Caliber Home Loans

Portfolio Manual Underwriting Guidelines

Table of Contents

1 Program Overview

1.1 Introduction

These underwriting guidelines are designed to provide responsible credit to borrowers currently underserved by traditional Agency/Government/Prime Jumbo markets. The guidelines ensure that all borrowers demonstrate a clear ability to repay the loan while providing flexibility to the lender to provide solutions for borrowers. These guidelines are for the purchase and/or refinancing of a primary residence, second home or investment property.

1.2 Program Summaries

These guidelines provide the general underwriting requirements and are to be used in conjunction with the Caliber Portfolio Lending Program Summaries, which define eligibility based on the borrower's credit profile. Refer to the Fannie Mae Conventional Conforming Guidelines for any subject not addressed in this guide.

1.3 Ability to Repay

All loans originated under these guidelines must meet the general underwriting standards of the Dodd-Frank Act Ability to Repay Rule ("ATR Rule", Regulation Z Part 1026.43) which requires the underwriter to make a "reasonable and good faith determination…that the borrower will have a reasonable ability to repay the loan according to its terms" taking into consideration each of the following eight factors:

(1) Current or reasonably expected income or assets, other than the value of the dwelling

(2) Current employment status (if relying on income)

(3) Monthly mortgage payment for the loan in question

(4) Monthly payments on other loans secured by the same property

(5) Monthly payments for "mortgage-related obligations" (i.e. property taxes, insurance and home association fees, ground rent, etc.)

(6) Debts, alimony or child support obligations

(7) Monthly debt-to-income ratio or residual income, that was calculated using the total of all the mortgage and non-mortgage obligations as a ratio of gross monthly income

(8) Credit History

Verification: The underwriter must verify the information that the underwriter relies on in determining a borrower's repayment ability using "reasonably reliable third-party records." Further, the underwriter must verify the amounts of income or assets using "third party records that provide reasonably reliable evidence of the borrower's income or assets".

Appendix Q to the ATR Rule is used as the general basis for analyzing the income and debt of the consumer under these guidelines in order to determine whether the foregoing eight factors have been considered, without regard to whether the loan may otherwise be a "qualified mortgage" as that term is defined under the ATR Rule.

1.4 Assumable

An assumable note is allowed on ARM products per Fannie Mae.

1.5 Underwriter ATR Attestation

Each underwriter of a closed loan must certify to considering each of the eight Ability-to-Repay considerations. See Appendix A for sample Underwriter ATR Attestation that must be executed by the underwriter associated with the loan and included in the underwriting loan file.

1.6 Underwriting

All loans must be manually underwritten.

1.7 Third Party Originations

Third-Party Origination (TPO) loans are allowed.

1.8 Age of Documents

- Credit Documentation: All credit documentation must be dated within 90 days of closing.
- Asset Statements: The most recent asset statement to verify the source of funds or reserves must be dated no more than 30 calendar days earlier than the date of the loan application, and not more than 90 days earlier than the date of the Note. Utilization of a quarterly statement is permissible.

- Income Documentation: The most recent income documentation including paystubs and P&L reports, must be dated no more than 30 calendar days earlier than the date of the loan application, and not more than 90 days earlier than the date of the Note.

1.9 Escrow Waiver Policy

- Escrow waivers for taxes and insurance are allowed on specific programs; see Program Summaries for details.
- Escrow waivers are not allowed on Higher Priced Mortgage Loans as defined by 12 CFR 1026.35 ("HPML"). Per HPML requirements, an escrow account must be established before consummation of the loan for payment of property taxes and premiums for mortgage-related insurance required by Caliber.

1.10 Exception Policy

Exceptions are permitted to these underwriting guidelines only to the extent that one or more of the following compensating factors exist to address the documented exception to the underwriting guidelines:

- Loan-to-value ratio significantly below the maximum ceiling allowed for the program
- Verified and documented cash reserves substantially in excess of the requirements
- Debt-to-income ratio significantly below forty-three percent (43%)
- Verified and documented residual income in excess of the amount required
- Verified and documented consistent mortgage payment history by the borrower at the borrower's current location
- The borrower receives documented compensation or income that is not reflected in effective income, but directly affects his/her ability to pay the mortgage. This type of income may include food stamps and similar public benefits.
- There is a decrease or a minimal increase in the borrower's monthly housing expense.

All loans underwritten in accordance with these guidelines, including those with exceptions, must be underwritten to comply with the ATR Rule.

Exceptions are not intended to allow an ineligible borrower to gain approval for the purpose of obtaining better pricing. Underwriters and Underwriting Managers are expected to evaluate the borrower(s) eligibility and credit worthiness for placement within the appropriate loan program that aligns with the borrower(s) credit profile regardless of pricing.

2 Transaction Eligibility

2.1 Purchase

- Definition: Each transaction in which the borrower(s) purchases a home as a primary residence, second home, or investment property.
- Non-Arm's Length: A non-arm's length transaction is allowed on a primary residence only. If a reasonable explanation of the non-arm's length transaction is not included in the underwriting loan file, Underwriter should request a letter of explanation, providing reasonable explanation for the nature of the non-arm's length transaction. A non-arm's length transaction is not permitted if the subject property is in foreclosure or a Notice of Default has been filed. The underwriting loan file must include all the following documentation:
  - Copy of the canceled earnest money check to verify payment to the seller.
  - Verification that the borrower is not now on title and has not been on title within the past 24 months.
  - Payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be obtained. It must show that the loan is paid current and has no pattern of delinquency within the past 12 months. If the existing mortgage is owned free and clear, then evidence of clear title is required.
  - Borrower must provide a written explanation stating the relationship to the seller and the reason for purchase.
- Investment Property: The purchase contract may include an addendum for a Model Home leaseback with the following restrictions:
  - Only allowed for the borrower to lease back the model home to the builder. The borrower may not be the builder or employed by the builder.
  - The leaseback is limited to 180 days.
  - If any modifications to that property are needed, the leaseback must include a builder provision to convert the home back to a livable space within 180 days.
  - Max LTV is the lessor of the program max or 80% LTV.
  - Max Loan Amount: See Program Summaries for maximum loan amounts

2.2 Refinance Net Tangible Benefit

A Net Tangible Benefit is required for all refinance transactions.

- Examples of a Net Tangible Benefit include but are not limited to: a 5% reduction in PITIA, a 5% reduction in DTI, a 2% reduction in rate, a reduced term, and/or a change from an ARM to a fixed rate mortgage that results in a financial benefit to the Borrower.
- Cash-Out Refinance: If one of the above net tangible benefits is not met, then the amount of the cash-out must equal at least twice the borrower's cost for completing the transaction.
- Debt Consolidation Refinance: The debt consolidation refinance must result in (i) an increase in residual income and (ii) a decrease in the DTI ratio (after taking into consideration repayment of the recurring obligations that will be paid off through the debt consolidation).
- Underwriter must execute a Net Tangible Benefit acknowledgment form and include it in the underwriting loan file.

2.3 Rate/Term Refinance

These guidelines allow for a rate/term refinance on a primary residence, second home, or investment property. See Program Summaries for specific requirements:

- Definition: Each transaction in which the borrower(s) pays off one or more pre-existing mortgage loans (i.e. first and second lien) regardless of seasoning.
- NY Consolidation, Extension, and Modification Agreement (CEMA) rate/term refinance transactions are allowed.
- Max Cash to Borrower: Borrower can only receive up to the lesser of (i) 2% of the new loan amount and (ii) $2,000 back after payment of preexisting mortgage liens, recurring obligations and closing costs.
- There is zero cash back allowed for primary/homestead refinance transactions in the state of Texas. Rate/Term refinances on Texas primary/homestead residences when the borrower is refinancing an existing 50(a)(6) lien or Home equity lien must be treated as a Texas 50(a)(6) loan.
- Max Loan Amount: See Program Summaries for maximum loan amounts.
- Listed for Sale: If the property was previously listed for sale, the listing agreement must be canceled on or before the application date. A copy of the canceled/expired listing should be placed in the underwriting loan file to verify that the property is not currently listed for sale.
- Evidence of continuity of obligation is not required; however, evidence that the borrower is the owner of record on title is required.
- A net tangible benefit is required. Refer to Refinance Net Tangible Benefit.

2.4 Cash-Out Refinance

These guidelines allow for cash-out refinance transactions; however, restrictions on LTV, DTI and FICO are applicable to cash-out refinance transactions. See Program Summaries for specific requirements.

- Definition: Each transaction in which the borrower(s) pays off the mortgage amount which may include the present first mortgage payoff, subordinate liens, closing costs, payoff of debt and additional cash to the borrower and the borrower(s) receives more than the lesser of (i) 2% of the new loan amount and (ii) $2,000 after paying off existing mortgage loans (i.e. first and second) and closing costs.
- NY CEMA cash-out refinance transactions are allowed.
- Max Cash to Borrower: See Program Summaries for maximum cash back.
- Cash-out refinances on Texas primary/homestead residences must be treated as a Texas 50(a)(6) loan.
- Max Loan Amount: See Program Summaries for maximum loan amounts.
- Listed for Sale: If the property was previously listed for sale, the listing agreement must be canceled at least six months prior to the application date. A copy of the canceled/expired listing should be placed in the underwriting loan file to verify that the property is not currently listed by a different agency.
- Seasoning Requirement: All borrowers must have 6 months seasoning on title, provided that there is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- Note: The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation.
- A net tangible benefit is required. Refer to Refinance Net Tangible Benefit.

2.5 Debt Consolidation Refinance

A debt-consolidation cash-out refinance of a property is allowed to follow rate/term refinance pricing, LTV and FICO guidelines so long as the following conditions are met:

- Definition: Each transaction in which the borrower(s) pays off one or more pre-existing mortgage loans (i.e. first and second liens), closing costs, payoff debt and additional cash to the borrower.
- Max Cash to Borrower: Borrower can only receive up to the lesser of (i) 2% of the new loan amount and (ii) $2,000 back after payment of preexisting mortgage liens, recurring obligations and closing costs.
- There is zero cash back allowed for primary/homestead refinance transactions in the state of Texas. Debt Consolidation refinances on Texas primary/homestead residences when the borrower is refinancing an existing 50(a)(6) lien or Home equity lien must be treated as a Texas 50(a)(6) loan.
- Max Loan Amount: The maximum total mortgage loan amount is $750,000.

- Total Amount of Debt Consolidation: Total amount of recurring obligations to be paid off by the borrower cannot exceed $100,000 (excluding mortgage liens).
  - Direct Payment of Debt: Installment and revolving accounts may be paid off. All recurring obligations to be paid off must be listed on the Closing Disclosure. Evidence of the direct payment must be in the underwriting loan file. Revolving accounts do not need to be closed.
  - Partial Debt Pay Down: Installment and revolving accounts may be paid down; however, if the account is not paid off, then the DTI must be calculated using the current balance on the credit report. Borrower must pay off the entire balance of the tradeline(s) indicated to be paid in order to exclude the obligation from the Debt-to-Income Ratio.
- Listed for Sale: If the property was previously listed for sale, the listing agreement must be canceled at least six months prior to the application date. A copy of the canceled/expired listing should be placed in the underwriting loan file to verify that the property is not currently listed by a different agency.
- Seasoning Requirements: Borrower must have owned the property at least 24 months.
- Debt-to-Income Ratio: Borrower's DTI after taking into consideration full repayment of recurring obligations that will be paid off through the debt consolidation can be no greater than 35%.

2.6 Delayed Financing

Treated as a rate/term refinance so long as the following conditions are met:

- Definition: Each transaction in which a property was originally acquired in an all cash transaction within the past 12 months, and the purpose of the refinance is to return cash to the borrower.
- Delayed financing on a primary residence/homestead in Texas must be treated as a cash-out transaction under Texas 50(a)(6) guidelines.
- Note: If the appraiser denotes a declining market, the transaction must be treated as a cash-out refinance transaction.
- Max Loan Amount: The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.
- Max Cash to Borrower: Rate/Term cash back restriction does not apply.
- Listed for Sale: If the property was previously listed for sale, the listing agreement must be canceled at least six months prior to the application date. A copy of the canceled/expired listing should be placed in the underwriting loan file to verify that the property is not currently listed by a different agency.
- Seasoning: Borrower must have owned the property less than 12 months.

- Disclosures and Documentation: The original purchase transaction must be documented by a Closing Disclosure, which confirms that no mortgage financing was used to obtain the subject property.
  - Sources of funds for the prior purchase must be documented.
  - The preliminary title search or report must confirm that there are no existing liens on the subject property.
  - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the Closing Disclosure for the refinance transaction must reflect that all cash-out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- Borrower Requirements:
  - The original purchase transaction was an arms-length transaction.
  - The borrower(s) may have initially purchased the property as one of the following:
    - a natural person;
    - an eligible inter vivos revocable trust, where the borrower(s) is both the individual establishing the trust and the beneficiary of the trust;
    - an eligible land trust where the borrower(s) is the beneficiary of the land trust; or
    - an LLC or partnership in which the borrower(s) has an individual or joint ownership of 100%.

2.7 Subordinate Financing

Subordinate financing is not allowed.

2.8 Ineligible Transactions

- Temporary buy downs
- Conversion (modification) loans
- Construction loans
- Balloon Mortgages
- Pre-payment penalties
- This transaction may not be an assumption

2.9 Compliance with Law

Each mortgage loan must comply with all applicable federal, state and local laws, as amended from time to time, including, without limitation, usury, truth-in-lending, real estate settlement procedures, borrower credit protection, equal credit opportunity, predatory and abusive lending laws and disclosure laws in effect at the time of origination.

High-Cost Loans: "High-Cost" loans, "Covered" loans, or any other similarly designated loan as defined under any federal, state or local law will NOT be eligible. Section 32 (HOEPA) loans or state high cost loans are not allowed.

Higher-Priced Mortgage Loans: A "Higher-Priced" loan or any other similarly designated loan as defined under any federal, state or local law will be eligible for purchase so long as it meets all requirements of law including that an escrow of funds for taxes and insurance has been required by the lender in compliance with federal, state or local law. Total points and fees must be less than 5%.

State Restrictions:

- Loans that exceed the New York Subprime or Maine higher priced thresholds are not permitted on primary residences.
- Loans in Massachusetts are not permitted.

2.10 Chain of Title

All transactions require a 12 month chain of title.

- Preliminary Title or Title Commitment must be no more than 60 days from the note date. A date down endorsement/title supplement is required after 60 days.
- Property seller on the purchase contract or borrower (on a refinance) must be the owner of record on title.

2.11 Construction to Permanent Financing

A refinance loan in which the proceeds are used to obtain permanent financing upon completion of the improvements (construction to permanent) is allowed. The permanent financing may be used to:

- Pay off any existing liens on the land and on the improvements,
- Pay all transaction costs, such as Closing Costs, Financing Costs and/or Prepaids/Escrows
- Pay construction or renovation costs of the site-built home

Construction to permanent financing which includes a modification to the note is not allowed. Construction loans are not allowed.

2.12 Interested Party Contributions ("IPC")

Amounts in excess of the below limits or additional cash back to the borrower for any contributions that exceed the actual amount of closing costs are considered to be sales concessions and must be treated accordingly (deducted from sales price when calculating LTV).

Primary or Second Homes:

- LTV > 90% have a maximum 3% IPC limit
- LTV ≤ 90% have a maximum 6% IPC limit

Investment Property:

- All LTVs have a maximum 2% IPC limit

3 Borrower Eligibility

3.1 US Citizens / Permanent Resident Aliens

US Citizens and Permanent Resident Aliens are eligible if the borrower is a natural person (i.e. no LLC, Trusts, Partnership, etc.).

3.2 First Time Homebuyers

An individual that has not had a mortgage or owned a home in the past three years. First Time Homebuyer United States Citizens / Permanent Resident Aliens are eligible.

- Refer to Home-buyer Education and Counseling section for homebuyer education requirements.
- Refer to Payment Shock section for payment shock requirements.

3.3 Non-Permanent Resident Aliens

Non-Permanent Resident Aliens are eligible if they meet the following parameters:

- Permitted on primary residences and second homes so long as the following requirements are met:
- A valid social security number or an individual taxpayer identification number (ITIN) is required. However, a social security card may not be used as evidence of employment eligibility.
- Minimum one year history of credit and employment in the United States is required for a wage earner or 2 years of employment history for a self-employed borrower.
- All non-permanent resident aliens and ITIN borrowers must provide evidence of a valid, acceptable Visa or EAD as listed within documentation requirements below.

- When utilizing an acceptable Visa, a copy of the unexpired visa and a copy of passport must be included in the underwriting loan file. The following are acceptable visa classifications:
  - 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 Series (E-1, E-2) Treaty Trader - This visa is essentially the same as an H-1 or L-1. The title refers to the foreign country's status with the United States.
  - G series (G-1, G-2, G-3, G-4, G-5) - These visas are given to employees of international organizations that are located in the United States. Some examples include the United Nations, Red Cross, World Bank, UNICEF and the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant’s employer and/or by viewing the applicant’s passport.
  - H-1, Temporary Worker - This is the most common visa given to foreign citizens who are temporarily working in the United States.
  - L-1, Intra-Company Transferee - An L-1 visa is given to professional employees whose has offices both in the United States and in a foreign country
  - TN, NAFTA visa - Used by Canadian or Mexican citizens for professional or business purposes.
  - TC, NAFTA visa - Used by Canadian citizens for professional or business purposes
- I-797 documents can be utilized in lieu of a visa if it meets the following criteria:
  - I-797 evidences an approval for an acceptable visa class.
  - The approval term is not expired.
- Employment Authorization Documents are permitted as long as they meet the following criteria:
  - If the borrower has been within the United States less than 2 years, a copy of a Passport used to enter the country and a copy of the I-94 issued by the United States Citizenship and Immigration Services (USCIS) are required.
  - If the borrower has been within the United States for 2 or more years, copies of the current and previous EAD cards are required.
- Loans to non-citizens who have been granted political asylum require underwriting to non-permanent resident alien guidelines. A grant of asylum is for an indefinite period. Asylees and refugees must provide:
  - Unexpired Arrival and Departure Records (INS Form I-94); and
  - Copies of their employment authorization documents.
- If the authorization for temporary residency status will expire within 3 months or if it is set to expire, confirmation from USCIS that employer has re-filed petition of extension is required. If there are no

prior renewals, proof of a three-year continuance must be determined, based on information from USCIS.

- All non-permanent resident aliens must meet income requirements, including the likelihood of continued receipt of the income for at least three years.
- An individual classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole is not eligible. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the United States Department of State's Diplomatic List at https://2009-2017.state.gov/s/cpr/rls/dpl/69457.htm.
- Non-permanent residents must be employed in the United States
- If a non-permanent resident alien is borrowing with a United States citizen, it does NOT eliminate or reduce any other non-permanent resident alien documentation requirements.
- Borrowers residing in United States under Deferred Action for Childhood Arrivals program (DACA) are ineligible.

3.4 Co-Borrower(s)

Co-borrowers are eligible if more than one borrower will be obligated for the loan; the credit, income and assets of each co-borrower must be reviewed and verified similarly to the requirements set forth herein for each borrower. However, if a co-borrower (whether self-employed or a wage earner) is not utilizing income or assets to qualify but will be obligated for the loan, no income or asset documentation is required to be included in the underwriting loan file.

3.5 Non-Occupant Co-Borrowers

Non-occupant co-borrowers are eligible if the borrowers and non-occupant co-borrowers execute the Note and Security Instrument.

- Income: Non-occupying co-borrower's income may be used for qualifying purposes.
- Assets: Non-occupying co-borrower's assets may be used to meet minimum borrower contribution requirements.
- DTI: Non-occupying co-borrower's liabilities must be included in the combined DTI. Maximum combined DTI of lessor of 45% or applicable program maximum.
- Family: Non-Occupant co-borrowers must be a relative, or a letter of explanation must be submitted in the underwriting loan file evidencing sufficient information to establish connection between occupant and non-occupant.
    - Relative: borrower's spouse, child, or other dependent or any other person who is related to the borrower by blood, marriage, adoption, or legal guardianship, domestic partner, fiancé, or fiancée.

- Non-occupant co-borrower must have 6 months seasoning on title for a cash-out transaction.

3.6 Maximum Borrowers

Maximum number of borrowers is four.

3.7 Ineligible Borrowers

Ineligible Borrowers include but are not limited to:

- Irrevocable or blind trusts
- Limited Liability Partnerships (LLPs) and Limited Liability Corporations (LLCs)
- General Partnerships, Corporations
- Foreign Nationals or tourists that do not meet the USCIS documentation requirements as defined in the Non-Permanent Resident Alien section of Borrower Eligibility (above)
- An individual classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parolee
- Non-Permanent Resident Aliens on investment properties

3.8 Title Vesting

The following are eligible:

- Persons
- Joint Tenants
- Inter Vivos Revocable Trust
    - Living ("inter-vivos") trusts must comply with local state regulations and the following requirements to be eligible for financing.
    - To be eligible the borrower must be:
        - The settler, 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.
    - Eligible borrowers include:
        - 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.
- Eligible property includes:
  - All occupancy and property types
- The following is required:
  - The trust was validly created and is duly existing under applicable law,
  - 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 an underwriter to review and rely on an abstract or summary of trust documents instead of the trust agreements must be provided in the underwriting loan file.

3.9 Number of Financed Properties

Number of Borrower Financed Properties: The borrowers are subject to limitations on the total number of properties that they can have financed at any given time.

- Primary Residence: Unlimited current financed properties.
- Second Home: Maximum 10 current financed properties (including subject transaction).
- Investment Property: Maximum 10 current financed properties (including subject transaction). Greater than 10 financed properties will be considered on an exception basis.
- All Occupancy Types: Maximum 5 financed properties or $3,000,000 in unpaid principal balance with Caliber (including subject transaction).
- Investment Property: Landlord History: If using rental income to qualify, borrowers with less than a 12-month history of managing multiple investment properties are limited to 4 acquired/currently owned properties in the last 12 months.

4 Property Eligibility

4.1 Eligible Property Types

- All properties subject to following restrictions:
  - All properties must have zoning which is common for the area.
  - If the land value of any property exceeding 5 acres exceeds 35% of the total property value, appraiser must confirm that the land-to value ratio is common/typical for the subject market area; however, the land value may not exceed 50% of the total property value.
  - Properties on privately owned and maintained streets require a private road maintenance agreement, except for properties in California. If the property is located within a state, other

than California, that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required as long as the statutory provisions are provided in the underwriting loan file.

  - The appraiser must consider all acres of the subject property and the comparables must be of similar size.
  - The property must be appraised and the final conclusion and estimate of value must be based on the actual acreage and lot size.

- Single Family (Detached, Semi Detached, Attached)
- 2-4 units residential property
- Planned Unit Development (Detached, Attached)
- Modular Home (i.e. affixed to the land)
  - Sectional prefabricated homes that consist of multiple modules; the modules are constructed at an off-site facility then delivered to the intended site of use with construction of the prefabricated sections completed on site. The module sections are set onto the building's foundation and joined together to make a single home per Fannie Mae.
- Leasehold Estates
- Multiple parcels allowed per Fannie Mae Conventional Conforming Guidelines
- 1 unit cooperative are allowed on primary residences and second homes (Cooperatives are not allowed in Correspondent)
  - The cost approach section on the appraisal is generally impractical for cooperative projects because each unit is an integral part of the whole project; therefore, this approach does not have to be completed for those types of properties.
- Warrantable condominiums: (Attached and Detached) Warranty must meet Fannie Mae Conforming project review guidance. Caliber will not finance more than 25% of the units in any one project. Refer to Fannie Mae Conventional Condominium guidelines for all other requirements.
- Non-Warrantable Condominiums: Allowed subject to review and approval by Caliber's Condominium Team and restrictions in Appendix D.
- A residential property currently subject to a land contract where the proceeds from the new mortgage will pay off in full the land contract and the new mortgage provides a clean first lien on the property

4.2 Ineligible Property Types

The following property types are not eligible:

- Properties with greater than 10 acres

- Properties with 5-10 acres where the value of land exceeds 50% of property value
- Manufactured homes (i.e. mobile)
- Dome properties
- Mixed use properties
- Unique properties
- Houseboats
- Timeshares
- Hobby farms
- Working farms, ranches, orchards, and/or commercial operations
- Property used for commercial purposes
- Unimproved land
- Homes lacking full kitchen and bathroom
- Properties in less than average condition as documented by the appraisal
- Foreclosed properties located in a state where a redemption period is allowed (allowed in some states for both Tax Sales and Judicial Foreclosures) until: The redemption period has expired AND the foreclosure sale has been confirmed AND clear and marketable title can be obtained
- Land Contracts (subject to the above)
- Properties with deed restrictions that limit transferability of title, or contain a "first right of refusal" provision
- Log homes
- Agricultural zoned properties where the primary use of the property is not residential (land should not be suitable for farming)
- Properties with legal, but non-conforming use if zoning regulations prohibit rebuilding the property to its current density in the event of a partial or full loss.

4.3 Property Flipping

4.3.1 Overview

- Property flip transactions refer to the process of purchasing an existing property, then immediately reselling it for a profit. Property flips are not necessarily illegal unless the transaction includes an act of fraud or misrepresentation such as an inflated appraised value. Property flip transactions most often, but not always, involve distressed properties acquired at a discounted price, then resold at an increased sales price to an uninformed buyer.

- Acceptable property flip transactions are sales of properties that have been substantially improved through legitimate and verified renovations since the property was acquired by the seller. Any increase in the sales price over the seller's acquisition cost should be representative of the market given the improvements made to the subject property.

- Property flip transactions will be considered as follows:
  - The property seller must be the owner of record.
  - A complete/full appraisal is required.
  - Loan must be an arm's length transaction.
- There are several indications that are common to property flipping. Underwriting loan files with property flipping indication(s) require a higher level of scrutiny during the loan review. Some examples of indicators include, but are not limited to:
  - Several ownership changes within a few months reflected on title or in CoreLogic report.
  - The appreciation of the subject property exceeds the typical appreciation in the market.
  - The seller recently acquired the property for a significantly lower price, or there have been several transfers of the property according to the tax assessment records.
  - No real estate agent is involved in the transaction.
  - The property was recently in foreclosure or acquired at an REO sale at a considerably lower sales price.
  - Parties to the transaction are affiliated by business relationships or related by birth or marriage.
  - Owner listed on the appraisal and/or title does not match the property seller on the sales contract.
  - Sales contract has an unusually large earnest money deposit held by the property seller.
  - Unusual fees or credits are reflected on the Closing Disclosure.
  - Title commitment references other deeds to be recorded simultaneously.
  - Property seller is a corporation such as an LLC.
  - Comparable sales used in the appraisal report are properties involving the same seller and/or the same real estate broker as the subject property in an attempt to artificially inflate the market.
- Exempt transactions include:
  - Re-sales of properties purchased by an employer or relocation agency in connection with an employee relocation. A relocation agency DOES NOT include individual real estate agents that

advertise themselves as relocation experts and who purchase properties from persons who are relocating from the area.

- Property inherited by the seller.
- Sales of properties by state and federally charted financial institutions (lender or servicer), Government Sponsored Enterprises (e.g. Fannie Mae and Freddie Mac), United States Government, local or state agencies, or mortgage insurance companies when the property was acquired through foreclosure or deed in lieu of foreclosure.
- Sales of properties acquired through a divorce settlement.

4.3.2 HPML Flipping Guidelines

Any loans defined as HPML loans must follow HPML regulations.

4.3.3 Non-HPML Flipping Guidelines (Investment Properties Only)

Sales within 0-90 days of the seller's acquisition

- Properties acquired by the seller within 90 days preceding the current sales contract are acceptable provided the increase in the sales price is less than 20%.
- Properties with a sales increase of 20% or more require either a Collateral Desktop Analysis (CDA) or Desk Review to support the increase in value.
  - If the value increase is due to recent renovations or improvements, the appraiser must supply interior photos of the renovations and comment on the cost of the repairs/renovations and likely contribution to the value increase.
  - Receipts, building permits and/or signed contracts must be submitted.

Sales greater than 90 days and less than or equal to 180 days of the seller's acquisition

- If the sales price has increased 20% or more since the most recent purchase, the increase must be justified.
- If the value increase is due to recent renovations or improvements, the appraiser must supply interior photos of the renovations and comment on the cost of the repairs/renovations and likely contribution to the value increase.
- Receipts, building permits and/or signed contracts must be submitted.

4.4 Disaster Areas

Refer to Caliber's Disaster Area Policy.

4.5 Escrow Holdbacks

Refer to Caliber's Conventional Escrow Holdback guidelines.

5 General Qualification

5.1 Overview

In addition to the eligibility requirements listed in these guidelines, the loan must meet the relevant program standards as defined in the Program Summaries, including:

- Credit Requirements
- Debt-to-Income Ratio
- Residual Income
- Payment Shock
- Reserves
- Loan-to-Value

5.2 Credit Requirements

Minimum standards must be met for the following criteria, as defined in the following Credit Requirements section:

- Credit Score
- Tradelines
- Housing Payment History
- Significant Derogatory Events

5.3 Debt-to-Income Ratio

Where applicable, the Debt-to-Income ratio ("DTI") of the borrower is to be calculated in accordance with Appendix Q, Part 1026 – Standards for Determining Monthly Debt and Income.

The borrower's DTI should be calculated by taking the ratio of (A) sum of Total Monthly Housing Payment and other monthly recurring obligations divided by (B) total monthly income documented and calculated in accordance with these guidelines. The resulting number should be rounded to nearest whole number (for example a DTI of 31.56% should be rounded to 32% and a DTI of 38.42% should be rounded to 38%).

See Program Summaries for DTI ratio limits for each program.

Also refer to the non-occupant co-borrower section.

5.4 Residual Income

All loans are required to be validated through Caliber's Residual Income Calculator and verified with the Residual Income Table.

The residual income must be greater than or equal to the minimum requirement per the Residual Income Table. See Appendix C for residual income requirements.

Residual income is equal to:

- The sum of each borrower's monthly gross income, less
- The sum of each borrower's total monthly housing payment, less
- The sum of each borrower's monthly recurring obligations, less
- Estimated monthly utility charges such as electricity, water, oil/gas calculated by multiplying the square feet living area of the to be occupied property by $0.14

5.5 Payment Shock

Payment Shock Ratio is used to assist in determining a borrower's ability to repay the loan and to ensure that an increase in borrower's total monthly housing payments can be managed properly by the borrower.

Payment Shock Ratio is calculated as the percentage ratio of the difference in payment divided by the borrower's existing PITIA x 100.

- Example: For a borrower with a proposed Total Monthly Housing Payment of $5,000 and an existing Total Monthly Housing Payment of $3,000, such borrower's Payment Shock Ratio is 66.7% ($5,000 – $3,000 divided by $3,000).
- Note: If a borrower has been living rent free or owns their current home free and clear, no payment shock calculation is required.

The following borrower types are subject to below Payment Shock restrictions:

- First time homebuyers may not exceed a 250% Payment Shock ratio (See above Note: If a borrower has been living rent free or owns their current home free and clear, no payment shock calculation is required).

5.6 Reserve Requirements

Each of the programs require a minimum number of assets in reserve to ensure the borrower's ability to repay the loan according to its terms. Months in reserve will be measured based on the Total Monthly Housing Payment (as defined herein). See Program Summaries for Reserve Requirements.

5.7 Loan-to-Value ("LTV")

See Program Summaries for maximum LTVs for each program. The LTV is calculated as the mortgage loan amount divided by the lesser of the sales price or the current appraised value.

6 Credit Requirements

6.1 Credit Score / Credit Report

6.1.1 FICO Credit Score

Each loan requires a residential mortgage credit report to be included in the underwriting loan file. See Program Summaries for minimum FICO requirements.

- Residential Mortgage Credit Report or tri-merged credit report in underwriting loan file from all three credit repositories should be considered; however, a minimum of two credit scores from two of the three credit repositories (Equifax, Experian, TransUnion) are required for each borrower
- Borrowers with a zero FICO score are not eligible

6.1.2 Representative Credit Score

The representative credit score for each borrower is the median of the three scores (or lesser of two, if only two scores are returned); the representative score for the loan is that of the borrower with the lowest representative score.

6.1.3 Inquiries

A written explanation for all inquiries within 90 days is required.

6.1.4 Credit Report

- Unresolved disputed accounts with both a $0 balance and last active date greater than 12 months ago are not required to be removed from the Credit Report.
- Unresolved disputed accounts that are either active within the last 12 months or have a balance must have supporting documentation in the underwriting loan file to support the dispute.
- Underwriter should use their reasonable discretion to examine the documentation and determine if the dispute is valid or should be removed and if a re-scoring is necessary. If the underwriter determines that a re-scoring is not necessary, the underwriter should provide documentation, if applicable, supporting such decision. In the case that the account is in dispute due to identify fraud the dispute is not required to be removed.

- Note: Disputes on accounts with no derogatory history, medical collections, and collections opened greater than 4 years prior to the application date are not required to be removed. Accounts with verbiage “Consumer Disputes After Resolution” are not required to be removed.

6.2 Tradelines

6.2.1 Minimum Tradelines

The primary wage earner must have a minimum of 2 tradelines (installment, revolving, mortgage, etc.) that have been reporting within the most recent 24 months (but are not required to be open for 24 months)

- Joint accounts count as one tradeline for each borrower
- 1 of the 2 must be open and active (i.e. utilizing credit or making payments) within the last 12 months, the other must have had activity within the most recent 24 months, but does not have to be open
- Authorized User Accounts cannot be used to satisfy minimum tradeline requirements
- If borrower is the 100% owner of a business, business tradelines can be utilized to satisfy this requirement so long as there is documentation in the underwriting loan file to confirm

6.2.2 Supplemental Tradeline Requirements (Non-Traditional Credit)

If the tradeline requirements above are not met, the borrower may still qualify if they can establish credit through the below Supplemental Tradeline Requirements. See Program Summaries to verify which programs allow non-traditional credit.

6.2.3 Credit References for Supplemental Trade Line Requirement

- Primary wage earner must provide a minimum of 2 account references (first utilizing all available tradelines so that a tradeline coupled with one non-traditional source would satisfy the requirement) with a 0x30x12 payment history (monthly or quarterly payments only). The following may be used as credit references:
  - Rental housing payment (per the housing payment history requirements)
  - Utility bills which could include but not limited to electricity, gas, water, phone (cell or landline) or cable/satellite television service
  - Automobile insurance
  - Medical insurance that is not deducted from payroll
  - Life insurance policies
  - Payment of household or renter’s insurance
- Credit References must be in the borrower’s name.

- Credit References are required to be provided to a credit reporting vendor to create a nontraditional credit report to validate payment history.
- Additional Requirements: Non-traditional credit is allowed with the following parameters:
  - Primary Residence only
  - Purchase and Rate/Term refinance transactions only

6.3 Housing Payment History

6.3.1 Housing Payment History

Each of the programs allows for varying levels of housing payment history. See Program Summaries for specific mortgage / rental history payment requirements.

- Note: If all borrowers are currently residing together and at least one borrower is on the current note or lease, then the housing payment history may be used for each borrower.
- Note: For clarification, for programs that require the borrower's existing programs to be current on the date of the loan application, no more than 45 days may have elapsed since the last paid installment date.
- Electronic (ACH) payments on the borrower's bank statements are acceptable in lieu of canceled checks.

6.3.2 Rental History

Rental history must be evidenced by canceled checks or a Verification of Rent (VOR, which may be a private VOR) on a Fannie Mae acceptable form. Refer to the Program Summaries for payment history requirements.

6.3.3 Borrowers owning properties free and clear:

- For primary residences and second homes: If borrower does not have a current mortgage payment (i.e. free and clear), no housing payment history is required to be documented.
- For investment properties: For any time period where a mortgage payment was not required, proof that all property tax payments have been paid must be included in the underwriting loan file. The monthly (or annual) payments must be recognized as a monthly housing liability.

6.3.4 Gaps in Housing

If a gap of less than 3 months in housing history exists, then the following restrictions apply:

- Letter of explanation (LOE) regarding the gap in housing history
- Primary Residence only

6.3.5 Living Rent Free

When all borrowers do not have the required housing payment history, or the borrowers had a gap in housing history of more than 3 months, they are still eligible to qualify for a purchase transaction so long as they are living rent free with a Relative (as defined earlier) and provide a letter of explanation (LOE) executed by such Relative confirming that there is/was no monthly obligation. Borrowers currently living rent free or borrowers who have lived rent free for greater than 3 months in the last 12 months are allowed under the following parameters:

- Less than 43% DTI
- Additional 6 months of reserves required
- 120% residual income required

This policy does not apply to Fresh Start loans.

6.3.6 Home-buyer Education and Counseling

First Time Homebuyers living rent-free must complete pre-purchase home-buyer education and counseling.

- All pre-purchase home-buyer education and counseling must be provided by a third party that is independent of the lender. Mortgage insurance companies can provide counseling, without regard to whether they provide mortgage insurance coverage for the particular transaction.
- The HUD.gov and National Industry Standards for Homeownership Education and Counseling websites provide contact information for organizations that provide home-buyer education and counseling.
- Free online counseling is available through Freddie Mac and MGIC.
- Evidence of completion of the home-buyer education session must be documented in the underwriting loan file by a certificate or letter from the counseling provider.

6.4 Significant Derogatory Events (SS / DIL / MCO / FC / BK/MOD)

See Program Summaries for seasoning requirements related to Significant Derogatory Events.

6.4.1 Definition

A Significant Derogatory Event is defined as either a:

- Short-Sale (SS)
- Deed-In-Lieu (DIL)
- Mortgage Loan Charge-Off (MCO)

- Foreclosure (FC)
- Chapter 7, Chapter 11 (filed as an individual) or Chapter 13 Bankruptcy (BK)
- Modification (Elite Access and Empire Elite only). For all other programs, a modification is not a Significant Derogatory Event.
- Note: A Chapter 11 Bankruptcy for a business that appears on the borrower's credit report is not a Significant Derogatory Event.

6.4.2 Waiting/Accrual Period

Seasoning on a Significant Derogatory Event shall begin to accrue as follows and will be measured from accrual date of the Significant Derogatory Event (as set forth below) to loan application date. See the Program Summaries for seasoning requirements related to Significant Derogatory Events

- Short Sales: From the date the short sale closed
- Deed-in-Lieu, Mortgage Loan Charge-Off, Foreclosure, Modification: From the date of completion
- Bankruptcy Chapter 7: To be measured from the date of dismissal/discharge of the related bankruptcy action. If a borrower with a Bankruptcy Chapter 7 had a foreclosure or short sale completed after the date of discharge of the related bankruptcy filing (but was contemplated as part of such filing), such foreclosure, short sale or mortgage loan charge off should be disregarded for purposes of determining the accrual date.
- Bankruptcy Chapter 11 (filed as an individual) and 13: To be measured from the filing date of the Bankruptcy Chapter 11/13 case so long as borrower's payment performance has been satisfactory, and the borrower has received written permission from the Bankruptcy Court to enter into the mortgage transaction (i.e. Bankruptcy Chapter 11/13 may still be open). If the Bankruptcy Chapter 11/13 has been satisfactorily discharged, from the filing date and no confirmation of payment performance is required. If the Bankruptcy Chapter 13 was dismissed, then the accrual date is from the date of dismissal. If a borrower with a Bankruptcy Chapter 11/13 had a foreclosure or short sale completed after the filing date of the related open or discharged bankruptcy filing (but was contemplated as part of such filing), such foreclosure, short sale, or mortgage loan charge off should be disregarded for purposes of determining the accrual date.
- As a clarification, if a mortgage is included in Chapter 11/13 and a housing payment history is required for qualification, then the bankruptcy payment history will be used to determine housing payment history.
- More than one discharged/ongoing bankruptcy per borrower will not be permitted within the seasoning period for each program.

6.4.3 Multiple Significant Derogatory Events

If a borrower has multiple Significant Derogatory Events, the accrual period will be based on the seasoning of the most recent Significant Derogatory Event, as described above.

6.4.4 Documentation

- Letter of Explanation: A letter of explanation, signed by the borrower, must be provided for each occurrence of a Significant Derogatory Event and must be included in the underwriting loan file describing the nature of the event
- Bankruptcy: Copy of bankruptcy filing/schedules/discharge/dismissal documents or other reliable third party vendor such as CoreLogic
- Short Sale: Copies of Closing Disclosures or other reliable third party vendor (such as CoreLogic) evidencing date of sale
- Foreclosure, Mortgage Loan Charge-Off, Deed-In-Lieu, Modification: Documentation from lienholder or other 3rd party (such as CoreLogic), indicating evidence as deemed satisfactory by underwriter.

6.5 Derogatory Credit

All judgments, liens, collection accounts, charge off accounts, etc. affecting title must be paid in full at or prior to closing. If account was charged off greater than four years prior to application date the account will not be included in calculations below. Medical related collections or charge offs are not counted in calculation at any time. All judgements, liens, collection accounts, and charge off accounts must meet the requirements in the relevant program summary.

6.5.1 Collections subject to Payment Plan

Collection accounts subject to a payment plan are not required to be paid off so long as the borrower is current on the payments, however they must be included in the calculation of the borrower’s debt-to-income ratio.

6.5.2 CAIVRS

Borrowers do not need to be screened using HUD’s Credit Alert Interactive Voice Response System.

7 Income Verification & Calculation

7.1 General Policy

7.1.1 Income Verification

Income used in calculating the borrower's debt-to-income ratio must be verified, stable and reasonably expected to continue.

7.1.2 Employment Verification

If income is being utilized (as opposed to assets), the borrower's employment must be verified for the most recent two full years. Refer to the Gaps in Employment section for additional guidance.

- Underwriter may favorably consider the stability of a borrower's income if he/she changes jobs frequently; income stability takes precedence over job stability.

7.1.3 Stability

The income of each borrower who will be obligated for the mortgage and whose income is being relied upon in determining ability to repay must be analyzed to determine whether the income level can be reasonably expected to continue. To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers with less predictable sources of income, the underwriter must obtain information about prior earnings. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen. If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the underwriter must document the likelihood of continued receipt of the income for at least three years.

- Underwriter may assume that employment is ongoing (and therefore will continue) if the employer verifies current employment status and the Verification of Employment (VOE) does not expressly indicate that employment has been or is set to be terminated
- Underwriter should look to the stability of the borrower's income to support any non-material deviation from the documentation or calculation of a borrower's income

7.1.4 Guidance

Where guidance issued by Fannie Mae is in accordance with Appendix Q Part 1026 (ATR Rule), underwriters may look to that guidance as a helpful resource in applying Appendix Q. Moreover, when the following standards do not resolve how a specific kind of debt or income should be treated, the underwriter may either (i) exclude the income or include the debt, or (ii) rely on Fannie Mae guidance to resolve the issue.

The following sections outline acceptable income and the related documentation and calculation requirements for all applicable income types.

7.2 Wage Earners

7.2.1 Salaried Borrowers

A minimum history of two years of employment income is recommended, however, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.

- Documentation:
  - A paystub dated within 30 days of application and no more than 90 days old on the date of closing (paystub must include YTD earnings) and IRS W-2 forms covering the most recent 2-year period OR a completed form 1005/1005(S). If the paystub does not contain YTD earnings, then the following is required:
    - A completed Form 1005/1005(S), or
    - An automated verification system, such as The Work Number (then no paystub or W-2 is required)
- Calculation: Underwriter to utilize the paystub to determine the monthly income associated with the base salary of each borrower in accordance with Fannie Mae Conventional Conforming Guidelines (i.e. if borrower is paid bi-weekly, income is equal to the bi-weekly gross pay times 26 pay periods divided by 12 months). Calculation of income from the paystub must be compared with W-2, VOE and YTD earnings. Any variance must be documented by the underwriter and included in the underwriting loan file.
- Other:
  - Borrowers Employed by a Family Owned Business: In addition to normal employment verification, a borrower employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which may include:
    - Copies of signed personal tax returns (a tax transcript obtained directly from the IRS may be used in lieu of signed tax returns), or
    - A signed copy of the corporate tax return showing ownership percentage
  - Primary Employment Less than 40 Hour Week: When a borrower's primary employment is less than a typical 40-hour work week, the creditor should evaluate the stability of that income as regular, on-going primary employment.

7.2.2 Bonus / Overtime Income

Borrower should have received this type of income for the past year and income documentation submitted for the loan must not explicitly indicate that bonus / overtime income is likely to stop.

- Documentation:
  - Paystub covering a minimum of 30 days and YTD earnings and IRS W-2 forms covering the most recent two-year period, and a completed Form 1005/1005(S)
- Calculation: Bonus / overtime monthly income will be calculated as the total received over two years divided by 24
  - If the bonus / overtime income has been received for less than 2 years, the Underwriter must justify and document in writing the reason for using the income for qualifying purposes.
- Other: If bonus or overtime income is declining significantly from one year to another year (25% variance or more), the underwriter must use the lower of the two years obtained. Underwriter must document in writing sound rationalization for including declining income.

7.2.3 Commission Income

A commissioned borrower is one who receives more than 25% of their annual income from commissions. Generally, the borrower must have received this income for the past two years and underwriter must reasonably determine that such income will likely continue.

- Documentation: One of the following must be obtained to document commission income:
  - a completed Request for Verification of Employment (Form 1005/1005(s)), or
  - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
- Calculation: monthly commission income will be calculated as the total received over two years divided by 24.
  - If the commission income has been received for less than 2 years but greater than 1 year, the underwriter may consider the income favorably if the underwriter can document the likelihood that the income will continue and soundly rationalize accepting the commission income.
  - If the commission income is earned for less than one year, the income is generally not considered effective income; however, it may be permitted for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer.

7.2.4 Part-Time Income

Part-time income refers to employment taken to supplement the borrower's regular employment (i.e. not primary job and worked less than 40 hours). Generally, the borrower must have received this income for the past two years and underwriter must reasonably determine that such income will likely continue.

- Documentation:
  - Paystub covering a minimum of 30 days and YTD earnings and IRS W-2 forms covering the most recent two-year period. IF the paystub does not contain YTD earnings, then:
    - A completed Form 1005/1005(S), or
    - An automated verification system, such as The Work Number (then no Paystub or W-2 is required.
- Calculation: Part-time employment monthly income will be calculated as the total received over two years divided by 24.
  - If the Part-Time income has been received for less than 2 years, the underwriter must reasonably justify and document in writing the reason for using the income for qualifying purposes.
- Other: A borrower with a history of multiple employers is acceptable if income has been consistently received. Many low and moderate-income families rely on part-time and/or seasonal income and the underwriter should not restrict consideration of such income when qualifying the borrower.

7.2.5 Seasonal Employment

Seasonal income is considered uninterrupted, as long as the borrower has constant history of seasonal income and can be used to qualify the borrower. Generally, seasonal employment must be verified during the last 2 years:

- Documentation: Document and verify that borrower has worked in same job or industry for prior two years and verify and confirm with borrower's employer that there is reasonable expectation that the borrower will be rehired for the next season.
- Calculation: Seasonal employment monthly income will be calculated as the total received over two years divided by 24.

7.2.6 Employer Differential Payments

If the employer subsidizes a borrower's mortgage payment through direct payments, the total amount of the payments over a 12 month period is considered annual gross income and should be included in qualifying income but cannot be used to offset the mortgage payment directly.

- Documentation: Document and verify that borrower receives the employer differential payments and they are reasonably expected to continue through paystub and/or verification of payment from employer.
- Calculation: Monthly employer differential payment is added directly to monthly gross income.

7.2.7 Automobile Allowance

If the borrower receives automobile allowance or expenses, such payments may be considered income to the extent the allowance exceeds actual expenditures. Generally, the borrower must have received this income for the past two years and underwriter must reasonably determine that such income will likely continue.

- Documentation: Borrower must provide either:
  - a completed Request for Verification of Employment (Form 1005/1005(s)), or
  - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
- Calculation: The full amount of the allowance must be added to the Borrower's qualifying income, and the full amount of the monthly automobile financing expense must be added to the borrower's monthly debt obligations.

7.3 Self-Employed Borrowers

7.3.1 Self-Employed Definition

A borrower with a 25 percent or greater ownership interest in a business is considered self-employed and therefore the borrower's income must be documented and calculated under the guidelines set forth herein.

- Types of Businesses Structures: As a general matter, a self-employed borrower will utilize one of four corporate structures, with the documentation and calculation requirements for income will be dependent on the type of corporate structure utilized by the self-employed borrower.
  - Sole Proprietorship
  - "S" Corporation or Limited-Liability Company
  - "C" Corporation
  - Partnership
- Minimum Length of Employment: Income from self-employment is generally considered stable and effective if the borrower has been self-employed for two or more years.
  - However, a self-employed borrower may qualify if they have been self-employed for less than two years but more than one year if the person has
    - The borrower's most recent signed federal income tax returns reflect the receipt of 1 full year of earnings.

    - At least two years of documented previous successful employment in the line of work in which the person in self-employed, or in a related occupation; or
    - One year of employment and formal education or training in the line of work.
  - If the borrower has been self-employed for less than one year, such income cannot be considered usable effective income.

7.3.2 Documentation Required: Self-Employed Borrowers

Sole Proprietorship

- Signed and dated personal tax returns with all applicable tax schedules for the most recent two years.
- Year-to-date Profit and Loss (P&L) statements and balance sheet prepared by a CPA, third party, or borrower. The P&L and balance sheet must be signed and dated by the preparer. A certified P&L is required if it is being used in the calculation of the qualifying income, refer to section 7.3.3 Calculation for details.
- If the loan has an application date between January 1st and March 31st and we do not have receipt of the most recent personal and business income tax return, then the previous full year's P&L and balance sheet is required.

S-Corps (or LLC), C-Corps, Partnerships

- Signed and dated personal tax returns with all applicable tax schedules for the most recent two years.
- Signed and dated federal business income tax returns with all applicable schedules.
- Year-to-date Profit and Loss (P&L) statements and balance sheet prepared by a CPA, third party, or borrower. The P&L and balance sheet must be signed and dated by the preparer. A certified P&L is required if it is being used in the calculation of the qualifying income, refer to section 7.3.3 Calculation for details.
- If the loan has an application date between January 1st and March 31st and we do not have receipt of the most recent personal and business income tax return, then the previous full year's certified P&L and balance sheet is required.
- Documentation of the borrower's ownership percentage in the business either through tax returns, CPA letter or other reasonably reliable third party record.

7.3.3 Calculation

- Personal Tax Returns: First, the borrower's signed and dated personal tax returns for the most recent two years must be reviewed to determine adjusted gross income and the underwriter should increase or decrease the adjusted gross income in accordance with Appendix Q guidelines set forth on Appendix B (after adjustment, the "Tangible Personal Income").

- Business Tax Returns: Second, unless borrower is a sole proprietorship, the borrower's business tax returns (taking into consideration borrower's ownership percentage of the business) must be reviewed for the most recent two years as follows depending upon the type of corporate structure utilized by the borrower's business (collectively and as applicable, the "Business Income Adjustments"). In each case, underwriter should consider the viability of the business based on the business tax returns to determine that the income is stable and is reasonably expected to continue. Underwriter should consider that a withdrawal of cash from the corporation/partnership may have a negative impact on the corporation's ability to continue operating and should be considered in the income analysis.
    - "S" Corporations or Limited-Liability Company: Income for owners of "S" corporations comes from IRS form W-2 wages, and is taxed at the personal rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's personal IRS Form 1040 (based on percentage of ownership) and underwriter must confirm that the amounts are substantially similar and document any variance.
        - "S" corporation depreciation and depletion should be added back to the borrower's income in proportion to the borrower's share of the corporation's income. Borrower's income should be reduced proportionately by the total obligations payable by the corporation in less than one year unless the underwriter can document reasonable explanation as to why income should not be reduced.
    - "C" Corporations: Income for owners of a "C" corporation will be determined by taking the total business income and multiplying it by the borrower's percentage of ownership in the business and then adjusting based on IRS Form 1120 as follows below. The underwriter must confirm that the personal income documented on the personal tax returns is substantially similar and document any variance.
        - Depreciation and Depletion: Add the corporation's depreciation and depletion back to the after-tax income.
        - Taxable Income: Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability associate with such business as documented in business tax return.
        - Fiscal Year vs. Calendar Year: If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the personal tax return.
    - Partnerships: Income for the owner of a partnership should be equal to the borrower's proportionate share of the partnership's net income as evidenced by the business tax returns and set forth on the borrower's personal tax returns and underwriter must confirm that the amounts are substantially similar and document any variance. The borrower's income should be adjusted by (i) adding back depreciation and depletion to the income in proportion to the borrower's share of income and (ii) reducing income proportionately by the total obligations

payable by the partnership in less than one year unless the underwriter can document reasonable explanation as to why income should not be reduced.

- P&L and Balance Sheet: In order to ensure that the income is stable and can be expected to continue, the underwriter must review both the P&L and the balance sheet to confirm the viability of the business. Further, underwriter should confirm that the income trends of the business are generally similar with prior results (i.e. stable) and should provide a reasonable explanation for any significant variances.
- Income Calculation: When qualifying and calculating income, the underwriter must determine an annual amount by taking the borrower's two year Tangible Personal Income and adjust it based on two years of Business Income Adjustments (unless the corporate structure utilized is a sole proprietorship) (such amount, the "Aggregate Adjusted Annual Income").
  - Borrower's monthly effective income should be equal to the Aggregate Adjusted Annual Income divided by 12 provided that:
  - If the borrowers provides quarterly tax returns, the underwriter may adjust the income (upwards or downwards) based on the period covered by the tax filings and the underwriter should document this adjustment accordingly, or
  - If the borrower is not subject to quarterly tax returns, or does not file them, then the underwriter may include income shown on the P&L statement, provided the income stream based on the P&L is generally consistent with the prior years' business earnings.
  - If the P&L statements for the business submitted for the current year show an income stream considerably greater than what is supported by the previous year's business tax returns, the underwriter should base the income analysis on the income verified through the tax returns unless the P&L is accompanied with a letter from a CPA certifying that the P&L and balance sheet have been either prepared, reviewed or audited by them, and that the letter does not indicate material findings.
  - If the most recent tax return is aged more than one calendar year (example, loan application is in 2019 and most recent tax return is for 2017), then a current P&L is required to calculate the borrower's income, and it must be CPA certified.
  - If the borrower's earnings trend for the previous two years is downward based on the personal and business tax returns and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L should be used to calculate his/her income unless the underwriter can provide a reasonable documented explanation for utilizing the higher income. The underwriter must consider the business's financial strength by examining annual earning. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline (i.e. 25% or more) in income over the analysis period are not acceptable.

7.4 Rental Income

7.4.1 Overview

Rental income derived from properties owned by the borrower is acceptable as qualifying income so long as the borrower can document stability of the rental income through verifiable documentation which establishes a consistent history of receipt of rental income. Underwriter should generally confirm the rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation) provided that a shorter rental history may be permitted so long as the underwriter provides a reasonable explanation that evidences the stability and consistency of the future rental payments. If the borrower's business is the owner of the rental properties, then the borrower should be qualified under the Self-Employed borrower requirements.

7.4.2 Documentation

Rental income must be verified through delivery of either of the following:

- Documentation: Requires each of the following:
  - Personal tax returns evidencing receipt of rental income on Schedule E of the tax return if personal tax returns are included in the underwriting loan file.
  - Either (a) a current executed lease agreement, (b) an executed agreement to lease or (c) rental history on the property over the previous 12 months as confirmed through cancelled checks or bank statements from the borrower.
  - Reasonable evidence that the borrower still owns the property (which can include the real estate owned section of the executed Uniform Residential Loan Application).
- Property owned less than one year: Requires each of the following:
  - A current executed lease agreement or an executed agreement to lease.
  - Reasonable evidence that the borrower still owns the property (which can include the real estate owned section of the executed Uniform Residential Loan Application).

7.4.3 Calculation

- The underwriter should first add any depreciation shown on the personal tax return back to the total net income or loss and divide the total net income or loss by 12 with the resulting effective monthly income (either positive or negative) used for qualifying purposes (due to Appendix Q not defining the exact rental income calculation, underwriters should use FNMA's rental income calculation).
- If property is owned less than one year, underwriter should first take the gross monthly rental amount and reduce by 25% and then subtract total monthly housing expenses (i.e. PITI,

homeowner's association, ground rents, etc.) associated with the rental property (taking consideration not to double count if mortgage property is included in borrowers credit report) with the effective monthly income (either positive or negative) used for qualifying purposes.

7.4.4 Investment Properties

- Rental income derived from subject property can be used as effective income for both purchase and refinance transactions. Rental income derived from the subject property on a purchase transaction is allowed as long as the borrower currently owns another property. The following documentation is required:
  - New signed lease and or
  - Transfer of existing lease
- Rental income must be supported by a market rent analysis from applicable appraisal form. The rental income provided by the lease agreements and market rents must be calculated by multiplying the gross monthly rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses. The underwriter must use the lower of the two amounts for qualification.
- If the property was acquired subsequent to the most recent tax filing year, a signed lease agreement should be used to calculate qualifying rental income.
- In the event rental income is reporting for only 1 year, a 12-month average of the rental income can be used.
- If the rental property has been owned by the borrower for equal to or more than two years, the rental income should be calculated using 1040 tax return (Schedule E) information averaged for the last 24 months. If the rental income declined in the most recent tax return, then a 12-month average of the prior year rental income should be used.
- Current lease is required to be provided on each rental property.

7.4.5 Other Rental Income

- Multi-Unit Occupied Property: The rent for a multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes. Documentation and calculation requirements are identical to those set forth above. Rental income for the tenant-occupied unit should be considered gross income, only after deducting vacancy and maintenance factors (i.e. generally 25%) and may not be used as a direct offset to the mortgage payment.
- Rental Income on Vacated Property: Underwriters should not consider rental income from a borrower's primary residence that is being vacated in favor of another primary residence, except under one of the conditions below:

- The borrower is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance and can document an executed lease of one year duration on the vacated property and receipt of a security deposit or first month's rent.
- There is sufficient equity in the vacated property. The borrower must have at least 25% equity in the vacated property as determined by a current (no more than 6 months old) appraisal or by comparing the unpaid principal balance to the original sales price of the property. Appraisal form must be at minimum Form 2055 Exterior or Form 1073 for condominiums. An AVM may be used in lieu of the appraised value if the loan is marked as Non-QM. A current lease agreement is also required in order to document the monthly rental income.
- If the departing residence appraised value is equal to or less than the High Balance limit and the borrower's equity is between 20% and 25%, then an additional 6 months of reserves on the departing residence is required. The loan must be marked as Non QM.

- Boarder Income: Rental income from roommates or boarders in a single family property occupied as a primary residence is acceptable and should be shown on the borrower's tax return for qualification purposes. If not shown on the tax return, rental income may not be used. Roommate/Boarder income should be considered gross income and may not be used as a direct offset to the mortgage payment.

7.5 Other Eligible Income

7.5.1 Overview

In addition to the above income sources, additional types of borrower income that Caliber will consider as eligible income include the following sections.

7.5.2 Alimony, Child Support and Maintenance Income

Alimony, child support, or maintenance income should be considered effective income so long as the payments are likely to be received for the first three years of the mortgage.

- Documentation: Borrower must provide both:
  - A copy of final divorce decree, legal separation agreement, court order or voluntary payment agreement and
  - Acceptable evidence that payments have been received during the last 12 months, such as cancelled checks, deposit slips, tax returns or court records.
  - The divorce decree, legal separation agreement, court order or voluntary payment agreement can be dated at any point prior to the note date so long as the borrower can document that they have been receiving:
    - Option 1: Stable, regular, and on-time monthly payments for 12 months or longer.

Calculation: Use the documented fixed monthly payment amount per the divorce decree, legal separation agreement, court order or voluntary payment agreement. A one month gap in payment may be acceptable so long as there is a reasonable letter of explanation from the borrower as to the gap in payment.

- Option 2: Stable, regular, and on-time monthly payments for 6 months or longer.

  Calculation: Monthly income utilized for qualification purposes is the sum of the amount received over the 6 months divided by 6.

- Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. If full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for the purpose of qualifying the borrower.

7.5.3 Investment Income – Interest and Dividends

Interest and dividend income is considered effective so long as the payments are stable and are reasonably expected to continue and should include two years of receipt history:

- Documentation: Borrower must deliver both:
  - Two years personal tax returns evidencing receipt and
  - Account statement from broker / investment advisor
- Calculation: Total interest and dividend income received over the prior two years should be divided by 24 to determine eligible monthly income.
- Additional Requirements:
  - Principal Used for Down Payment: If any of the borrower's invested principal is being utilized for the down payment, the underwriter must reduce the total interest and dividend income received over the past two years by the same percentage of invested principal that is used for the down payment.

7.5.4 Investment Income – Trust Income

Trust Income is eligible for qualifying purposes so long at the payments are reasonably expected to continue for the first three years of the mortgage:

- Documentation: Borrower must provide a copy of the Trust Agreement or other trustee statement, confirming the:
  - Amount of the trust
  - Frequency of distribution

  - Duration of payments. Borrower must also provide adequate documentation that the withdrawal of funds will not negatively affect income.

- Calculation: Trust income received over the prior two years should be divided by 24 to determine eligible monthly income.
- Additional Requirements: Principal Used for Down Payment: If any of the borrower's invested principal in the Trust is being utilized for the down payment, the underwriter must reduce the total interest and dividend income received over the past two years by the same percentage of invested principal that is used for the down payment.

7.5.5 Notes Receivable Income

Income received by borrower from a note receivable or other substantially similar receivable is eligible so long as the underwriter determines that the income is stable and is reasonably expected to continue borrower has received for the prior 12 months.

- Documentation: Borrower must provide a copy of the Note to establish the amount and length of payment and must evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns. If the borrower is not the original payee on the note, the underwriter must establish that the borrower is able to enforce the note.
- Calculation: Note income received over the prior 12 months should be divided by 12 to determine eligible monthly income.

7.5.6 Retirement Income

Retirement income received by a borrower is eligible and must include the amount(s) of:

- Documented retirement benefits;
- Social Security payments; or
- Other payments expected to be received in retirement

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

7.5.7 Social Security Income

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

- If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three years of loan origination, the underwriter shall consider the income effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, an "adjusted gross income" may be developed for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

7.5.8 1099 contractor or contingent worker

Borrowers who receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker. Two years signed federal income tax returns, including the 1099s, filed with the IRS are required. If it is determined that the borrower is a sole proprietor, refer to the Self-Employment Income.

7.6 Military, Government Agency and Assistance Program Income

Caliber allows income from Military, Government Agency and Assistance Programs as to be qualified income, subject to the below documentation.

7.6.1 Military Income

In addition to military related base pay, Caliber will consider the following additional military entitlements as forms of pay and eligible to be qualified income:

- Documentation: Borrower must document in writing the following eligible forms of military pay over the past 2 years:
  - Income from variable housing allowances
  - Clothing allowances
  - Flight or hazard pay
  - Rations
  - Proficiency pay
- Calculation: 100% of the above forms of military related income can be used as eligible income. The monthly eligible Military Income is the current Military income.
- Underwriter must verify that the income is reasonably expected to continue for 3 years.

7.6.2 VA Benefits

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable as qualified income. Education benefits used to offset education expenses are not acceptable.

- Documentation: Document the borrower's receipt of VA benefits with a letter or distribution form from the VA. Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.).
- Calculation: 100% of the VA Benefit related income can be used as eligible income. The monthly eligible VA Benefit income is the monthly VA Benefit Income as set forth on the documentation from the VA.

7.6.3 Government Assistance Programs

Income received from government assistance programs is acceptable as qualified income.

- Documentation: The borrower must provide documentation from the paying agency that verifies the income over the last 2 years and indicates that the income is expected to continue for at least three years. The following exceptions apply:
  - Unemployment income must be documented for two years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment.
- Calculation: 100% of the Government Assistance Program related income can be used as eligible income. The total eligible monthly Government Assistance Program income is the total Government Assistance program income over the last 2 years, divided by 24.
  - Underwriter must verify that the income is reasonably expected to continue for 3 years.

7.6.4 Homeownership Subsidies

A monthly subsidy may be treated as income, if a consumer is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.

If the consumer is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as nontaxable income and be "grossed up" by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the consumer's income from employment and/or other sources.

Rather than treating the Homeownership subsidy as income, it may treated as an "offset" to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios). The subsidy payment must not pass through the consumer's hands.

The assistance payment must be:

- Paid directly to the servicing creditor; or

- Placed in an account that only the servicing creditor may access.

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

7.7 Non-Taxable Income

Adjustments to a borrower's qualifying income based on certain types of income that are non-taxable are allowed.

7.7.1 Types of Non-Taxable Income

Certain types of regular income may not be subject to Federal tax

- Documentation: Borrower must document in writing the following eligible forms of non-taxable income over the last 2 years:
  - Some portion of Social Security
  - Some Federal government employee retirement income
  - Railroad Retirement Benefits
  - Some State government retirement income
  - Certain types of disability and public assistance payments
  - Child support
  - Military allowances
  - Other income that is documented as being exempt from Federal income taxes
- Calculation: The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income. The percentage of non-taxable income that may be added cannot exceed the appropriate effective tax rate for the income amount. Additional allowances for dependents are not acceptable.
  - The tax rate used to calculate the borrower's last year's income tax must be used.
  - The underwriter must document and support the amount of income grossed up for any non-taxable income source.
  - The calculation worksheet must be in the underwriting loan file.

7.8 Projected Income

Analyzing Projected Income: Projected or hypothetical income is only acceptable for qualifying purposes under the following exceptions, outlined below:

- Acceptable borrower situations:

- Cost-of-living adjustments
- Performance raises
- Bonuses
- New Jobs: the following also apply:
  - The borrower must have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment.
  - The borrower must have a non-contingent contract for employment with generally standard terms.

- Documentation: For each of the qualifying borrower exceptions, the borrower's situation must be documented by providing both:
  - Written document verifying the income and situation from the borrower's employer.
  - Written letter of explanation from the borrower that the income will begin within 60 days of loan closing.
  - Conditions for employment, such as background checks, drug tests, etc. must be cleared and validated with the employer
  - A verbal verification of employment prior to closing is required to verify the borrower's start date
- Calculation: 100% of the projected income may be considered from the above eligible exceptions as qualifying income. The total monthly eligible Projected Income is the total Projected Income over the next 2 years, divided by 24.

7.9 Restricted Stock Unit Income

Some programs, refer to Program Summaries, allow a percentage of a borrower's awarded restricted stock units ("RSU") from a public company to be attributed as qualifying income, as long as the borrower has received for the prior 2 years, subject to certain calculations below.

See the Program Summary for whether or not RSU income is allowed.

- Documentation: In order to evidence RSU income, the borrower must submit the following for the prior 2 years:
  - Two years W-2's, confirming receipt of RSU income
  - Most recent paystub evidencing receipt of RSU income or a letter form the employer evidencing receipt, and
  - Vesting Schedule and written statement from employer that the compensation has not ceased.
- Calculation: 65% of aggregate gross RSU income is allowable as qualified income and the monthly RSU income is the total gross RSU income received over 2 years, divided by 24.

7.10 Asset Utilization

Some programs (refer to Program Summaries) allow asset utilization which attributes qualifying income to a borrower by utilizing the liquid assets of the borrower over a 10 or 15 year period. Utilization of verified liquid assets over a 10 or 15 year period is done to ensure that income attributed to a borrower is stable and is reasonably expected to continue. Liquid assets are defined as any asset that can be converted into cash quickly with minimal impact to the price received. Liquid assets include cash, money market funds, ETFs, etc. (illiquid assets include real estate, private securities, etc. and cannot be used for Asset Utilization). See Program Summaries for eligibility of asset utilization.

Asset Utilization can be calculated using 2 different options:

- 15 year calculation: The monthly qualifying income utilized for calculation of the debt-to-income ratio is the total eligible liquid assets divided over 180.
  - Maximum LTV is the lesser of 90% LTV or program maximum.
- 10 year calculation: The monthly qualifying income utilized for calculation of the debt-to-income ratio is the total eligible liquid assets divided over 120.
  - Maximum LTV is the lesser of 90% LTV or program maximum. When the FICO < 680, the LTV is the lesser of 85% LTV or program maximum.
  - Maximum loan amount is the lesser of $2,000,000 or program maximum.
  - Maximum DTI is the lesser of 45% or program maximum.
- Asset Utilization only impacts a borrower's qualifying income. Borrower must still qualify for the applicable DTI ratio and other general qualification requirements.
- Asset Utilization as sole income source: Borrower may be qualified solely from the income stream derived from the asset utilization calculation. Tax transcripts are not required.
- Supplemental Asset Utilization: If asset utilization is used as a supplement to traditional income sources (i.e. W2, self-employed, etc.) the income amount derived from the asset utilization calculation must meet or exceed 25% of the total gross income for the borrower. Tax transcripts are required to validate the traditional income source.
  - 15 year Example: $756,000 of liquid assets / 180 = $4,200. Assuming the borrower has wages of $13,000, net rental income of $500 and receives child support of $1,000, the borrower's gross income prior to utilizing assets would be $14,500. Since $4,200 / $14,500 is greater than 25%, the borrower could utilize the assets to qualify with a total income of $18,700.
  - 10 year Example: $756,000 of liquid assets / 120 = $6,300. Assuming the borrower has wages of $13,000, net rental income of $500 and receives child support of $1,000, the borrower's gross income prior to utilizing assets would be $14,500. Since $6,300 / $14,500 is greater than 25%, the borrower could utilize the assets to qualify with a total income of $20,800.

- Documentation:
  -
  - Borrower must provide:
    - 12 months of bank statements, account statements, fund statements, etc. that evidence stable liquid assets over such time period, and
    - An executed letter of explanation from borrower in which borrower acknowledges their intention to liquidate assets in order to pay current expenses
    - Any significant variance in the principal amount of the liquid assets over the 12 month period must be documented and a sound rationale for concluding the liquid assets are stable must be included in the underwriting loan file. Underwriter should review the statements to ensure there are no express restrictions on the liquidity of the assets.
  - The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below:
    - Cash in Bank Account: 100%
    - United States Government Receivables (T-Bills, Treasuries, etc.): 100%
    - Stocks/Bonds/Mutual Funds (Excluding Retirement Accounts): 85%
    - 529 or similar college fund: 50%
    - Retirement Accounts (401K, IRA, 403B, etc.):
      - 100% if borrower is 59.5 years old and the terms of withdrawal show borrower has access to funds,
      - If borrower is not 59.5 years old, the borrower must have enough liquid assets to qualify until they reach 59.5 years old.
      - Example: $500,000 of net liquid assets (after Funds to close and reserves) and $600,000 of retirement = $1,100,000. $1,100,000 / 180 = $6,111 gross income. Borrower is 55 years old; therefore, they need 54 months of liquid assets before they can use their retirement income. $6,111 x 54 = $330,000. Since the borrower has more than $330,000 of liquid assets, then they may include the retirement income in the Asset Utilization calculation.
    - Business bank accounts may not be used for asset utilization
- Additional: Any other liquid assets that the borrower has access to may be documented by the underwriter and considered on a case-by-case basis.

7.11 Non-Borrower Household Income

Income from a non-borrower household member may be included as a compensating factor to allow for a debt-to-income (DTI) ratio greater than program guidelines, however the non-borrower household income is not included as qualifying income and is not considered when calculating the DTI ratio.

- The non-borrower household income must be documented by verifying consistent receipt by borrower over the prior 12 months utilizing reasonably reliable third party records.
- The stability and expected continuance of the non-borrower household income must be documented by obtaining a letter of explanation from the non-borrower contributing to the household income that they expect to continue to contribute such amount of the next 12 months.

7.12 Gaps in Employment

Verification: The end dates / start dates of any job changes within the most recent two full years must be verified with either paystubs, VOEs, or employment contracts to ensure that there are no gaps in employment history.

- Gaps: One month, or more, gaps in the past two years must be satisfactorily explained in writing by the borrower.
- Multiple Gaps: Multiple job gaps or frequent changes in employment in the past 24 months should be carefully reviewed to determine if the borrower’s employment is stable and likely to continue.
- School / Military: If the borrowers have been employed less than two years but were previously in school or in the military, a copy of the diploma or discharge papers must be obtained.
- Re-Enter Workforce: A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:
  - Is employed in the current job for six months or longer; and
  - Can document a two year work history prior to an absence from employment using:
    - Traditional employment verifications; and/or
    - Copies of IRS Form W-2s or pay stubs
  - Note: Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as greater than six months.

7.13 Tax Transcript Policy

The following outlines the Tax Transcript Policy as it relates to both wage earners and self-employed borrowers. However, the policy does not apply for borrowers relying on asset utilization or bank statements (Professional Elite).

Tax Transcript: Wage Earners and Self-Employed borrowers should provide the following Tax Transcript documentation.

- Wage Earners: IRS Form 4506T is required to be signed and provided in the underwriting loan file. A W-2 tax transcript is not required.
- Self-Employed Borrowers: Applies to both personal returns and business returns (if applicable business structure).
  - Full 1040 tax transcripts for all years of income received must be substantially similar to W-2s and signed tax returns provided by borrower with a reasonable explanation from underwriter if there is a material variance.

If transcript documentation for the most recent year indicate "no record" found due to the timing of filing, underwriter must utilize reasonably reliable documentation to establish accuracy of provided returns (i.e. tax returns stamped by the IRS or validation of e-filing and validation that taxes owed/paid. Income from a borrower or co-borrower that is not used in the Qualifying Income (either as income or liability) should not require IRS transcripts.

7.14 Ineligible Income

- Education benefits, such as VA benefits or scholarships
- Lump sum payments such as inheritances or lawsuit settlements (may be verified as assets to close)
- Payments that are received for purchase or reimbursement of specified items
- Retained earnings
- Reverse mortgage loan proceeds
- Secondary income that will continue for less than three years
- Taxable forms of income that the borrower does not declare on federal income tax returns
- Unverifiable income
- Value of a company furnished automobile
- Value of employment benefit packages that are not received as cash wages
- Lump sum payments of lottery earnings that are not ongoing
- Non-borrower spouse income
- Student loans/grants
- Allowance income
- Vested and non-vested stock options

- Severance Pay
- Trailing wage earner income
- Foreign Income
- Marijuana-Related Business (MRB) employment and income. A marijuana-related business is defined as including any of the following: Possession of cannabis or cannabis seeds, processing, growing, harvesting/cultivation, testing, packaging/delivery, wholesale or retail sales

8 Liabilities Verification & Calculation

8.1 Definition of Total Monthly Housing Payment

Total monthly housing payment is determined as follows:

- If borrower rents the property, the sum of the total rental payments and any other expenses related to the property that borrower is obligated for under the current lease, if any and
- If borrower owns the property, is equal to the sum of borrower's current principal and interest payments for the related mortgage as set forth on the credit report and the monthly payments for mortgage related obligations (as defined under the Ability-to-Repay rule 1026.43(b)(8) the "Total Monthly Housing Payment").

8.2 Definition of Recurring Obligations

The following must be included when computing the monthly debts for recurring obligations:

- Total Monthly Housing Payment (PITIA)
  - All mortgage loans must be verified to prove that the payment reflected on the credit report includes impounds for taxes/assessments and insurance.
    - When the departing residence is a pending sale and the sales price is equal to or less than the High Balance limit, the PITIA can be excluded from the debt if the following documentation is provided:
      - The executed sales contract for the current residence, and
      - Confirmation that any financing contingencies have been cleared.
  - If the payment does not include taxes/assessments and insurance, documentation to prove the monthly amount for those items must be obtained and included in the qualifying ratio.
  - The monthly payment will be the minimum payment reflected on the credit report, Note, or payment coupon.

- HELOC: If HELOC balance has recently increased due to funds used to close (property other than subject property), calculate the payment using the:
  - Higher of the payment on the credit report or documentation obtained from the lender (based on the new higher balance), or
  - If the payment is not documented, 1% of the new balance.
- Payments on installment accounts
- Child support or separate maintenance payments;
- Alimony: Underwriter has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly debt obligation
- Revolving charge accounts: If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of 5 percent of the balance or $10
- 30 day open-ended accounts:
  - A 30 day charge account is defined as an account where the borrower must pay off the total outstanding balance each month Open 30 day charge accounts either do not reflect a monthly payment on the credit report, or reflect a monthly payment that is identical to the account balance. There are no alternative monthly payment options.
  - For open 30 day charge accounts (for example, AmEx), the borrower must have sufficient verified liquid assets to pay off the balance and meet the reserve requirements for the loan program to exclude the payment from the qualifying DTI.
    - If sufficient liquid assets are verified, then exclude the reported monthly payment from the debt obligations.
    - If sufficient liquid assets are not verified, evidence that the account has been paid in full must be obtained to exclude the reported monthly payment from the debt obligations, otherwise the monthly payment (equal to the outstanding account balance) in the calculation of the qualifying DTI.
  - Note: If the credit report shows a revolving account with a minimum monthly payment equal to the outstanding balance (a "30 Day Charge Account"), the reported monthly payment may be excluded from the calculation of DTI if (a) the underwriter has verified and documented that the borrower has sufficient liquid assets to pay such amount in full and (b) borrowers executes a letter of explanation stating that the balance will be paid in full utilizing existing reserves. If the underwriter is unable to verify sufficient liquid assets to pay such amount in full, then the account must have been paid in full or must include the documented monthly payment (equal to the outstanding balance) in the calculation of the debts.
- Any other recurring obligations

- Debts lasting less than ten months
- Debts lasting less than ten months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.

8.3 Contingent Liabilities / Projected Obligations

Contingent Liabilities and Projected Obligations must be considered when calculating a borrower's monthly obligations.

8.3.1 Application of Contingent Liability Policies

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

- Definition: Contingent Liability: A contingent liability exists when a person is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. The following guidelines must be used when evaluating possible Contingent Liabilities:
  - Contingent Liability on Mortgage Assumptions: Contingent liability must be considered when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that:
    - Has been sold or traded within the last 12 months without a release of liability, or
    - Is to be sold on assumption without a release of liability being obtained
  - Exemption from Contingent Liability Policy on Mortgage Assumptions: When a mortgage is assumed, contingent liabilities need not be considered if the:
    - Originating underwriter of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months, or
    - Value of the property, as established by an appraisal or the sales price on the Closing Disclosure from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.
  - Contingent Liability on Cosigned Obligations: If the borrower is a cosigner or co-obligor on any of the below obligations, then Contingent Liability applies, and the debt must be included in the underwriting analysis:
    - A car loan;
    - A student loan;

- A mortgage; or
- Any other obligation
- Note: If the underwriter obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

8.3.2 Projected Obligations

Potential future obligations of the borrower must be considered.

- Definition: Projected Obligations: Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the underwriter as anticipated monthly obligations during the underwriting analysis.
  - Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month timeframe.
  - Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

8.3.3 Student Loan Obligations

Monthly obligations of a borrower's student loan payments must be included.

- Definition: Student Loan Obligations: Student loan payments scheduled to begin or come due within 12 months of the mortgage loan closing.
- Exclusions: Student loan payments may be excluded with written evidence that the debt will be deferred to a period outside the 12 month timeframe
- Calculations: One of the following methods must be used to determine the monthly payment:
  - Based on the actual documented payment (in the credit report, in documentation from the student loan lender, or in documentation supplied by the borrower)
  - If a monthly payment is provided on the credit report, use that amount as the monthly payment for qualifying purposes.
  - If the credit report does not reflect the correct monthly payment, use the monthly payment that is on the most recent student loan statement to qualify the borrower.
  - If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, determine the qualifying monthly payment using one of the options below.
    - If the borrower is on an income-driven payment plan, use the most recent student loan statement to verify the actual monthly payment.

- For deferred loans or loans in forbearance, the monthly payment may be calculated using either:
  - the payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
  - the fully amortizing payment using the documented loan repayment terms.

9 Asset Verification & Calculation

9.1 Overview

The assets used by a borrower for the mortgage loan down payment, closing costs and reserves must be verified.

9.2 Full Documentation

- For all asset types, full documentation of all assets utilized would include:
  - All pages of the most recent two months statements or the most recent quarterly statement, or
  - A Verification of Deposit (Form 1006 or 1006(S)), and a current bank statement for the account(s) shown on the form
- All assets disclosed by the borrower on the residential loan application must be verified.
- Digital Verification: Assets, reserves, and down payments can be verified via 3rd Party Providers with asset verification ID per GSE guidelines. Documentation must be in the underwriting loan file.
- In the event two months or the most recently quarterly statement cannot be provided, borrower is permitted to provide an alternative paper trail to source the funds
- Examples include, but are not limited to, inheritance, insurance settlement, lottery winnings, legal settlement, etc.

9.3 Business Accounts

May be used for down payment, closing costs, and reserves if the borrower is either:

- 100% owner of the business, or
- At least a 50% owner of the business provided that there is a letter of explanation in the underwriting loan file which includes an attestation from all other owners of the business that the borrower is entitled to the funds

If amounts in the business account will be used for down payment, a cash flow analysis or a letter from the business accountant is required to confirm that the withdrawal will not negatively impact the business

If amounts in the business account are used for reserves and borrower is less than 100% owner of the business, the percentage of ownership in the business should be multiplied by the account balance to determine the amount of funds attributable to the borrower

9.4 Gift Policy

For purchase transactions, borrowers may use gift funds for down payment, closing costs and reserves with the following restrictions, outlined below.

Gifts and gifts of equity are subject to restrictions based on whether the gift originates from a Relative or Non-Relative:

- Relative: If the gift/gift of equity is coming from a Relative (as defined earlier), a minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift, if from a Relative.
- Non-Relative: If the gift/gift of equity is not coming from a Relative, a 5% minimum borrower contribution is required regardless of LTV. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.

The following restrictions apply when using gift funds:

- Primary residence only
- Gifts not allowed on loans with an LTV greater than 90%.
- Gifts of cash are only allowed on non-arms- length transactions if the cash is coming from a disinterested relative (i.e. not involved in the transaction), however gifts of equity will be permitted so long as all other requirements are met.
- Gifts/gift of equity is not required to meet seasoning requirement.
- Executed gift letter required.
- Evidence that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account is required. When the funds are not transferred prior to settlement, document that the donor gave the closing agent the gift funds in the form of a wire, certified check, or cashier's check for the amount of the gift.

9.5 IRS 1031 Exchange (Investment only)

- Assets for the down payment from a 'like-kind exchange', also known as 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.
- The proceeds from a 1031 tax exchange may be used for investment property purchases only.
- The sale of real estate may be exempt from capital gains tax if it is done under Internal Revenue Code Section 1031.

- The loan closing must be handled by a qualified intermediary (typically an escrow company or licensed exchange company) and cannot be an agent, investment banker, broker, employee of the borrower, or related family member.
- Reverse exchanges are not allowed because the borrower is not on title to the property at the time of closing.
- No seller provided subordinate financing.
- The following documentation is required for the underwriting loan file:
    - A complete copy of the fully executed exchange agreement
    - Verification of the amount of assets being held by the intermediary;
    - A copy of the Closing Disclosure from the sale of the property being exchanged;
    - Purchase contract for the subject transaction; and
    - Final Closing Disclosure for the subject transaction
    - Clear final title policy

9.6 Large Deposits

For personal accounts, if funds from a large deposit in excess of 50% of monthly qualifying income or if funds from any large deposit that is out of the ordinary are needed to complete the transaction (that is used for the down payment, closing costs, or financial reserves), document that those funds are from an acceptable source. Occasionally, a borrower may not have all the documentation required to confirm the source of a deposit. In those instances, use reasonable judgment based on the available documentation as well as the borrower's DTI and overall income and credit profile. Examples of acceptable documentation include:

- Borrower's written explanation
- Proof of ownership of an asset that was sold

For business accounts, review the most recent bank statements provided along with business income documentation to ascertain what is normal and typical for the business. The underwriting loan file must include written documentation or the rationale for using the funds.

9.7 Stocks/Bonds/Mutual Funds (Excluding Retirement Funds)

100% may be used for reserves. The value of government bonds must be based on their purchase price unless the redemption value can be documented. The value of the stock or mutual fund asset (net of any margin accounts) must be determined by obtaining either:

- The most recent monthly or quarterly statement from the depository or investment firm; or

- A copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.

9.8 Vested Retirement Account funds

85% may be considered for reserves, unless borrower is of retirement age (59.5) at time of application (100% can be used for reserves). Ownership of the account must be verified and terms of withdrawal must be provided to confirm the account allows for withdrawal. If needed to close, verification that funds have been liquidated (if applicable) is required

9.9 Ineligible Assets

- Grant funds
- Builder profits
- Employer assistance Assets
- Cash advance on credit card
- Cash for which the source cannot be verified (cash on hand)
- Commission from sale of subject property
- Proceeds from an unsecured Loan
- Salary advance
- Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Unverifiable source of funds
- Margined Assets listed within client accounts are not eligible as a source of funds or reserves
- Vested and non-vested stock options and non-vested restricted stock
- Non-vested stock
- Reverse mortgage
- Pension fund
- Seller real estate tax credit
- Foreign assets
- IRS 1031 Tax Exchange not allowed on primary residences and second homes
- Cash in hand from a cash out transaction may not be used as reserves

- Marijuana-Related Business (MRB) assets. A marijuana-related business is defined as including any of the following: Possession of cannabis or cannabis seeds, processing, growing, harvesting/cultivation, testing, packaging/delivery, wholesale or retail sales

10 Valuation Requirements

10.1 Appraisal Requirements

In order to ensure a reliable valuation of underlying property, a thorough appraisal framework is required which includes at minimum at least one appraisal and one additional valuation tool.

10.1.1 Appraisal Requirements

- A full appraisal must not be more than 180 days old on the date of the note.
- All appraisals must meet the Uniform Appraisal Dataset requirements determined by Fannie Mae (as modified by Fannie Mae from time to time).
- FNMA approved appraisal updates are required on appraisals older than 120 days, but not older than 180 days.

10.1.2 Appraisal Overview

At least one appraisal is required for all properties. Additional appraisals are required for the following loans:

- Purchase transactions over $1,500,000 require two appraisals
- Refinance transactions over $1,000,000 require two appraisals

10.1.3 Collateral Review Requirements

In addition to the Appraisal, all properties require that each appraisal be submitted through Fannie Mae's Collateral Underwriter©, an independent appraisal risk assessment application provided by Fannie Mae to manage appraisal quality. The Uniform Collateral Data Portal Submission Summary Report must be included in the underwriting loan file.

- When two appraisals are ordered due to the loan amount and transaction type, a CDA is not required; the lesser value of the two appraisals may be used regardless of the SSR score on each appraisal.
- When there is 1 appraisal:
  - If the SSR score is <= 3.99, then a CDA is not required and the appraised value may be used.
  - If the SSR score is > 3.99 or indeterminate, or the SSR cannot be obtained, then order a CDA

- If the CDA variance is <= 10%, then the original appraised value may be used.
- If the CDA variance is > 10%, then order a second appraisal; the lesser value of the two appraisals may be used regardless of the SSR score on each appraisal.
- The Correspondent must deliver the appraisal with the required CDA or field review. If the delivered underwriting loan file does not include a CDA or field review from Clear Capital, Caliber will suspend the underwriting loan file until one is received.
- An additional appraisal, charged to the borrower, may be ordered instead of a CDA; the lesser value of the two appraisals may be used regardless of the SSR score on each appraisal.

Comparable Sale Requirements: Appraiser must provide at least 3 closed comparable sales.

10.1.4 General Documentation Requirements

- In Retail and Wholesale, the appraiser must be on Caliber's approved appraiser list, and the appraiser number entered into H2O.
- The appraisal must be Appraisal Independence Requirements (AIR) compliant and must have been ordered through Caliber.
- Appraisals may be transmitted electronically as a PDF or XML file. The appraisal report must adequately identify the appraiser, include a reproduced signature of the appraiser whose name appears on the report, and the appraisal was created by the identified appraiser and is complete and unaltered.
- An appraiser may use computer software programs that are designed to reproduce the appraisal report forms. However, the sequence of the information as well as all of the specific information (including the instructions, entries, directions, etc.) must be exactly as it appears on the March 2005 hard-copy version of the form(s).

10.2 Transferred Appraisals

Transferred Appraisals are allowed per the following guidelines:

- Appraisal Report PDF 1st generation
- Appraisal Independence Requirements (AIR) Certification
- Paid Invoice
- Successful Uniform Collateral Data Portal (UCDP) Fannie & Freddie Submission Summary Report (SSR)
- Appraiser License if not within appraisal report
- Transfer letter authorizing Caliber or the originating lender on Correspondent loans.
- Appraisal will not be in Caliber's name

- Received a FNMA Collateral Underwriter Risk Score below 4. If the risk score is indeterminate, then a transferred appraisal is not allowed.
- Note: Corrections/Addendums are not allowed to the original appraisal. If supplemental reports require corrections/addendums to the original appraisal, then a new full appraisal report must be ordered.

10.3 Borrower Owns Property Less than 1 year

If a borrower owns the property for less than 1 year (measured from the Closing Disclosure closing date to the application date of the new loan), the valuation utilized to calculate the loan-to-value ratio will be the lesser of:

- The purchase price paid by the borrower for such property
- The appraised value of the property unless both the Appraisal and the underwriter provide substantial evidence of either
  - A rehabilitation of the property that demonstrates sound reasoning behind using the then current appraised value, or
  - Other evidence to support the increase over the purchase price.

10.4 Declining Market Adjustment

In the event the residence is located in a market with declining home prices, reduce the maximum LTV by 5% from the respective maximum program limits.

- A declining market would be denoted in the appraisal valuation.

10.5 Verification of Owner-Occupancy

For borrowers seeking a mortgage for his or her primary residence, the underwriter must review the applicable property documentation to gain assurance that the property is the borrower’s primary residence.

The underwriter must review underwriting loan file documents to ensure that there are no indicators that the property is not the borrower’s principal residence, including:

- Property insurance policy
- Appraisal
- Borrower Income Tax Returns, or Tax Transcripts

11 Appendices

11.1 Appendix A - Sample Underwriter/Borrower ATR Attestation

- **Income / Assets**: I have evaluated the applicant's income and assets using documentation provided by the borrower and have verified this information using reliable third-party verification records. I attest that the borrower has sufficient income to repay the loan and sufficient assets to meet all applicable down payment and reserve requirements.
- **Employment**: I have verified the applicant's employment status and have reasonable assurance that the borrower is employed, and such employment is expected to continue.
- **Monthly Payment**: I have included the fully amortized, monthly proposed mortgage payment, using the higher of the introductory rate or the fully indexed rate, in the borrower's debt-to-income ratio. For interest only loans, I have used the monthly payment of principal and interest using monthly payment amounts due after the interest only period is over.
- **Monthly Simultaneous Payments**: I have included the monthly payment amount for any simultaneous second lien in the borrower's debt-to-income ratio.
- **Taxes and Insurance:** I have confirmed the amount the borrower is expected to pay for taxes, insurance and other property related expenses (i.e. HOA dues) and included those amounts in the borrower's debt-to-income ratio.
- **Debts, alimony and child support:** I have evaluated the borrower's credit report and confirmed any amounts owed for alimony and child support and included the amounts for all such debts in the borrower's debt-to-income ratio.
- **DTI / Residual Income**: Taking all other ability to repay factors into consideration and including the ratio of the borrower's total monthly debt obligations to the borrower's total monthly income, I certify that the borrower's debt-to-income ratio and/or residual income meets all applicable agency and/or investor guidelines and the borrower demonstrates an ability to repay the loan.
- **Credit History**: I have reviewed the borrower's credit report, from a reliable and reputable credit bureau, and verified that the borrower's credit history meets all applicable agency and/or investor guidelines.

11.2 Appendix B - IRS Form Q Calculations

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	An amount shown under this heading may indicate that the person: • Is a salaried employee of a corporation, or • Has other sources of income This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's adjusted gross income.
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income Depreciation or depletion may be added back to the adjusted gross income
Rents, Royalties, Partnerships (from Schedule E)	Any income received form rental properties or royalties may be used as income, after adding back any depreciation shown in Schedule E
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time and should not be considered when determining effective income. However, if the person has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining income. Three years' tax returns are required to evaluate an earnings trend. If the trend: • Results in a gain, it may be added as effective income, or • Consistently shows a loss, it must be deducted from total income Underwriter must document anticipated continuation of income through verified assets. Example: An underwriter can consider the capital gains for a person who purchases old houses, remodels them, and sells them for profit
Interest and Dividend Income (from Schedule B)	This taxable / tax-exempt income may be added back to the adjusted gross income only if it: • Has been received for the past two years, and • Is expected to continue

IRS Form 1040 Heading	Description
	If the interest-bearing asset will be liquidated as a source of the cash investment, the underwriter must appropriately adjust the amount
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-Taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are: • IRA and Keogh retirement deductions • Penalties and early withdraw of savings • Health insurance deductions • Alimony payments
Employee Business Expenses	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income

11.3 Appendix C - Residual Income Requirements

Minimum Residual Income Requirements							
Household Size*							
Loan Amount	1-Person	2-Persons	3-Persons	4-Persons	5-Persons	6-Persons	7-Persons
<$150k	$600	$1,000	$1,200	$1,350	$1,400	$1,480	$1,560
> $150k ≤ $200k	$800	$1,300	$1,600	$1,800	$1,850	$1,930	$2,010
> $200 ≤ $250k	$1,000	$1,650	$1,950	$2,200	$2,300	$2,380	$2,460
> $250 ≤ $300k	$1,200	$1,950	$2,350	$2,650	$2,750	$2,830	$2,910
> $300 ≤ $350k	$1,350	$2,300	$2,750	$3,100	$3,200	$3,280	$3,360
> $350k ≤ $417k	$1,650	$2,700	$3,250	$3,650	$3,800	$3,880	$3,960
> $417k ≤ $500k	$1,900	$3,150	$3,800	$4,300	$4,450	$4,530	$4,610
> $500k ≤ $600k	$2,200	$3,700	$4,450	$5,050	$5,200	$5,280	$5,360
> $600k ≤ $700k	$2,500	$4,200	$5,050	$5,700	$5,900	$5,980	$6,060
> $700k ≤ $800k	$2,800	$4,700	$5,650	$6,350	$6,600	$6,680	$6,760
> $800k ≤ $900k	$3,050	$5,150	$6,200	$6,950	$7,200	$7,280	$7,360
> $900k ≤ $1M	$3,300	$5,550	$6,650	$7,550	$7,800	$7,880	$7,960
> $1M ≤ $1.25M	$3,850	$6,450	$7,750	$8,750	$9,050	$9,130	$9,210
> $1.25M ≤ $1.5M	$4,300	$7,150	$8,600	$9,700	$10,000	$10,000	$10,000
> $1.5M ≤ $2M	$4,800	$8,000	$9,650	$10,000	$10,000	$10,000	$10,000
> $2M ≤ $3.0M	$4,850	$8,150	$9,800	$10,000	$10,000	$10,000	$10,000
*Household Size is defined using the number of dependents listed on tax returns							

11.4 Appendix D – Non-Warrantable Condo Guidelines

CPL Non Warrantable Condominium Guidelines

Caliber's CPL Non-Warrantable Condominium Guidelines			
Program Eligibility	**Program Eligibility**	**Non-Warrantable Condos are allowed on all products, except for Fresh Start, Professional Elite, and Investor Access.** (On Fresh Start, Professional Elite and Investor Access, the condominium must be warrantable as defined by Fannie Mae)	
Lender Exposure	**Caliber**	For projects with > 4 units, Caliber Home Loans will not finance more than 25% of the units in any one project	
Primary Residence & Second Homes			
Primary and Second Home Loan Eligibility	**Maximum DTI**	45% max DTI	
	Minimum FICO	Min 680 FICO required	
	Maximum LTV	Reduce respective program max LTV by 5% New Construction Condos require an additional 5% LTV reduction from respective program max	
Investment			
Investment Loan Eligibility	**Maximum DTI**	43% max DTI	
	Minimum FICO	Min 680 FICO required	
	Maximum LTV	Reduce respective program max LTV by 5% New Construction Condos require an additional 5% LTV reduction from respective program max	
Project Characteristics Common to both Limited and Full Reviews	**Occupancy**	No minimum owner occupancy requirements for either limited or full review	
	Commercial /Non- residential Space	Subject property unit must be 100% residential. Project/building commercial % must be ≤ 50%. When commercial space exists, must be "typical for market & have no negative impact on marketability". Commercial % is determined by appraiser. No further assessment required. Commercial space in the building/project exceeding 50% will be reviewed on a single loan exception basis.	
	Zoning	Legal conforming and Legal non-conforming allowed (per Fannie Mae guidance)- allowed via limited & full project review	
	Mandatory Membership Fees	Upfront, annual or monthly fees required of unit owners to pay for amenities owned by 3rd party or builder/developer. Examples are: golf course, tennis courts, club house, pool.Allowed via limited & full project review.	
	Minimum Sq. Footage	Units must be at least 475 square feet	
	Non-Incidental Business Income	Derived from an HOA offering products/services to the unit owners and/or public that exceeds 10% of the project's total income are permitted via limited & full project review	
	HOA lien priority States	Allowed - up to 12 months HOA dues if within lien priority state, document via HOA cert	
	Master HOA Insurance	Follows Agency Guidelines (or follows FNMA Guidelines if we haven't received approval for both)	
Non Warrrantable Condominium Project Allowances and Documentation Requirements			
Project Review Types		**Limited Project Review**	**Full Project Review**
	Project Review Documentaion	Limited Review Documentation: • HOA questionnaire • Master property Ins cert (s) and flood, if applicable • Flood cert • Title report • Appraisal • Litigation docs, if applicable ex. Complaint, atty opinion letter if available • Ground lease and master sub, if applicable • Additional documentation may apply based on condo team's review	Full Review Documentation: • HOA questionnaire • Master property Ins cert (s) and flood, if applicable • Flood cert • Title report • Appraisal • Litigation docs, if applicable ex. Complaint, atty opinion letter if available • Ground lease and master sub, if applicable • HOA Budget • Master liability insurance • >20 units Master fidelity Insurance(aka employee dishonesty or crime) • CC&Rs (new construction and conversion only) • Engineers report (condo conversion within last 2 years)
Project Characteristics with requirements based on Limited or Full Review Type	**Single entity ownership**	**≤ 50% single entity ownership** allowed via limited & full project review	**50.1% - 75% single entity ownership** allowed with the following requirements • Only allowed for established / existing project type (as defined by Fannie Mae) • Project may not have insufficient budgetary reserves
	Pending Litigation	**HOA is named as Plaintiff in suit** - allowed via limited & full project review Examples of allowable pending litigation: • HOA is named as the Plaintiff in a foreclosure action, or as a Plaintiff in an action for past-due HOA assessments	**Other pending litigation** - will be considered on case by case basis, document via HOA cert and subject to additional documentation based on condo team assessment **Pending litigation not allowed under any circumstance when** • Litigation involves structural items or items that impact marketability or safety

Project Financials	**HOA Budget / Replacement Reserve Requirements**	≥ 5% allocation of replacement reserves - allowed	**3-5% allocation of replacement reserves** - annual budget required **< 3% allocation of replacement reserves** - annual budget required & reserve study completed by a professional • Projects with excessively insufficient budgetary reserves are allowed on a case by basis with a reserve study completed within the last 5 years by professional (Engineer, Architect, CPA, General Contractor, or Property Manager w/ 3yrs experience)
	HOA Dues - Maximum Delinquency Percentage	25% of HOA dues > 60 days' delinquent - allowed	**> 25% of HOA dues > 60 days' delinquent** = excessively insufficient
Project Type Reuirements based on Limited or Full Review Type	**Condo Conversion**	**Not allowed via limited project review**	**Condo conversion full gut** - allowed via full project review **Condo conversion non- or partial-gut** - considered on case by case via full project review, must provide an engineer's report/architect's report
	New Condominium	**Not allowed via limited project review**	**0% Presale.** Closing on the first unit in the project is allowed as long as the subject unit is 100% complete & remaining units in the building include sheetrock.
	Condotel - Affiliated with a nationally recognized hotel chain (Westin, Four Seasons, Ritz, etc.) - allowed via limited and full project review based on which review requirements they meet.	**Non-affiliated condotels** - allowed via limited review and must meet the following requirements: • Project has been established for a minimum of 3 years. • ≤ 15% of HOA dues allowed to be > 60 days' delinquent • ≥ 5% replacement reserves • No special assessments allowed for repair/replacement of major components (Special assessments for non-mandatory items, e.g., lobby redesign and updating or front entrance beautification are acceptable.) • Project must be in at least average condition with no project deferred maintenance cited by the subject unit's appraisal report • Condotels that require mandatory rental requirements or include occupancy restrictions will only be allowed as investment properties.	**Non-affiliated condotels** - that do not meet limited criteria may be considered with the following requirements: • Project has been established for a minimum of 3 years. • < 35 of HOA dues allowed to be > 60 days' delinquent • > 1% replacement reserves • Reserve study completed by a professional within the last 5 years required • No special assessments allowed for repair/replacement of major components (Special assessments for non-mandatory items, e.g., lobby redesign and updating or front entrance beautification are acceptable.) • Project must be professionally managed by either a property management company or an individual property manager holding a designation such as: CAM, CPM etc.) • Condotels that require mandatory rental requirements or include occupancy restrictions will only be allowed as investment properties.
Ineligible Project Types & Characteristics	Manufactured Homes		
	Common Interest Apartments, Tenants-in-Common or Continuity Interest Apartment		
	Continuing Care Retirement Communities (CCRC)		
	Deed Restriction Communities (age restricted communities permitted)		
	Multi Dwelling Units (allowed within project by not allowed on subject property unit)		
	Live/Work Projects		
	Private Transfer Fees		
	Units w/less than full kitchens.(All kitchens must have appliances for year-round occupancy		
	Projects with time shares or fractional ownership		