submission did not exceed 45%.
- **Assets/Reserves:** A change from the previous submission involving the following does not require resubmission:
 - The amount of verified assets increase;

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- The amount of verified reserves increases; and
- The amount of verified reserves decreases to an amount that is no less than the reserves required to be verified on the Feedback Certificate.
- **Loan Amount:** A change from the previous submission involving the following does not require resubmission:
 - The loan amount decreases by no more than 1% on a refinance transaction and mortgage insurance **is not** required; or
 - The loan amount decreases by no more than 1% on a refinance transaction and mortgage insurance **is** required; and
 - The change does not impact the amount of the mortgage insurance coverage; and
 - The amount of the mortgage insurance premium is based on the new loan amount and a new mortgage insurance certificate is obtained.
- Any other changes in the information submitted to Loan Product Advisor require resubmission.

Resubmission to Loan Product Advisor after the Note Date

- If it is determined after the Note date that the information entered into Loan Product Advisor was not true, complete and accurate and does not match the terms of the mortgage to be delivered, the loan must be resubmitted to Loan Product Advisor after the Note date.
- Select the “Post Closing Quality Control” as the Loan Processing State in Loan Product Advisor.
- A loan cannot be resubmitted to Loan Product Advisor after the Note date if:
 - Resubmission is more than 120 days after the Loan Product Advisor assessment expiration date displayed on the Feedback Certificate in effect as of the Note date; or
 - A borrower is being added or deleted, or a change is being made to a borrower’s last name or social security number; or
 - A new credit report company needs to be selected; or
 - The single or joint merged credit report indicator changes; or
 - The order of borrowers changes on a joint merged credit request; or
 - The merged credit report number does not match the merged credit report number from the most recent complete transaction.
- If the loan cannot be resubmitted to Loan Product Advisor after the Note date, the loan is ineligible for deliver.

Representation and Warranty Relief for Creditworthiness

- Representation and warranty relief for creditworthiness are valid for the life of the loan provided all of the following conditions are met:
 - The last Feedback Certificate returned a Risk Class of “Accept”;
 - The last Feedback Certificate matches the terms of the transaction and the information entered into Loan Product Advisor is true, complete and accurate;
 - The property address on the last Feedback Certificate is the address of the subject property;
 - The loan met all applicable eligibility requirements in the last Feedback Certificate; and
 - The loan was not originated based on fraudulent and/or misrepresented information and/or documentation.
- Representation and warranty relief is terminated if it is determined that:
 - The loan was ineligible to have been submitted to Loan Product Advisor and is a non-Loan Product Advisor mortgage; or
 - The mortgage is not an “Accept” mortgage.

Credit History

Evaluation of Monthly Obligations

Review of Documentation

- The borrower’s liabilities must be reflected on the loan application and considered when qualifying the borrower.

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- Review the loan application, credit report, borrower's paystubs and other file documentation for borrower liabilities. All of the borrower's debts incurred through the Note date must be considered when qualifying the borrower.
- When the borrower pays off or pays down an existing debt, including paying down the principal balance on the mortgage being refinanced in order to qualify for the loan, document the source of funds used to pay off or pay down the debt. The source of funds must be an eligible source.

Monthly Housing Expense Ratio

- The monthly housing expense is the sum of the following monthly charges on the borrower's primary residence:
 - Principal and interest payments
 - Property hazard insurance premiums
 - Real estate taxes; and when applicable,
 - Mortgage insurance premiums;
 - Leasehold payments;
 - Homeowners association dues; and
 - Payments on secondary financing.
- Loan product Advisor calculates and assesses the borrower's qualifying ratios based on the information input to the program. For Accept mortgages LPA has determined that the borrower's qualifying ratios are acceptable.

Monthly Debt-to-Income Ratio

- The monthly debt payment is the sum of the monthly charges for the following liabilities:
 - Monthly housing expense;
 - Payments on all installment debts with more than ten months of payments remaining including debts that are in a period of either deferment or forbearance;
 - Alimony, child support or maintenance payments with more than ten months of payments remaining;
 - Monthly payments on revolving or open-end accounts regardless of the balance.
 - In the absence of a monthly payment on the credit report, and if there is no documentation in the loan file indicating the monthly payment amount, 5% of the outstanding balance will be considered to be the required monthly payment amount.
 - Monthly payments on open-end accounts (accounts which require the balance to be paid in full monthly) are not required to be included in the monthly debt payments if the borrower has sufficient verified funds to pay off the outstanding account balance. The funds must be in addition to any funds used to qualify the borrower;
 - Monthly lease payments regardless of the number of payments remaining with the exception of payments for solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement;
 - Aggregate net rental loss from investment properties owned when applicable; and
 - Monthly payment amounts for other properties including principal and interest on the first lien and any secondary financing, taxes, insurance and, when applicable mortgage insurance premiums, leasehold payments, and homeowners' association dues.

Student Loans

- For student loans in repayment use the greater of:
 - The monthly payment amount reported on the credit report; or
 - 0.5% of the original loan balance or the outstanding loan balance as reported on the credit report.
- For student loans in deferment or forbearance use the greater of:
 - The monthly payment amount reported on the credit report; or
 - 1% of the original loan balance or the outstanding balance as reported on the credit report.
- For student loan forgiveness, cancellation, discharge or employment contingent repayment programs the student loan payment may be excluded from the debt-to-income ratio provided the loan file contains documentation that indicates the following:

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- The student loan has ten or less monthly payments remaining until the full balance of the student loan is forgiven, cancelled, discharged, or in the case of an employment contingent repayment program, paid; or
- The monthly payment on the student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, cancelled, discharged or in the case of an employment contingent repayment program, paid, at the end of the deferment or forbearance period; and
- The borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment contingent repayment program, as applicable, and there is no evidence of circumstances that will make the borrower ineligible in the future.

Other Installment Debt

- When a monthly payment on an installment debt, other than a student loan, is not reported on the credit report or is listed as deferred or in forbearance, obtain documentation verifying the monthly payment amount.
- Payments on installment debts secured by financial assets where repayment may be obtained by liquidating the asset, such as 401(k) loans, may be excluded from the debt-to-income ratio regardless of the payment amount or number of payments remaining.
 - The loan secured by the financial asset must have been made by a financial institution. Consider only the portion of the funds that exceeds the loan balance as funds available to the borrower to qualify for the loan transaction.

Current Primary Residence Pending Sale

- If the borrower's current primary residence is pending sale and the sale will not close before the Note date of the mortgage, the monthly payment amount for the property pending sale may be excluded from the debt-to income ratio if the loan file contains:
 - An executed sales contract for the property pending sale.
 - If the executed sales contract includes a financing contingency the loan file must also contain evidence that the financing contingency has been cleared; or
 - Obtain evidence of a lender's commitment to the buyer of the property that is 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).

Contingent Liabilities

- A contingent liability may be excluded from the debt-to-income ratio when meeting the requirements in the table below:

<i>Debt Type</i>	<i>Eligibility and Documentation Requirements</i>
<ul style="list-style-type: none"> • Installment (Non-Mortgage) • Revolving • Monthly Lease Payment 	Documentation in the loan file must indicate the following: <ul style="list-style-type: none"> • 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. • The party making the payments is not an interested party to the subject property or to the loan transactions.
<ul style="list-style-type: none"> • Mortgage 	Documentation in the loan file must indicate the following: <ul style="list-style-type: none"> • A party other than the borrower has been making timely payments for the most recent 12 months. • The party making the payments is obligated on the Note for the mortgage that is being excluded. • The borrower is not on the title for the mortgaged property. • The party making the payments is not an interested party to the subject property or to the loan transaction.

Mortgage Assumption

- A mortgage may be excluded from the debt-to-income ratio if the borrower is listed as the borrower on a mortgage that has been assumed by another party.
- Verify that the borrower no longer owns the property by documenting the property transfer and obtaining a copy of any assumption agreement executed by the transferee.

Assigned Debt

- A liability on a secured debt, including a mortgage, may be excluded from the debt-to-income ratio if the obligation to make the payments on a debt of the borrower:
 - Has been assigned to another by court order such a divorce decree; and
 - The order is documented, such as with a copy of the divorce decree, and the transfer of title is documented.

Debt Paid by Borrower's Business

- When a self-employed borrower is obligated on a debt that has been paid by the borrower's business for 12 months or longer, the monthly payment for the debt may be excluded from the debt-to-income ratio if the following requirements are met:
 - The loan file contains evidence that the debt has been paid timely by the borrower's business **for no less than the most recent 12 months**; and
 - The tax returns evidence that the business expenses associated with the debt, such as interest, lease payments, taxes, and insurance, have been reported and support that the debt has been paid by the business.

Payments for Solar Panels Subject to a Lease

- Lease payments for solar panels may be excluded from the debt-to-income ratio if the lease:
 - Provides for delivery of a specific amount of energy for an agreed upon payment during a given period; and
 - Includes a production guarantee where the borrower is compensated on a prorated basis when the energy produced by the solar panels is less than the level required in the lease agreement.
- Payments for solar panels subject to a PPA or similar type of agreement may be excluded from the debt-to-income ratio if the payment is calculated based only on the generated energy.
- The loan file must contain a copy of the lease agreement, PPA or similar type of agreement as applicable.

General Requirements for Stable monthly Income

Stable Monthly Income

Overview

- Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the borrower determine that both the source and the amount of the income are stable.
- The income qualification sources used to qualify the borrower, whether or not specifically addressed in these guidelines, and the documentation in the loan file must be evaluated for stable monthly income qualification requirements. Income qualification sources that do not meet the requirements of these guidelines or that are not calculated correctly may invalidate the Loan Product Advisor Risk Class and Feedback Certificate.
- Underwriters must include a written analysis of the income qualification sources and amount in the loan file. All documentation used to establish stable monthly income must be retained in the loan file.

Income Stability and History

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- Income types with pre-determined fixed payment amounts that occur with regular frequency and/or defined and documentable terms lend support to income stability and the analysis of historical receipt is typically not necessary.
- Income types that fluctuate must be viewed from the perspective of historical earnings. Consider the length of history, degree of fluctuation and/or irregularity of the income.
- When evaluating stability of income based upon historical receipt additional layering of risk may be present depending on the degree of income volatility. Additional documentation such as an additional year of earnings history may be necessary to support income stability.
- In most instances a two year history of receiving income is required in order for the income to be considered stable and eligible to be used for qualifying.
- When the borrower has less than a two year history of receiving income, underwriters must provide a written analysis to justify the determination that the income that is used to qualify the borrower is stable. While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.
- For all income used to qualify the borrower, determine whether the income is reasonably expected to continue. This determination must focus on the borrower's past employment/self-employment history, history of receipt of other income and the probability of continued consistent receipt of the income used to qualify the borrower.
- Consider all income for qualifying the borrower as long as there is no knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt over the next three years.
- Continuance of income is categorized as follows:
 - Income and earnings types typically without documentable continuance (likely to continue) – Refer to Chart A below.
 - Income types with documentable continuance – Refer to Chart B below.
 - Income types that may or may not have documentable continuance, depending upon the source – Refer to Chart C below.

- Continued -

Chart A: Income and Earnings Types without Documentable Continuance

For earnings and income types that do not have documentable continuance, there is no requirement to obtain documentation to verify income continuance, absent any knowledge or information that the income is no longer being received or is likely to cease. When there is knowledge or information that the income may not be reasonably expected to continue, conduct additional evaluation and/or obtain documentation in order to determine if the income can be used. For example, if a borrower has been receiving additional employed income such as overtime or bonus, but there is information or documentation evidencing that the income is already discontinued or will be discontinued due to the completion of a project or termination of a bonus program, the “likely to continue” requirement would not be met and the income cannot be used for qualification purposes.

Earnings Types and Income Types	Continuance Requirements
Base Non-Fluctuating Employment Earnings	<p>Income must be likely to continue for at least the next three years. There is no requirement 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.</p>
Fluctuating Hourly Employment Earnings	
Commission Income	
Bonus Income	
Overtime Income	
Restricted Stock and Restricted Stock Units Subject to Performance-Based Vesting Provisions	
Tip Income	
Automobile Allowance	
Military Entitlements	
Military Reserve or National Guard Income	
Unemployment Income Associated with Seasonal Employment	
Self-Employment Income	
Royalty Payments (two year history)	
Foster Care Income	
Housing or Parsonage Allowance	
Rental Income	
Tax-Exempt Income	

Chart B: Income Types with Documentable Continuance

For income types with documentable continuance, obtain the minimum documentation required in order to verify continuance for at least three years.

Highlights of the requirements from the individual income types are provided for illustrative purposes

Income Types	Continuance Requirement Highlights
Mortgage Differential	<p>Document the duration of payments.</p>
Notes Receivable	
Royalty Payments (one year history)	
Restricted Stock and Restricted Stock Units Subject to Time-Based Vesting Provisions	
Trust Income (Fixed Payment)	<p>Document the duration of the obligation.</p>
Alimony, Child Support and/or Separate Maintenance Payments	
Dividend and Interest Income	<p>Document sufficient assets.</p>
Capital Gains Income	
Trust Income (Fluctuating Payment)	
Retirement Account Distributions as Income	

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Chart C: Income Types That May or May Not Have Documentable Continuance

<p>Certain income types are comprised of multiple income sources each of which may have specific requirements with respect to continuance, whether defined or undefined. For this reason, this grouping of income types may or may not have documentable continuance. For example, if the source of retirement income is Social Security retirement benefits, no additional documentation of continuance is required. If the source is a retirement annuity from an insurance company, there will generally be a defined term in which case continuance must be documented.</p> <p>Highlights of the requirements from the individual income topics are provided for illustrative purposes only.</p>	
<p>Retirement Income (b) (Social Security, Defined Benefit Pension, Annuity, or Other Similar Benefit)</p>	<p>Underwriters must be knowledgeable about the source of the specific income type in order to determine whether or not documentable continuance is applicable. This includes knowledge of factors with respect to whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.</p> <p>(a) Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</p> <p>(b) Refer to the Other Income section of these guidelines for these income types.</p>
<p>Survivor and Dependent Benefits (b) (Social Security Survivor Benefits, Survivors' Department of Veterans Affairs (VA) Benefits, or Other Similar Benefits)</p>	
<p>Long-Term Disability Income (a), (b) (Social Security Disability Benefits, VA Disability Compensation, Worker's Compensation, Private Disability Insurance)</p>	
<p>Social Security Supplemental Security Income (SSI) (a), (b)</p>	

- In addition to the income sources described above, asset qualification sources that meet the requirements of these guidelines may also be used to qualify the borrower for the loan.
- For each asset qualification source used to qualify the borrower, determine that the source of the asset and the amount of the asset are reasonable and stable.
- Regardless of Loan Product Advisor approval, the asset qualification sources used to qualify the borrower and the documentation in the loan file must be evaluated for stable monthly asset qualification requirements.
- Asset qualification sources that do not meet these requirements or are not calculated correctly may invalidate the Loan Product Advisor Risk Class on the Feedback Certificate.
- Include a written analysis of the asset qualification source and amount in the loan file. All documentation used to establish stable monthly asset qualification must be retained in the loan file.

Employed Income Documentation and Verification Requirements

- For each income and asset qualification source used to qualify the borrower, obtain the required documentation and verifications.
- Additional documentation may be necessary to evaluate, justify, and explain the qualification of the borrower. All documentation must be maintained in the loan file.
- This section contains income documentation and verification requirements for the following subjects:
 - Year-to-date paystub
 - W2 forms
 - Written Verification of Employment (WVOE)
 - Ten-day pre-closing verification (10-day PCV)

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- The following chart contains requirements and guidance pertaining to YTD paystubs:

Subject	Requirements
Paystubs	<p>The year-to-date paystub(s) must enable the underwriter to determine and support the stable monthly income used for qualification. At a minimum the paystub must:</p> <ul style="list-style-type: none"> Clearly identify the employer's name, the borrower as the employee and the date issued. Show the time period, the current pay period dates and earnings, and the complete year-to-date earnings. <p>Year-to-Date paystubs with less than the required information</p> <p>When the year-to-date paystub does not contain the required information such as paystubs that are handwritten or typed by the employer and do not contain year-to-date earnings, verify the required information by obtaining additional documentation such as a written Verification of Employment, a review of payroll deposits, or bank statements.</p>

- W2 forms must be the complete Internal Revenue Service (IRS) *Form W-2* distributed by the employer and issued for the preceding tax year(s).
- The following documentation may be used in lieu of a W2 form.

Subject	Requirements
Year-End Year-to-Date Paystub or Military Leave and Earnings Statement	The Year-end year-to-date paystub(s) or military Leave and Earnings Statement (LES) may be used in lieu of the W2 forms provided the documentation reflects the complete income earned in the previous calendar year.
W2 Transcripts for All Income and Earnings Types	The W2 transcripts may be used in lieu of the W2 forms provided the transcript reflects the complete income earned in the previous calendar year.

- All written verifications of employment must contain the following information:
 - Signature, printed name, title and contact information (phone number) of the authorized employer representative who verified the information and the date completed.
 - The borrower's name and employer's name and address.
- The following chart contains additional requirements pertaining to written verifications of employment:

Subject	Requirement
Current Employment and Income	<ul style="list-style-type: none"> Date employment began Current position Gross base non-fluctuating earnings per pay period such as monthly, semi-monthly, bi-weekly, or weekly Fluctuating hourly earnings and rate of hourly pay Year-to-date earnings with paid through date Earnings from either the most recent one or two year calendar period(s) Earnings such as base non-fluctuating, fluctuating hourly, bonus, overtime, tips, or commissions must be split into separate categories for both the year-to-date and prior year(s) earnings
Current Military Active-Duty Employment Base (Basic) Pay and Entitlement Income	<ul style="list-style-type: none"> Date employment began Current position

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	<ul style="list-style-type: none"> • Base (basic) monthly pay • Current monthly entitlement income such as rations, clothing, or quarters allowances • Year-to-date earnings with paid through date • Earnings from the most recent one year calendar period
Current Military Reserve or National Guard Income	<ul style="list-style-type: none"> • Date employment began • Current position • Year-to-date earnings with paid through date • Earnings from the most recent one year calendar period
Previous Employment and Income	<ul style="list-style-type: none"> • Date employment began • Date employment ended • Position held • Gross earnings amount

Ten-Day Pre-Closing Verification (10-day PCV)

- Verification of the borrower’s current employment (10-day PCV) must be obtained.
- The ten-day PCV must be obtained no more than ten business days prior to the Note date.
- The following chart contains requirements for eligible ten-day PCV types:

<i>Ten-Day PCV Types</i>	<i>Requirements</i>
Verbal Verification of Employment	Obtain a Verbal Verification of Employment that includes all of the following: <ul style="list-style-type: none"> • Name of the borrower, employer’s name, name and title of the individual contacted at the employer, date of contact, and the phone number used to contact the employer • Name of the third-party source used to obtain the phone number of the employer such as a phone directory listing, reliable Internet source, directory assistance, etc. • Borrower’s current employment status • Any additional information that was verified • Name, title and employer of the representative who contacted the borrower’s employer and completed the Verbal VOE
Written VOE	A written VOE verifying the current employment status of the borrower.
Military Leave and Earning Statement	A military Leave and Earning Statement dated no more than 30 days, or 31 days for longer months, prior to the Note date.
Third-Party Employment Verification Service Provider – Electronically Generated	Employment information must be verified and documented by the third-party verification service provider directly through the electronic database of the employer or the employer’s third-party payroll services provider and must contain the following information: <ul style="list-style-type: none"> • The borrower’s name • The employer’s name • The borrower’s current employment status • Any additional information that was verified • The date the employment information was issued from the employer to the third-party verification services provider such as effective date, or “current as of” date

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	<ul style="list-style-type: none"> The date the verification was issued by the third-party verification services provider <p>The form used by the third-party verification services provider must contain the name, address and phone number of the provider</p>
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Third-Party Verification Service Providers

- Employment and income verifications obtained through third-party verification service providers are acceptable. The verifications must be received by the originator directly from the third-party verification service provider. A copy of the verification must be retained in the loan file and must meet the following requirements:
 - Employment and income verifications must contain sufficient information to determine stable monthly income.
 - If the verification is completed using employment and/or income information from an electronic database, the verification must evidence that the information in the database is no more than 35 days old.
- If any required information is missing, obtain additional documentation to supplement the third-party verification. Ensure the accuracy and integrity of the information provided by the third-party verification service.

Tax Returns

- Obtain the borrower's most recent federal tax return(s) for certain types of income and/or employment characteristics when using the income to qualify the borrower. Tax returns must be:
 - The borrower's signed copy of the U.S. federal income tax returns that were filed with the Internal Revenue Service (IRS).
 - A complete tax return including all applicable schedules and forms including all W2s, K1s, and 1099s.
- If a tax transcript is obtained and contains information sufficient to meet these verification requirements it may be used in lieu of other required documentation.
- Unreimbursed employee expenses reported on Schedule A of the borrower's federal individual income tax returns are not required to be deducted from the borrower's income unless the expenses are associated with commissions that are greater than or equal to 25% of the income from the commissioned employment.

Employed Income

General Requirements

- Determine that the borrower's income is stable and likely to continue at the level used to qualify for at least the next three years.
- Analyze all income documentation while taking into consideration the characteristics of the employed income such as employment and income source, type, and stability of the employment history.
- A borrower who has had different types of employment in the past may be considered to have stable income if the income amount has remained at a consistent level.
- When evaluating a borrower who has changed jobs frequently, focus on whether the changes have affected the borrower's ability to pay the borrower's obligations.
- Primary employment is considered as the borrower's primary source of employed income whether derived from employment such as full-time employment, part-time employment, or full-time and/or part-time seasonal employment.
- Secondary employment is considered as any type of employment such as a second part-time job or multiple jobs that are in addition to the borrower's primary employment.

Primary Employment History Requirements

- In most instances the borrower should have at least a two year history of documented primary employment.

- For borrowers who are active-duty members of the United States Armed Forces, a history of military employment is not required for the employment to be considered stable.
- The tenure of the borrower’s employment with the same employer or in the same or a similar industry lends support to the analysis of employment stability.
- Under certain circumstances, when a borrower has less than a two year history of primary employment, the underwriter may be able to justify and determine that the employment is stable. Examples that may support less than a two year history of primary employment include the following:
 - For a borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence.
 - For a borrower new to the workforce, documentation is provided that supports the borrower’s recent attendance at school or enrollment in a training program prior to beginning his/her current employment.
 - For a borrower who experienced recent employment gaps documentation is obtained from the borrower explaining the circumstances surrounding the gap(s).

Secondary Employment History Requirements

- In most instances the borrower should have at least a two year history of secondary employment for the employment to be considered stable.
- Under certain circumstances, when a borrower has less than a two year secondary employment history but has at least a 12 month history, the underwriter may be able to justify and determine the employment is stable.
- Examples that may support less than a two year history of secondary employment include the following:
 - The borrower previously held a job with base non-fluctuating earnings working 40 hours per week for multiple years. Due to reasons such as position elimination, workforce reduction, or illness, the borrower is no longer employed at this job and is now working at multiple part-time jobs that are similar in hours and pay to the previous full-time job.
 - The borrower is employed in the educational system as a teacher. During the previous summer the borrower taught summer school within the same educational system and is now starting summer school teaching for the current year. Although the two year history is not yet fully developed, given the job type and current employment situation, the underwriter may be able to justify including the summer school income provided an accurate qualifying income amount can be established and documented based on the previous and current earnings. Additional documentation to determine the stable monthly income may be appropriate, such as the number of classes, the pay rate, and similarity to the prior year.

Earnings Types

- The following requirements and guidance apply to all primary and secondary employed income and all applicable employment characteristics including full-time, part-time and seasonal employment.

<i>Earnings Type</i>	<i>Requirements and Guidance</i>
Base Non-Fluctuating Employment Earnings	<p>For the purpose of determining stable monthly income, base non-fluctuating employment earnings are considered to be earnings with a pre-determined and agreed upon rate of pay and number of hours worked each pay period.</p> <ul style="list-style-type: none"> • The pay rate and number of hours worked must be reflected on an ongoing consistent basis for each pay period and be fully supported by the year-to-date income. • Base non-fluctuating earnings may include both exempt (salaried) and non-exempt earnings but the pay rate and number of hours worked must not fluctuate between pay periods. • Base non-fluctuating earnings may include military base (basic) pay. For members of the United States Armed Forces, active-duty pay is considered base non-fluctuating earnings. • Base non-fluctuating earnings may include part-time earnings,

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	<p>provided the number of hours worked each pay period, are pre-determined.</p> <p>Base non-fluctuating earnings do not include additional employed income such as bonus, overtime or tip income.</p>
Fluctuating Hourly Employment Earnings	<p>For the purpose of determining stable monthly income fluctuating hourly employment earnings are considered to be employment earnings with hours that may fluctuate each week or pay period. The hours are not pre-determined but the employer and the borrower may have a general expectation of weekly hours. The hourly pay rate is a pre-determined and agreed upon fixed amount.</p> <ul style="list-style-type: none"> • Fluctuating hourly earnings may be determined by a review of the year-to-date income verification documentation with analysis focused on hours per pay period and year-to-date earnings in relation to the hours worked. • Fluctuating hourly earnings are not considered base or salaried earnings. • Fluctuating hourly employment earnings are typically representative of non-exempt earnings. <p>Fluctuating hourly earnings do not include additional employed income such as bonus, overtime or tips.</p>

- The chart below contains documentation requirements pertaining to earnings types for primary and secondary employment.

<i>Primary and Secondary Employment Earnings Type</i>	<i>Documentation Requirements Streamlined Accept and Standard Documentation Levels</i>
Primary Employment Earnings: -Base Non-Fluctuating Earnings; and -Fluctuating Hourly Earnings	<p>All of the following: Year-to-date paystub(s) documenting all year-to-date earnings, a W2 form for the most recent calendar year, and a ten-day pre-closing verification.</p> <p>A Written VOE may also be obtained. The above requirements still apply – the use of a written VOE only is not allowed.</p>
Primary Employment Earnings and Military Base (Basic) Pay	<p>All of the following: Year-to-date Military Leave and Earnings Statement, a W2 form for the most recent calendar year and a ten-day pre-closing verification.</p>
Secondary Employment Earnings: -Base Non-Fluctuating Earnings; and -Fluctuating Hourly Earnings	<p>All of the following: Year-to-date paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years and a ten-day pre-closing verification.</p> <p>A Written VOE may also be obtained. The above requirements still apply – the use of a written VOE only is not allowed.</p>

Employment Characteristics

- For all employment characteristics below, the underwriter must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation noted in these guidelines.
- For certain employment characteristics additional documentation and/or analysis may be needed as described below:

<i>Employment Characteristics</i>		<i>Additional Requirements</i>
Full-Time and Part-Time Employment	Full-time and part-time employment may be either primary or secondary employment, and may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.	None
Seasonal Employment	Seasonal employment may be primary employment from jobs such as highway construction and road work in colder regions or secondary employment such as educators teaching summer school. The borrower's earnings may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.	When unemployment income associated with the seasonal employment is being used as stable monthly income: <ul style="list-style-type: none"> • A documented two year history of seasonal employment and income receipt is required; and • The requirements for unemployment income associated with seasonal employment must be met.
Union Members	<p>Certain union members may work in industries where they may switch employers frequently with the union facilitating the next position. In these cases, the borrower may have multiple year-to-date paystubs and W2s all of which can be used for verification and calculation of stable monthly income. The borrower's earnings may be comprised of base non-fluctuating earnings, fluctuating earnings, fluctuating hourly earnings and/or additional employed income.</p> <p>The borrower may exhibit a stable and consistent employment and income history regardless of the number of employers.</p> <p>The borrower may be in between employers at the time of closing. If the underwriter determines that the borrower's employment and income history is stable and it is documented that the borrower has multiple jobs as described above, it may be acceptable to obtain the ten-day pre-closing verification through the union. The underwriter must make this determination based on a review of all employment and income characteristics.</p>	None

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<p>Borrower Employed by a Family Member or by the Property Seller, Real Estate Broker or Other Interested Party to the Transaction</p>	<p>When a borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length transactions, further in-depth analysis is required to determine the stability of the income.</p>	<p>Completed signed federal individual income tax returns for the most recent year.</p>
<p>Employed Income from a Foreign Source</p>	<p>When a borrower receives employed income from a foreign source, the income may be considered for qualifying income provided the income is reported on the borrower's U.S. federal individual income tax return for the most recent year.</p> <p>Refer to the Foreign Income section of these guidelines for all other non-employment/non-self-employment income from a foreign source.</p>	<p>Complete signed U.S. federal individual tax returns for the most recent year.</p>
<p>Employment Contracts</p>	<p>Employment contracts in the educational industry:</p> <p>It is common for borrowers who work in the educational industry, such as teachers, to be employed under renewable or term employment contracts.</p> <p>For the educational field, if the borrower provides an annually renewable or term contract, it is reasonable to consider continuance of receipt provided the underwriter does not have knowledge or documentation to the contrary.</p> <p>Employment contracts in other industries:</p> <p>If an employment contract is provided, it may also be considered for the purposes of determining stable monthly income.</p> <p>When making the determination of employment history, income stability and the monthly income amount, take into consideration factors such as whether or not employment contracts are reasonably common to the particular employment field and/or region, the pay structure outlined within the terms of the contract and whether the borrower has demonstrated the ability to maintain consistent employment and income</p>	<p>None</p> <p>When the terms of the employment contract do not include a base non-fluctuating pay structure, obtain a documented two year history of income and employment in the same or a similar employment field or industry.</p>

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	with this form or a similar form of pay structure over the most recent two years.	
Temporary Help Services Employment	<p>Some contract firms and temporary staffing firms contract out the services of their employees to other employers.</p> <p>When making the determination of employment history, income stability and the monthly income amount, take into consideration factors such as whether the borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure over the most recent two year period</p>	W2 forms from the contract and/or temporary staffing firm for the most recent two year period.
Income Reported on Form 1099	<p>At times borrowers receive 1099s for services performed. This pay structure is often referred to in terms such as “contractor” or “contingent worker”.</p> <p>Income received on <i>Form 1099</i> for services performed may be reported on Schedule C and may represent a sole proprietorship. If it determined that the borrower is a sole proprietor, refer to the Self-Employment Income section of these guidelines. Factors that may be considered when determining whether income reported on Schedule C is representative of a sole proprietorship include the principal business or profession, gross receipts or sales, cost of goods sold and the type and level of expenses reported.</p>	<ul style="list-style-type: none"> • All 1099s for the most recent two year period; and • Year-to-date paystubs or year-to-date earnings statements received by the borrower; and • Complete federal individual income tax returns covering the most recent one year period; and; • Determine if more information and documentation is needed for determining stable monthly income.

Additional Employed Income

General Overview

- A borrower may receive additional income from employment such as commissions, bonus and overtime pay.
- Generally additional employed income is received in connection with the primary or secondary employment. There are instances where the income is received through separate sources such as the military Reserve or National Guard.
- If additional employed income is used to qualify the borrower, determine that the amount of income used to qualify the borrower is stable and complies with the requirements below for each income type.
- All income must be either expected to continue or have documented continuance for at least the next three years.

Income History and Stability

- Many additional employed income types are fluctuating income. The stability of fluctuating income is determined based primarily upon historical earnings so it is imperative that a sufficient income history has been established.
- For this reason most income types that fluctuate have an income requirement of two years.

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- In certain instances a shorter history may still be considered stable if the underwriter provides a written analysis and obtains sufficient supporting documentation justifying the determination of stability.
- When making this determination, take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors including the borrower's demonstrated ability to repay obligations.
- In no event may the income history be less than 12 months.
- For the purposes of determining stable monthly income, fixed additional employed income earnings are considered to be earnings that are based on a pre-determined and agreed upon fixed amount of pay that is fully documented, such as an automobile allowance, mortgage differential payments, or military entitlements.
- For the purposes of determining stable monthly income, fluctuating additional employed income earnings are considered to be earnings that fluctuate on a regular basis, often based on factors such as hours worked, job type, and performance.
- Fluctuating earnings may include income types such as commissions, overtime, bonus, tips, income from the Reserve or National Guard, and unemployment compensation associated with seasonal employment.
- The chart below includes the stable monthly income and documentation requirements for additional employed income:

<i>Income Type</i>	<i>Stable Monthly Income Requirements</i>	<i>Documentation Requirements Streamlined Accept and Standard Documentation Levels</i>
Commission Income < 25% of the Income from the Commissioned Employment	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least the next three years</p>	<p>All of the following:</p> <ul style="list-style-type: none"> • Year-to-date paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years and a ten-day pre-closing verification. <p>A written VOE may be obtained documenting all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.</p>
Commission Income ≥ to 25% of the Income from the Commissioned Employment	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least the next three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> • Year-to-day paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years, a ten-day pre-closing verification; and • Complete federal individual income tax returns covering the most recent two year period. <p>A written VOE may be obtained documenting all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.</p>
Bonus Income	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> • Year-to-date paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years and a ten-day pre-closing verification. <p>A written VOE may be obtained documenting</p>

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		all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.
Overtime Income	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least the next three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> Year-to-date paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years and a ten-day pre-closing verification. <p>A written VOE may be obtained documenting all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.</p>
Tip Income Reported by the Employer	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least the next three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> Year-to-date paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years and a ten-day pre-closing verification. <p>A written VOE may be obtained documenting all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.</p>
Tip Income Cash and Charge Tips Reported on IRS Form 4137	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least the next three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> IRS <i>Form 4137</i> for the most recent two years Complete federal individual income tax returns covering the most recent two year period A ten-day pre-closing verification
Automobile Allowance	<p>History of Receipt: Two years, consecutive</p> <p>Continuance: Must be likely to continue for at least the next three years.</p> <p>Calculation: Add the full amount of the allowance to the borrower's qualifying income, and when calculating the borrower's debt-to-income ratio include the full amount of the monthly automobile payment in the calculation of the borrower's monthly debt payment. Do not subtract automobile allowance from the monthly automobile payment.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> Year-to-date paystub(s) documenting all year-to-date earnings, W2 forms for the most recent two calendar years and a ten-day pre-closing verification of employment.
Military Entitlements (Flight or Hazard Duty, Rations, Clothing Allowance, or	<p>History of Receipt: A history of receipt is not required for the income to be considered stable.</p> <p>Continuance: Must be likely to continue for at least the next three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> Year-to-date Leave and Earnings Statement, W2 form for the most recent calendar year and a ten-day pre-closing verification of employment.

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Quarters Allowance)	Calculation: Current fixed monthly amount.	
Military Reserves and National Guard Income	History of Receipt: One year Continuance: Must be likely to continue for at least the next three years. Calculation: 12 month average.	All of the following: <ul style="list-style-type: none"> Year-to-date Military Leave and Earnings Statement, W2 forms for the most recent calendar year and a ten-day pre-closing verification of employment.
Unemployment Compensation with Seasonal Employment	History of receipt: Two years, consecutive Continuance: Must be likely to continue for at least the next three years.	Proof of receipt of unemployment compensation for the most recent two year period such as <i>IRS Form 1099-G</i> and/or equivalent documentation.

Employed Income Calculation

- For all income determine how the borrower is paid in order to accurately analyze and calculate the stable monthly income used for qualifying. The documentation in the loan file must support the income used to qualify.
- If the documentation does not support the income used for qualifying purposes, further analysis is required and additional documentation may be necessary to support the stability of the income and the amount of income used to qualify.
- Base non-fluctuating earnings may include both exempt (salaried) and non-exempt earnings. The pay rate and number of hours worked must not fluctuate between pay periods.
- The income documentation must support base non-fluctuating earnings.
- The following chart describes the calculation methods for base non-fluctuating employment earnings taking into consideration the typical pay periods of weekly, bi-weekly, semi-monthly and monthly:

Calculation of Base Non-Fluctuating Employment Earnings	
Pay Period Type	Calculation
Weekly	Multiply the base non-fluctuating weekly gross pay by 52 pay periods and divide by 12 months
Bi-Weekly (Every Two Weeks)	Multiply the base non-fluctuating biweekly gross pay by 26 pay periods and divide by 12 months
Semi-Monthly (Twice per Month)	Multiply the base non-fluctuating semi-monthly gross pay by 24 pay periods and divide by 12 months
Monthly	Use the base non-fluctuating monthly gross pay
Annual Base Non-Fluctuating Salary Paid Out < 12 Months per Year	For some borrowers, such as certain employees in the educational field, the annual base non-fluctuating salary may be paid over a time period of less than 12 months. For example, if the annual base non-fluctuating salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12

Analysis of Fluctuating Income

- The foundation to the appropriate analysis and determination of income stability when evaluating fluctuating earnings is documenting and verifying an adequate length of historical earnings. The degree of volatility present within the income and/or the irregularity of the income must be analyzed. Evaluate the income trend and use the amount that is most likely to continue for the next three years.
- Review all year-to-date earnings and compare those earnings with the earnings from the last one or two years depending upon the documentation requirements. If a significant degree of volatility or irregularity is present such as year-over-year or quarter-over-quarter, additional analysis is required and additional documentation may be necessary to determine income stability. The analysis and documentation must support the amount of income used to qualify the borrower.

- If the analysis of income shows a declining trend, conduct further analysis. In order to determine if the income is currently stable and can be used for qualification purposes, determine the reason for the declining income and whether or not there is documentation showing the current income has stabilized.
- If it is determined that the income showing a declining trend is now stable, the lower income figure must be used. The income cannot be averaged using a previous higher level unless there is a documentation of a one-time occurrence such as an injury that prevented the borrower from working or earning full income for a period of time. Evidence must be obtained that the borrower is now back to the income level that was previously earned.
- The earnings reflected on the year-to-date income verification documentation must fully support and be consistent with the most recent earnings.
- If the earnings are consistent and supported, average the most recent year-to-date income over the applicable number of months documented.
- If the earnings are not consistent, show a high degree of volatility or an irregular pattern, additional analysis is required and additional documentation such as an additional year of income history or an explanation from the employer explaining the reason for the inconsistency, will likely be necessary to determine income stability and develop an accurate calculation of qualifying income.

Restricted Stock (RS) and Restricted Stock Units (RSU) Income

<p>Restricted Stock and RSU subject to Performance-Based Vesting Provisions</p>	<p>History of Receipt:</p> <ul style="list-style-type: none"> • Two years, consecutive • To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer without restriction. <p>Continuance: Must be likely to continue for at least the next three years.</p>	<p>All of the following:</p> <ul style="list-style-type: none"> • Year-to-date paystub(s) documenting all year-to-date earnings including payout(s) of RS or RSU, W2 forms for the most recent two calendar years and a ten-day pre-closing verification. • Income verification obtained through a third-party verification service provider is not allowed. <p>A written VOE may be obtained documenting all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.</p> <p>Additional Documentation Requirements – Obtain:</p> <ul style="list-style-type: none"> • Evidence the stock is publicly traded • RS and/or RSU agreement • Most recent vesting schedule(s) detailing past and future vesting • Evidence of receipt of previous year(s) payout(s) of RS/RSU such as a year-end paystub, an employer provided statement paired with a brokerage or bank statement showing transfer of shares or funds that must at a minimum include: <ul style="list-style-type: none"> ▪ Dates of the payout(s) ▪ The number of vested shares or its cash equivalent distributed to the borrower (pre-tax).
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<p>RS & RSU subject to Time-Based Vesting</p>	<p>History of Receipt:</p> <ul style="list-style-type: none"> ▪ One year ▪ To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer without restriction. <p>Continuance: Must continue for at least the next three years</p>	<p>All of the following:</p> <ul style="list-style-type: none"> • Year-to-date paystub(s) documenting all year-to-date earnings, including payout(s) of RS or RSU, W2 forms for the most recent calendar year, and a ten-day pre-closing verification. • Income verification obtained through a third-party verification service provider is not allowed. <p>A written VOE may be obtained documenting all year-to-date earnings and the earnings for the most recent two years. The above documentation must still be obtained. A written VOE only is not allowed.</p> <p>Additional documentation requirements – Obtain:</p> <ul style="list-style-type: none"> • Evidence the stock is publicly traded • RS and/or RSU agreement • Most recent vesting schedule(s) detailing past and future vesting • Evidence of receipt of previous year's payout(s) such as a year-end paystub, an employer provided statement paired with a brokerage or bank statement showing transfer of shares or funds that must at a minimum include: <ul style="list-style-type: none"> ▪ Date(s) of the payout(s) ▪ The number of vested shares or its cash equivalent distributed to the borrower (pre-tax).
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- In addition to the requirements in the table above, the determination of stable RS and RSU income used to qualify must include an analysis of changes in the company's stock price as well as past and future distributions detailed in a vesting schedule.
- If the year-to-date earnings are consistent with the previous years' earnings or trending upward, then use the applicable calculation method(s) below to determine the monthly income.
- If the earnings are not consistent or the value of vested shares distributed decreases substantially from year to year, additional analysis is required and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income.
- **Calculation:** Based on the form vested RS or RSU is distributed to the borrower – shares or its cash equivalent – use the applicable method(s) below to calculate the monthly income.
 - **RS or RSU Distributed as Shares:** Multiply the 52-week average stock price as of the loan application date by the total number of vested shares distributed (pre-tax) to the borrower for the past two years then divide by 24.
 - For example: If 200 vested shares were distributed in the past two years and the 52-week average stock price as of the loan application date is \$10, multiply 200 x \$100 then divide by 24 = \$83.33 monthly income.
 - **RS or RSU Distributed as Cash Equivalent:** Use the total dollar amount distributed from the cash equivalent of vested shares in the past two years divided by 24.

Temporary Leave

Determining Qualifying Income

- Temporary leave from an employer may encompass various circumstances such as family and medical leave, short-term disability, maternity leave, or other temporary leaves with or without pay.
- Temporary leave is generally short in duration. The period of time that a borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms.
- During a temporary leave a borrower's income may be reduced and/or completely interrupted. Determine that during and after the temporary leave the borrower has the capacity to repay the mortgage and all other monthly obligations.
- For borrowers returning to their current employer prior to the first mortgage payment due date, use the borrower's pre-leave gross monthly income for qualifying income.
- For borrowers returning to their current employer after the first mortgage payment due date, use the borrower's gross monthly income amount being received for the duration of the temporary leave for qualifying income.
- In the event the income has been reduced or interrupted, use the monthly reduced income amount being received for the duration of the leave combined with the borrower's available liquid assets as necessary.
 - Available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction. Assets that are required for the transaction such as down payment, closing costs and reserves may not be considered as available assets.
- The total monthly income must not exceed the borrower's pre-leave gross monthly income amount.

Temporary Leave Documentation Requirements

- The following documentation is required for all borrowers on temporary leave:
 - Documentation to verify the borrower's pre-leave income and employment.
 - A written statement from the borrower confirming the borrower's intent to return to the current employer and the intended date of return.
 - Documentation generated by the current employer confirming the borrower's eligibility to return to the current employer after the temporary leave. Acceptable forms of employer documentation include:
 - An employer approved leave request;
 - A Family Medical Leave Act document; or
 - Other documentation generated by the employer or a third-party verifier on behalf of the employer.
- In addition, the following documentation is required for borrowers returning to the current employer after the first mortgage payment due date:
 - Documentation evidencing the amount and duration of all temporary leave income sources being used to qualify the borrower such as short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from the employer, that are being received during the temporary leave.
 - All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements and be verified in accordance with the Streamlined Accept Documentation or Standard Documentation requirements, as applicable.
 - A written rationale explaining the analysis used to determine the qualifying income.

Self-Employed Borrowers

Stable Monthly Income Requirements

- A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed. The business may be a Sole Proprietorship, a Partnership (General or Limited), an S Corporation or a Corporation.
- The business structure determines the reporting method of the business and self-employment income to the Internal Revenue Service (IRS). The federal income tax returns for the business usually document the percentage of interest in the business.

Partnerships/S Corporations/Corporations

- The ownership interest percentage must be verified by a review of the federal income tax returns for the business including the IRS *Schedule K1(s)* or IRS *Form 1125-E, Compensation of Officers*.
- If these documents do not provide this information, the ownership interest percentage must be verified with a letter from the business' accountant or other similar documents.

Sole Proprietorship

- Sole proprietorships are unincorporated businesses.
- A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return.
- There is no associated federal business tax return.

Self-Employment History

- In certain instances a borrower may not have a current two year history of self-employment.
- When the borrower has been self-employed for less than two years, prior to considering the income for qualifying purposes:
 - Document that the borrower has a two year history of receipt of income at the same or a greater level in the same or a similar occupation;
 - Consider and evaluate the borrower's experience in the business; and
 - Consider and evaluate the acceptance of the company's service or products in the marketplace.
 - Analysis of current business activity through a review of the year-to-date financial statements and/or the most recent three months of business bank statements may provide support for this evaluation.
- **The borrower's federal income tax returns must reflect at least 12 months of self-employment income.**
- If the borrower is relocating to a different geographic area, prior to considering the income for qualifying purposes:
 - Consider and evaluate the acceptance of the company's service or products in the marketplace. Additional information, such as market studies or relevant industry research may support this evaluation; and
 - Provide a written analysis justifying the conclusion that the borrower's income will continue at the same level in the new location.

Business and Income Analysis

- **The analysis of the business must support that the business has sufficient liquidity** and is financially capable of producing stable monthly income for the borrower.
- The analysis must include an analysis of gross receipts of sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year-over-year trends. The business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered.
- A review and analysis of the business' financial statements, business asset statements, and in the case of Partnerships and S Corporations, an analysis of the historical cash distributions is necessary to establish the financial and liquidity standing of the business.
- Calculate and consider the liquidity ratios of the business.
 - The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities:
$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \text{ divided by current liabilities}$$
 - The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income:
$$\text{Current Ratio} = \text{current assets divided by current liabilities}$$
- For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the borrower's federal individual income tax returns.

- For Partnerships and S Corporations, stable monthly income may be based on the borrower's proportionate share of such ordinary income or guaranteed payments, carried from *Form 1065* or *Form 1120s* through the Schedule K1 and onto the borrower's federal individual income tax returns.
 - Although cash distributions reported on the Schedule K1 **may not be used as qualifying income**, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income.
- For S Corporations and Corporations, stable monthly income may be based on the income reported on the borrower's W2 from the business.
 - The corporate tax returns and *Form 1125-E*, if applicable, must be reviewed for confirmation of the borrower's W2 income from the business.
- Business income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income provided the underwriter's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business.
- If business income not reported on the borrower's federal individual income tax returns is being used to qualify, verify that the borrower's legal right to the business income is not encumbered, restricted or prevented by obtaining a copy of the corporate resolution, partnership agreement or other comparable document.

Income Calculation

- The calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete federal income tax return(s) (*Form 1040*) including W2s and K1(s) as applicable, and the borrower's complete federal income tax returns for the business (*Form 1120*, *Form 1120s*, and/or *Form 1065*) when applicable.
- Analyze the tax returns and document the calculation of the borrower's self-employed income on *Form 91*, *Income Calculations* or a similar alternative form.
- As part of the analysis, when documentation covering a history greater than one year is obtained, consider whether the borrower's self-employed income has increased or decreased over the previous two years.
- If the analysis reflects that the borrower's income has significantly increased or decreased, obtain sufficient documentation and justification to support the determination that the income used to qualify the borrower is stable and likely to continue for the next three years.
- It may be necessary to obtain additional years' tax returns when the borrower's self-employment income fluctuates in order to determine the stability of the income.
- Business financial statements typically consist of a Profit and Loss Statement and a Balance Sheet for the business that cover a specified period of time such as year-to-date or annual. Financial statements **may not be used for the calculation of stable monthly income unless they are audited** however they may provide additional support for the business analysis and income conclusion.
 - Financial statements for the business may be used to assist in evaluation and determining various components of self-employment analysis including business liquidity, income stability when tax returns are on extension, and evaluating a newer business and the impact of business fund withdrawals.
- The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed calculations on *Form 91* or a similar alternative form:
 - Non-cash deductions such as depreciation, depletion and amortization;
 - Documented non-recurring losses such as casualty losses and carry-overs from previous tax years;
 - For mortgages and notes payable in less than one year, analyze the terms of the mortgages and notes payable in less than one year. Determine whether the income should be reduced by this debt. The analysis must include factors such as whether the business has sufficient liquidity to pay off the debt without a negative impact to the business, if the debt is the type that would continually roll over, and/or if the debt is a line of credit that is consistently renewable. If these factors are present, the income does not need to be reduced by the debt.
- All rental real estate income and expenses reported on IRS *Form 8825* for Partnerships and S Corporations **are to be treated as self-employed income regardless of whether or not the borrower**

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is personally obligated on the Note and regardless of the borrower's percentage of ownership interest in the Partnership or S Corporation.

Self-Employed Income not Used for Qualification

- If the borrower is self-employed and the self-employment is not considered for qualification purposes, obtain pages one and two of the borrower's federal individual income tax returns and the applicable schedules (Schedule C or Schedule E) to determine if there is a business loss that may have an impact on the borrower's stable monthly income.
 - If a business loss is reported and the borrower qualifies with the loss, there is no requirement to obtain any additional documentation relating to the business loss.
 - If a business loss is reported and the borrower does not qualify with the loss, obtain additional documentation as needed in order to fully evaluate the loss. Perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss.

Business Assets Used for Closing

- Withdrawals of assets from the business may have a negative impact on the ability of the business to continue operating.
- When business assets are being used for the down payment, closing costs, and/or reserves, determine that the withdrawal of the funds will not have a detrimental effect on the business.
- Review and analyze the business tax returns, the current financial statements and 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.

Provide a written analysis describing the factors contributing to the determination that the withdrawal of the business funds will not negatively impact the business operations.

- The following chart contains requirements and guidance pertaining to verification of the current existence of the business:

Topic	Requirements and Guidance
Verification of Current Existence of the Business	Verification of the current existence of the business is required when positive income from the business is used as stable monthly income.
Acceptable Third-Party Sources	Acceptable third party sources include: <ul style="list-style-type: none"> • Regulatory agencies • Phone directories • Internet sources • Directory assistance • Applicable licensing bureaus Verification of the current existence of the business obtained verbally from an acceptable third party source must be documented and include all of the following: <ul style="list-style-type: none"> • Name and address of the business • Name of the individual and entity contacted to obtain the verification • Date the information was verified • The name and title of the individual who completed the verification
Alternative Sources	Consider alternative sources if the above are not available, such as: <ul style="list-style-type: none"> • Preparer of the tax returns for the business provided the preparer has an arm's length relationship with the borrower • At least one months' business bank statements that supports the current existence of the business and the level and type of income and expenses reported on the business tax returns
Date Requirements	The verification must be completed no more than 120 days prior to the Note date

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Documentation Requirements

- Establish and calculate the stable monthly income using at least the following required documentation. Additional documentation may be needed to support income stability:
 - *Form 91, Income Calculations*, or a similar alternative form.
 - Verification of the current existence of the business as described above.
 - Federal income tax returns, as required in the chart below, including all applicable schedules and forms reflecting at least 12 months of self-employed income.
 - Verification of how long the business has been in existence:
 - For Partnerships, S Corporations and Corporations, the federal income tax returns for the business must indicate the number of years that the business has been in existence.
 - For Sole Proprietorships, the federal individual income tax returns and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on the loan application.

Business Structure	Streamlined Accept & Standard Documentation Levels	
	Business in Existence ≥ Five Years	Business in Existence < Five Years
Sole Proprietorship	Complete signed federal individual (<i>Form 1040</i>) income tax return for the most recent year.	Complete signed federal individual (<i>Form 1040</i>) income tax returns for the most recent two years
Partnership	Complete signed federal individual and Partnership (<i>Form 1065</i>) income tax returns, including the Schedule K1(s) for the most recent year.	Complete signed federal individual and Partnership (<i>Form 1065</i>) income tax returns, including the Schedule K1s for the most recent two years.
S Corporation	Complete signed federal individual and S Corporation (<i>Form 1120S</i>) income tax returns, including the Schedule K1(s), <i>Form 1125-E</i> and W2s as applicable for the most recent year.	Complete signed federal individual and S Corporation (<i>Form 1120S</i>) income tax returns, including the Schedule K1s, <i>Form 1125-E</i> and W2s as applicable for the most recent two years.
Corporation	Complete signed federal individual and Corporation (<i>Form 1120</i>) income tax returns, including <i>Form 1125-E</i> and W2s as applicable for the most recent year.	Complete signed federal individual and Corporation (<i>Form 1120</i>) income tax returns, including <i>Form 1125-E</i> and W2s as applicable for the most recent two years.

Other Income

General Requirements

- Evaluate the stability and consistency of receipt of all other non-employment/non-self-employment income. Factors that must be considered in determining the likelihood of continued consistent receipt of all other non-employment/non-self-employment income below include the following:
 - Whether the payments are received pursuant to a written agreement, court decree, government program, law and/or regulation;
 - The length of time the payments have been received;
 - The regularity of receipt of the income;
 - The consistency of the amount of income;
 - The availability of procedures to compel payment;
 - Whether full or partial payments have been made;
 - The age of each child for which support and/or benefit payments are made as applicable; and
 - Applicable eligibility criteria governing the continued receipt of the income.

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Alimony, Child Support, or Separate Maintenance Payments

- Obtain the following:
 - A copy of the signed court order, legally binding separation agreement and/or final divorce decree verifying the payer's obligation, including the amount and the duration of the obligation. A three year continuance of the income is required;
 - Documentation to evidence receipt of the alimony, child support and/or separate maintenance payments for the most recent six months; and
 - For child support income, proof of the ages of the children for whom child support payments is received.
- **Calculation:** Use the documented fixed monthly payment amount as qualifying income.
- **If the payer has been obligated to make payments for less than six months, if the payments are not for the full amount, or are not received on a consistent basis, the income must not be considered for qualifying.**

Capital Gains Income

- A two year history of realized capital gains income is required.
- Obtain copies of complete federal individual income tax returns for the most recent two year period reflecting capital gains income.
- Obtain documentation confirming the borrower will have sufficient assets after closing to support the continuance of the capital gain income at the level used for qualifying for at least the next three years.
- **Calculation:** 24 month average.

Dividend and Interest Income

- A two year history of receipt of interest and dividend income is required.
- Obtain copies of:
 - Complete federal individual income tax returns for the most recent two year period; or
 - Year-end asset account statements for the most recent two years evidencing all dividend and income for each year.
- Document that sufficient assets remain after closing to support continuance of the dividend and interest income for at least the next three years.
- **Calculation:** 24 month average.

Foreign Income – Non-Employment Income

- Obtain a copy of the borrower's most recent complete signed U.S. federal individual income tax return. The income must be reported on the borrower's most recent U.S. federal individual income tax return.
- Obtain documentation for the applicable income type in accordance with the requirements of this "Other Income" section.

Foster Care Income

- Obtain documentation to evidence receipt of the foster care income for the most recent two year period and a three year continuance.
- **Calculation:** 24 month average.

Housing or Parsonage Allowance

- A 12 month history of receipt is required.
- Obtain a written Verification of Employment or a letter from the employer and paystubs documenting the terms under which the allowance is paid and the amount of the allowance.
- Document evidence of the most recent 12 months receipt of the housing or parsonage allowance. A three year continuance of the income is required.
- **Calculation:** Use the documented monthly payment amount.

Long-Term Disability - Existing and Established Long Term Disability:

- A history of receipt is not required for the income to be considered stable.
- Document the income type, source, payment frequency and pre-determined payment amount with:
 - A copy of the benefits verification letter;
 - An award letter;
 - A pay statement;
 - 1099s and/or W2s; or
 - Equivalent documentation.
- Document current receipt with:
 - A copy of the most recent bank statement;
 - A pay statement benefits verification letter;
 - An award letter; or
 - Other equivalent documentation.
 - Age of documentation requirements do not have to be met.
- Long-term disability income may be considered to have a reasonable expectation of continuance without obtaining any additional documentation unless there is a pre-determined insurance and/or benefit expiration date that is less than three years.
- Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.
- **Calculation:** Use the documented fixed monthly payment amount.

Long-Term Disability - Newly Established:

- Verification of current receipt is not required.
- The finalized terms of the new income must be documented and the income must begin prior to or on the first mortgage payment due date.
- Document the finalized terms of the newly established income including:
 - The source of the income;
 - The type of income;
 - The date the income will begin; and
 - The payment amount and the frequency of the payment(s).
- Document the finalized terms with:
 - A copy of a benefits verification letter;
 - An award letter; or
 - Other equivalent documentation from the provider that reflects and establishes the terms.
- If the disability policy has a pre-determined expiration date (certain disability policies provided by employers and private insurers), obtain a copy of the certificate of coverage or other equivalent documentation evidencing the policy term.
- The documentation must be dated no more than 120 days prior to the Note date.
- **Calculation:** Use the documented fixed monthly payment amount.

Notes Receivable

- Receipt of payments for the most recent, consecutive 12 months must be documented.
 - Obtain a copy of the note evidencing the terms including the scheduled amount and duration of payments; and
 - Proof of receipt of payments for the most recent 12 months.
- The note must have a remaining term of at least three years.
- **Calculation:** Use the full payment amount documented in the note.

Retirement Account Distributions as Income

- Distributions from retirement accounts recognized by the Internal Revenue Service such as 401(k) accounts or IRA accounts that are not subject to a penalty such as an early withdrawal penalty may be considered as stable monthly income.
- Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt, as applicable and history of receipt as applicable must be documented.

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- If distributions are being taken in accordance with IRS rules such as the Required Minimum Distribution rule where an excise tax penalty applies if distributions are not taken, and evidence of current receipt of the required minimum distribution amount is obtained, a history of receipt is not required for the income to be considered stable.
- Due to multiple variables inherent with distributions from retirement accounts including fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly income amount may vary.
 - This may include a range of history from 1 to 24 months depending upon the individual circumstances. As with all income determine that the source and amount of the income are stable.
 - Factors that must be considered when determining that the income is stable, and when determining the history of receipt necessary to justify a stable monthly income include:
 - The frequency and regularity of receipt of the distributions; and
 - The length of time the distributions have been taken and whether or not they establish a stable pattern of receipt over a given period of time.
 - Consider whether or not 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 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 or not the overall payments are similar when viewed year-over-year or with another similar measure such as quarter-over-quarter.
- Document that sufficient assets remain in the retirement account(s) after closing to support continuance of the retirement account distributions as income for at least the next three years. Obtain the following:
 - A copy of the most recent retirement account statement(s), documentation from a financial institution holding the retirement account that verifies regularly scheduled distribution arrangements, 1099(s), and/or other equivalent documentation showing the income source, type, distribution frequency, distribution amounts and the history of receipt as applicable; and
 - A copy of bank statements or other equivalent documentation evidencing current receipt as applicable; and
 - Evidence of sufficient assets to support the qualifying income
- If the retirement distributions are not scheduled payments, document the most recent distribution verified through a copy of the retirement account statement, 1099, or other equivalent documentation, as applicable, in lieu of current receipt.
 - Verification of receipt of multiple distributions may be necessary to determine frequency of distribution, a history of receipt and the amount of stable monthly qualifying income.

Retirement – Social Security/Pension/Annuity/Other Similar Benefit

- **Existing and Established Retirement Income:** Document the income type, source, payment frequency, and pre-determined payment amount with a copy of:
 - A benefit verification letter;
 - An award letter;
 - A pay statement;
 - 1099(s); or
 - Other equivalent documentation.
- Document current receipt with:
 - A copy of a bank statement;
 - A pay statement;
 - A benefits verification letter;
 - An award letter; or
 - Other equivalent documentation.
- Age of documentation requirements must be met.
- A history of receipt is not required for the income to be considered stable.

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- The income must be likely to continue for at least the next three years.
- **Calculation:** Use the documented fixed monthly payment amount.
- **Newly Established Retirement Income:** Document the finalized terms of the newly established income including the source, type, effective date of the income, payment frequency and the pre-determined payment amount with a copy of:
 - A benefits verification letter;
 - An award letter; or
 - Other equivalent documentation
- The income must begin prior to or on the first payment date of the mortgage.
- The documentation must be dated no more than 120 days prior to the Note date.
- Verification of current receipt is not required.
- **Calculation:** Use the documented fixed monthly payment amount.

Royalty Payments

- **For Borrowers Who have less than a Two Year History:** Document the most recent one year receipt of payments on a regular basis.
- Royalty contract(s) and/or lease agreements must evidence eligibility for payment continuance for at least the next three years.
- Obtain a copy of the complete federal individual income tax return for the most recent one year.
- **Calculation:** A 12 month average.
- **For Borrowers Who have a History of Two or More Years:** Document the most recent two years receipt of payments on a regular basis.
- Royalty contract(s) and/or lease agreements must evidence eligibility for payment continuance for at least the next three years.
- Obtain copies of complete federal individual income tax returns for the most recent two year period.
- **Calculation:** A 24 month average.

Social Security Supplemental Security Income (SSI)

- **Existing and Established SSI Benefits:** Document the source, benefit type, payment frequency and pre-determined payment amount with a copy of:
 - A benefit verification letter;
 - An award letter;
 - 1099(s); or
 - Other equivalent documentation.
 - Age of documentation requirements do not have to be met.
- Document current receipt with a copy of:
 - A bank statement;
 - A benefit verification letter;
 - An award letter; or
 - Other equivalent documentation.
 - Age of documentation requirements must be met.
- A history of receipt is not required for the income to be considered stable.
- SSI may be considered to have a reasonable expectation of continuance unless there is evidence that the benefits will not continue.
- Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.
- **Newly Established SSI Benefits:** Verification of current receipt is not required. The finalized terms of the new income must be documented.
- The income must begin prior to or on the first mortgage payment due date.
- Document the finalized terms of the newly established income with a copy of:
 - A benefit verification letter;
 - An award letter; or
 - Other equivalent documentation from the provider that reflects and establishes these terms.

- The income must begin prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the Note date.
- Verification of current receipt is not required.

Survivors' and Dependents' Benefits/Department of Veterans Affairs Benefits/Other Similar Benefits

- **Existing and Established Survivor and Dependent Benefit Income:** Document the income type, source, payment frequency and pre-determined payment amount with a copy of:
 - A benefit verification letter;
 - An award letter;
 - 1099(s); or
 - Other equivalent documentation.
 - Age of documentation requirements do not have to be met.
- Document current receipt with a copy of:
 - A bank statement;
 - A benefit verification letter;
 - An award letter; or
 - Other equivalent documentation.
 - Age of documentation requirements must be met.
- A history of receipt is not required for the income to be considered stable.
- The income must be likely to continue for at least the next three years.
- **Calculation:** Use the documented fixed monthly payment amount.
- **Newly Established Survivor and Dependent Benefit Income:** Document the finalized terms of the newly established income including the source, type, effective date, payment frequency and pre-determined payment amount with a copy of:
 - A benefit verification letter;
 - An award letter; or
 - Other equivalent documentation from the provider that reflects and establishes the terms.
- The income must begin prior to or on the first mortgage payment due date.
- The documentation must be dated no more than 120 days prior to the Note date.
- Verification of current receipt is not required.

Tax-Exempt Income

- Obtain copies of complete federal individual income tax returns for the most recent one year period or other documentation evidencing that the income, or a portion of the income, is tax exempt.
- A history of receipt is not required.
- The income must be likely to continue to remain tax exempt.
- **Calculation:** To determine the amount to adjust ("gross up") the borrower's income, use:
 - 25% of the tax exempt portion of the income; or
 - The current federal and state income tax withholding tables.

Trust Income

- A two year history of receipt is required if the income is based on historical fluctuating payments from a trust asset such as dividends and interest.
- A history of receipt is not required if the trust specifies pre-determined fixed payment amounts occurring at regular intervals for a duration of at least three years.
- Document that sufficient assets remain after closing to support continuance of the trust income for at least the next three years.
- **Fluctuating Trust Income:** Obtain a copy of:
 - The fully executed trust agreement outlining payment terms; and
 - Complete federal individual income tax returns for the most recent two years; and
 - Evidence of sufficient assets to support the qualifying income such as a letter from the Trustee or bank statements.
 - **Calculation:** 24 month average.

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- **Fixed Trust Income:** Obtain a copy of:
 - The fully executed trust agreement specifying the fixed payment amount occurring at set intervals such as monthly or quarterly and the duration of payments; and
 - Document current receipt with a copy of a bank statement or other equivalent documentation; and
 - Evidence of sufficient assets to support the qualifying income such as a letter from the Trustee or a bank statement.
 - **Calculation:** Use the fixed payment amount documented in the trust agreement.

Rental Income (Prior to 10/15/2018)

General Requirements

- Rental income may be used to qualify the borrower provided the requirements of this section are met.
- Rental income may be generated from:
 - A subject one-unit primary residence;
 - A subject two-to-four unit primary residence;
 - A subject one-to-four unit investment property; and
 - Investment property owned by the borrower other than the subject property.
- Whenever rental income is to be used, reasonable adjustments to gross rental income must be made to compensate for vacancies, operating and maintenance expenses and rental income received for furniture.
- If the borrower owned a rental property during the previous tax year, the borrower's federal individual tax returns must be obtained to determine the net rental income or loss for qualifying.
- In some instances, the income reported on the borrower's federal individual income tax returns may not reflect the property's current rental value, such as when the tax returns show large a one-time expense or the when the property was under renovation.
 - In these instances, federal individual income tax returns must be obtained; however, *Form 998, Operating Income Statement*, may be used to determine rental income.
 - Explain on the 1008 the reasons for not using the income or loss from the federal individual income tax returns to determine rental income.

Topic	Eligibility and Documentation Requirements
Rental Income from the Subject One-Unit Primary Residence	<p>Rental income generated from a borrower's one-unit primary residence may be used to qualify a borrower with a disability if the rental income is from a live-in aide. Typically a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower.</p> <p>This income source may be considered stable monthly income if:</p> <ul style="list-style-type: none"> • The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis; and • The live-in aide plans to continue to reside with the borrower for the foreseeable future. <p>The rental income may be considered in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage.</p> <p>Rental income generated from the borrower's second home or one-unit primary residence other than as provided for above is not considered stable monthly income and may not be used to qualify the borrower.</p>
Rental Income from the Subject Two-to-Four Unit Primary Residence	<p>Rental income from units in the borrower's two-to-four unit primary residence that are not occupied by the borrower may be used to qualify the borrower.</p> <p>If rental income from the subject two-to-four primary residence is being used the qualify the borrower, the following requirements apply:</p> <ul style="list-style-type: none"> • Obtain and use <i>Form 998, Operating Income Statement</i> unless the property has been owned for at least one year and is reported on Schedule

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	<p>E of the borrower’s prior year federal individual income tax return. If income from the subject property is reported on the borrower’s federal individual income tax returns, Schedule E must be used to determine the net rental income. If <i>Form 998</i> is used to determine rental income, it must be completed up to the Monthly Operating Income (MOI) reconciliation.</p> <ul style="list-style-type: none"> Substantiate the rental income using the income approach on the appraisal and copies of the present leases(s), if applicable, must support the rental income used to qualify the borrower. <p>The <i>Form 998</i> is not required if rental income from the subject property is not considered in qualifying the borrower. Regardless of whether rental income is used in qualifying the borrower, the ULDD Data Point <i>Property Dwelling Unit Eligible Rent Amount</i> for each non-owner occupied unit in a two-to-four unit primary residence must be delivered. Monthly operating income from the <i>Form 998</i> or net rental income from Schedule E is entered under “Gross Monthly Income” in Section V of the loan application and may be considered as stable monthly income in qualifying the borrower provided the borrower meets the reserve requirements.</p> <p>If monthly operating income or net rental income from Schedule E is a negative number, it must be included as a liability for qualification purposes.</p>
<p>Rental Income from the Subject One-to-Four Unit Investment Property</p>	<p>If the borrower qualifies with the full monthly payment amount plus operating expenses for the subject investment property included in the borrower’s monthly debt-to-income ratio, no further evaluation or calculation of rental income from the subject property is required and <i>Form 998</i> is not required.</p> <p>The loan must be delivered with the ULDD Data Point <i>Property Dwelling Unit Eligible Rent Amount</i> for each one-unit investment property and each unit in a two-to-four unit investment property regardless of whether rental income from the subject investment property is being used to qualify the borrower.</p> <p>If rental income from the subject investment property is to be considered in qualifying the borrower, the following requirements apply:</p> <ul style="list-style-type: none"> Obtain and use <i>Form 998, Operating Income Statement</i>, unless the subject property has been owned for at least one year and is reported on the Schedule E of the borrower’s prior year federal individual income tax return. If income from the subject property is reported on the borrower’s federal individual income tax returns, Schedule E must be used to determine the net rental income. If <i>Form 998</i> is used it must be completed up to the Monthly Operating Income reconciliation. The income approach on the appraisal and copies of the present leases, if applicable, must support the rental income used to qualify the borrower. <p>If the net cash flow shown on the <i>Form 998</i> or net rental income from Schedule E of the borrower’s tax returns is a positive number, that figure may be entered as the rental income in the Gross Monthly Income section of the loan application and may be considered stable monthly income.</p> <p>If the net cash flow shown on the <i>Form 998</i> or net rental income from Schedule E of the borrower’s tax returns is a negative number, it must be included as a liability for qualification purposes.</p>
<p>Rental Income from Investment Property Owned by the Borrower other than the</p>	<p>Rental income from investment properties that are owned by the borrower, other than the subject property, must be shown in the Schedule of Real Estate Owned in Section VI of the loan application.</p> <p>When rental income from other investment properties owned by the borrower in the</p>

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Subject Property	<p>previous tax year is reported on the borrower’s federal individual income tax returns, Schedule E of the borrower’s tax returns must be used to determine the net rental income. Signed leases may be used to determine the net rental income for an investment property not owned during the previous tax year.</p> <p>Additionally, signed leases may be used to substantiate gross rents that are higher than the rental income documented on the tax returns; however, no more than 75% of the gross rental income from the signed leases may be used, unless the prior two years’ federal individual income tax returns clearly support the use of a higher percentage.</p> <p>The aggregate net rental loss must be considered a liability for qualification purposes.</p> <p>Aggregate net rental income may be counted as stable monthly income, provided the reliability of receipt is clearly supported by the documentation in the file.</p>
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Rental Income (Effective 10/15/2018)

General Requirements

- Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three years.
- For each income source used to qualify the borrower, determine that both the source and the amount of the income are stable.
- Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:
 - One-unit primary residence (rental income is eligible from a live-in aide);
 - Subject two-to-four unit primary residence (rental income is eligible from the units that are not occupied by the borrower);
 - Subject one-to-four investment property; and
 - Non-subject investment property owned by the borrower;
 - Subject one-unit investment property; or
 - Non-subject investment property.
 - **Accessory Units:** When determining stable monthly income, rental income generated from an accessory unit may be considered for:
 - Subject one-unit investment property; or
 - Non-subject investment property.
 - The rental income requirements in this chapter must be met.
- **Rental income generated from the borrower’s second home may not be used as monthly income.**

Rental Income Analysis and Calculation

- The following chart contains requirements related to rental income from a borrower's one-unit primary Residence:

One-Unit Primary Residence Rental Income Eligibility Requirements	
Eligibility	Rental income generated from the borrower’s one-unit primary residence, including rental income from an accessory unit, may be used to qualify a borrower with a disability provided the rental income is from a live-in aide. A live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower.
Documentation	Evidence that the borrower has received stable rental income from a live-in aide for the most recent 12 months.
Qualification	The rental income may be considered in an amount up to 30% of the total stable monthly income that is used to qualify the borrower for the loan.

- Refer to the Home Possible section of these guidelines for use of rental income generated from the borrower’s one-unit primary residence securing a Home Possible loan.

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Select LPA – Conforming & Super Conforming (Fixed)



- The following charts contain requirements and guidance for documentation, history and analysis of rental income:

Subject	Subject Property Purchase Transaction	Subject Property Refinance Transaction or Non-Subject Investment Property <ul style="list-style-type: none"> Property purchased in the current calendar year; or Property placed in service for use as a rental property in the current calendar year.
Documentation and Analysis Streamlined Accept and Standard Documentation	<p>A lease, if available, must be used to determine the net rental income. Make reasonable efforts to determine lease availability including a review of the appraisal, comparable rent data, purchase contract, a discussion with the borrower and/or any other applicable reasonable method; or</p> <p>If a lease is not available, <i>Form 72</i> or <i>Form 1000</i>, as applicable may be used to determine the net rental income</p> <ul style="list-style-type: none"> Rental income may not be used to qualify if there is knowledge, information or documentation that indicates that the borrower does not intend to use a lease with a minimum term of one year for the rental income source. 	<p>A lease must be used to determine the net rental income.</p> <p>Purchase date or conversion date, as applicable must be documented.</p>
Lease Requirements	<p>Leases must be current and fully executed with a minimum original term of one year. If the lease is documented as assigned from the property seller to the borrower and is in the automatically renewable month-to-month phase of an original one year (or longer) term lease, a month-to-month term is acceptable.</p>	
Investment Property Management Experience	<p>The borrower must have a minimum one year history of investment property management experience occurring within the most recent 36 months. The management experience must be documented with at least the most recent year of complete federal income tax returns for which the investment property was in service; or</p> <p>The net rental income may only be considered in an amount up to 30% of the sum of the net rental income and all other stable monthly income such as employment earnings that is used to qualify the borrower for the loans.</p> <p>If there are multiple properties that are subject to the 30% requirement, such as a subject property purchase transaction and a non-subject investment property purchased in the current calendar year, the 30% requirement applies to the combined total of net rental income.</p> <p>Examples of how to apply these calculations are shown in the following chart:</p>	

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Examples: Calculations of the maximum amount of net rental income that is eligible to be included in the stable monthly income				
Employment Earnings	Net Rental Income	Sum of Net Rental Income Plus Employment Earnings	Calculation	Eligible Net Rental Income
\$5,000	\$1,500	\$6,400	\$6,500 x 30% = \$1,950	\$1,500
\$2,500	\$2,625	\$5,125	\$5,125 x 30% = \$1,537.50	\$1,537.50

- Review the following documentation options and determine which is the most appropriate to establish and support stable monthly net rental income based on the individual transaction:

Option 1: One Year Tax Return and Current Lease	
Subject	<ul style="list-style-type: none"> Subject property refinance transaction owned in the prior calendar year(s) Non-subject investment property owned in the prior calendar year(s)
Option 1 is for long-term rental income sources (lease with at least a one year term). It requires a current lease which lends support to income stability and continuance so a shorter documented history (one year tax return) is acceptable.	
Documentation Streamlined Accept and Standard Documentation Levels	<p>Complete federal individual income tax return including Schedule E for the most recent year; and</p> <p>Current, fully executed lease with an original minimum term of at least one year. If the lease is in the automatically renewable month-to-month phase of an original one-year (or longer) term lease, a month-to-month term is acceptable</p> <p>The rental income may be determined to be stable without obtaining the current lease if:</p> <ul style="list-style-type: none"> The fair rental days reported on Schedule E for the most recent year document s rental income consistent with a long-term lease (365 days); The tax returns are no more than six months old based on the ending date of the last tax year; and No information is present that would contradict a reasonable expectation of income stability, continuance or current receipt of rental income from a lease.
Sufficient Historical Data on Schedule E	<p>If it is determined that the information on Schedule E contains sufficient historical data to analyze and determine stable net rental income and expenses, the Schedule E must be used to calculate the net rental income.</p> <p>A 12 months history of income and expenses reported on Schedule E is generally required to establish a stable net rental income amount.</p>
Insufficient Historical Data on Schedule E	<p>If it is determined that the information reported on Schedule E does not contain sufficient historical data to analyze and determine the rental income and expenses, the underwriter may determine that the use of a lease is more appropriate to establish the income amount. For example, the underwriter</p>

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	<p>may determine that there is insufficient historical information on Schedule E when:</p> <ul style="list-style-type: none"> • The rental property is documented as purchased later in the prior calendar year; • A documented catastrophic event or major renovation occurred causing the property to be out of service for a portion of the year; and • The source of rental income changed from a source without a lease (short-term rental income) to a one year term lease during the calendar year. <p>When the lease is used to determine net rental income:</p> <ul style="list-style-type: none"> • The gross monthly rent amount on the lease must be consistent with the gross rents received on Schedule E based on the annualized amount of fair rental days reported on Schedule E. • The underwriter must provide a written analysis and supporting documentation, if applicable, justifying the use of the lease to determine the net rental income.
Analysis	<p>When evaluating stability of net rental income, the underwriter must analyze:</p> <ul style="list-style-type: none"> • The length of historical data for the rental income source and amount, expenses, and • Whether the gross rents on the lease, if present, are consistent with the rents received on Schedule E.

Option 2: Two Year's Tax Returns	
Subject	<ul style="list-style-type: none"> • <i>Subject property refinance transaction owned in the prior calendar year(s)</i> • <i>Non-subject investment property owned in the prior calendar year(s)</i>
<p>Option 2 is for short-term rental income sources such as rental income from a source where a lease is not used, or has a lease with less than a one year term. Short-term rental income sources may be more volatile than long-term rental income sources so a longer documented history (two year's tax returns) is required to support income stability and continuance.</p>	
Documentation Streamlined Accept and Standard Documentation Levels	<p>Complete federal individual income tax returns including Schedule E for the most recent two years.</p> <p>If the tax returns are more than six months old based on the ending date of the last tax year:</p> <ul style="list-style-type: none"> • A current year-to-date gross rental income statement from an independent third party (a company that collects rents and disburses same to the borrower), and year-end statement or IRS <i>Form 1099-K, Payment Card and Third Party Network Transaction</i>, if applicable, that supports the gross rental income and source reported on the tax returns is required; or • If a gross rental income statement is not provided to the borrower, other equivalent supporting documentation must be obtained to justify the stability of the rental income <p>Rental income reported on Schedule C: If short-term rental income is reported on Schedule C instead of Schedule E due to tax interpretations, the underwriter may determine the rental income is stable as long as all of the requirements in this chapter are met.</p>
Length of History Requirement	<p>A 24 month history of income and expenses reported on Schedule E is required to establish a stable net rental income amount.</p> <p>The same short-term source must have been producing the rental income and the property must have been used for the purposes of producing rental</p>

	<p>income for this period of time.</p> <ul style="list-style-type: none"> • <i>IRS Form 4562, Depreciation and Amortization</i>, is an example of documentation that may be used to determine the date the property was placed in service for use as a rental property for purposes of producing rental income.
<p>Less than a 24 Month History Reported on the Tax Returns</p>	<p>In certain instances the underwriter may determine that less than a 24 month history of rental income and expenses from the same source reported on the Schedule E is sufficient to determine a stable net rental income amount.</p> <p>The history reported on Schedule E for the most recent year must not be less than 12 months. The overall documented history of income and expenses, and length of time the property has been used for the purposes of producing rental income must not be less than 18 months.</p> <p>The underwriter must provide a written analysis and supporting documentation justifying a history of less than 24 months reported on the Schedule E.</p> <p>The following examples represent situations that may support less than a 24 month history of income and expenses reported on the Schedule E:</p> <ul style="list-style-type: none"> • The borrower purchased and placed the rental property in service 20 months ago. The tax returns only reflect a 12 month history of income and expenses from the same source. The borrower receives a year-to-date gross rental income statement from an independent third party (a company that collects rents and disburses same to borrower) that supports the gross rental income and source reported on the tax returns and an overall 18 months history of income stability. • Documentation evidences: (a) a tax return extension has been filed for the most recent calendar year but the tax returns from prior years evidence a 15 month history of rental income and expenses from the same source, and (b) <i>IRS Form 1099-K, Payment Card and Third Party Network Transactions</i>, for the most recent calendar year and the year-to-date gross rental income statement, as described above, support the gross rental income and source reported on the tax returns, supporting continued income stability from the same source.
<p>Analysis</p>	<p>When evaluating stability of rental income, the underwriter must analyze the length of historical data for the rental income source, amount and expenses.</p> <p>The analysis must include factors such as the potential for fluctuation and associated degree of volatility and/or irregularity within the rental income amount and source, and validation that the income is consistently derived from the same type of source which includes a review of the fair rental days reported on Schedule E year-over-year.</p> <p>For example:</p> <ul style="list-style-type: none"> • If the year-over-year review of the fair rental days reported on Schedule E shows a decrease from 350 (which may be indicative of a lease) to 150 days (potentially indicative of short-term rental income) further analysis would be required to (a) validate that the income is consistently derived from the same type of source and (b) support the stability of the rental income source. <p>If a significant degree of volatility or irregularity is present (year-over-year) additional analysis is required and additional documentation may be necessary to determine income stability.</p>

- The following chart contains requirements pertaining to net rental income calculation:

Net Rental Income	
Rental Income Source	Calculation Requirements
Lease	75% of the gross monthly rent or gross monthly market rent.
Forms 72 or 1000	The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Schedule E	<p>The net rental income for each individual property is determined based on the history of income and expenses reported on Schedule E. Calculate the net rental income from Schedule E using <i>Form 92, Net Rental Income Calculations – Schedule E</i>, or a similar alternative form, as follows:</p> <p>Rents received less total expenses:</p> <ul style="list-style-type: none"> Add back the following expenses: <ul style="list-style-type: none"> Insurance Mortgage interest paid to banks, etc. Taxes (real estate taxes only) Depreciation and/or depletion Homeowners association dues (if applicable) One time losses (casualty loss due to a documented catastrophic event) <p>Result: Net rental income calculated to a monthly amount</p> <p>When calculating the net rental income for each individual property, the following expenses reported on Schedule E can only be added back if they are included in the payment amount being used to establish the debt payment-to-income ratio for that property; insurance, mortgage interest paid to banks, real estate taxes, and homeowners' association dues.</p>

- The following chart contains requirements pertaining to establishing the debt-to-income ratio:

DTI ratio using net rental income	
Subject Two-to-Four Unit Primary Residence	<ul style="list-style-type: none"> The monthly housing expenses must be added as a liability The net rental income may be added to the monthly income
Subject One-to-Four Unit Investment Property	<p>Subtract the monthly payment amount from the net rental income:</p> <ul style="list-style-type: none"> If the result is positive, add it to the monthly income If the result is negative, add it to the monthly liabilities
Rental Income from Non-Subject Property	<p>Subtract the monthly payment amount from the net rental income:</p> <ul style="list-style-type: none"> If the result is positive, add it to the monthly income If the result is negative, add it to the monthly liabilities <p>For multiple non-subject investment properties, apply the calculation above to each property; and</p> <ul style="list-style-type: none"> If the result is positive, add it to the monthly income If the result is negative, add it to the monthly liabilities

Appraisal Documentation and Analysis

- The following chart contains requirements related to appraisal form documentation and analysis:

Appraisal Forms – Comparable Rent Data		
Subject	Subject One-Unit Investment Properties	Subject Two-to-Four Unit Primary Residences Subject Two-to-Four Unit Investment Properties
Documentation	<i>Form 1000, Single Family Comparable Rent Schedule</i>	<i>Form 72, Small Residential Income Property Appraisal Report</i>
Analysis	<p>The analysis of the rental information must include, at a minimum, the following factors:</p> <ul style="list-style-type: none"> Rental market viability and income producing potential for the subject property. Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable <p>If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income:</p> <ul style="list-style-type: none"> Determine if additional documentation is necessary to support income stability; and Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue. 	

Asset Qualification Sources

Assets as a Basis for Repayment of Obligations

- Assets that will be used by the borrower for the repayment of their monthly obligations may be used to qualify the borrower provided that the requirements of this section are met.
- The loan application should include information pertaining to the borrower's employment and income even if the borrower qualifies for the loan solely based on assets.
- Assets may only be used to qualify the borrower if the loan meets all of the following requirements:**
 - The mortgage is secured by a one-unit or a two-unit primary residence or second home;**
 - The mortgage is either a purchase transaction, no cash-out refinance or an Open Access transaction; and**
 - The mortgage has a maximum LTV/TLTV/HTLTV ratio of 80%.**
- To determine the amount used to establish the debt-to-income ratio use the net eligible assets, as described below, divided by 360 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 such as 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.
- The assets described below may be used to qualify the borrower for the loan provided that the assets meet the following requirements:

- Continued -

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
<p>Retirement Assets</p>	<p>The retirement assets must be in a retirement account recognized by the IRS such as a 401(k) or IRA account.</p> <p>The borrower must be the sole owner of the account.</p> <p>The asset must not currently be used as a source of income by the borrower.</p> <p>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 or an additional early distribution tax.</p> <p>The borrower's rights to the funds in the account must be fully vested.</p>	<p>Most recent retirement asset account statement</p> <p>Documentation evidencing asset eligibility requirements are met</p>
<p>Lump Sum Distribution Funds not Deposited to an Eligible Retirement Asset</p>	<p>If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above.</p> <p>Lump-sum distribution funds must be derived from a retirement account recognized by the IRS such as a 401(k) or IRA account and must be deposited to a depositor or non-retirement securities account.</p> <p>A borrower must have been the recipient of the lump-sum distribution funds.</p> <p>Parties not obligated on the loan may not have an ownership interest in the account that holds the funds from the lump-sum distribution.</p> <p>The proceeds from the lump-sum distribution must be immediately accessible in their entirety.</p> <p>The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax.</p>	<p>Employer distribution letter(s) and/or check stubs(s) evidencing receipt and type of lump-sum distribution funds: <i>IRS 1099-R</i> if available</p> <p>Satisfactorily documented evidence of the following:</p> <ul style="list-style-type: none"> Funds verified in the non-retirement account and used for qualification must have been derived from eligible retirement assets. Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax.
<p>Depository Accounts and Securities</p>	<p>The borrower must solely own the assets or, if the asset is owned jointly, each asset owner must be a borrower on the loan and/or on the title to the subject property.</p>	<p>Streamlined Accept: Provide an account statement covering a one month period.</p> <p>Standard Documentation: Provide account statements covering a two</p>

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	<p>At least one borrower who is an account holder must be at least 62 years old.</p> <p>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.</p> <p>Account funds must be located in a United States or state-regulated financial institution and verified in U.S. dollars.</p>	<p>month period.</p> <p>OR, regardless of the documentation level: For securities only, if the borrower does not receive a stock/security account statement:</p> <ul style="list-style-type: none"> • Provide evidence the security is owned by the borrower; and • Verify the value using stock prices from a financial publication or web site. <p>Obtain documentation evidencing asset eligibility requirements are met.</p> <p>Sourcing deposits: 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 unsourced deposit.</p> <p>When the source of funds can be clearly identified from the deposit information on the account statement such as “direct payroll deposits” or other documented income or asset source in the loan file, there is no requirement to obtain additional documentation.</p>
<p>Assets from the Sale of the Borrower’s Business</p>	<p>The borrower must be the sole owner of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account.</p> <p>Parties not obligated on the loan may not have an ownership interest in the account that holds the proceeds from the sale of the borrower’s business.</p> <p>The proceeds from the sale of the business must be immediately accessible in their entirety.</p> <p>The sale of the business must not have resulted in the following:</p> <ul style="list-style-type: none"> • Retention of business assets; • Existing secured or unsecured debt; • Ownership interest; or • Seller-held notes to the buyer of the business. 	<p>Most recent three months’ depository or securities account statements.</p> <p>Fully executed closing documents evidencing final sale of the business to include the sales price and the net proceeds.</p> <p>Contract for sale of the business.</p> <p>Most recent business tax return prior to the sale of the business.</p> <p>Satisfactorily documented evidence of the following:</p> <ul style="list-style-type: none"> • Funds verified in the non-retirement account and used for qualification must have been derived from the sale of the borrower’s business.

Assets

Asset Eligibility and Documentation Requirements

Funds Required for the Mortgage Transaction

- Verify that the borrower has sufficient funds to qualify for the mortgage transaction, down payment, closing costs, and reserves.
- All funds used to qualify the borrower for the loan and for reserves must come from the eligible sources described below.

Reserves

- Reserves are the borrower’s assets remaining after loan closing.
- The source of funds used for reserves, when needed to qualify the borrower for the loan, must meet the eligibility and documentation requirements below.
- Reserves are measured by the number of months of the monthly payment amount for the property (PITIA).
- When calculating reserves for the subject property, the principal and interest payment of the monthly payment amount must be based, at a minimum, on the Note rate.
- When calculating reserves for other properties, the monthly payment amount for the property must be no less than the current monthly payment amount.
- For Loan Product Advisor mortgages verify all reserves required by LPA as stated on the Feedback Certificate.
- The table below describes the reserve requirements that must be met:

<i>Subject Property</i>	<i>Required Reserves</i>
Primary Residence – One Unit	None
Primary Residence – Two-to-Four Units	Six months for the subject property
Second Home	Two months for the subject property
Investment Property	Six months for the subject property

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

<i>Subject Property</i>	<i>Additional Required Reserves</i>
Second Home or Investment Property	Two months of the monthly payment amount (PITIA) on each additional second home and/or one-to-four unit investment property that is financed and on which the borrower is obligated.

- The additional required reserves stated in the chart above are included in the amount of reserves required to be verified listed on the LPA Feedback Certificate.

General Documentation Requirements

- Asset account statements used to verify the borrower’s accounts held in financial institutions must meet the following requirements:
 - Identify the financial institution;
 - Identify the account owner(s);
 - Identify the account number which at a minimum must include the last four digits;
 - Show all transactions;
 - Show the time period covered;
 - Show the ending balance; and
 - Show any outstanding loans secured by the asset, as applicable.
- A transaction history that is computer generated and downloaded by the borrower from the Internet or by a financial institution representative from the institution’s system is acceptable. The transaction history must identify the name of the institution and the source and include the information required for asset account statements unless:
 - It is used in combination with other asset verifications containing the missing information; or

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- It can be established that the transaction history pertains to the same account.

Third-Party Asset Verifications

- Asset verifications obtained through third-party verification service providers are acceptable. The verifications must be received by the originator directly from the third-party verification service provider and must contain the same information as required for asset account statements.
- When the verification is generated electronically and is not completed or provided by a representative of the employer or the depository institution, as applicable, the representative's information is not required.
- If any required information is missing, obtain additional documentation to supplement the third-party verification to ensure the accuracy and integrity of the information provided by the third-party verification service.

Evaluation of Deposits in the Borrower's Accounts

- Except as stated below it is not required to document the sources of unverified deposits for purchase or refinance transactions. When qualifying the borrower consider any liabilities resulting from all borrowed funds.
- For purchase transactions, when evaluating the deposits in the borrower's accounts, the following requirements apply:
 - Document the source of funds for any large deposits as described below if the deposit is needed to qualify the borrower for the loan.
 - A large deposit is any single deposit exceeding 50% of the sum of:
 - The total monthly qualifying income for the loan; and
 - The amount derived from the asset calculation for establishing the debt-to-income ratio.
 - When a single deposit consists of both verified and unverified portions, use just the unverified amount when determining whether the deposit is a large deposit.
 - When a large deposit is not verified and is not needed to qualify the borrower for the loan, reduce the funds used for qualification purposes by the amount of the unverified deposit. Enter the reduced amount into Loan Product Advisor.
 - When the source of funds can be clearly identified from the deposit information on the account statement such as direct payroll deposits, or a tax refund, there is no requirement to obtain additional documentation.

Acceptable Sources of Deposits

- When a deposit requires verification, determine:
 - Whether the source of the deposit is acceptable;
 - That the funds belong to the borrower; and
 - That the funds are eligible for the transaction.
- Acceptable sources of funds include:
 - The borrower's income;
 - Funds awarded to the borrower such as disaster relief funds, lottery winnings, and court-awarded settlements, provided the source is not an interested party to the real estate or mortgage transaction.

Minimum Borrower Contribution

- For a purchase transaction the borrower must make a minimum contribution from the borrower's personal funds when specifically required as summarized in the chart below:

<i>Minimum Contribution from Borrower's Personal Funds</i>		
<i>Mortgage Type</i>	<i>Mortgages with LTV/TLTV/HTLTV Ratios ≤ 80%</i>	<i>Mortgages with LTV/TLTV/HTLTV Ratios > 80%</i>
Mortgage Secured by a One-Unit Primary Residence	None	

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Mortgage Secured by a Two-to-Four Unit Primary Residence	None	N/A
Mortgage Secured by a Second Home	None	5% of value when gift funds or grants are used for the transaction.
Mortgage Secured by an Investment Property	All funds used for the transaction must be borrower personal funds.	
Mortgages with Shared Equity Plans	5% of the value (must be owner occupant's personal funds)	

Eligible Asset Types for Borrower Personal Funds

- The eligibility and documentation requirements apply to all funds used to qualify the borrower for the transaction including reserves.
- All accounts held in financial institutions must be owned by the borrower and the borrower must have access to the funds. Funds in accounts that are owned jointly by the borrower and a non-borrower are considered borrower personal funds.
- The Loan Product Advisor documentation level shown on the Feedback Certificate indicates the minimum level of documentation acceptable for an LPA loan. Provide the documentation required in this chapter for the documentation level returned by LPA.
- Asset types that are considered borrower personal funds and the application documentation requirements are described in the chart below. Any limitations on the use of an asset type are specified in the chart below.

Asset Type and Eligibility Requirements	Streamlined Accept Documentation Requirements	Standard Documentation Requirements
1. Depository Accounts: Depository accounts used to deposit and withdraw cash such as: <ul style="list-style-type: none"> • Checking • Savings • Money Market • Certificate of Deposit (CD) • Other Depository Accounts 	Provide an account statement covering a one month period . A Verification of Deposit (VOD) only is not allowed. A bank statement is required.	Provide account statements covering a two month period . A Verification of Deposit (VOD) only is not allowed. Bank Statements are required.
2. Securities Securities that are traded on an exchange or marketplace, generally available to the public such as: <ul style="list-style-type: none"> • Stocks • Vested Stock Options • Bonds • Mutual Funds • United States Government Securities 	Provide an account statement covering a one month period . A Verification of Deposit (VOD) only is not allowed. A bank statement is required.	Provide account statements covering a two month period . A Verification of Deposit (VOD) only is not allowed. Bank Statements are required.

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<p>Value must not include margin accounts. Stock with limitation on its accessibility such as restricted stock which has not vested and been distributed to the recipient is not eligible.</p>	<p>If the borrower does not receive a stock/security account statement:</p> <ul style="list-style-type: none"> • Provide evidence the security is owned by the borrower; and • Verify the value using current stock prices from a financial publication or web site. <p>See below for when evidence of liquidation is required.*</p>	
<p>3. Retirement Accounts Independent retirement accounts and IRS qualified employer retirement plan accounts such as:</p> <ul style="list-style-type: none"> • 401(k) • 403b • IRAs (traditional and Roth) • SEP-IRA • SIMPLE-IRA • KEOGH • MyRA • State retirement savings plans • Other independent and IRS qualified employer retirement accounts 	<p>Provide an account statement covering a one month period.</p> <p>A Verification of Deposit (VOD) only is not allowed. A bank statement is required.</p>	<p>Provide account statements covering a two month period.</p> <p>A Verification of Deposit (VOD) only is not allowed. Bank Statements are required.</p>
<p>4. Government Bonds The value used must be based on the lower of the purchase price or current redeemable value.</p>	<p>Provide documentation verifying the ownership and the value.*</p>	
<p>5. Proceeds from a Loan Secured by Assets other than Real Property The loan must not be provided by an interested party to the real estate or mortgage transaction. When the loan is secured by a financial asset used to qualify the borrower for the loan transaction, the value of the asset must be reduced by the amount of the loan proceeds and any associated fees.</p>	<p>Provide the following:</p> <ul style="list-style-type: none"> • Documentation verifying the value and ownership of the asset used to secure the loan as well as the amount and terms of the loan. • Evidence of receipt of the loan proceeds. 	
<p>6. Proceeds from the Sale or Refinance of the Borrower's Real Property For refinance loans, 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.</p>	<p>Provide the following:</p> <ul style="list-style-type: none"> • The Settlement/Closing Disclosure Statement verifying the proceeds from the sale or refinance of the borrower's real property. • An executed buyout agreement that is part of an employer relocation plan that takes responsibility for the outstanding mortgage(s). 	
<p>7. Proceeds from the Sale of Assets other than Real Property or Exchange Traded Securities The purchaser of the borrower's asset must not be an interested party to the real estate or mortgage transaction.</p>	<p>Provide the following:</p> <ul style="list-style-type: none"> • A signed bill of sale documenting the asset and transfer of ownership; and • Evidence of receipt of the proceeds. 	
<p>8. Borrower's Real Estate Commission The borrower's real estate commission is an</p>	<p>The Settlement/Closing Disclosure Statement must reflect the commission earned by the borrower and</p>	

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<p>eligible source of funds for down payment and/or closing costs when the borrower is a licensed real estate agent who is due to receive a sales commission from their purchase of the subject property.</p>	<p>credited toward the mortgage transaction.</p>
<p>9. Funds from a Trust The borrower must be the beneficiary and have access to the funds as of the date of loan closing. The borrower's portion of undistributed trust funds may be used as reserves only.</p>	<p>Provide a copy of the trust agreement or a signed statement from the Trustee or Trust Manager that documents the following information:</p> <ul style="list-style-type: none"> • Identifies the borrower as the beneficiary • Confirms that the borrower has access to all or a certain specific amount of the funds • Confirms that the trust has sufficient assets to disburse the funds needed by the borrower. <p>When trust funds are needed for closing, evidence of receipt of the disbursed funds from the trust is required.</p>
<p>10. Pooled Funds Pooled funds are funds on deposit provided by the borrower and other member(s) of a group of related persons who:</p> <ul style="list-style-type: none"> • Have resided together for at least one year; • Will continue residing together in the new residence; and • Are pooling their funds to buy a home. <p>Funds provided by related persons who do not reside with the borrower are subject to the requirements for gift funds.</p>	<p>Provide the following:</p> <ul style="list-style-type: none"> • Evidence that the borrower and the related person have resided together for at least one year; • Documentation verifying the pooled funds per the requirements for the applicable asset type; and • A written statement from the borrower executed at application attesting to all of the following: <ul style="list-style-type: none"> ▪ The source of the pooled funds; ▪ The fact that the pooled funds were not borrowed by the contributing related person; ▪ The relationship between the contributing related person and the borrower (For example, the statement might state that the related person is the borrower's uncle or that the related person is the cousin of the borrower's spouse); and ▪ That the related person has resided with the borrower for the past year and intends to continue residing with the borrower in the new residence for the foreseeable future. <p>The written statement need not be notarized or acknowledged but must be retained in the loan file.</p>
<p>11. Borrower's Revolving Credit Card (charges/cash advances or unsecured line of credit) The borrower's revolving credit card (charges/cash advances) or unsecured line of credit used to pay fees associated with the loan application process such as origination fees, commitment fees, lock-in fees, or appraisal, credit report and flood certifications, are subject to the following requirements:</p> <ul style="list-style-type: none"> • The maximum amount charged or advanced may not exceed the greater of 2% of the loan amount or \$1,500; and 	<p>Provide the following:</p> <ul style="list-style-type: none"> • A copy of the account statement or receipt showing the amount charged or advanced; and • Verification of sufficient funds to pay the amount charged or advanced if the amount charged or advanced is not included in the monthly debt-to-income ratio.

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<ul style="list-style-type: none"> The borrower must have sufficient verified funds to pay these fees, in addition to the funds needed to qualify for the loan transaction. The borrower is not required to pay off these charges at closing; or The amount charged or advanced must be included in the borrower's total outstanding debt and the repayment of such amount must be included when determining the borrower's debt-to-income ratio. 	
<p>12. Cash Value of a Life Insurance Policy The borrower must be the owner of the policy and not the beneficiary.</p>	<p>Provide documentation from the life insurance company verifying the following information:</p> <ul style="list-style-type: none"> Policy owner(s) Period covered and current cash value; and Any outstanding loans. <p>When the cash value of a life insurance policy is needed for closing, evidence of liquidation is required.</p>
<p>13. Rent Credits The portion of rental payments paid by the borrower credited towards the down payment and/or closing costs under a documented rental/purchase agreement. The credit must not exceed the difference between the market rent and the actual rent paid. The rental/purchase agreement must have an original term of at least 12 months and the rent must be based on a minimum of 12 months' rental payments.</p>	<p>Provide the following:</p> <ul style="list-style-type: none"> A copy of the rental/purchase agreement Evidence of rental payments The appraiser's determination of the market rent for the subject property

*When assets that are invested in stocks, bonds, mutual funds, U.S. government securities, retirement accounts or other securities are needed for closing, evidence of liquidation is required.

Earnest Money Deposit

- When an earnest money deposit for a purchase transaction is used to qualify the borrower for the loan, obtain evidence that the earnest money deposit check cleared the borrower's account with a copy of the cancelled check or bank statement.
- When the earnest money deposit is needed to meet the minimum contribution from the borrower's personal funds:
 - Verify that the source of the earnest money deposit is an eligible asset type and document it in accordance with the applicable requirements listed above for the account type.
 - Provide account statement(s) based on Streamlined Accept or Standard documentation as applicable, that covers the period up to and including the date the earnest money deposit funds cleared the account.
- The earnest money deposit must not be counted twice in the evaluation of the loan.

Business Assets

- Funds from a borrower's business account may be used to qualify the borrower except as noted below.
- Documentation of large deposits is not required provided that the underwriter:
 - Reviews a minimum of the most recent two months of the business account statements; and
 - Determines the deposits are typical for the borrower's business.

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Funds from Outside of the United States

- When the source of funds needed for closing is, or otherwise originates from, assets located outside the United States and its territories, the **funds must be transferred into a United States or state regulated financial institution and verified in U.S. dollars prior to loan closing.**

Special Requirements for Other Eligible Sources of Funds

- Other sources of funds eligible to be used to qualify the borrower and the applicable documentation requirements are described in the chart below.
- The eligibility and documentation requirements apply to all funds used to qualify the borrower including reserves. Any limitations on the use of an asset type are specified in the chart.
- For Loan Product Advisor loans, the documentation level shown on the Feedback Certificate indicates the minimum level of documentation acceptable for a Loan Product Advisor mortgage.
- Obtain the documentation required in this chapter for the documentation level returned.

<i>Asset Type and Eligibility Requirements</i>	<i>Streamlined Accept and Standard Documentation Requirements</i>
<p>1. Gift Funds or Gifts of Equity Gift funds or a gift of equity is an eligible source of funds for a mortgage secured by a primary residence or second home provided that:</p> <ul style="list-style-type: none"> The funds are from a related person; and The funds do not have to be repaid. <p>When a mortgage is secured by a second home and the LTV/TLTV/HTLTV ratio is greater than 80%, the gift is permitted only if the borrower has made a down payment of at least 5% from the borrower's personal funds.</p> <p>Gift funds or gifts of equity are not an eligible source of funds for investment property transactions.</p>	<p>Obtain a gift letter signed by the donor. Information provided in the gift letter must:</p> <ul style="list-style-type: none"> State the donor's name and that the funds are given by a related person; Include the donor's mailing address and telephone number; State the amount of the gift funds or gift of equity; and Establish that the gift funds or gift of equity are a gift that does not have to be repaid <p>Gift Funds: If the documentation in the loan file does not show evidence that the gift funds have been deposited in the borrower's account the borrower must provide evidence of the transfer of funds from the donor to the borrower. Gift of Equity: A gift of equity must be reflected on the Settlement/Closing Disclosure Statement.</p>
<p>2. Gift Funds Received as a Wedding Gift Gift funds received as a wedding gift from unrelated persons and/or related persons is an eligible source of funds for a mortgage secured by a primary residence.</p> <p>The gift funds must be on deposit in the borrower's bank account within 60 days of the date of the marriage license or certificate.</p>	<p>Obtain the following:</p> <ul style="list-style-type: none"> A copy of the marriage license or certificate; and A verification of the gift funds in the borrower's depository account.

Interested Party Contributions

Types of Interested Party Contributions and Eligibility Requirements

- Interested parties include, but are not limited to:
 - The builder;
 - The developer;
 - The seller of the property; and/or
 - The real estate agent.
- Interested party contributions may include either financing and/or sales concessions. The following are considered to be interested party contributions:
 - Funds from the lender, an employer, a municipality, a non-profit organization and a related person are subject to the interested party contribution requirements if the contributing party is

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- affiliated with any of the interested parties as shown above except as stated below for gifts from a related person and from lender credit.
- Funds from an interested party, including a third-party organization or a non-profit agency used to pay costs associated with the loan transaction on the borrower's behalf.
 - Funds donated to a third party who in turn provides the funds to pay some, or all, of the borrower's closing costs.
 - Gift funds or gifts of equity from a related person who is also the seller of the subject property are not subject to the requirements of this section provided that:
 - The donor has no affiliation with the builder, real estate agent or any other interested party to the transaction; and
 - All of the requirements pertaining to gift funds or gifts of equity are met.
 - When a lender is affiliated with an interested party to the transaction, a lender credit is not considered an interested party contribution when it is derived from an increase in the interest rate.
 - Mortgages with abatements are not eligible.
 - The payment of no more than 12 months of homeowners' association dues by an interested party are not considered to be abatements. It is considered an interested party contribution subject to the requirements of this section. The funds for the payment of the homeowners' association dues must be collected at closing and transferred directly to the homeowners' association as documented on the Settlement/Closing Disclosure Statement.

Financing Concessions

- Financing concessions are funds that originate from an interested party to the transaction that are used to:
 - Permanently reduce the interest rate on the loan;
 - Fund a buy down plan to temporarily subsidize the borrower's monthly payment; and
 - Make contributions in any way related to the borrower's closing costs, including up to 12 months of homeowners' association dues.
- The maximum permitted financing concessions are as follows:

Occupancy	LTV/TLTV Ratios > 90%	LTV/TLTV Ratios >75% and ≤90%	LTV/TLTV Ratios < 75%
Primary Residence and Second Home	3%	6%	9%
Investment Properties	2%	2%	2%

- The amount of any financing concessions in excess of the limitations set forth above will be considered a sales concession.
- Funds paid by the property seller that are fees or costs customarily paid by the property seller according to local convention are not subject to the maximum financing concession limitations above.

Sales Concessions

- Sales concessions include:
 - Financing concessions in excess of the maximum financing concession limitations listed above.
 - Any contributions such as vacations, furniture, automobiles, securities, or other giveaways granted by any interested party to the transaction.
 - Interested party contributions used to reimburse the borrower for payment of fees charged to process or negotiate a short sale.
- For purposes of determining the value of the subject property the dollar amount of any excess financing concessions, the value of any contributions and/or the dollar amount of any short sale fee reimbursements granted from an interested party to the transaction must be deducted from the purchase price. The LTV ratio is then calculated using the lower of the reduced purchase price, after the reduction for all sales concessions have been made, or the appraised value of the subject property.

Unplanned Buy Downs

- In calculating the total value of financing concessions, do not include amounts paid as “unplanned buy downs”.
- An unplanned buy down is comprised of any funds paid at closing by an interested party to reduce the effective interest rate on the borrower’s loan to a rate closer to or equal to the rate specified in the sales contract.
- Unplanned buy downs arise from an increase in mortgage market interest rates between the date of the sales contract and the Note date.
- Typically unplanned buy downs arise in transactions involving properties that are newly constructed.
 - For example, if prevailing interest rates in the mortgage market rise during construction, the builder may increase the amount of his/her financing concessions using funds from his/her profit margin to maintain the sales contract financing terms.
- In order for a financing concession to be considered an unplanned buy down, the following conditions must be met:
 - The sales price of the property must be fixed in the sales contract and the transaction must be closed at that price.
 - The terms of the financing must be specified in the sales contract. The interest rate must be either specified in the contract or sufficiently identified so as to be fixed in the contract.
 - The amount paid as an unplanned buy down must have been caused by an increase in mortgage market interest rates between the date of the sales contract and the Note date.
- The following items are not unplanned buy downs and must not exceed the allowable financing concession percentages listed above:
 - Costs and charges listed in the sales contract which the seller agreed to pay.
 - Costs and charges resulting from financing terms contained in the sales contract that were more favorable to the borrower than market conditions that existed as of the date of the sales contract.

Special Documentation Requirements

- The amount and the source of all interested party contributions must be documented in the loan file and be clearly shown on the Settlement/Closing Disclosure Statement.
- Mortgages with interested party contributions paid outside of closing and not disclosed on the Settlement/Closing Disclosure Statement are not eligible.
- When the Settlement/Closing Disclosure Statement discloses financing concessions that exceed the limits above and an unplanned buy down was involved, the loan file must contain a written analysis and documentation evidencing that the unplanned buy down met all of the above requirements.
- Ensure that the data submitted to Loan Product Advisor accurately reflects the presence of any financing and sales concessions.

Lender Credit

- Lender credit may be used for the loan transaction provided it meets all of the following requirements:
 - Lender credit may only be used as a credit towards the borrower’s closing costs and must not exceed the amount of the borrower’s closing costs.
 - Lender credit derived from an increase in the interest rate must not be used as a credit towards funding a temporary subsidy buy down plan on a no cash-out refinance mortgage.

Appraisal Requirements

- Obtain an appraisal with an interior and exterior inspection that meets Freddie Mac requirements unless the Feedback Certificate includes an Automated Collateral Evaluation offer stating that the mortgage is eligible for collateral representation and warranty relief with an appraisal waiver.

Property Eligibility and Appraisal Requirements

Acceptable Collateral

Residential Requirements

- The subject property must be acceptable collateral for a mortgage to be eligible.
- Underwriters are expected to place as much emphasis on the adequacy of the property as collateral as they do on underwriting the borrower's creditworthiness.
- The conclusion that a loan is acceptable must be based on the determination that the borrower is creditworthy and that the subject property is adequate collateral for the loan transaction.

Eligible Properties

- The subject property must:
 - Be primarily residential in nature based on the characteristics of the property and the neighboring market area;
 - Be an attached or detached dwelling located on an individual lot, in a Planned Unit Development (PUD) or in a condominium project;
 - Be safe, sound and structurally secure;
 - Be complete;
 - Represent the Highest and Best use of the property as improved or proposed per plans and specifications;
 - Have an eligible zoning compliance;
 - Have legal access (ingress and egress);
 - Be suitable for year round occupancy regardless of the location;
 - Have utilities that meet community standards;
 - Have property insurance coverage that meets all requirements and hazards specific to the location of the property; and
 - Not be subject to a pending legal proceeding for condemnation in whole or in part.

Ineligible Properties

- The following properties are ineligible:
 - Vacant land, undeveloped land or land development properties;
 - Properties used primarily for agriculture or farming; and
 - Properties used primarily for commercial enterprises such as bed and breakfasts, condo hotels, boarding houses, etc. and properties or units located in a Planned Unit Development (PUD) operating as a hotel or other type of transient housing.

Properties with Solar Panels

- If the borrower owns the solar panels on the property, ensure that the appraiser has recognized the existence of the solar panels and considered the solar panels in the appraiser's opinion of the market value of the property. Additionally the property must maintain access to electrical utilities consistent with community standards.
- If the property has solar panels subject to a lease agreement, PPA or similar type of agreement:
 - The solar panels must not be included in the appraised value of the property;
 - The property must maintain access to electrical utilities consistent with community standards; and
 - The lease agreement, PPA or other similar agreement must provide that:
 - The owner of the solar panels agrees to not be a loss payee, or named insured, on the homeowners insurance policy covering the property; and
 - In the event of foreclosure the mortgagee may:
 - ✓ Terminate the lease agreement or PPA and require the owner of the equipment to remove the panels and supporting equipment;
 - ✓ Become the beneficiary of the borrower's lease agreement or PPA without incurring a transfer fee; or

- ✓ Enter into a new lease agreement or PPA with the owner of the equipment under terms no less favorable than the existing lease agreement or PPA.

General Appraisal Requirements

- Obtain an appraisal report that accurately reflects the market value, condition and marketability of the property.
- Individuals ordering and underwriting appraisal reports and performing collateral reviews must be independent of loan production staff. The appraiser must:
 - Be state licensed or state certified in the state where the subject property is located;
 - Have knowledge and experience in appraising the property type in the market area; and
 - Have access to applicable data sources.
- Ensure that:
 - All information known that may affect the estimate of market value or marketability has been provided to the appraiser in conjunction with the appraisal request;
 - The underwriter has reviewed the report and has concluded that the subject property is adequate collateral for the loan transaction;
 - The appraisal report is of professional quality and supports all of the appraiser's assumptions, data, analyses, rationale and conclusions that were relied upon in the appraiser's opinion of the market value of the property and in addressing the marketability of the subject property; and
 - The information in the appraisal report is accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented.

Loan Product Advisor

- The Minimum Assessment Feedback (MAF) will advise of the type of appraisal report required.
- The MAF is valid for 120 days.
- If the effective date of the Feedback Certificate is more than 120 days before the Note date, the transaction must be resubmitted to Loan Product Advisor.

Owner of Record

- When an appraisal is required verify:
 - For purchase transactions, the property seller listed on the sales contract is the Owner of Record of the subject property; or
 - For refinance transactions the borrower is an Owner of Record of the subject property.
 - For transactions that involve the payoff of a land contract, the property seller is the vendor on the recorded land contract and the Owner of Record of the subject property; and the borrower is a vendee on the recorded land contract.
- If the property seller for purchase transactions or the borrower for refinance transactions is not the Owner of Record, investigate the circumstances of the transaction to ensure that the transaction is legitimate. Retain documentation evidencing the verification of legitimacy of the transaction in the loan file. Such documentation may include the appraiser's analysis and conclusions in the appraisal, a property sales history report, a copy of the recorded deed, a copy of a property tax bill, or the title commitment or binder indicating the legal ownership of the subject property.

Information Supplied to the Appraiser

- Provide the following information on the subject property, as applicable, to the appraiser in conjunction with all appraisal requests:
 - The complete legal description;
 - The complete sales contract for purchase transactions including:
 - All non-realty items;
 - Financing terms;
 - Financing and sales concessions granted by anyone associated with the transaction; and
 - Any gifts, buy downs, or down payment assistance provided by anyone on behalf of the borrowers.

- **Note**, a sales contract on a new home should state the base price of the house and itemize each option.
- There is no requirement to provide the appraiser with an updated sales contract unless the updated terms impact the physical description or condition of the subject property. In such cases, obtain an updated appraisal for the property. Changes to the sales contract that are not required to be provided to the appraiser include:
 - Changes to the transaction terms such as sales price, financing or sales concessions; and
 - Date revisions, corrections to typographical errors, etc.
- Any known affiliation between the property seller and the purchaser;
- Income and expense statements; and
- Any other information that may affect the market value, condition or marketability of the property. This information includes:
 - Proposed changes to the use of the property; and
 - The presence of any contaminated site, hazardous substance or other adverse conditions affecting the property or the neighborhood where the property is located.

Unacceptable Appraisal Practices

- The following are examples of unacceptable appraisal practices.
 - Inclusion of inaccurate or incomplete data about the subject property, the neighborhood or any comparable sale used in the appraisal analysis;
 - Failure to report and/or consider any apparent factor that has an adverse effect on the value and/or marketability of the subject property;
 - Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect;
 - Reliance in the appraisal analysis on comparable sales that were not personally inspected by the appraiser. A personal inspection requires at least a visual inspection of the exterior of the comparable property;
 - Reliance in any appraisal analysis on inappropriate comparable sales, or the failure to use comparable sales that are more similar to or nearer to the subject property without adequate explanation;
 - Use of comparable sales data provided by interested parties to the transaction without verification by a disinterested party;
 - The use of inordinate adjustments for differences between the subject property and the comparable sales that do not reflect the market's reaction to such differences, or the failure to make proper adjustments when they are clearly necessary;
 - Consideration of the race, color, religion, sex, age, marital status, handicap, familial status or national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property;
 - Development of value and/or marketability conclusions that are not supported by available market data; and
 - The appraiser's or supervisory appraiser's breach of a certificate or Statement of Assumptions and Limiting Conditions or comparable statements.

Appraisal Reports and Inspection Types

- An appraisal report based on an interior and exterior property inspection is required for each loan transaction.
- An appraisal report based on an exterior-only property inspection is acceptable for an appraisal update and a subsequent opinion of market value.
- The following table lists the required appraisal report forms and the applicable inspection types:

<i>Appraisal Report Forms by Property Type and Inspection Type</i>		
<i>Property Type</i>	<i>Form Number</i>	<i>Type of Inspection</i>
One-unit Property, A unit in a Planned Unit Development (PUD), or in a Detached Condominium Project	Form 70	Interior and Exterior Inspection
	Form 2055	Exterior Only Inspections
Condominium Unit	Form 465	Interior and Exterior Inspection
	Form 466	Exterior Only Inspection
Two-to-Four Unit Property	Form 72	Interior and Exterior Inspection
Any, as Required by the Original Appraisal Report	Form 442	Interior and exterior Inspection or Exterior Only Inspection

- The following table lists the required review report forms and the applicable inspection types:

<i>Appraisal Report Review Forms by Property Type and Inspection Type</i>		
<i>Property Type</i>	<i>Form Number</i>	<i>Type of Inspection</i>
One Unit property, a Unit in a PUD, or a Unit in a Condominium Project	Form 1032	Exterior Only Inspection
One Unit Property, a Unit in a PUD, or a Unit in a Condominium Project	Form 1033	No Inspection
Two-to-Four Unit Property	Form 1072	Exterior Only Inspection

- If an appraiser observes conditions that require further investigation, the appraiser must make the appraisal subject to an inspection by the appropriate licensed professional or another person trained in the particular field of concern. Examples of conditions that may require an inspection include:
 - Observations of severe cracks in foundations or walls;
 - Active infestation;
 - Significant water damage and/or wet basements or crawl spaces; or
 - Unusual odors from a water source.
- Any conditions affecting safety, soundness or structural integrity must be repaired before closing. If repairs are necessary a completion report is required.
- If the appraisal is made subject to an inspection, consult the services of an expert, a licensed or certified professional or another person trained in the particular field of concern.

Detrimental Conditions

- The appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area of the subject property. In addition, the appraiser must note any evidence of dampness, infestation or abnormal settlement observed in the subject property and call for correction of the observed condition or professional inspections to determine the seriousness of the condition. The appraiser must also consider the effect of such conditions in estimating the subject property's market value and/or any effect on marketability.
- For any appraisal that is made subject to inspections or conditions due to detrimental conditions, include in the loan file evidence of corrective action as called for by the inspector or appraiser.
- The Statement of Assumptions and Limiting Conditions, Appraiser's Certification and Supervisory Appraiser's Certification are incorporated into each appraisal report form. Modifications or deletions to these are not permitted. However, additional certifications that do not constitute material alterations to

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the report such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization are permitted.

Overview of Appraisal Report Forms

Form 70, Uniform Residential Appraisal Report

- Form 70 is designed to report the results of an appraisal of a one unit property including a unit in a PUD or a one unit property with an accessory unit.
- An interior and exterior inspection of the subject property is required.

Form 2055, Exterior-Only Inspection Residential Appraisal Report

- Form 2055 is designed to report the results of an appraisal of a one unit property, including a unit in a PUD or a one unit property with an accessory unit.
- An exterior only inspection of the subject property is required.

Form 2055 Upgrade Requirement

- The appraisal must be upgraded to a Form 70 when one or more of the following conditions exist:
 - The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the subject property from third-party data sources in order to develop an accurate and adequately supported appraisal;
 - The appraiser cannot reconcile all significant discrepancies such as size or condition among available data sources;
 - The appraiser's exterior only inspection does not provide sufficient information to develop an accurate and adequately supported appraisal, including the inability to view the property improvements from the street;
 - The subject property is new construction and has not yet been occupied;
 - The subject property is undergoing renovation or rehabilitation;
 - The data sources used to develop the appraisal such as the sales contract, indicate the presence of physical deficiencies or an adverse condition, or the appraiser observes apparent physical deficiencies or adverse property conditions during the exterior property inspection;
 - The condition rating is C5 or C6; or
 - The qualify rating is Q6.

Form 72, Small Residential Income Property Appraisal Report

- Form 72 is designed to report the appraisal results for a two-to-four unit property.
- An interior and exterior inspection of the subject property is required.

Form 465, Individual Condominium Unit Appraisal Report

- Form 465 is designed to report the results of an appraisal of a one unit property in a condominium project whether attached or detached.
- An interior and exterior inspection of the subject property is required.

Form 466, Exterior Only Inspection Individual Condominium Unit Appraisal Report

- Form 466 is designed to report the results of an appraisal of a unit in a condominium project whether attached or detached.
- An exterior only inspection of the subject property is required.

Form 466 Upgrade Requirements

- The appraisal must be upgraded to a Form 465 when one or more of the following conditions exist:
 - The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the subject property from third-party sources in order to develop an accurate and adequately supported appraisal;
 - The appraiser cannot reconcile all significant discrepancies such as size or condition among available data sources;

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- The appraiser' exterior only inspection does not provide sufficient information to develop an accurate and adequately supported appraisal including the inability to view the property improvements from the street;
- The subject property is new construction and has not yet been occupied;
- The subject property is undergoing renovation or rehabilitation;
- The data sources used to develop the appraisal including the purchase contract indicate the presence of physical deficiencies or an adverse condition or the appraiser observes apparent physical deficiencies or adverse property conditions during the exterior property inspection;
- The condition rating is C5 or C6; or
- The quality rating is Q6.

Appraisal Field Review Reports

- One of the following report forms must be used when obtaining an appraisal field review report:
 - Form 1032, One-Unit Residential Appraisal Field Review Report, for one unit properties; or
 - Form 1072, Two-to-Four Unit Residential Appraisal Field Review Report, for two-to-four unit properties.

Appraisal Desk Review Report

- Form 1033, One-Unit Residential Appraisal Desk Review Report, when obtaining an appraisal desk review for one-unit properties.

Age of Appraisal Reports

- If the effective date of the appraisal report is more than 120 days before the Note date, and not more than 12 months before the Note date, an appraisal update with at least an exterior only inspection is required.
- If the effective date of the appraisal report is more than 12 months before the Note date, a new appraisal with an interior and exterior inspection is required.
- If the Settlement date is more than 120 days after the Note date, obtain a new appraisal.
- Obtain a new appraisal and determine whether the mortgage is eligible if:
 - Any changes are made to the subject property that may have an adverse impact to its value, condition or marketability; and
 - The adverse changes occurred after the effective date of the appraisal report but prior to the Settlement date.
- A Loan Product Advisor Feedback Certificate message that offers an appraisal waiver is valid for 120 days. If the offer is more than 120 days old on the Note date, a resubmission to Loan Product Advisor is required to determine ongoing waiver eligibility.
- Note: If key loan data is changed such as the address of the property, loan amount, purchase price, estimate of value, loan type, property type, occupancy of the property, Loan Product Advisor may provide a different appraisal waiver eligibility determination.

Appraisal Update Requirements

- An appraisal update must be performed and reported as follows:
 - An appraisal update reported on Form 442, Appraisal Update and/or Completion Report;
 - A new appraisal based on an exterior only inspection and reported on the appropriate appraisal form based on the property type; or
 - A new appraisal based on an interior and exterior inspection and reported on the appropriate appraisal form based on the property type.
- The appraiser who provided the opinion of market value, whether from the initial appraisal report or a subsequent appraisal report or an appraisal field review report should perform the review to update the appraisal.
- If existing photographs accurately represent the subject property and comparable sales, new photographs of the subject property and comparable sales, as applicable, are not required. Additional photographs of any factors that affect the marketability or value of the subject property should be provided if not already part of the report being updated.
- Photographs are required for any new comparable sales.

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Collateral Representation and Warranty Relief – Automated Collateral Evaluation

- For certain Loan Product Advisor loans, the automated collateral evaluation provides the option to accept an appraisal waiver and originate the loan without an appraisal.
- When the appraisal waiver option is accepted, Freddie Mac will accept the estimated value submitted by the lender for the purposes of underwriting the loan, and will not exercise its remedies, including the issuance of repurchase requests in connection with a breach of the lender's selling representations and warranties related to value, condition, and marketability of the subject property.
- For a loan to qualify for an appraisal waiver:
 - The loan must be submitted to Loan Product Advisor;
 - Upon evaluation by Loan Product Advisor, the Last Feedback Certificate must indicate that the loan is eligible for collateral representation and warranty relieve with an appraisal waiver; and
 - The final submission of the loan to the Selling System or to Loan Selling Advisor must indicate the collateral representation and warranty relief status is "Y" or "Yes".
- The following requirements must be met for loans to be eligible to receive an appraisal waiver offer:
 - The mortgage must be secured by a one-unit primary residence or second home;
 - The mortgage must have a loan-to-value LTV/TLTV ratio less than or equal to 80%; and
 - The mortgage must be a purchase transaction or a no cash-out refinance.
- **The following loans are not eligible for an appraisal waiver:**
 - Mortgages for which an appraisal has already been obtained;
 - Texas Equity Section 50(a)(6) Mortgages;
 - Mortgages secured by one of the following by a condominium unit;
 - Mortgages secured by subject properties subject to resale restrictions;
 - Open Access transactions;
 - Mortgages with Settlement dates more than 120 days from the Note date;
 - Non-arm's length transactions;
 - Purchase of REO properties as identified in the sales contract; and
 - Mortgages with an estimate of value or sales price greater than \$1,000,000.
- The appraisal waiver is not eligible if any of the following apply:
 - It is required by law or regulation to obtain an appraisal;
 - Any conditions exist that warrant an appraisal being obtained. Examples include:
 - The property is located in an area recently impacted by a disaster;
 - A contaminated site or hazardous substance exists affecting the property or the neighborhood where the property is located; and
 - Adverse physical property conditions that are apparent discovered upon the review of the sales contract, property inspection, disclosure from the borrower, etc.
- The appraisal waiver offer is valid for 120 days. If the offer is more than 120 days old on the Note date, a resubmission to Loan Product Advisor is required to determine ongoing appraisal waiver eligibility.
 - Note: If there are any changes to the loan data such as address of the property, loan amount, sales price, estimate of value, loan type, property type, or occupancy of the property, in a subsequent submission the original offer will be invalidated and Loan Product Adviser may provide a different appraisal waiver eligibility determination.

Required Exhibits and Addenda for Appraisal Report Forms

Photographs

- Photographs of the subject property must be original electronic images that are in color and illustrative of the property.
- The photographs must be clear, appropriately identified and must clearly show the improvements, including any physical deterioration of the property, amenities, conditions and external influences that have a material effect on the market value or marketability of the subject property.
- Photographs of the comparable sales must be clear electronic images. Copies of multiple listing service (MLS) photographs are acceptable.

Building sketch

- **Detached Properties and End-Unit Properties:** For detached one-unit properties, end units in planned unit developments and units in detached condominium projects, the exterior sketch of the improvements must include the dimensions and calculations the appraiser used to determine the size of the subject property.
- **Attached Properties:** For interior units in planned unit developments and attached condominium units, an interior perimeter sketch is acceptable. Appraisers may have relied on the dimensions and estimates for gross living area as shown on the plat or exhibits to the project documents of a condominium project or planned unit development, or provided legible photocopies of floor plans or individual unit plats that include the dimensions and calculations.
- **Two-to-Four Unit Properties:** For two-to-four unit properties, the sketch must also include each unit's layout and entries, and indicate the square feet of living area per unit and the gross building area (GBA).

Location Map

- The location map must identify the location of the subject property and any comparable sales including sale, rental and listing comparable sales as applicable.
- The map may be a photocopy of a printed street map showing the location of the subject property and comparable properties in relation to major streets and influences such as parks and schools.

Exhibits Required for Appraisal with Interior and Exterior Inspections

- The following exhibits are required for appraisals with interior and exterior inspections:
 - An appraisal report with an interior and exterior inspection must include at least the following:
 - A front view of the subject property;
 - A rear view of the subject property;
 - A street scene identifying the location of the subject property and showing neighboring improvements;
 - The kitchen of the subject property;
 - All bathrooms of the subject property;
 - The main living area of the subject property;
 - The appraiser must include additional photographs, as needed, to show any physical deterioration, improvements, amenities, conditions and external influences that materially impact market value or marketability; and
 - At least one clear photograph that shows the front of each comparable sale.

Exhibits Required for Appraisals with Exterior Only Inspections

- An appraisal report based on an exterior only inspection must include all of the following:
 - At least one photograph that shows the front view of the subject property; and
 - A location map indicating the location of the subject property and any comparable sales whether comparable sales, listings or rentals.

Exhibits Required for Appraisal Updates

- If the photographs in the original appraisal report represent the subject property accurately, new photographs of the subject property are not required.
- Photographs of any factors that affect the value, condition or marketability of the subject property should be provided if not already part of the original appraisal report.
- Photographs are required for any new comparable sales.

Market Condition Addendum

- The Market Condition Addendum is required for all appraisal report forms regardless of the property type and inspection type.

Other Exhibits and Addenda

- The appraiser must provide any additional information or data that is needed to provide the underwriter with an accurate and adequately supported appraisal.
- Underwriters may request that the appraiser provide additional exhibits or addenda as part of the appraisal scope of work.
- Any exhibit or addenda must be incorporated into the appraisal report.

Appraisals Completed Subject to Completion, Repairs, Alterations or an Inspection

- For appraisals that are made subject to completion per plans and specifications or are subject to repairs or alterations:
 - An appraiser must perform the final inspection of the property and provide a completion report documenting that the property has been completed.
 - The completion report must:
 - Include photographs of the completed items;
 - Be dated before the Settlement date; and
 - Be retained in the loan file.
- For appraisals that are made subject to an inspection of the property, a licensed professional or another person trained in the particular field of concern such as a structural engineer, plumber, pest inspector, etc., must perform the inspection of the property.
- The inspector must provide either:
 - A report stating that a repair(s) is not required; or
 - A signed report or invoice stating that the repair has been completed and the issue corrected. The report or invoice must provide the professional's license number when available.
- The report or invoice must be:
 - Dated before the Settlement date; and
 - Retained in the loan file.

Property Description and Analysis Requirements

- The appraiser's description of the subject property must be complete and accurate, and the opinion of the market value of the subject property must be accurate and adequately supported.
- The appraiser must have knowledge and experience appraising in the market area where the property is located. This is particularly important when the property is located in a rural area because there are often a variety of different property types and land uses, which may result in a more challenging appraisal assignment.
- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, their analysis and/or opinion of market value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

Subject Section

- The "Subject" section of the appraisal report must identify the subject property by providing a complete property address and legal description, and by identifying the owner of public record for the property.
- For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the format of the property address must conform to the United States Postal Services (USPS) Address Standards.
- If a legal description is lengthy the appraiser may attach it as an addendum to the report.
- The occupancy status of the property must be identified as either "owner", "tenant" or "vacant" as of the effective date of the appraisal.
- The report must indicate whether the property is currently offered for sale or was offered for sale within the 12 months prior to the effective date of the appraisal.
- The appraisal report must also state the data sources used, offering prices, dates and days on the market for the subject property.

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- The appraisal report must include the name of the lender on the lender/client line. Any applicable appraisal management company should be reported in the appraiser's certification section of the appraisal report form.

Contract Section

- The contract for sale must include the sale or contract price, date of contract and loan charges to be paid by the property seller and the financing and sales concessions to be paid by the property seller or any other interested party to the transaction.
- The appraiser must be provided with the complete contract for sale for the subject property at the time the appraisal is requested. The appraiser must have the necessary and appropriate data sources for the area where the subject property is located.
- The "Contract" section of the appraisal report must include the results of the appraiser's analysis of the contract for sale, the contract price, the date of the contract, acknowledge if the property seller is the owner of public record, and the data sources used.
- The appraisal report must also include the total dollar amount and description of any financial assistance such as loan charges, sales concessions, gift or down payment assistance, etc. to be paid by any party of behalf of the borrower.
- For appraisal reports that are required to be completed using the UAD, the "Contract" section of the appraisal report must also indicate the type of sale for the transaction. Valid UAD sale types include REO sales, short sales, court ordered sales, estate sales, relocation sales, non-arms-length sales, and arms-length sales.

Neighborhood Section

- The "Neighborhood" section of the appraisal report requires the appraiser to:
 - Identify the neighborhood boundaries;
 - Describe the neighborhood characteristics as either "urban", "suburban" or "rural";
 - Describe the percent built-up as either "over 75%", "25-75%" or "under 25%";
 - Describe the growth rate as either "rapid", "stable", or "slow"; and
 - To report the market conditions, housing trends, price and age ranges and present land uses for the properties in the neighborhood.
- Mortgages secured by residential properties in urban, suburban, and rural market areas are eligible as long as the subject property is adequate collateral for the transaction based on the value, condition and marketability of the property.
- Neighborhood or market area characteristics and market conditions vary based on property location. Characteristics that are typical in certain locations may not exist in other locations so they must be viewed in the context of the location of the property.
 - For example: Urban locations often consist of a variety of different property types that have different uses. It is not unusual to find properties with mixed uses such as residential properties with a secondary business or commercial use in urban neighborhoods. Additionally rural locations may have agricultural zoning and/or consist of a variety of different property types and land uses such as large sites with outbuildings, farms, ranches and undeveloped land.
- The existence of non-residential property types or land uses such as agricultural properties, undeveloped land and land development properties within the neighborhood or market area is a characteristic that the appraiser considers when performing the neighborhood or market area analysis. These non-residential properties or land uses in the neighborhood or market area do not necessarily make the residential properties in these locations ineligible.
 - For example: A property located in a rural area where agricultural activities are prevalent may be eligible if it is determined the subject property is residential based on the subject property's characteristics and land use.
- Outbuildings on a property such as barns or stables must be considered in the underwriting process to determine whether the property is primarily residential or non-residential. A property with a small barn or stable may be acceptable if the contributory value of the outbuilding is minimal in relation to the total appraised value of the subject property. The appraiser must demonstrate in the appraisal, through the use of comparable sales, pending sales or listings, that these characteristics are typical for residential properties in the market area.

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- When a property has a large outbuilding such as a large barn, silo, multiple outbuildings, or facilities for farm type animals, it may indicate that the property is agricultural or non-residential regardless of whether the appraiser assigns value to these improvements and is ineligible as collateral for the transaction.
- Properties in rural locations often have relatively large sites as compared to other locations. In addition there may be a lack of comparable sales due to the relatively low number of recent sales transactions in the market area. In such cases appraisers may have to use comparable sales that are not very similar to the subject property. This is acceptable as long as the appraiser can justify and support the use of the comparable sales and analysis in the appraisal report.
 - For example: If the subject property is a ranch style home on a large parcel of land with 44 acres, the most relevant comparable sales may be two story homes located on smaller parcels of 6-12 acres that are located some distance from the subject property such as 8-18 miles away. If an appraiser uses comparable sales such as the ones in this example, he/she must provide a reasonable justification for the use and make appropriate adjustments to account for the differences between the properties and/or location.

Site Section

- The “Site” section of the appraisal report must accurately describe the physical characteristics of the site, site improvements, site view and available utilities and must fully analyze any locational factors affecting the site.

Zoning

- The appraisal report must accurately state:
 - The zoning classification;
 - A description of the zoning classification; and
 - Whether the land use of the subject property represents a legal, non-conforming (grandfathered use), illegal use, or if there is no zoning.
- **Eligible Zoning Classifications:** The subject property's zoning classification is an important characteristic to consider when determining whether the loan is eligible.
 - For example: If a property is zoned for agricultural use, ensure that the property is residential in nature, its residential use is permissible use under the zoning classification and its use does not primarily involve commercial activities such as farming or ranching.
- **Eligible Zoning Compliance:** The subject property must conform to the jurisdiction's zoning and land use requirements. The zoning compliance must be either legal non-conforming or legal conforming. If a property has an accessory unit that does not comply with the jurisdiction's zoning and land use requirements, the subject property may be eligible if it complies with the Accessory Units requirements listed below.
- Subject properties that are located in jurisdictions with no zoning are acceptable.
- A legal non-conforming use is acceptable only if the jurisdiction where the subject property is located allows the rebuilding of the improvements to their current specifications in the event of partial or full destruction.
 - For subject properties with a land use that is legal non-conforming the appraisal report must reflect any adverse effect the non-conforming use has on the opinion of market value.
- A property is ineligible if the mortgage is secured by property that is subject to coastal tideland, wetland or setback laws and/or regulations that prevent the rebuilding or maintenance of the property improvements if they are damaged or destroyed.
- **Highest and Best Use:** For the loan to be eligible the appraiser must report that the subject property's present use represents the highest and best use of the property as improved or as proposed per plans and specifications.
- **Utilities:** The utilities serving the subject property must meet community standards. The comparable sales should have utilities that are similar to the subject property.
- **Streets:** The subject property must have legally appropriate ingress and egress. The streets serving the subject property must be maintained in a manner that generally meets community standards. The comparable sales should have street maintenance similar to the subject property.

- **Site Size:** The appraiser must appraise the entire site. The comparable sales should have similar site sizes. When differences in site size exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum. The appraiser must evaluate the effect these differences have on the subject property's value or marketability.
- **Additional Parcels:** The subject property may consist of more than one adjoining parcel of real estate, but cannot include an adjoining parcel that contains an additional residence. When the subject property includes two or more adjoining parcels of real estate, the site description must accurately describe the land and any improvements included on each of the parcels. The comparable sales should have adjoining parcels similar to the subject property.
- **Flood Hazard Area:** If the property is in a "Special Flood Hazard Area" (SFHA) as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program (NFIP), the appraiser must comment on and consider any impacts this has on the subject property's market value or marketability.

Contaminated Sites, Hazardous Substances and Other Adverse Conditions

- The appraiser must consider any known contaminated sites or hazardous substances and other adverse conditions that affect the property or the neighborhood where the property is located. The appraiser must also report the presence of contaminated sites or hazardous substances and other adverse conditions and make appropriate adjustments to reflect any impact on market value, and comment on any effect on the marketability of the subject property. Examples of matters about which the appraiser must note and comment include:
 - Any presence of asbestos, urea-formaldehyde or any similar insulation in the dwelling;
 - Proximity of the property and/or its neighborhood to a contaminated site;
 - Proximity of the property to ground water contamination, chemical or petroleum spills or other hazardous substances that are expected to impact the area for more than one year; and
 - Proximity of the property to areas that may affect the value or marketability of the property including the following:
 - Industrial sites;
 - Waste or water treatment facilities;
 - Commercial establishments (other than retail establishments that serve the residential neighborhood);
 - Airport approach paths;
 - Floodplains; and
 - Landslide areas.

Improvements Section

- The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property. The appraiser is responsible for reporting the condition and quality that best describes the overall condition and quality of the subject property and each comparable property. For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the appraiser must use the condition and quality ratings and the level of updating definitions identified in Exhibit 1.
- The condition and quality ratings must be based on a holistic view of the property and any improvements. When selecting the condition and quality ratings the appraiser must:
 - Consider all improvements to determine an overall condition and quality rating. The appraiser should then select the rating that best reflects the property in its entirety.
 - Describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. The condition and quality ratings for comparable properties must also be made on an absolute basis and reflect the property as of the date of the sale of the comparable property.
- The appraisal report must contain additional commentary, descriptions and explanations as required to enable the intended users of the appraisal to understand the property condition and quality.

- A subject property with an overall quality rating of Q6 is not acceptable collateral unless all issues that caused the property to be rated Q6 are cured prior to closing. In such cases the appraisal must be completed subject to the hypothetical condition that the repairs or alterations have been completed and the appraiser must report the quality rating for the property based on the as completed condition. Items that may be required to be cured include:
 - Modifying the property to make it habitable as a year-round residence;
 - Upgrading the electrical, plumbing, and other mechanical systems and equipment to meet community standards;
 - Correcting any substantial or non-conforming additions to the original structure; and
 - Curing any other quality related items needed to make the subject property acceptable to typical purchasers in the market where the property is located.
- A subject property with an overall condition rating of C5 or C6 is not acceptable collateral unless all issues that caused the property to be rated C5 or C6 are cured prior to closing. In such cases the appraisal must be completed subject to the hypothetical condition that the repairs or alterations have been completed and the appraiser must report the condition rating for the property based on the as completed condition.
- If the property has deficiencies or defects that are severe enough to affect the safety, soundness or structural integrity of the improvements, then the property's condition must be rated C6. Deficiencies that affect the safety, soundness, structural integrity, mechanical systems or habitability of the improvements must be repaired.
- Cosmetic repairs, those that do not affect the safety, soundness, structural integrity, mechanical systems or habitability need not be made as long as:
 - The appraiser has made any necessary adjustments to the comparable sales;
 - The appraisal is not made subject to repairs; and
 - The appraiser has addressed whether the condition affects the value or marketability of the property.
- Examples of cosmetic repairs include;
 - Worn floor coverings;
 - Minor cracks in windows; and
 - Minor holes in interior walls or interior doors.
- If the appraiser notes that additions or alterations were made without required permits, the appraisal report should also contain comments on the quality and appearance of the work.
- The appraiser should note special energy-efficient items and any adverse environmental conditions.
- If the property has been modified to accommodate mixed use, the appraiser should address whether the modifications affect the property's marketability as a residence and whether the cost to restore the property to solely residential use will affect its value.
- An unusual floor plan, such as a home with tandem bedrooms or a bathroom off the kitchen, does not necessarily make a property ineligible for financing. The appraiser should address whether an unusual floor plan or similar obsolescence is also found in other properties in the neighborhood, and to the extent possible, comparable sales used should also have similar obsolescence in order to demonstrate marketability and support value.
- For properties that have recently undergone rehabilitation or renovation, the appraiser must list the changes made and provide photographs of the rehabilitation or renovation.
- When the subject property does not conform to its neighborhood in terms of type, design, age, and the materials and techniques used in its construction, the appraiser must evaluate the effect the nonconformance has on the property's value and marketability. The appraiser must not improperly take into consideration the age of the dwelling.

Accessory Units

- A mortgage is eligible if the accessory unit is either legal or legal non-conforming based on the zoning and land use requirements, and any applicable covenants or restrictions including condominium project or planned unit development (PUD) homeowners association (HOA) requirements.
- If the accessory unit is illegal based on zoning and land use requirements, a loan is eligible according to the requirements below. **A mortgage secured by a two-to-four unit property with one or more accessory units is not eligible.**

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- The accessory unit must include a kitchen and bathroom. Such properties may include a dwelling with a unit above a detached garage, a dwelling with an attached or detached guest apartment, or a dwelling with a basement unit.
- Some characteristics that may indicate a two-unit property rather than a one-unit property with an accessory unit include the zoning and land use requirements, covenants or HOA requirements, the existence of separate meters, separate ingress/egress or separate addresses for the units.
- For a one-unit property with an accessory unit (legal or illegal zoning compliance) the appraiser must describe the accessory unit and appraise the property based on its current use. Any effect the accessory unit has on the market value or marketability of the subject property must be analyzed and reported.
- If the subject property accessory unit complies with the zoning and land use requirements (legal or legal non-conforming zoning compliance), the appraisal report must include at least one comparable sale with an (only one) accessory unit. The accessory unit of the comparable sale must also comply with the zoning and land use requirements to demonstrate the conformity and marketability of the subject property to its market area.
- If the subject property accessory unit does not comply with the zoning and land use requirements, the loan is eligible if:
 - The “Site” section of the appraisal report indicates that the accessory unit does not comply with zoning and land use requirements (illegal zoning compliance);
 - At least two comparable sales with each having only one accessory unit must be included in the appraisal report. The accessory unit of each comparable sale must also be non-compliant with the zoning and land use requirements to demonstrate the conformity and marketability of the subject property to its market area; and
 - The existence of the accessory unit will not jeopardize future hazard insurance claims.

Sales Comparison Approach

- The sales comparison approach is considered to be the most reliable approach to value. Underwriters must place primary emphasis on this approach when reviewing and judging the acceptability of each appraisal report.
- **Appropriate Adjustments:** Each comparable sale must be analyzed for similarities and differences between it and the subject property. The appraiser must make appropriate adjustments for differences, and indicate the dollar amount of the adjustments to reflect the value of the differences to the market. Comparable sales must be adjusted to the subject property, except for sales and financing concessions that must be adjusted to the market at the time of the sale.
- **Sales and Financing Concessions:** The appraiser must independently verify and analyze all pending and recent sales of comparable properties, report how the sales were verified and whether concessions were granted. At least three verified, closed sales of comparable properties must be analyzed and market based adjustments made for significant differences between the comparable sales and the subject property.
 - Sales or financing concessions are offered by interested parties to the transaction such as the builder, developer, property seller, or real estate agent. Because the effect of concessions on sales prices can vary with the type and amount of the concessions, any adjustments to comparable sales must be based on the market reaction to them. The appraiser should provide comparable sales that sold without concessions to justify and support the adjustments made in determining the market reaction to concessions.*
 - Adjustments may not be based solely on dollar-for-dollar deductions equal to the dollar value of the concessions. If comparable sales without concessions are not available, adjustments to comparable sales with concessions must reflect the differences between what the comparable sales actually sold for with the concessions and what they would have sold for without the concessions.
 - The appraiser’s opinion of market value must reflect the value of the subject property without the concessions. The appraiser must also provide the dollar value of the concessions as a comment in the appraisal report.

*Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar-for-dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment. The market value estimate of the subject property must not include value assigned to furniture or any other personal property.

- **Location:** For appraisal report forms that are required to be completed using the UAD, the appraisal report form must include a rating of the location of the subject property and each comparable sale by providing a rating of either “neutral”, “beneficial”, or “adverse”. The location rating is for the location of the subject property within the neighborhood or market area and is not a rating for the overall neighborhood or market area.
 - The location rating, which will be abbreviated as N, B or A in the appraisal report, should describe the overall effect on value and marketability of the location of the property within the neighborhood.
- **View:** For appraisal report forms that are required to be completed using the UAD, the overall view associated with the subject property and each comparable sale must be rated as either “neutral”, “beneficial” or “adverse”. The UAD view rating, which will be abbreviated as N, B or A in the appraisal, should describe the overall effect on value and marketability of the view associated with the property.
 - In all appraisals, appropriate adjustments must be made for differences in view between the subject property and each comparable property to reflect the value of the differences, if any, to the market.
- **Condition and Quality:** In all appraisals appropriate adjustments must be made for differences in condition and quality between the subject property and each comparable property to reflect the value, if any, of the differences to the market. Sometimes it may be appropriate for an appraiser to make an adjustment for differences in quality and condition between the subject property and a comparable property even though the properties have the same UAD quality or condition rating. The appraiser is expected to provide a sufficient explanation of the basis and rationale for all adjustments, or if necessary lack of adjustments, within the appraisal report or addenda.
- **Selection of Comparable Sales:** The appraiser must report a minimum of three comparable sales as part of the sales comparison approach. The appraiser may submit more than three comparable sales to justify and support his/her opinion of market value, as long as at least three are actual closed sales.
 - Generally the appraiser should use comparable sales that have been closed within the last 12 months. The appraiser may use older comparable sales as additional supporting data as long as the appraiser can justify and support such use in the appraisal report. The appraiser must comment on the reasons for using any comparable sales that are more than six months old. If the appraiser believes that it is appropriate, he/she also may use pending sales and current listings as additional supporting market data as long as at least three comparable sales are actual closed sales.
 - Each comparable sale that is used in the sales comparison approach must be analyzed for differences and similarities between it and the property that is being appraised. The appraiser must make appropriate adjustments for location, terms and conditions of sale, date of sale, and the physical characteristics of the properties. The proper selection of comparable properties minimizes both the need for, and the size of, any price adjustments.
- **Established Subdivisions, PUDs/Condos:** For properties located in established subdivisions, units in established PUDs or units in established condominium projects, the appraiser should use comparable sales from within the subject subdivision or project.
- **Newly Constructed Subdivisions, PUDs/Condos:** For properties located in new subdivisions, units in new PUDs, or units in recently converted or new condominium projects, the appraiser must use comparable sales from within the subject subdivision or project as well as comparable sales in other subdivisions or projects to help demonstrate the marketability of new developments or recently converted projects and the market value of the property. The appraiser must use:

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- One comparable sale from inside the subject subdivision or project;
- One comparable sale from outside the subject subdivision or project; and
- One comparable sale from inside or outside the subject subdivision or project.

If there are no settled or closed comparable sales from inside the subject subdivision or project, pending sales from inside the subject subdivision or project are acceptable as long as the three comparable sales are actual closed sales.

The comparable sale from inside the subject subdivision or project can be a sale by the builder or developer of the subject property.

Comparable sales that are resales from within the subject subdivision or project are preferable to comparable sales from outside the subdivision or project provided the builder or developer of the subject property is not involved in the sale transaction. At a minimum at least two comparable sales must be outside the influence of the builder or developer of the subject property.

- **One-Unit Property with Accessory Unit (legal or non-conforming zoning):** The appraiser must include at least one comparable sale with only one accessory unit. The accessory unit of the comparable sale must also comply with the zoning and land use requirements to demonstrate the conformity and marketability of the subject property to its market area.
- **One Unit Property with an Accessory Unit (illegal zoning):** The appraiser must include at least two comparable sales with each having only one accessory unit. The accessory unit of each comparable sale must also be non-compliant with the zoning and land use requirements to demonstrate the conformity and marketability of the subject property to its market area.
- Be aware that there are varying conditions that characterize different types of locations. Conditions that are typical of certain locations may not be present in other locales. This does not mean that the conditions are unacceptable, rather they must be viewed in context with the nature of the area where the subject property is located.
 - For example: When the subject property is located in a suburban or urban area, the appraiser would most likely use comparable sales in the immediate vicinity of the property since suburban and urban areas are usually more densely developed and comparable sales are typically available in the subject neighborhood.
 - Rural areas often have less real estate sales activity than more populated locations. Property sales in rural locations often involve a variety of property types, and may have relatively large parcels as compared to other locations. Given the potential challenges with appraising properties in these market areas, the appraiser must be knowledgeable about the varying conditions that characterize properties in a particular geographic area. In such cases, appraisers may have to use older comparable sales, comparable sales that are located a considerable distance from the subject property or comparable sales that are not similar to the subject property. The appraiser must justify and support such use in the appraisal report.
- Mortgages secured by non-traditional types of properties are eligible. The appraiser may use traditional homes as comparable sales for unique properties as long as the appraiser determines and adjusts for any differences between the subject property and the comparable sales and can justify and support the use of the comparable sales in the appraisal report. Occasionally there may be no similar or truly comparable sales for a particular property because of the uniqueness of the property or other conditions. In such cases the appraiser must use his/her knowledge and judgment to select comparable sales that represent the best indicators of value for the subject property to reflect the actions of typical purchasers in the market. In addition comparable sales may be taken from a competing neighborhood if:
 - The appraiser has established that the neighborhoods are comparable and compete for the same buyers; and
 - Comparable sales taken from the competing neighborhood are better indicators of current market trends in the subject neighborhood than the existing comparable sales available in the subject neighborhood.
- **Sale and Listing History:** The appraiser must research, verify, analyze and report:
 - Any current agreement for sale of the subject property;
 - Any offering for sale of the subject property in the 12 months prior to the effective date of the appraisal;

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- Any prior sales or transfers of the subject property for the three years prior to the effective date of the appraisal; and
- Any prior sales or transfers of each comparable sale for the year prior to the date of sale of each comparable sale.

The underwriter's review and acceptability of each appraisal should include an analysis of the sale and listing history. Confirm that the sales price trend in relation to the appraiser's opinion of market value is reasonable and representative of the market.

For purchase transactions analyze the appraisal report and the current contract for sale of the subject property.

For both purchase and refinance transactions, the underwriter's underwriting analysis of the appraisal report should include any current listing or offering for sale for the subject property, the sales history of the subject property and comparable sales, and the current ownership of the subject property.

To reduce risk of liability resulting from fraudulent or inaccurate appraisals, analyze the subject property and comparable sales and evaluate the time elapsed between the date(s) the property was acquired and the date(s) resold, or the date of the current resale contract, if applicable. If the sales history of the subject property or comparable sales indicates current or prior sale prices may be excessive, and resale dates occurred shortly after the property seller's acquisition of the property, the appraisal report should provide evidence to justify and support a rapidly appreciating real estate market, significant improvements that resulted in a corresponding increase in the property value or a previous sale that was below market value due to a distress or tax sale.

- **Reconciliation:** The data and information presented in the appraisal report must justify and support the appraiser's opinion of market value. The appraiser must explain how the final value conclusion was determined and the rationale must be consistent with the comments, conclusions and assumptions stated throughout the appraisal report.

The reconciliation must contain any conditions of the appraisal on which the final opinion of market value is based.

If the subject transaction involves sales or financing concessions, the appraiser's opinion of market value must reflect the value of the subject property without the concessions. The appraiser must also provide the dollar value of the concessions as a comment in the appraisal report.

Cost and Income Approach

- The cost approach to value is not required for appraisals of one-unit single family residences, PUDs or condo units.
- The underwriter may request the appraiser to develop and report the cost approach to value even when it is not required for the transaction.
- The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal, even if the underwriter did not request it.
- The cost approach may be appropriate especially when appraising properties that are:
 - New or proposed construction;
 - Under renovation;
 - Unique because of their styles or construction methods; or
 - Have functional obsolescence not typical for the market.
- When the cost approach to value is developed, the appraiser must make proper adjustments for any items detrimental to stability or marketability, such as physical, functional and external depreciation that are not typical for the market.
- The income approach to value is required for appraisals of two-to-four unit properties.
- The underwriter may request the appraiser to develop and report the income approach to value even when it is not required for the transaction.

- The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal even if the underwriter does not request it.
- **Appraisals that rely primarily on the income or cost approaches to value in order to estimate market value are unacceptable.**
- **Comparable Rent Data for Two-to-Four Unit Properties:** At least three rental comparable sales must be analyzed in the “comparable rental data” section. These rental comparable sales must:
 - Have current rental information; and
 - Be units similar to and located near the subject property.
- The rental comparable sales are usually not the same comparable properties used in the sales comparison approach. The appraisal report should state that the units and properties selected as rental comparable sales are comparable to the subject property, both the units and the overall property, and should accurately represent the rental market for the subject property unless otherwise stated in the report.
- **Subject’s Rent Schedule for Two-to-Four Unit Properties:** This section contains the subject property’s current actual rents and estimated market rents. The estimated market rents for the subject property must be supported in the appraisal report and be consistent with the data presented throughout the report.
- **Sales Comparison Approach for Two-to-Four Unit Properties:** In addition to the other requirements in this section, the appraisal must contain the unadjusted units of comparison for the comparable sales. If the appraisal is prepared in conjunction with a purchase transaction, the units of comparison must be provided for the subject property as well. These units of comparison are the sales price per square foot of gross building area (GBA), per unit and per room and the gross rent multiplier (GRM). The comment area of the sales comparison analysis must reconcile the adjusted sales prices of the comparable sales and the unadjusted units of comparison, as appropriate, according to the manner in which such properties sell in the defined market area.
 - The appraiser must indicate in the comments area which factors are deemed most consistent and which factors typical investors or purchasers in that market consider when purchasing a similar property.

Properties with Energy-Efficient Improvements

- Energy-efficient features such as photovoltaic systems, water efficient improvements, energy-efficient windows, or high-performing energy-efficient homes must be identified and any impact to market value must be recognized in the appraisal report.
- The contributory value of energy improvements and any premium paid for a high-performing energy-efficient home must be measured based on the market reaction, similar to any other property feature.
- Appraisers must be familiar with energy reports, energy ratings or other new concepts that may be developed to identify the energy efficiency of a home. If relied upon, any reports must be generally acceptable and, if available, these reports and information must be included in the appraiser’s analysis.
- If the high-performing energy-efficient home or energy improvements are new to the market, there may be a lack of sales with similar features or a lack of data available from traditional data sources.
 - In these cases, the appraiser may also need to consider whether methods such as the income approach, cost analysis, discounted cash flows, market surveys or any other applicable methods are appropriate.
 - If the appraiser’s analysis concludes an adjustment is necessary, the appraiser must justify and support the analysis and conclusions. This information may be included in an addendum or as supplementary documentation, as applicable.
- Solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement may not be included in the appraised value of the property.

Mixed-Use Properties

- The appraiser must provide the following when appraising a mixed-use property:
 - An appraisal with an interior and exterior inspection;
 - A detailed description of any accommodations made for the commercial use of the subject property;
 - A discussion of any adverse impacts of the commercial use;

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- A statement describing any market resistance to the commercial use, and adjustments for any commercial features made to the comparable sales; and
- An opinion of market value based on the property's residential nature.
- Each residential property with mixed-use must meet all of the following requirements:
 - The property must be located in a residential neighborhood, be primarily residential, and must be typical for the properties in the market;
 - The use must represent a legal, permissible use of the property under the local zoning requirements;
 - The property must be a one-unit primary residence;
 - If the property has a commercial use, the borrower must be the owner and the operator of the business;
 - The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residence; and
 - The commercial use must not have an adverse effect on the habitability and safety of the property or site.

Obtaining Subsequent Appraisal Reports/Reconciling Multiple Opinions of Market Value

Multiple Opinions of Market Value

- Underwriters are required to evaluate an appraisal to determine whether or not the appraisal report meets all applicable requirements.
- Before rejecting an appraisal the underwriter should request the appraiser to provide additional information and/or address any deficiencies with the appraisal report.
- If the appraiser does not adequately address the underwriter's concerns and the underwriter is unable to conclude that the appraisal report meets all requirements, then the appraisal must be rejected and a new appraisal must be obtained.
- Appraiser Independence Requirements permits lenders to obtain a second or subsequent appraisal if:
 - There is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file;
 - The appraisal is obtained pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting guidelines; or
 - It is required by law.
- If the initial appraisal report was not rejected and a second or subsequent appraisal report, appraisal desk review report or an appraisal field review is obtained, the underwriter must determine which of the opinions of market value is the most accurate.
- Comply with the Appraiser Independence Requirements and adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value.
- The underwriter's appraisal review and reconciliation process must result in the underwriter relying on the most accurate and supported opinion of market value.
- A copy of all valuation documents used in the analysis as well as written documentation justifying the decision as to which appraisal report or appraisal review was used to underwrite the loan must be retained in the loan file.