PRIMARY RESIDENCE – PURCHASE AND RATE/TERM REFINANCE				
Property Type	**Maximum [1, 2, 5] LTV**	**Maximum [1, 2] CLTV/HCLTV**	**Maximum [1] Loan Amount**	**Minimum Credit Score**
1-2 Units PUD Condo	90%	90%	$1,000,000	680
	80%	80%	$1,500,000	661
	75%	75%	$2,000,000	680
3-4 Units	70%	70%	$2,000,000	661

PRIMARY RESIDENCE – CASH-OUT REFINANCE					
Property Type	**Maximum [1] LTV**	**Maximum [1] CLTV/HCLTV**	**Maximum Cash Back**	**Maximum [1] Loan Amount**	**Minimum Credit Score**
1-2 Units PUD Condo	80%	80%	$250,000	$1,000,000	680
	70%	70%	$250,000	$1,000,000	661
	60%	60%	$500,000	$1,500,000	661
3-4 Units	60%	60%	$250,000	$1,500,000	661

SECOND HOME – PURCHASE AND RATE/TERM REFINANCE				
Property Type	**Maximum [1] LTV**	**Maximum [1] CLTV/HCLTV**	**Maximum [1] Loan Amount**	**Minimum Credit Score**
1-Unit PUD Condo	80%	80%	$1,000,000	661
	70%	70%	$1,500,000	
	65%	65%	$2,000,000	

SECOND HOME – CASH-OUT REFINANCE					
Property Type	**Maximum [1] LTV**	**Maxim um [1] CLTV/HCLTV**	**Maximum Cash [3] Back**	**Maximum [1] Loan Amount**	**Minimum Credit Score**
1-Unit PUD Condo	65%	65%	$250,000	$1,000,000	661
	60%	60%	$500,000	$1,500,000	

INVESTMENT – PURCHASE [4]				
Property Type	**Maximum [1] LTV**	**Maximum [1] CLTV/HCLTV**	**Maximum [1] Loan Amount**	**Minimum Credit Score**
1-4 Units PUD Condo	75%	75%	$1,500,000	680

INVESTMENT – RATE/TERM REFINANCE [4]				
Property Type	**Maximum [1] LTV**	**Maximum [1] CLTV/HCLTV**	**Maximum [1] Loan Amount**	**Minimum Credit Score**

INVESTMENT – RATE/TERM REFINANCE [4]				
1-4 Units PUD Condo	70%	70%	$1,500,000	680

INVESTMENT – CASH-OUT REFINANCE [4]					
Property Type	**Maximum [1] LTV**	**Maximum [1] CLTV/HCLTV**	**Maximum Cash [3] Back**	**Maximum [1] Loan Amount**	**Minimum Credit Score**
1-4 Units PUD Condo	60%	60%	$250,000	$1,500,000	680

1. See First-Time Homebuyer restrictions in the *Underwriting* section below.
2. See *Mortgage Insurance* section for requirements for loans with an LTV/CLTV greater than 80%.
3. Maximum cash back to borrower is including non-mortgage debt to be paid off.
4. See *Investment Property* section below for restrictions.
5. Non-Permanent Resident Alien borrowers are limited to a maximum LTV of 80%

PROGRAM SUMMARY

The Jumbo Advantage product is a mortgage loan program offering Fixed and ARM options for jumbo loan balances.

PRODUCTS OFFERED

Product Name	Loan Term	ARM Disclosure
Jumbo Advantage 30-Year Fixed	30 years	N/A
Jumbo Advantage 15-Year Fixed	15 years	
Jumbo Advantage 5/1 LIBOR ARM	30 years	Doc. #3382
Jumbo Advantage 7/1 LIBOR ARM		
Jumbo Advantage 10/1 LIBOR ARM		

ELIGIBLE BORROWERS

- U.S. Citizens
- Non-permanent resident aliens (See *Conventional Underwriting Guidelines* for Visa requirements)
- Permanent Resident Aliens are eligible for the same financing as U.S. citizens if they can provide evidence of lawful residency and they meet all of the same credit standards as U.S. citizens.
  - A copy of the borrower's identification is required to verify review of the acceptable documentation that evidences borrower is eligible to lawfully reside in the U.S.
    - Must have a valid Greencard, evidence of continuous for at least 12 months
    - Borrower must be employed in the U.S. for the last 24 months
    - Income must be likely to continue for at least 3 years
- First Time Home Buyer (FTHB) - see *Underwriting* for further requirements
- Trusts - See Closing in Trust section below
- Non-Occupant Co-Borrowers are eligible with the following restrictions:
  - One unit primary residence only.
  - Purchase and rate/term refinance transactions only.
  - Maximum loan amount $1,000,000

        - Maximum loan amount $1,500,000 when the property is located in CA, CT, NY & NJ
    - Maximum LTV/CLTV 80%
    - No minimum down payment required from the occupant borrower, down payment and reserves may be from the occupant borrower or non-occupant co-borrower.
    - Additional six months of reserves required.
    - Non-occupant co-borrower must be an immediate family member.
    - Blended ratios allowed with a maximum 43% DTI.
    - Must be an arm's length transaction.
- Non-arms-length transactions– See *Transaction Types* for further requirements.

INELIGIBLE BORROWERS

- Non-resident aliens (foreign nationals)
- Borrowers with diplomatic status
- Life Estates
- Non-Revocable trusts
- Land trust, except Illinois Land Trust
- Guardianships
- Limited partnerships, general partners or corporations

ELIGIBLE PROPERTY TYPES

- 1 to 4 unit properties
- Warrantable low, mid and high-rise condos – see below for full details
- Planned unit development (PUD)
- Modular
- Leaseholds meeting Fannie Mae requirements
- Properties with up to 20 acres
- For properties >10 to 20 acres
    - Maximum 35% land to value
    - No income producing attribute
- Acceptable forms of ownership:
    - Fee Simple with title vesting as:
        - Individual
        - Joint tenants
        - Tenants in common
- Deed/resale restrictions must meet Fannie Mae requirements.

<u>WARRANTABLE CONDOMINIUMS</u>

- FNMA Types R & S. (Type R eligible with CPM or PERS approval, not eligible in FL)
- Site-condos (must be detached)
- Each condominium project must be reviewed and approved by Flagstar's Condo Review Department. Refer to *Project Review Submission Instructions*, Doc. #3253 for details.
- Limited review allowed only for detached condominiums.

- Limited review allowed for attached units (including 2 to 4 unit projects) in established condominium projects if the following requirements are met:
  - Primary residence with maximum LTV/CLTV/HCLTV of 80%.
  - Second home with maximum LTV/CLTV/HCLTV of 75%.
  - Limited review requirements per Fannie Mae are met and property is eligible for limited review based on Fannie Mae Requirements.
  - Projects based in Arizona, Florida, Nevada, Michigan and Texas are not eligible for limited review.
- Florida condominiums limited to 50% LTV/CLTV/HCLTV on investment transactions.

The underwriter to obtain CPM confirmation to be placed in loan file.

SITE CONDO REQUIREMENTS

When the underwriter performs a review for a mortgage secured by a detached unit in a condo project, the following eligibility criteria must be met:

- The mortgage is secured by a single detached unit in a condo project.
- The mortgage is not secured by a manufactured home.
- The project is not an ineligible project. (See *Conventional Underwriting Guidelines*.)
- The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
- If the condo project is new, the appraiser used as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the one that built the subject unit.

Properties subject to oil and/or gas leases are acceptable if the following requirements have been met:

- Title endorsement providing coverage to the lender against damage to existing improvements resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease.
- No active drilling. Appraiser to comment or current survey to show no active drilling.
- No lease executed after the home construction date (re-recording date of lease after home construction is permitted).
- The appraiser would also need to address if there are any marketability issues associated to the presence of the oil/gas lease.
- Title endorsement T19 (TX Only).

Properties with leased solar panels must meet Fannie Mae requirements.

INELIGIBLE PROPERTY TYPES

- Manufactured/mobile homes
- Condo-hotel units
- Unique properties
- Log homes
- Co-ops
- Working farms, ranches or orchards
- Mixed-use properties
- Income producing properties with acreage

- Properties greater than 20 acres
- Properties located on Indian/Native American tribal land
- Properties with a private transfer fee covenant
- Model Home Leasebacks

LOAN AMOUNTS

MINIMUM

Conforming High Balance Limit Plus $1

MAXIMUM

Refer to Eligibility Grids above.

HIGH-COST LOANS AND HIGHER PRICED MORTGAGE LOANS

High-cost loans (Section 32) as defined by applicable state and/or local regulations and higher priced mortgage loans are not permitted.

TRANSACTION TYPES

NON-ARMS LENGTH TRANSACTIONS

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

- Family sales or transfers
- Property seller acting as their own real estate agent
- Borrower acting as their own real estate agent
- Borrower is the employee of the originating lender and the lender has an established employee loan program. Evidence of employee program must be included in the loan file.
- Borrower purchasing from their landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
- Investment properties must be arm's length.

REFINANCE TRANSACTIONS

Properties listed for sale:

- Properties currently listed for sale at time of application are not eligible.
- Properties listed for sale within six months of the application date are acceptable if the following requirements are met:
    - Rate and term refinance only
    - Primary and second homes only
    - Documentation provided to show cancellation of the listing
    - Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing
- Cash-out refinances are not eligible if the property was listed for sale within twelve months of the application date.

RATE/TERM REFINANCE LOANS

- The new loan amount is limited to the payoff of the present first mortgage; and
- Any Seasoned non-first lien mortgage, closing costs and prepaids.
  - If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve months and total draws do not exceed $2,000 in the most recent twelve months.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for 12 months.
  - A seasoned equity line is defined as not having any draws greater than $2,000 in the past 12 months. Withdrawal activity must be documented with a transaction history for the Line of Credit.
  - Cash to borrower is limited to the lesser of 1% the principal amount of the new mortgage.
- Properties inherited less than twelve months prior to application date can be considered for a rate and term refinance transaction if the following requirements are met:
  - Must have clear title or copy of probate evidencing borrower was awarded the property.
  - A copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries.
  - Borrower retains sole ownership of the property after the pay out of the other beneficiaries.
  - Cash back to borrower not to exceed 2% of the principle amount of the new mortgage or $2,000.

CASH-OUT REFINANCE LOANS

- Borrower must have owned property for at least six months prior to the application date unless requirements for Delayed Purchase Refinance are met.
- Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand.
- Cash-out refinances where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan or replenishing business funds used to purchase the property, the following requirements apply:
  - Cash-out limitation is waived if the previous transaction was a purchase
  - Seasoning requirement for cash-out is waived. Borrower does not have to have owned for six months prior to subject transaction
  - Funds used to purchase the subject property must be documented and sourced
  - HUD-1/Closing Disclosure for subject transaction must reflect payoff or pay down of pledged asset loan, retirement account loan, secured loan, unsecured family loan or business asset account. If cash out proceeds exceed payoff of loans, excess cash must meet the cash out limits.
  - The purchase must have been arm's length
  - Investment properties are ineligible
- Inherited properties may not be refinanced as a cash-out refinance prior to twelve months ownership. See Rate and Term Refinances for requirements.

DELAYED PURCHASE REFINANCE LOANS

Defined as the refinance of a property purchased by the borrower for cash within 6 months of loan application. Transaction is eligible if it meets the following criteria:

- Must meet LTV/CLTV/HCLTV for rate and term refinances must be met and is treated as a rate and term refinance except for primary residence transactions in Texas.
- Preliminary title reflects the borrower as the owner and no liens
- Obtain Closing Disclosure from original purchase reflecting no financing obtained for the purchase of the property
- Document that the purchase funds were from the borrower's own funds and that there was not any borrowing, gifts, shared funds or business funds.
- Funds secured by a pledged asset or retirement account are not considered to be from the borrower's own funds and must be considered a cash out transaction.
- Investment properties are allowed as long as the borrower is not a builder or in the construction industry and the prior transaction was arm's length.

CLOSING IN TRUST

Loans are eligible to close in the name of a trust. The following guidelines must be met:

- The Trust must be a living revocable trust also known as a family trust or an inter vivos trust,
- Property must be 1 to 2 unit owner-occupied primary residence, 1 unit second home or 1 to 4 unit investment property.
- Title Company must agree to insure over the trust with no exceptions for the trust or trustees,
- One of the following will be required:
    - A copy of the trust agreement
    - An attorney's opinion stating the trust meets all Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac, as applicable, and any applicable State requirements.
    - Certification from a title company evidencing compliance with all Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable State requirements.
    - Certification from an individual trustee evidencing compliance with all Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable State requirements. Additionally, the following requirements must be met:
        - Submit copies of the first page, signature page, and the pages of the trust agreement that verifies the trustee, and that the trust is revocable.
        - Certifications completed by an individual trustee must be notarized.
            - Certifications must confirm the following:
                - The existence and date of the trust
                - The Settlors and the current trustees
                - The powers of the trustees
                - Whether the trust is revocable; and, if revocable, who holds the right to revoke
                - The names and number of the trustees required to sign on behalf of the trust
                - The trust identification number, whether that is a Social Security number or an IRS issued Tax Identification Number
                - How title to the trust assets should be taken
                - A statement that the trust has not been revoked, modified or amended in any manner
            - The trust agreement must state the following:

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

INVESTMENT PROPERTY TRANSACTIONS

The following requirements apply for investment property purchase, rate/term refinance and cash-out refinance transactions:

- Condominiums in Florida are limited to 50% LTV/CLTV/HCLTV
- Transactions must be arm's length
- Appraiser to provide rent comparable schedule
- If using rental income an executed lease agreement must be provided. See *Rental Income* requirements in the Income/Employment section for more details.
- First-time homebuyers are not allowed
- For investment property cash-out refinances, the loan is subject to ATR.

MORTGAGE INSURANCE

Loans closing with an LTV of 80.01% or greater do not require mortgage insurance but must meet the following guidelines:

- Owner occupied
- Purchase or rate/term refinance
- Secondary financing is allowed. See Subordinate Financing section for allowable secondary financing.
- Escrow/impound accounts required for LTVs greater than 80% unless prohibited by law.

CALCULATING LTV/CLTV/HLTV

PURCHASE LOANS

Lesser of the current appraised value or acquisition cost.

REFINANCE LOANS

- If borrower has less than 12 months ownership in the property, LTV/CLTV/HCLTV is calculated from the lesser of the purchase price or appraised value.
  - Properties where capital improvements have been made after purchase, the LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or the purchase price plus documented improvements. File must contain receipts.
- If the borrower has owned the property for more than 12 months the LTV/CLTV/HCLTV is based on the appraised value.
- Twelve month time frame is defined as prior note date to subject note date.

CONSTRUCTION-TO-PERMANENT

- The borrower must hold title to the lot which may have been previously acquired or purchased as part of the transaction.
- LTV/CLTV/HCLTV is determined based on the length of time the borrower has owned the lot. The time frame is defined as the date the lot was purchased to the note date of the subject transaction.
    - For lots owned twelve months or more, the appraised value can be used to calculate the LTV/CLTV/HCLTV.
    - For lots owned less than twelve months, the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs. Documented construction costs plus documented purchase price of lot.

PROPERTY VALUES

Extreme care must be applied to insure that the appraiser is specific with regard to the impact the market decline has upon the transaction being evaluated. Typically, appraisals should not contain comparables greater than six months old at time of underwriting review. Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible.

Flagstar reserves the right to establish guidelines based on current market conditions when conditions suggest an increased risk in property values.

MINIMUM CREDIT SCORE

Refer to Eligibility Grids above. No exceptions to credit score requirements.

QUALIFYING RATE

Fixed Rate	5/1 ARM	7/1 ARM & 10/1 ARM
Note Rate	Greater of the fully-indexed rate or note rate, plus 2%	Greater of the fully-indexed rate or note rate

QUALIFYING RATIOS

- Maximum 43% debt-to-income ratio
- Non Occupant Co-Borrowers with blended ratios maximum 43%
- Maximum 38% for LTVs greater than 80%

No exceptions to DTI requirements.

LIABILITIES

Liabilities include:

- All housing expenses
- Installment debt with ten more or months remaining
- Lease payments, regardless of the number of payments remaining
- Monthly PITIA for any additional properties owned by the borrower including second homes and investment properties with negative cash flow
- Child support, alimony and separate maintenance with ten or months remaining
    - Alimony payments may be deducted from income rather than included as a liability.
- Revolving debt, regardless of the number of payments remaining

- Other consistent and recurring expenses

For other properties owned, documentation to confirm the P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.

RESERVES

Occupancy	Loan Amount	Required Verified Reserves PITIA [6,7,8]
Primary Residence	≤$1,000,000 with LTV ≤80%	3 months
	≤$1,000,000 with LTV > 80%	6 months
	$1,000,001 - $1,500,000	6 months
	$1,500,001 - $2,000,000	9 months
Second Home	≤$1,000,000	6 months
	$1,000,001 – $1,500,000	12 months
	$1,500,001 – $2,000,000	18 months
Investment	≤$1,000,000	6 months
First Time Homebuyer	≤$1,000,000 with LTV ≤80%	6 months
	≤$1,000,000 with LTV >80%	9 months
	$1,000,001 - $1,500,000	9 months
Non-Occupant Co-Borrower	Additional 6 months reserves	

1. **In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets.**
2. **When borrowers have financed properties in addition to the subject property, an additional 3 months PITIA reserves are required for each property.**
3. **Business funds are not allowed for the purpose of calculating reserves.**

SUBORDINATE FINANCING

- Only institutional financing up to the maximum LTV/CLTV/HCLTV is eligible.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower's DTI.
- Full disclosure must be made on the existence of subordinate financing and the repayment terms. Acceptable subordinate financing types:
  - Mortgages with regular payments that cover the interest due so negative amortization does not occur.
  - Mortgage terms that require interest at a market rate.
- Employer subordinate financing is allowed with the following requirements:
  - Employer must have an employee financing assistance program in place.
  - Employer may require full repayment of the debt if the borrower's employment ceases before the maturity date.
  - Financing may be structured in any of the following ways:
    - Fully amortizing level monthly payments
    - Deferred payments for some period before changing to fully amortizing payments
    - Deferred payments over the entire term
    - Forgiveness of debt over time
    - Balloon payment of no less than five years, or the borrower must have sufficient liquidity to pay off the subordinate lien.

- LTV/CLTV/HCLTV guidelines must be met for loans with subordinate financing.

INTERESTED PARTY CONTRIBUTIONS

Interested party contributions (IPC) include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment.

Occupancy	CLTV/HCLTV	IPC Allowance
Primary & Second Home	≤80%	6%
Primary	>80%	3%
Investment	All	2%

SALES CONCESSIONS

All seller concessions must be addressed in the sales contract documents, loan application, appraisal report, and the CD. A seller concession is defined as any IPC beyond the stated limits shown above or any amounts not being used for closing costs or prepaid expenses.

If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV/CLTV/HCLTV.

In cases where the appraisal does not clearly and adequately reflect the presence and effect of any financing and/or sales concessions, the underwriter must make a downward adjustment to the appraised value of the Mortgaged Property to reflect the cost of the contribution. The revised LTV is based on the lesser of the appraised value or reduced sales price.

PERSONAL PROPERTY

Any personal property transferred with the property sale must be deemed to have zero transfer value as indicated by the sales contract and appraisal. If any value is associated with the personal property, the sales price and the appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

CONTINUITY OF OBLIGATION

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

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

- Borrower must have been a beneficiary/creator (trust) or 25% or more owner of the LLC or partnership prior to the transfer
- The transferring entity and/or borrower has had a consecutive ownership (on title) for at least the most recent six months prior to the disbursement of the new loan.

- Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

TEMPORARY BUYDOWNS

Not eligible

AUS RESPONSE

Manually underwritten. Not eligible for AUS submission.

UNDERWRITING

All guidelines not addressed below must meet the parameters documented in our *Conventional Underwriting Guidelines.*

If Fannie Mae or Freddie Mac requirements differ, this program must follow Fannie Mae.

Third Party Originations are not eligible. All new construction property loans must have a Certificate of Occupancy.

UNDERWRITING SUBMISSIONS

- The Jumbo Underwriting department in Troy, MI or Bellevue, WA will underwrite all loans. No Delegated/Elite underwriting is allowed.
- Submission of compliance documents will be a prior to close condition (i.e. initial application, TIL, GFE and ARM disclosure). All documents must be completed in full, signed and dated.
- Purchase agreements must be completely executed by all parties and include all pages
- Title policy for file must include a 24 month chain of title.
- All loans must contain the following documentation prior to submission to Underwriting:
  - Completed 1003
  - Complete income documentation
  - Complete asset documentation
  - Title work. Commitment may not be more than 90 days from date note is signed.
  - All applicable initial disclosure, fully executed within appropriate timeframes.
  - Purchase agreement/sales contract, if applicable.
- All refinance transactions must have the appraisal at the time the loan is submitted to Underwriting. The loan will be placed in a *Loan not Underwritten* status if the appraisal is not received at the time of submission.

PROPERTY OWNERSHIP HISTORY

Underwriting will take into consideration the number of properties owned and the length of time the properties have been owned. Investors who demonstrate a rapid acquisition, acquired within the most recent 24-month period, of investment properties will be reviewed cautiously. Underwriting reserves the right to request documentation to evidence the borrower had the funds required to purchase any property acquired within the last 24 months and/or sufficient verified asset to provide adequate reserves for the investment portfolio.

FIRST TIME HOME BUYER (FTHB)

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

- Ineligible for investment property transactions.
- See RESERVES section for requirements.
- Maximum loan amount of $1,000,000.
- Maximum loan amount of $1,500,000 allowed in CA, NJ, NY and CT if the following requirements are met:
  - Maximum LTV/CLTV/HCLTV of 80%
  - 680 minimum credit score
  - Primary residence only

CREDIT REQUIREMENTS

- All loans must have a fully executed *Social Security Number Verification*, Doc. 3257 with results obtained, prior to close. Underwriter to obtain results.
- Credit report must be a 3-file merged credit report or an RMCR. Every submitted credit bureau report must include the full name, address and social security number of each borrower. If any of this information is inconsistent with that on any document in the file, a new report and/or explanation will be required.
- All credit documents, including title commitment must be no older than 90 days from the note date.
- The underwriter must verify that each account on the credit report with a balance has been checked within 90 days of the date of the credit report.
- Current mortgage payment history within 30 days will be required if not reflected on the credit report.
- Underwriter will require borrower to provide a written explanation for any credit inquiries in the last 120 days.
- Credit Score – Use lower of 2 or middle of 3 to determine each borrower's representative score. Each borrower must have at least 2 scores.
- Any revolving tradeline without a minimum payment amount listed on the credit report will use $10 or 5% of the outstanding balance, whichever is greater.
  - If the borrower's ratios are at the maximum permitted the underwriter should obtain actual minimum payments from the borrower's account statements to qualify.
- See *Tradeline Requirements* section below.
- Credit in accordance with below listed guidelines is required (In addition to the minimum credit score) on all files.
- All past due accounts must be brought current prior to closing.
- All judgments and tax liens must be paid prior to closing.
- Collections over $250 individually or $1,000 aggregate, must be paid.
- Major derogatory should be evaluated against the borrower's overall credit in the last 24 months and reflect a willingness and capacity to repay. Paying off revolving outstanding debt to qualify is allowed. Paying down of revolving debt to qualify is unacceptable. Payoffs on a refinance transaction must be reflected on the HUD-1 Settlement Statement. On purchase transactions, any loans requiring pay off

must be paid off prior to closing and source of funds to do so must be documented. Gift funds are not a viable source of funds to pay off debt to qualify.

- Any disputed accounts must be resolved prior to closing.
- The following require a written explanation from the borrower:
    - Late Payments
    - Derogatory Credit
- Borrowers with a foreclosure in their credit history must be seasoned for 7 years.
- Borrowers with a Chapter 7, 11 or 13 bankruptcy must be seasoned for 7 years.
- Borrowers who have surrendered a property through a Short Sale or Deed-In-Lieu must be seasoned for 7 years.
- Borrowers with a loan modification are allowed if seasoned 24 months with no mortgage lates in the last 24 months.
- If the 1003, title commitment or credit documents indicate the borrower is a party to a lawsuit, additional documentation must be obtained to determine no negative impact on the borrower's ability to repay, assets or collateral.

STUDENT DEBT

The borrower must qualify with a monthly payment regardless if the account is in deferment, forbearance or an income-driven payment plan resulting in a monthly payment of $0.

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, the underwriter may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment. If the payment is $0 the borrower must qualify using one of the following:
- For deferred loans, loans in forbearance, or income-based repayment of $0 the lessor of the following:
    - a payment equal to 1% of the outstanding student loan balance; or
    - a fully amortizing payment using the documented loan repayment terms, if present in the loan file.

TRADELINE REQUIREMENTS

OPTION 1

- Minimum of 3 open tradelines with 12 months satisfactory history on each tradeline
    - Must have a minimum of 24 months length of credit
- Two open tradelines are acceptable if the borrower(s) has a satisfactory 12-month mortgage history in the past five years
    - Two open tradelines are acceptable for purchase transactions where the borrower(s) have a 24-month mortgage history in the past five years

OPTION 2

- Credit reporting history five years or longer
- History of 4 or more trade lines and must be rated for at least 12 months paid as agreed
- At least one trade line was last active within the past 24 months and paid as agreed

- One tradeline must be a mortgage or if the borrower has not owned a home a Verification of Rent with at least 12 months paid as agreed
- All trade lines paid as agreed in the last 48 months

DISPUTED TRADELINES

- All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation can be provided that authenticates the dispute.
- Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However if a disputed account has a zero balance and no late payments, it can be disregarded.

MORTGAGE/RENT HISTORY REQUIREMENTS:

- If the borrower(s) has a mortgage or rental history in the most recent 24 months, a VOM or VOR must be obtained. Applies to all borrowers on the loan.
- No more than 1x30 in the last 12 months or 2x30 in the last 24 months. Mortgage lates must not be within the most recent 3 months of the subject transaction, 0x60 and 0x90 required in the most recent 24 months.
- If the landlord is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory rent history is required; otherwise if not related or a party to the transaction a satisfactory VOR can be provided.

DEROGATORY CREDIT:

- Bankruptcy, Chapter 7, 11, 13 must be seasoned 7 years.
- Foreclosure must be seasoned 7 years.
- Short sale/deed-in-lieu must be seasoned 7 years.
- Mortgage accounts that were settled for less, negotiated or short payoffs must be seasoned 7 years.
- If the above credit issues are seasoned between 4 and 7 years and are due to extenuating circumstances, exceptions can be considered on a case by case basis. Supporting documentation for extenuating circumstances must be submitted with the exception request.
- Loan modification allowed if seasoned 24 months with no mortgage lasts in the last 24 months.
- Medical collections allowed to remain outstanding as long as the balance is less than $10,000 in aggregate.

OUTSTANDING JUDGMENTS/TAX LIENS/CHARGE-OFFS/PAST DUE ACCOUNTS:

- Tax liens, judgments, charge-offs and past due accounts must be satisfied or brought current prior to or at closing. Cash-out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past due accounts.
- Payment plans on prior year tax liens/liabilities are not allowed and must be paid in full.

CREDIT INQUIRIES:

- If the credit report indicates recent inquiries within the most recent 120 days of the credit report, the seller must confirm the borrower did not obtain additional credit that is not reflected in the credit report or mortgage application. In these instances the borrower must explain the reason for the credit inquiry.
- If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

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

CREDIT REPORTS-FROZEN BUREAUS:

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

LIABILITIES

REQUIREMENTS

- The monthly payment on revolving accounts with a balance must be included in the borrower's DTI, regardless of the number of months remaining. If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10 or 5%.
- If the credit report reflects an open-end or net 30 day account, the balance owing must be subtracted from liquid assets.
- Loans secured by financial assets (life insurance policies, 401(k), IRAs, CDs, etc.) do not require a payment to be included in the DTI as long as documentation is provided to show the borrower's financial asset as collateral for the loan.
- HELOCs with a current outstanding balance with no payment reflected on the credit report may have the payment documented with a current billing statement. HELOCs with a current $0 balance do not need a payment included in the DTI unless using for down payment or closing costs.
- Lease payments, regardless of the number of payments remaining must be included in the DTI.
- Installment debts lasting 10 months or more must be included in the DTI.
- Alimony payments may be deducted from income rather than included as a liability in the DTI.
- If the most recent tax return or tax extension indicate a borrower owes money to the IRS or State Tax Authority, evidence of sufficient assets to pay the debt must be documented if the amount due is within 90 days of the loan application date.

CONTINGENT LIABILITIES

- Co-Signed loans: The monthly payment on a co-signed loan may be excluded from the DTI if evidence of timely payments made by the primary obligor (other than the borrower) is provided for the most recent 12 months and there are no late payments reporting on the account.
- Court order: If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided.
    - Copy of court order
    - For the mortgage debt, a copy of the document transferring ownership of property
    - If transfer of ownership has not taken place, any late payments associated with the repayment of the debt owing on the mortgage property should be taken into account when reviewing the borrower's credit profile.
- Assumption with no release of liability: The debt on a previous mortgage may be excluded from DTI with evidence the borrower no longer owns the property. The following requirements apply:
    - Payment history showing the mortgage on the assumed property has been current during the previous 12 months; or
    - The value on the property, as established by an appraisal or sales price on the HUD-1/CD results in an LTV of 75% or less.

DEPARTURE RESIDENCE PENDING SALE

In order to exclude the payment for a borrower's primary residence that is pending sale but will close after the subject transaction, the following requirements must be met:

- A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared/satisfied. The pending sale transaction must be arm's length.
- The closing date for the departure residence must be within 30 days of the subject transaction Note date.
- 6 months liquid reserves must be verified for the PITIA of the departure residence.

DEPARTURE RESIDENCE SUBJECT TO GUARANTEED BUY-OUT WITH CORPORATION RELOCATION

In order to exclude the payment for a borrower's primary residence that is part of a Corporate Relocation the following requirements must be met:

- Copy of the executed buy-out agreement verifying the borrower has no additional financial responsibility toward the departing residence once the property has been transferred to a third party.
- Guaranteed buy-out by the third party must occur within 4 months of the fully executed guaranteed buy-out agreement.
- Evidence of receipt of equity advance if funds will be used for down payment or closing costs.
- Verification of an addition 6 months PITIA of the departure residence.

EMPLOYMENT AND INCOME

Stable monthly income must meet the following requirements to be considered for qualifying:

- Stable two year history of receiving the income
- Verifiable
- High probability of continuing for at least 3 years
- Unreimbursed business expenses must be deducted from income, regardless of income type
- When the borrower is qualifying with social security income, the SSI award letter and bank statements must be provided to document current receipt of the income

DECLINING INCOME

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

If declining income is for a non-self-employed borrower, the employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

GAPS IN EMPLOYMENT

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

- o Gaps in excess of 30 days during the past 2 years require a satisfactory letter of explanation.

  - Extended gaps of employment (6 months or greater) require a documented 2 year work history prior to the absence.
  - Exceptions may be considered on a case by case basis when the borrower is on the job less than 6 months, and the gap is less than 6 months.

GENERAL DOCUMENTATION REQUIREMENTS

- Residual income calculation requirements. All loans must meet the residual income requirement below. Residual income equals gross qualifying income less monthly debt as included in the DTI ratio. File must be documented with residual income calculations completed to determine eligibility. Can be included on the 1008.

# in Household	**1**	**2**	**3**	**4**	**5**
Required Residual	$1,550	$2,600	$3,150	$3,550	$3,700

  *Add $150 for each additional family member

- Tax transcripts for personal tax returns for 2 years are required to validate all income used for qualifying and must match the documentation in the loan file.
- Tax Payer Identification Theft
- If the 4506-T transcripts do not match the borrower's income and the borrower is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower's income:
  - Proof of identification theft, as evidenced by one of the following:
    - Proof ID theft was reported to and received by the IRS (IRS form 14039)
    - Copy of notification from the IRS alerting the taxpayer to possible identification theft
  - In addition to one of the documents above, all applicable documents below must be provided:
    - Tax Transcript showing fraudulent information
    - Record of Account from the IRS – Adjusted Gross Income and Taxable Income should match the borrower's 1040s. Validation of prior tax year's income. Income for current year must be in line with prior years.
  - In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect *No Record Found*. In these cases, an additional prior year's tax transcripts should be obtained and provided. Larch increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case by case basis.
- Income calculation worksheet or 1008 with income calculation. The Fannie Mae 1084 or Freddie Mac Form 91 or equivalent is required for self-employment analysis.
- Paystubs must meet the following requirements:
  - Clearly identify the employee/borrower and the employer
  - Reflect the current pay period and year to date earnings
  - Computer generated
  - Paystubs issued electronically via email or internet, must show the URL address, date and time printed and identifying information.
  - Year to date pay with most recent pay period at the time of application and no earlier than 90 days prior to the note date.
- W-2 forms must be complete and be a copy provided by the employer

VERIFICATION OF EMPLOYMENT REQUIREMENTS

- Requirements below apply when income is positive and included in qualifying income:
    - Verbal VOE confirming the borrower's employment status is required for all borrowers whose income is used for qualification purposes. The VVOE should be completed within 10 business days before the note date for wage income. The verbal VOE should include the following information for the borrower:
        - Date of contact
        - Name and title of person contacting the employer
        - Name of employer
        - Start date of employment
        - Employment status and job title
        - Name, phone number and title of contact person at employer
        - Independent source used to obtain employer phone number
    - Verification of the existence of borrower's self-employment must be verified through a third party source and no more than 30 calendar days prior to the note date.
        - Third party verification can be from a CPA, regulatory agency or applicable licensing bureau. A borrower's website is not acceptable third party source.
        - Listing and address of the borrower's business
        - Name and title of person completing the verification and date of verification
    - Written Verification of Employment may be required for a borrower's income sourced from commissions, overtime and or other income when the income detail is not clearly documented on W-2 forms or paystubs. Written VOEs cannot be used as a sole source for verification of employment, paystubs and W-2s are still required.
- ARM loans must include a screenshot in the loan file documenting the index used.

TAX RETURNS MUST MEET THE FOLLOWING WHEN USED FOR QUALIFYING

- Personal income tax returns (if applicable) must be complete with all schedules (W-2 forms, K-1s etc.) and must be signed and dated on or before the closing date.
- Business income tax returns (if applicable) must be complete with all schedules and must be signed.
- Unfiled tax returns:
    - For loans closed between January 1 and the tax filing date (typically April 15), borrowers must provide:
        - IRS Form 1099 and W-2 forms from the previous year.
        - Loans closing in January prior to receipt of W-2s may use the prior year's year end paystub. For borrowers using 1099s, evidence of receipt of 1099 income must be provided.
    - For loans closed between the tax filing due date (typically April 15), and the extension expiration date of October 15, borrowers must provide (as applicable):
    - Copy of the filed extension.
        - Evidence of payment of any tax liability identified on the federal tax extension form.
        - W-2 forms.
        - Form 1099, when applicable.
        - Year-end profit and loss for prior year.
        - Balance sheet for prior calendar year, if self-employed.

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

UNACCEPTABLE INCOME

Unacceptable income sources include, but are not limited to:

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

NON-SELF EMPLOYMENT DOCUMENTATION REQUIREMENTS

SALARIED INCOME

- Year to date paystub
- W-2s or personal tax returns – 2 years
- Verbal verification of employment

HOURLY AND PART-TIME INCOME

- Year to date paystub
- W-2s or personal tax returns – 2 years
- Verbal verification of employment
- Stable to increasing income should be averaged over a 2 year period

COMMISSION INCOME

- Year to date paystub
- 2 years W-2s if commissions are less than 25% of total income; or
- 2-years tax returns and W-2 forms required if commissions are ≥ 25% of the total income. Unreimbursed business expenses (form 2106) must be subtracted from income. Including Expense Account Payments. Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowances.
- Verbal verification of employment
- Stable to increasing income should be averaged for 2 years

OVERTIME AND BONUS INCOME

- Year to date paystub

- W-2s or personal tax returns – 2 years
- Verbal verification of employment
- Stable to increasing income should be averaged for the 2 years

PROJECTED INCOME

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

2106 EXPENSES

- Employee business expenses must be deducted from the adjusted gross income.

ALIMONY, CHILD SUPPORT & SEPARATE MAINTENANCE

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

ASSET DEPLETION

- Not allowed

BORROWERS EMPLOYED BY FAMILY

- Year to date paystub
- 2 years W-2s and 2 years personal tax returns
- Verbal verification of employment
- Borrower's potential ownership in the business must be addressed

CAPITAL GAINS

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

DIVIDENDS AND INTEREST INCOME

- Personal tax returns – 2 years
- Documented assets to support the continuation of the interest and dividend income

FOREIGN INCOME

- Year to date paystub
- W-2 forms or the equivalent and personal tax returns reflecting the foreign earned income. Income must be reported on 2 years US tax returns.
- Verbal verification of employment
- All income must be converted to US currency

K-1 INCOME/LOSS ON SCHEDULE E

- If the income is positive and not used for qualifying, the K-1 is not required.
- If the income is negative, the K-1s for the applicable years are required and if ownership is 25% or greater, see self-employment requirements below.

NON-TAXABLE INCOME

Non-taxable income can include child support, military rations and housing, disability, foster care, etc.

- Documentation must be provided to support continuation for 3 years.
- Income may be grossed up by applicable tax amount. Tax returns must be provided to confirm income is non-taxable.
- If the borrower is not required to file a federal tax return, gross-up to 25%.

NOTE INCOME

- Copy of the note must document the amount, frequency and duration of the payment.
- Evidence of receipt for the past 12 months and evidence of the note income must be reflected on personal tax returns.
- Note income must have a 3 year continuance.

RENTAL INCOME

All properties (except departing primary residence)

- Lease agreements must be provided if rental income is used for qualifying purposes.
  - Current lease for each rental property, including commercial properties listed in Part 1 of Schedule E of the 1040s. Rent rolls are not allowed.
  - If the current lease amount is less than the rental income reported on the tax returns, justification for using the income from the tax returns must be provided and warrant the use of the higher income. If there is no justification, the lease amount less expenses will be considered for rental income/loss.
- Personal tax returns – 2 years
  - For properties listed on Schedule E, rental income should be calculated using net rental income + depreciation + interest + taxes + insurance + HOA divided by applicable months minus PITIA.
  - If rental income is not available on the borrower's tax returns, net rental income should be calculated using gross rents X75% minus PITIA.
- Net rental income may be added to the borrower's total monthly income. Net rental losses must be added to borrower's total monthly obligations.
- If the subject property is the borrower's primary residence and generating rental income, the full PITIA should be included in the borrower's total monthly obligations.

RENTAL INCOME – DEPARTING PRIMARY RESIDENCE

- If the borrower is converting their current primary residence to a rental property and using rental income to offset the payment the following requirements apply:
    - Borrower must have documented equity in the departure residence of 25%.
        - Documented equity may be evidenced by an exterior or full appraisal dated within 6 months of the subject transaction; or
        - Documented equity may be evidenced by the original sales price and the current unpaid principal balance.
        - Copy of current lease agreement.
        - Copy of security deposit and evidence of deposit to borrower's account.

RESTRICTED STOCK AND STOCK OPTIONS

- May only be used as qualifying income if the income has been consistently received for 2 years and is identified on the paystubs, W-2 and tax returns as income and the vesting schedule indicates the income will continue for a minimum of 3 years at a similar level as prior 2 years.
- A 2 year average of prior income received from restricted stock units or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the 52 week low for the most recent 12 months reporting at the time of closing. The income for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.
- Vested restricted stock units and stock options (vested) cannot be used for reserves if using for income to qualify.

RETIREMENT INCOME

Pension, annuity, 401(k), IRA distributions, etc.

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

If any retirement income will cease within the first 3 years of the loan, the income may not be used.

SOCIAL SECURITY INCOME

- Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first 3 years of the loan, the income may not be used.
- If SSA Benefit verification letter does not indicate a defined expiration date within three years of loan origination, the creditor shall consider the income effective and likely to continue. Pending or

current reevaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.

- Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least 3 years.
- Bank statements must be provided to document current receipt of the income

TRUST INCOME

- Income from trusts may be used if guaranteed and regular payments will continue for at least 3 years.
- Regular receipt of trust income for the past 12 months must be documented.
- Copy of trust agreement or trustee statement showing:
  - Total amount of borrower designated trust funds
  - Terms of payment
  - Duration of trust
- Portion of income that is non-taxable. Non-taxable trust income must include proof of distribution.

SELF EMPLOYMENT

Self-Employed borrowers are defined as having 25% or greater ownership or receive 1099 statement to document income. The requirements below apply for Self-Employed borrowers.

Income calculations should be based on the Fannie Mae Form 1084 or Freddie Mac Form 91 or equivalent income calculation form.

Year to date is defined as the period ending as of the most recent tax return through the most recent tax return through the most recent quarter ending 1 month prior to the note date. For tax returns on extension the entire unfiled year is also required. For example: 2014 returns in file and note date is 7/14/2015 would require 2015 YTD documentation through first quarter or through March 31, 2015. Note date of 8/14/2015 would require YTD documentation covering first and second quarter or through June 30, 2015.

SOLE PROPRIETORSHIP

- 2 years personal tax returns, signed on or before the closing date
- Year to date profit and loss statement
- Year to date balance sheet. Tax returns for prior year is not a substitute for balance sheet if most recent quarter falls in previous tax year.
- Stable to increasing income should be averaged for 2 years

Year to date profit and loss and year to date balance sheet may be waived if the borrower is a 1099 paid borrower who doesn't actually own a business if all of the following requirements are met:

- Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
- Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a (Mortgage Interest, 20 (Rent/Lease) 26 (Wages) must indicate the borrower does not have expenses in these categories.
- Analysis of Blocks 17 (Legal and Professional Services) and Block 18 (Office Expense) indicate nominal or $0 expense.
- Block C (Business Name) does not have a separate business name entity.
- Year to date income in the form of a written verification of employment or pay history is provided by the employer paying the 1099. Year to date income must support prior year's income.

PARTNERSHIP/S-CORPORATION

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

CORPORATION

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

TRAILING CO-BORROWERS

- Income from trailing co-borrowers will not be considered.

MULTIPLE FINANCED PROPERTIES

- The borrower(s) may own a total of 4 financed, 1 to 4 unit residential properties including the subject property and regardless of the occupancy type of the subject property.
- All financed 1 to 4 unit residential properties require an additional 3 months reserves for each property, unless the exclusions below apply.
    - 1 to 4 unit residential financed properties held in the name of an LLC or other corporation can be excluded from the number of financed properties only when the borrower is not personally obligated for the mortgage.
    - Ownership of commercial or multifamily (5 or more units) real estate is not included in this limitation.
- Non purchasing spouse properties will be included.

PROPERTIES LISTED FOR SALE

- Properties currently listed for sale at the time of application are not eligible.
- Properties listed for sale within 6 months of the application date are acceptable if the following requirements are met:
    - Rate and term refinance only
    - Primary and second homes only
    - Documentation provided to show cancellation of listing

    - Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing
- Cash-out refinances are not eligible if the property was listed for sale within 12 months of the application date.

ASSETS

Beyond the minimum reserve requirements and in an effort to fully document the borrowers' ability to meet their obligations, borrowers should disclose all liquid assets. Large deposits inconsistent with monthly income or deposits must be verified if using for down payment, reserves or closing costs. Lender is responsible for verifying that large deposits did not result in any new undisclosed debt.

Asset Type	% Eligible for Calculation of Funds	Additional Requirements
Checking/Savings/Money Market/CDs	100%	Two months most recent statements.
Stocks/Bonds/Mutual Funds	100%	Two months most recent statements. Non-vested stock is ineligible.
Retirement Accounts (401(k), IRAs, etc.)	If borrower is > 59 1/2, then 70% of the vested value after the reduction of any outstanding loans. If borrower is < 59 ½, then 60% of the vested value after the reduction of any outstanding loans.	• Most recent statement(s) covering a two month period. • Evidence of liquidation if using for down payment or closing costs. • Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves.
Cash Value of Life Insurance/Annuities	100% of value unless subject to penalties.	Most recent statement(s) covering a two month period.
1031 Exchange	Allowed on second home and investment purchases only. Reverse 1031 exchanges not allowed.	• HUD-1/CD for both properties. • Exchange agreement. • Sales contract for exchange property. • Verification of funds from the Exchange Intermediary.
Business Funds	• 100% for down payment/closing costs. • Cannot be used for reserves.	• Cash flow analysis required using most recent three months business bank statements to determine no negative impact to business. • Business bank statements must not reflect any NSFs or overdrafts. • Borrower must be 100% owner of the business.
Gift Funds	• Gift funds may be used once borrower has contributed 5% of their own funds. • Gift funds not allowed for reserves. • Gift funds not allowed on LTVs >80%. • Gift funds not allowed on investment properties.	• Donor must be immediate family member, future spouse or domestic partner. • Executed gift letter with gift amount and source, donor's name, address, phone number and relationship. • Document sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. • Acceptable documentation includes the following:

Asset Type	% Eligible for Calculation of Funds	Additional Requirements
		o Copy of donor's check and borrower's deposit slip. o Copy of donor's withdrawal slip and borrower's deposit slip. o Copy of donor's check to the closing agent. o A settlement statement/CD showing receipt of the donor's gift check.

APPRAISAL REQUIREMENTS

Purchase Transactions	
Loan Amount	**Appraisal Requirement**
≤$2,000,000	One Full Appraisal
> $2,000,000	Two Full Appraisals

Refinance Transactions	
Loan Amount	**Appraisal Requirement**
≤$1,500,000	One Full Appraisal
>$1,500,000	Two Full Appraisals

- Appraisal is required on the applicable standard Fannie Mae form #1004 (Rev. 5/2005). All 2-unit properties must be submitted on Form #1025. All condominiums must be submitted on Form #1073 (Rev. 5/2005). No other limited appraisals (including Form #2055, 2095 and 1075) will be accepted.
- Interior photos must be included of all rooms.
- Transferred appraisals are not allowed. Appraisals must be completed for the subject transaction.
- Broker and non AIR compliant Correspondent appraisals must be ordered through Loantrac. Appraisals will be eligible from any approved AMC listed in *Appraisal Management Companies*, Doc. #4903.
- Appraiser must address current MLS listing price and history in the report.
- If transaction includes seller concessions the appraiser must include comps that had seller concessions.
- Escrow holdbacks are not eligible.
- Appraisals identified as being located in a declining market should be given additional scrutiny to ensure the value is supported by the most recent sales and market data and that all of the appraiser comments are taken into consideration.
- If the appraisal indicates subject property is in a flood zone, but CoreLogic Flood Determination does not, a corrected appraisal is required.
- A minimum of three comparable sales (must be actual closed sales).
- For properties within a condominium or PUD project at least one comparable sale that is outside the development must be provided.
- Properties listed for sale:
  - Properties currently listed for sale at time of application are not eligible.

  - Properties listed for sale within 6 months of the application date are acceptable if the following requirements are met:
    - Rate and term refinance only
    - Primary and second homes only
    - Documentation provided to show cancellation of listing
    - Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing.
  - Cash-out refinances are not eligible if the property was listed for sale within 12 months of the application date.
- Appraisals must be dated within 120 days from date note is signed. After the 120 day period a new appraisal will be required. Re-certification of value is not acceptable.
- The appraisal must analyze and report in reasonable detail the sales history for the past 36 months for the subject property and the last 12 months for any comparable sales used in the report.
- The appraisal must analyze any current purchase agreement, option or listing for the subject property within the last 12 months.
- The loan officer is responsible for ensuring that the appraisal vendor is made aware of the requirements of this program when placing their order. Flagstar will not request enhancements to reports that do not meet program guidelines, nor be responsible for any fees incurred to update an appraisal report to comply with these requirements.
- For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, the following requirements apply:
  - Second appraisal is required – see additional requirements when two appraisals are required below.
  - Property seller on the purchase contract is the owner of record.
  - Increases in value should be documented with commentary from the appraiser and recent paired sales.

  The above requirements do not apply if the property seller is a bank that received the property as a result of foreclosure or deed-in-lieu.

All appraisals for loans under this product, with loan amounts greater than $1,000,000 are reviewed by the Appraisal Review Department. Please allow additional time for loan approval. All others can be reviewed by underwriting.

- A Collateral Desktop Analysis (CDA), Value Reconciliation or Broker Price Opinion (BPO) from Clear Capital is required per *Clear Capital Product Requirement – Jumbo & Doctor Loans*, Doc. #4910.
- Additional requirements when subject is an investment property:
  - Appraiser to provide rent comparable schedule.
- See *Site Condo Requirements* above for additional requirements when the subject property is a site condo.
- Additional requirements when two appraisals are required:
  - Two separate appraisal orders are required.
  - Appraisals may be completed from the same AMC but not the same appraisal company.
  - The LTV will be determined by the lesser of the two appraised values as long as the lower appraisal supports the value conclusion.
  - Both appraisal reports must be reviewed and address any inconsistencies between the two reports and all discrepancies must be reconciled.

AIR compliant Correspondent appraisals must meet the following guidelines.

- When one appraisal is required:
  - o Appraisal is not required to be ordered from one of our approved AMCs.
- Additional requirements when two appraisals are required:
  - o Two separate appraisal orders are required. However, appraisals may be completed from the same AMC.
  - o Only one appraisal is required to be ordered from one of our approved AMCs.
  - o Appraisal Review will review both appraisals and upon acceptance of both appraisals, the lower value of the two will be considered.
- Appraiser must be licensed in state in which property is located.
- Broker/Correspondent is responsible for selecting, retraining and payment to appraiser.
- Broker/Correspondent cannot influence outcome of appraisal.
- Appraiser cannot have direct interest in property or transaction.
- Appraisals must be delivered to the applicant per Regulation B §1002.14: Rules on providing appraisal reports.

SURVEY REQUIREMENTS

If title work/purchase agreement requires a survey, a copy must be provided.
Survey exceptions on title render a loan ineligible for purchase. Any encroachment or restriction violations mentioned in the title policy must have insuring language.

If any survey includes an exception or encroachment the final title policy must include an ALTA 9 endorsement.

LENDER/SELLER CREDITS

Lender/seller credits must be itemized when requesting funds.

TEXAS REFINANCE LOANS

All refinance loans in Texas will be evaluated against the criteria outlined in our *Conventional Underwriting Guidelines*, Texas Home Equity/50(a)(6) Right of Rescission section to determine whether or not they must be originated under the requirements of Section 50(a)(6) of the Texas Constitution. Loans that fall under Section 50(a)6 are not eligible.

STATE ELIGIBILITY

Available with the following geographic restrictions

State	Restriction
Hawaii	Appraisal must indicate whether property is located in a lava flow zone as defined by the United States Geological Survey. Properties located in a lava flow zone 1 or 2 are not eligible.
Virgin Islands	Not Eligible

PREPAYMENT PENALTY

None

ADJUSTABLE RATE DETAILS

<table>
<tr><td rowspan="3">Interest Rate Adjustment Caps</td><td>5/1 ARM</td><td rowspan="3">Initial: 2% up/down; Subsequent: 2% up/down; Lifetime: 5% up</td></tr>
<tr><td>7/1 ARM</td></tr>
<tr><td>10/1 ARM</td></tr>
<tr><td>Margin</td><td colspan="2">See Price Indication Sheets</td></tr>
<tr><td>Index</td><td colspan="2">1-Year LIBOR (London InterBank Offer Rate)</td></tr>
<tr><td>Interest Rate Floor</td><td colspan="2">The interest rate floor is equal to the Margin</td></tr>
<tr><td rowspan="3">Change Dates</td><td colspan="2">5/1 ARM
The first change date is the 60th payment due date. There is a new change date every 12 months thereafter.</td></tr>
<tr><td colspan="2">7/1 ARM
The first change date is the 84th payment due date. There is a new change date every 12 months thereafter.</td></tr>
<tr><td colspan="2">10/1 ARM
The first change date is the 120th payment due date. There is a new change date every 12 months thereafter.</td></tr>
<tr><td>Conversion Option</td><td colspan="2">None</td></tr>
<tr><td>Assumption</td><td colspan="2">Subject to conditions, fees and rate adjustment</td></tr>
<tr><td>Negative Amortization</td><td colspan="2">None</td></tr>
</table>

CLOSING DOCUMENTATION – CORRESPONDENT TRANSACTIONS

Closing docs may be ordered through Flagstar's Web-Based Closing Docs (WBCD) service available on Loantrac.

FIXED RATE LOANS

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Fannie Mae/Freddie Mac multi-state Fixed Rate Note, 3200-series
- Standard title commitment with all applicable endorsements

ADJUSTABLE RATE LOANS

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Fannie Mae/Freddie Mac Note 3528
- Fannie Mae/Freddie Mac Rider 3187
- Standard title commitment with all applicable endorsements

IF APPLICABLE

- Fannie Mae/Freddie Mac multi-state Condo Rider, Form #3140
- Fannie Mae/Freddie Mac Multi-state PUD Rider, Form #3150
- Fannie Mae/Freddie Mac multi-state 1-4 Family Rider, Form #3170
- Fannie Mae-Freddie Mac multi-state Second Home Rider, Form #3890