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Smart Series Addendum

Ability to Repay and Qualified Mortgage Rule

No mortgage loan may be originated under the Smart Series programs unless the loan satisfies the “Ability to Repay” provisions dictated by the CFPB in 12 CFR Part 1026.43 (Also known as Qualified Mortgage Rule). For each loan, Caliber must make reasonable and good faith determination, based on verified and documented information, that the borrower has a reasonable ability to repay the loan according to its terms. Generally, the underwriters will evaluate, at a minimum, the following eight factors in making this determination:

- current or reasonably expected income or assets
- current employment status
- the monthly payment on the covered transaction
- the monthly payment on any simultaneous loan
- the monthly payment for mortgage-related obligations
- current debt obligations, alimony, and child support
- the monthly debt-to-income ratio or residual income
- credit history

For any loan that is designated as “Non-Qualified Mortgage Loan” or a “Qualified Mortgage Loan having a rebuttable presumption of compliance with the “Ability to Repay” requirement under the Qualified Mortgage Rule, Caliber underwriting determination must show that the borrower has sufficient residual income or assets to meet living expenses after taking into account the borrower’s income and debt obligation.

The income documentation must support the Ability to Repay requirements (ATR).

Age of Documentation

- Credit, income, and asset documentation must be no older than 90 days from the Note date.
- Appraisal may not exceed 120 days old as of the date the Note date.
- Appraisal update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note. After 180 days, a new appraisal is required. Appraisal updates are **NOT** permitted in a declining market.

Documentation Requirement

SmartEdge and SmartSelf

The following documentation is required:

- Notice to Borrower: Ability to Repay Disclosure signed by the borrowers
- Ability to Repay (ATR) Underwriting Certification completed by underwriter
- Borrower’s Affirmation of Information Provided to Establish Ability to Repay (ATR) signed by the borrower

SmartVest

- Complete schedule of all real estate owned, indicating financed and free and clear properties
- Mortgage/lien rating for each financed property

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- Business Purpose Loan Certification, signed by borrower(s)
- Occupancy Certification, signed by the borrower(s)

Appraisal Requirements

SmartEdge and SmartSelf Appraisal Requirements	
≤ \$1,500,000	1 Full Appraisal
>\$1,500,000	2 Full Appraisals
For 1-unit investment properties, a comparable rent schedule is required when rental income is used to qualify.	

SmartVest Appraisal Requirements	
≤ \$1,000,000	1 Full Appraisal
>\$1,000,000	2 Full Appraisals
A Comparable Rent Schedule is required	

- Appraisals must be ordered through a Caliber approved AMC.
- **SmartSelf:** Subsequent appraisals are not allowed.
- Appraisal update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note. After 180 days, a new appraisal is required. Appraisal updates are **NOT** permitted in a declining market.

Collateral Desktop Analysis (CDA)

- A CDA is required to support the value of the appraisal but not used to determine value it is ordered through Clear Capital by Caliber.
 - If the CDA returns a value that is “indeterminate” or if the CDA indicated a lower value than the appraised value that exceeds a 10% tolerance, a second full appraisal must be provided.
 - The lower value of the two appraisals will be used as the appraised value.
 - If 2 full appraisals are provided, a CDA is not required.
- When 2 appraisals are required, the following applies:
 - Appraisals must be completed by 2 independent companies.
 - The LTV will be determined by the lower of the 2 appraised values if the lower appraisal supports the value conclusion.
 - Both appraisal reports must be reviewed and address any inconsistencies between the 2 reports and all discrepancies must be reconciled.
 - If the two appraisals are completed “subject to” 1004Ds are required, only one 1004D is allowed. If only one 1004D is provided, it should be for the appraisal that the value of the transaction is based on.
 - A CDA is not required.
- HPML Loans
 - A second appraisal, at no cost to the borrower, is required when both:
 - The seller acquired the dwelling within 180 days prior to the date of the borrower’s purchase agreement; and
 - The price reflected in the purchase agreement is higher than the seller’s acquisition price:

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- More than a 10% price increase if the seller acquired the property in the past 90 days: or
Or
- More than a 20% price increase if the seller acquired the property in the past 91 to 180 days
-

Appraisal Transfers

An appraisal assignment is the transfer of the appraisal from one lender to another lender.

Caliber will accept transferred appraisals if the following requirements are met:

- Color PDF of the appraisal
- Color photographs of subject property and comparable sales
- Appraiser Independence Certification
- Appraisal XML file
- Submission Summary Report (SSR)
- Original appraisal invoice submitted when the appraisal was completed for the original lender
- Signed and dated Transfer Letter from the original lender to Caliber releasing the appraisal.

Caliber will submit the appraisal to Collateral Underwriter. The appraisal must receive a CU score of 3.5 or less with no overvaluation.

Appraisal Attachments

The appraisal attachments must be prepared and signed (if applicable) by an approved appraiser. The appraisal attachments must be on the current version

Attachment	URAR Forms 1004/70	Condo Forms 1073/465
Exterior photographs-clear, descriptive photographs showing the front back and street scene of the subject property and the front of each comparable sale All photographs must be in color. Black and white photographs are not permitted. Photographs of comparable rentals utilized in the Small Residential Income Property Appraisal Report Form 1025/72) are not required	X	X
Interior photographs must include the following: kitchen, all bathroom's main living area, examples of any physical deterioration, examples of recent property updates. Interior photographs on proposed or under construction properties may be taken by the appraiser at time of final inspection.	X	X

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Interior building sketch and calculations (required on Form 1004/70) if floor plan is atypical or functionally obsolete, thus limiting the market appeal)	NA	X
Exterior building sketch and calculation	X	NA
Street map showing the location of the subject property and comparable sales	X	X
Single Family Comparable Rent Schedule (Form 1007/100) for all 1-unit investment properties, if applicable (not required when rental income is not being used to qualify)	X	X

Declining or Soft Market

A market will be deemed “declining” if:

- Appraiser indicates in Neighborhood Section that market is declining.
- Appraiser indicates anywhere in comments that market is declining.
- Any appraisal review indicates that the market is declining.
- 5% reduction to the LTV for declining or soft market.

Asset Types

1031 Exchange

- Allowed investment property only.
- Reverse 1031 exchanges are not eligible.
- The following documentation is required:
 - Copy of settlement statement from property being exchanged is required; and
 - Copy of letter from 1031 Intermediary identifying the property and the amount of assets being held for the transaction.

Business Funds

Business funds may be eligible for use for down payment, closing costs and/or reserves.

Document the borrower’s percentage of ownership with one of the following:

- a CPA letter; or
- Individual income tax returns (**SmartEdge**); or
- Business formation documents (e.g., Operating Agreement, Partnership Agreement, Bylaws).
- Business assets are permitted based on ownership in the business:

Ownership	Eligible Amount of Asset
100%	May use 75% of the account balance.
≥ 25% and <100%	May use 75% of the account balance but must obtain written approval from all other owner(s) that the assets are eligible to be used by the borrower for the transaction.
<25%	Assets held in a business account are not eligible.

- For **SmartEdge** and **SmartSelf**, funds deposited from the business into the borrower’s personal account prior to application are considered personal funds.

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- Large, irregular, and/or inconsistent deposits appearing on personal statements that are sourced from a business account should be further evaluated to determine if there is an impact to the business.

Cash Value of Life Insurance/ Annuities

- 100% of funds are eligible to be used for the calculation of funds.
- Net proceeds from a loan against the cash value or from the cash surrender value of the borrower's life insurance policy are an acceptable source of funds for down payment, closing costs and reserves. Document all of the following:
 - Borrower as policy owner.
 - Period covered and current cash value.
 - Receipt of the funds; and
 - Any outstanding loans.
- If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated

Checking/ Savings/ Money Market/ CDs

- 100% of funds are eligible to be used for the calculation of funds.
- Two months most recent statements are required.

Earnest Money Deposit

The source of funds for the deposit must be verified (e.g., account statement) as well as the source of the deposit check. Ensure that the deposit is not counted twice in the file (deducted from the funds to close and counted in assets).

Receipt of the earnest money deposit must be verified by one (1) of the following:

- A copy of the cancelled check.
- A copy of the deposit slip and proof the check was cashed.
- Evidence from the real estate broker (not agent) that the funds were deposited into the broker's trust account (copy of the broker's trust account statement).
- Escrow agent/attorney's letter acknowledgement of receipts of funds.
- Verification of sufficient funds on deposit in the depository account for the down payment, closing costs, etc.

Foreign Assets

Down Payment and Closing Costs

Foreign assets may be used for down payment and closing costs. If the assets are derived from a sale of a foreign asset or from assets held in a foreign institution, the assets must be converted into United States currency by an independent third party and placed in a United States financial institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Reserves

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Reserves held in a foreign financial institution do not need to be placed in a U.S account however, the funds must be properly documented. The borrower's source of fund for the down payment and/or closing cost must comply with the office of the foreign asset control (OFAC) sanctions program for funds originating from countries with OFAC sanctions.

Gift Funds

SmartEdge and SmartSelf

- Gift funds are eligible for primary residence only.
- Subordinate financing not permitted
- Gift funds may not be used for reserves.
- Gift funds can be utilized once the borrower has contributed 5% of their own funds unless the LTV/CLTV $\leq 80\%$. If the CLTV is $\leq 80\%$, the entire down payment may come a gift.
- The following is required when using gift funds:
 - The donor must be a family member, future spouse, or domestic partner (domestic partner must live with borrower).
 - Ineligible donors are cousin, close family friend, have any affiliation with the builder, the developer, the real estate agent, or any other interested party to the transaction
 - An executed gift letter with the gift amount and source of the funds, date the funds were transferred, donor's statement that no repayment is expected, donor's name, address, phone number and relationship to the borrower.

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Ineligible.

Transfer of Gift Funds

SmartEdge and SmartSelf

Verification and documentation that sufficient funds to cover the gift by the donor must be verified by the donor's bank account or must have been transferred to the borrower's account is required

Acceptable documentation includes the following:

- A copy of the donor's check and borrower's bank statement.
- A copy of the donor's withdrawal slips and the borrower's deposit slip.
- A copy of the donor's check to the closing agent.
- A Settlement Statement/Closing Disclosure showing receipt of the donor's gift check.

When the funds are not transferred prior to closing, provide the following to the closing agent:
Copy of cashier's check, copy of certified check, or wire confirmation.

SmartVest

Ineligible.

Gift of Equity

SmartEdge and SmartSelf

- Permitted for primary residence transactions.
- Maximum 75% LTV/CLTV.

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- Be used to fund all or part of the down payment and closing costs, including prepaid items.
- Cannot be used towards reserves.
- Must be reflected on the Closing Disclosure; and must be clearly labeled as a gift of equity.
- The acceptable donor and minimum contribution requirements for gifts apply to gifts of equity. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and is not subject to IPC requirements.

SmartVest

Ineligible.

Large Deposit

SmartEdge

- For refinance transactions, documentation or explanation for large deposits is not required.
- Large or irregular deposits must be evaluated to ensure they are not the result of any new undisclosed debt(s); and
- Large deposits in excess of 50% of monthly qualifying income or any large deposit that is out of the ordinary are required to be explained and source documented in the file.

SmartSelf

- For refinance transactions, documentation or explanation for large deposits is not required.
- Large or irregular deposits must be evaluated to ensure they are not a result of any new undisclosed debt(s).
- Personal Bank Statements: Large deposits in excess of 50% of monthly qualifying income or any large deposit that is out of the ordinary are required to be explained and source documented in the file.
- Business Bank Statements: Evaluate statements for patterns, size, and consistency of deposits. Examples include but are not limited to
 - One month statement of deposits that have higher than usual amounts of deposits when compared to previous months.
 - A single deposit that does not appear to be typical compared to the history of business deposits.
 - Transfers that continually come from one (1) source and appear unusual.
 - Unverified funds are not acceptable sources for the down payment, closing costs and/or reserves.

SmartVest

Documentation or explanation for large deposits is not required.

Loans Secured by Financial Assets

Borrowed funds secured by an asset owned by the borrower are considered to be an acceptable source of funds for down payment, closing costs, and reserves.

The following documentation is required:

- The terms of the loan.

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- Verification that the party providing the secured loan is not a party to the sale.
- Evidence that the loan is secured by an asset owned by the borrower; and
- Evidence of transfer and receipt of the funds.
- The value of the asset must be reduced by the amount of the loan proceeds and any associated fees.

Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the borrower, all of the following information must be provided:

- Written agreement between the borrower and the recipient of the loan.
- Evidence the funds were withdrawn from the borrower's account.
- Verification the borrower had the ability to lend the funds.
- Verification that repayment has been made; and
- Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

Publicly Traded Stocks/ Bonds/ Mutual Funds

- 100% of the value of the assets may be considered and liquidation is not required when used for reserves, current documented value of stocks and mutual funds may be used.
- When stocks and mutual funds are used for down payment or closing costs, the value of the asset must be determined at the time of sale or liquidation (net of any margin accounts) by obtaining either:
 - Most recent two (2) months or most recent quarterly statement from the depository investment firm; or
 - A copy of the stock certificate accompanied by documentation to evidence the stock price as of the application date.
- Receipt of funds must be verified to evidence the sale or liquidation unless the value of the asset is at least 20% more than the funds needed for the borrowers down-payment and closing costs, no documentation of liquidation is required.
- Document the value of government municipal bonds based on their purchase price unless the redemption value can be documented.
- Non-vested stock is ineligible.

Stock Options

Vested stock options are an acceptable source of funds for down payment and closing costs if they are immediately available to the borrower. Document the value of vested stock options with:

- A statement that lists the number of options and the option price; and
- Use the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.
- Vested stock options are not an acceptable source for reserves.
- Non-vested stock options are not an acceptable source of funds for the down payment, closing costs or reserves.

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Government Bonds

Document the value of government municipal bonds based on their purchase price unless the redemption value can be documented.

Real Estate Commission

- Real estate commission is an acceptable source of funds for down payment and/or closing costs when the borrower is also the selling agent of the property.
- The Closing Disclosure must reflect the commission earned by the borrower and credited toward the transaction.

Retirement Accounts (401(k), IRAs)

Vested funds from individual retirement accounts (IRA, SEP-IRA, and KEOGH) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as the source of funds for down payment, closing costs, and cash reserves.

All of the following is required:

- Most recent 2 months or quarterly account statements
Note: Must be a statement covering a minimum of 2 months.
- Verification of the ownership of the account.
- Confirmation that the account is vested
- Confirmation that the account allows withdrawals regardless of current employment status (employer retirement accounts).
- If the retirement assets are in the form of stocks, bonds, or mutual funds, 100% of the current value may be considered when using for reserves with the following exception:
 - If the borrower is not at 59 ½ or older the value of the account should be reduced by 10% to account for an early withdrawal penalty.
- Liquidation is required if funds are utilized for closing.

Sale of Other Assets

Funds derived from the sale of assets (other than real estate) are eligible provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction. The proceeds should not be more than the value of the asset.

Document all of the following:

- Proof of ownership.
- Support for the value of the asset from an independent and reputable source (published value estimates, appraisal).
- Signed bill of sale evidencing the transfer of ownership, or equivalent.
- Evidence of receipt of the proceeds (e.g., deposit slip or account statement).

Sale of Real Estate

The net proceeds that will be generated from the sale of an existing property must be established. Both the actual sale price and net proceeds must be documented with either a copy of the final Closing Disclosure or a fully executed buy-out agreement accompanying a Closing Disclosure that is part of an

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employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceeds.

Net proceeds based on sales contract

Obtain a copy of the executed contract of sale and use the following calculation: sales price minus (sales costs plus all outstanding liens) = Estimated sales proceeds

Net proceeds based on listing price

Use 90% of listing price minus all outstanding liens = Estimated sales proceeds

The 10% adjustment factor must be adjusted depending on market conditions in the area.

Corporate relocation plans

When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with the corporate relocation plan, obtain a copy of the executed buyout agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not an acceptable source of verification of proceeds from the sale

Trust Funds

Funds disbursed from a trust are acceptable assets with a copy of the trust agreement or signed statement on letterhead from the trust manager or trustee that

- Identifies the borrower as the beneficiary
- Confirms that the borrower has access to all or certain specific amount of the funds
- Confirms that the trust has the assets to disburse funds to the borrower

Note: If the trust account is used to meet the borrower's required investment and qualifying income, the borrower must provide documentation that the withdrawal of funds will not negatively affect the qualifying income.

Ineligible Asset Types

- Anticipated savings
- Bridge loans
- Cash advance on a revolving charge account
- Cash for which the source cannot be verified (e.g., garage sales)
- Credit card financing
- Digital currency (e.g., Bitcoin)
- Donation from equities
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
- Employer assistance
- Funds from a down payment assistance program
- Funds in a Custodial Account (Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) or "In Trust For"
- Individual Development Accounts (IDA)

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- Labor performed by borrower also referred to as “Sweat equity”
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- Mortgage Credit Certificates (MCC)
- Net proceeds from a 1031 Reverse Exchange
- Pooled funds
- Rent credits
- Restricted stock
- Personal unsecured line of credit or loan
- Salary advance
- Stocks held in an unlisted corporation
- Trade equity

Borrowers Contributions

- On purchase transactions, the borrower must make a minimum down payment with funds from their own funds. The amount of the minimum required down payment depends upon the occupancy of the subject property.
- **Primary Residence**
 - Minimum of 5% of the lesser of the purchase price or the appraised value must be from the borrower’s own funds.
Note: Refer to [Gift Funds](#) and [Gift of Equity](#) for LTV restrictions
- **Second Home and Investment Properties**
 - All funds for down-payment must be the borrower’s own funds.

Borrower Eligibility

Eligible Borrowers

- U.S. Citizens
- [First-Time Homebuyer](#)
- [First-Time Investor](#)
- [Non-Permanent Resident Aliens](#)
- [Permanent Resident Alien](#)
- [Power of Attorney](#)
- [Revocable Trust](#)

SmartSelf

A minimum of one borrower must:

- Meet the definition of self-employed, Refer to [Self-Employment Income](#) and
- At least one borrower must be self-employed and earn 51% or more from their self-employed and use their self-employed income for qualification.

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The borrower must have property ownership and landlord experience managing residential or commercial real estate for a minimum of 12 months.

First-Time Homebuyer

A First Time Homebuyer (FTHB) is defined as a borrower who had no ownership interest (sole or joint) in a residential property during the three-year period prior to loan application. Only one (1) borrower must meet the homeownership requirements to meet standard guidelines and not be considered a first-time homebuyer loan.

- Must have a 0x30x12 consecutive housing payment history.
- Primary residence only.
- Maximum loan amount of \$1,500,000.
- Borrowers who live rent free are not eligible.

Ownership Defined

Ownership is defined as:

- Partial or joint ownership is considered the same as total ownership in the property.
- One- to four-unit residential properties, where the borrower is personally obligated on the mortgage(s); Applies to the total number of financed properties, not to the number of mortgages on the property.
- Cumulative for all borrowers (though jointly financed properties are counted once).

Property Subject to Limitations

Type of Property Ownership	Subject to Limitations
Ownership in 1-4-unit residential properties where borrower is personally obligated on the Note	Yes
Ownership of a manufactured home and the land on which it is titled as real property	Yes
Ownership in commercial real estate	No
Ownership of a multi-family property consistency of more than 4 dwelling units	No
Ownership in a timeshare	No
Ownership of a vacant (residential or commercial) lot	No

Examples:

1. The borrower is personally obligated on mortgages securing 2 investment properties and the co-borrower is personally obligated on mortgages securing 3 other investment properties, and they are jointly obligated on the primary residence mortgage. The borrower is refinancing the mortgage on 1 of the 2 investment properties. In this example, the borrowers have 6 financed properties
2. The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing 5 other investment properties. In addition, they each own their own primary residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property.
3. The borrower is purchasing and financing 2 investment properties simultaneously. The borrower does not have a mortgage lien against the primary residence but does have a financed

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second home and is personally obligated on the mortgage, 2 existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this example, the borrower will have 5 financed properties because the financed building lot does not need to be included in the property count.

Simultaneous Submissions

All new loans submitted for the same borrower must be underwritten simultaneously as the impact of each transaction upon the other needs to be evaluated.

First-Time Investor

A first-time investor is permitted if all of the following are met:

- Minimum 700 FICO.
- Maximum 75% LTV.
- Borrower has owned a primary residence for at least 12 months and has a 12-month housing payment history (current and prior history).
- Must have a 36-month credit history including 12-month housing payment history.
- Minimum [DSCR](#) 1.25.
- Maximum one investment financed with SmartVest if the borrower has less than three years of landlord experience.

Non-Occupant Co Borrower

Non-occupant co-borrowers may be eligible subject to the following:

- 1-unit.
- 5% reduction in maximum LTV.
- Maximum 45% DTI based on all borrower's income.
- Occupying borrower must be employed and contribute to qualifying income.
- Must be an immediate relative as defined by regulatory agencies, is a person's spouse, father, mother, children, brothers, sisters, grandchildren, as well as the parents or siblings of a person's spouse, or the spouse of a child/sibling of such person.
- Cash out refinance not permitted.

Non-Permanent Resident Aliens

- Must have an unexpired passport from their country of citizenship containing INS form I-94 which must be stamped Employment Authorized.
- Valid Employment Authorization Document (EAD) required for US. employment if not sponsored by current employer (dependent on visa type), along with a copy of the Petition for Non-Immigrant worker (Form I-140), or equivalent.
- A minimum of 5 years' residency and a 5-year history in the same line of work with the likelihood of employment continuance for at least three (3) years.
- Owner occupied, single family, PUD, or condo.
- One (1) of the following Visas with a minimum remaining duration of 12 months from the Note date with a letter of intent from the employer to renew

Smart Series Addendum

- H-1B
- E-1, E-2, E-3
- L-1A, L-1B, L-2 (spouse of L-1A or L-1B)
- O-1
- TN
- NAFTA
- All borrowers must meet the above requirement whether or not income is used for qualifying purposes.

SmartVest: Ineligible

Permanent Resident Alien

Legal residency should be documented with one of the following:

- A valid and current Permanent Resident Alien card (form I-551) front and back, also known as a green card.
- A passport stamped “processed for I-551, temporary evidence of lawful admission for permanent resident” and provide an expiration date. Employment is authorized. This evidences that the holder has been approved for, but not issued, a Permanent Resident Alien card.
- Borrower(s) must have a current 24-month employment history in the U.S. or acceptable education documentation (e.g., college transcripts) combined with employment total at least 24 months in the U.S.

Power of Attorney (POA)

- Power of Attorneys must be in accordance with Agency guidelines.
- The Power of Attorney must be approved by Caliber Home Loans and the title company to ensure compliance with state laws.
- The POA must be drawn in accordance with applicable state laws and be acceptable to the recording agent in the local jurisdiction.
- The POA must be prepared by the borrower’s attorney or the closing agent.
- POA must be signed and notarized.
- POA must reference the address of the subject property unless otherwise required by applicable law.
- Clearly defines the agent.
- Grants the agent the authority to enter into a real estate transaction and mortgage real property.
- Does not contain any blanks.
- The POA must be recorded along with the security instrument in states that require the POA to be recorded.
- The name(s) on the POA must match the name(s) on the loan documents
- The POA must be valid at the time the affected loan documents were signed.
- Letter of explanation verifying the reason the POA is being used must be included in the loan file. Such statement must be provided to document custodian with the power of attorney.
- POA not permitted on cash-out refinance unless required by state law.

Smart Series Addendum

Revocable Trust

An Inter Vivos Revocable Trust is a trust that an individual creates during their lifetime, becomes effective during their lifetime, and can be changed or canceled at any time for any reason, during their lifetime.

Title and Title Insurance Requirements

- The title insurance policy for the subject property may not list any exceptions arising from the trust ownership of the property. Full title to the property must be vested either:
 - In the trustee of the Inter Vivos Revocable Trust.
 - Jointly in the trustee of the Inter Vivos Revocable Trust and in the name of an individual borrower; or
 - In the trustee of more than one (1) Inter Vivos Revocable Trust.

If title will be vested in the trustees of more than one (1) inter vivos revocable trust, the terms of the two (2) revocable inter vivos trust documents must complement each other and may not be in conflict with one another.

Certification of Trust

- Trust certifications must confirm the following:
 - For properties in California, a CA Trust Certification completed by the borrower or the borrower's attorney is acceptable in lieu of the full trust documents. The title commitment is still required. Should any portion of the trust certificate be found inaccurate or in disagreement with the title report, this exception cannot be applied, and the complete trust documents must be provided. This exception to trust documentation is only for properties located in California.

Trust and Trustee Requirements

- The trust agreement must meet all requirements below:
 - The trust is established by one (1) or more natural persons, solely or jointly. The person establishing the trust is known as the "Settlor," "Trustor", or "Grantor" (referred to below as "Settlor"),
 - The Settlor (borrower) is the primary beneficiary of the Trust. If there is more than one (1) Settlor, there can be more than one (1) primary beneficiary.
 - The trustee(s) must include either:
 - The individual establishing the trust (or at least one (1) of the individuals, if there are two (2) or more); or
 - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
 - The trustee has the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the borrowers on the note; and
 - The trust is valid under law.

Ineligible Trusts

- Blind Trusts
- Community Land Trusts

Smart Series Addendum

- Irrevocable Trusts
- Land Trusts

Legal Documents and Riders

- Revocable Trust Rider (Sample Language)
- Signature Requirements for mortgages to Inter vivos revocable trusts
 - Signature Requirements for California.
 - Use of a signature addendum to Note for mortgages to Inter vivos revocable trusts.
 - Form of Signature Required on Mortgage Note for an institutional trustee and for an Individual Trustee Who is Not Both a Settlor and a Credit Applicant.
 - Form of signature requirement on mortgage Note for an Individual trustee who is both a settlor and a credit applicant Form of signature required on Security Instrument for all trustees.
 - For of settlor/credit Applicant's signature acknowledgment Required on Security Instrument Optional Limitation on Trust Liability.

Electronic Signatures

When signatures are required on initial disclosures and/or closing documents, Caliber allows the use of electronic signatures in most cases. However, Caliber always requires wet signatures on the following documents:

- Note.
- Note Riders (if applicable).
- Deed of Trust/Mortgage.
- Deed of Trust/Mortgage Riders (if applicable).
- Notice of Right to Cancel.
- Any other transaction related documents that require a Notary acknowledgement or will be recorded example Patriot Act, Power of Attorney, State Specific Documents such as Texas 50(a)(6) loans.

When electronic signatures are used the appropriate, e-Consent documentation must be provided.

Vesting Options

SmartEdge and SmartSelf

LLCs are not allowed.

SmartVest

The loan application must reflect the appropriate vesting Individual and LLC are permitted.

- All owners of the borrowing business entity must be listed as borrowers on the transaction
- All owners of the borrowing business entity must be natural persons
- Loan must be disclosed to all borrowers and the borrowing business entity
- All owners of the borrowing business entity must sign the closing documents
- Transaction is limited to no more than four borrowers, including the borrowing business entity. The following documentation must be provided:

Smart Series Addendum

- Business Formation Documents (e.g., Articles of Incorporation, Bylaws, Charter, Articles of Association, etc.)
 - Any documents received must document that they have been filed properly and certified with the appropriate state
- Operating/Partnership Agreement
 - Document must reflect all member ownership interest in the business/entity; or
 - CPA letter documenting borrower's percentage of ownership in the business
- Tax Identification Number
- Certificate of Good Standing

Ineligible Borrowers

- Foreign Nationals
- Borrowers with Diplomatic Immunity Status
- Life Estates
- Non-Revocable Trusts
- Guardianships
- Borrowers with Deferred Action for Childhood (DACA) approval are not eligible
- Caliber will not purchase loans from Principal/Owners of Caliber Third Party Originators

SmartVest

- Non-permanent resident alien
- First time homebuyers
- Non-arm's length transactions between family members

Credit Report Requirements

Credit Scores

The following should be used to determine each borrower's representative credit score:

- If there are 3 valid scores for a borrower, the middle score of the 3 is used.
- If there are 2 valid scores for a borrower, the lower of the 2 is used.
- If 2 scores are the same, the score should be used.
- If 1 valid score, use score.
- All borrowers must have a credit score.
- The borrower's present address must be within the US, US territories or an APO, FPO or DPO military address located within the US to obtain credit report
- Borrowers with foreign credit reports are not eligible.
- Three trade lines from traditional credit sources (such as a bank or other financial institution) that reported for 12 months or more prior to the date of loan application (may be opened or closed):
 - One trade line must have a minimum 24-month rating.
 - One trade line must have a minimum \$5,000 high credit limit and
 - The seasoning and high credit limit may be met with the same trade line.
- Authorized user accounts may not be considered when establishing minimum trade lines.

Smart Series Addendum

- To ensure the validity of the score, each trade line should reflect all repositories that are reporting it. This will identify which trade lines were considered when generating each score.
- Credit enhancement process and/or credit services such as rapid re-score, credit enhancement or similar services are not permitted either for purposes of increasing a score for qualification and/or pricing improvement.

Disputed Tradelines

- Disputed accounts are reviewed to determine current balance and payment history (30-day or more delinquency).
- The following will determine whether or not the derogatory trade line must be resolved, and a new credit report run prior to loan submission (credit supplements are not permitted to document disputed accounts):
 - No derogatory information: no action required.
 - Derogatory information: remove and pull new credit report when the disputed account has been open or active in the past 12 months.
 - Disputed medical collections do not need to be removed.

Frozen Credit

- Any borrower with one (1) or more repositories with frozen credit on their credit report must have their credit unfrozen and the loan must be re-underwritten.
- If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.

Housing Payment History Requirements

- Mortgage payment histories do not have to be independently verified provided the credit report includes a reference to the mortgage(s) and reflects the most recent 12 months payment activity.
- Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, and HELOCs are considered mortgage debt.
- If the mortgage is not verified by the credit report it must be documented by one (1) of the following:
 - Verification of Mortgage (VOM), by a professional management company and/or private party or
 - A copy of the Note and 12 months' cancelled checks or bank statement.

SmartEdge

- Applies to all mortgages on all financed properties.
- Housing Payment History:
 - 1x30x12(Pricing adjustment may apply)
 - Non-warrantable condos not permitted
 - 0x30x12
 - Any previously modified mortgage.
 - Non-warrantable condos permitted.

Smart Series Addendum

- 12 months may include a combination of mortgage and/or rental payment history to meet housing payment history requirements, if applicable.
- For FTHB, refer to [First Time Homebuyer](#) for additional housing payment history.

SmartSelf

- Applies to all mortgages on all financed properties.
- Housing Payment History:
 - 1x30x12
 - 0x30x12
 - Any previously modified mortgage.
 - 12 months may include a combination of mortgage and/or rental payment history to meet housing payment history requirements, if applicable.
 - For FTHB, refer to [First Time Homebuyer](#) for additional housing payment history.

SmartVest

- Housing Payment History: 0x30x12
- Inclusive of all liens regardless of position.
- Applies to all mortgages on all financed properties

Inquiries and Undisclosed Liabilities

SmartSelf and SmartEdge, all debt incurred during the application process and through loan closing must be disclosed on the final application and included in the loan qualification. When the credit report reveals a significant debt not listed on the application, a written explanation from the borrower addressing the omission may be required.

When the credit report indicates recent inquiries (excluding all utility company inquiries), confirm that the borrower has not been granted any additional debt that is not reflected on the loan application. If additional credit was applied for and/or approved or obtained, a verification of that debt must be provided, and the borrower must be qualified with the monthly payment. All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated.

SmartVest

Not applicable.

Judgments/ Tax Liens/ Charge-offs/ Past-Due Accounts

Any outstanding judgments, tax liens, charge-offs, and past due accounts must be paid prior to or at closing. They must be reflected on the Closing Disclosure and disbursed by the closing agent.

Tax Liens

- A signed letter of explanation is required for all tax liens.
- Open tax obligations subject to repayment plans are permitted when:
 - The payment plan is a guaranteed installment agreement.

Smart Series Addendum

- Six (6) consecutive months of payments on the payment plan have been made as of the application date.
- Borrower(s) may not be under more than one (1) repayment plan.
- There may not be an open lien or evidence of a lien filing for the amount under the payment plan.
- **SmartSelf** and **SmartEdge** the monthly payment under the plan terms must be included in the DTI ratio (Not applicable to **SmartVest**).
- If IRS or state taxes are owed from a prior tax year(s) and are not a lien showing on credit or on title, they must be paid in full prior to or at closing unless they meet the above repayment plan requirements.

Collection and Charge-off of Non-Mortgage Accounts

- Collection(s) and/or charge-off(s) is ≤24 months at the time of application AND have cumulative total of \$2000 or more.
- Medical collection(s) and/or charge-off(s) are excluded regardless of amount.

Consumer Credit Counseling

Borrowers who have entered consumer credit counseling must have completed the counseling prior to loan application.

SmartEdge

Non-warrantable condos: not permitted in the past 24 months (Not applicable to **SmartSelf** and **SmartVest**)

Delinquent Credit Belonging to an Ex-Spouse

Delinquent credit that belongs to an ex-spouse may be excluded from the credit evaluation of the borrower if the following are met

- A copy of the divorce decree or separation agreement shows that the derogatory accounts belong solely to the ex-spouse
- The late payments can be verified to have occurred after the date of the divorce or separation

SmartEdge and SmartSelf

Debts that were delinquent prior to the court ordered divorce or separation are required to be included in the borrower's DTI ratio.

SmartVest

If the delinquent payments in question are related to mortgage debt, provide evidence of transfer of title to the mortgaged property prior to the delinquency must be provided, and evidence of "buyout" as part of court proceedings must be provided.

Smart Series Addendum

Lawsuits and Pending Litigation

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, the following is required:

- A statement from the borrower's attorney that explains the circumstances of the lawsuit or litigation and discuss the borrower's personal liability and insurance coverage
- A copy of the complaint and response; and
- The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of Caliber first lien position.

For **SmartSelf** and **SmartEdge**, may only be an owner-occupied purchase or rate and term refinance.

Rental Payment History Requirements

Rental history must be documented by one (1) of the following:

- Verification of Rent (VOR), by a professional management company and/or private party; or
- Copy of lease agreement and 12 months' cancelled checks or bank statement.

Note: Credit reports must not be used to verify a private party housing history.

Refer to the [Housing Payment History Requirements](#) above.

Significant Derogatory Credit

- The borrower may not have any active mortgage forbearance on any mortgages
- A minimum of 12 months reserves is required for any forbearance exited within the last 90 days from application date
- A written explanation from the borrower(s) is required to explain the cause and significance of the derogatory information. Additional documentation to support the significant derogatory event's cause or completion may be required.
- Multiple credit events that are not a result of the same cause (e.g., borrower who filed bankruptcy on multiple occasions) are not permitted.

Re-established Credit

A borrower with a significant derogatory credit event or other isolated lapse in their credit performance should evidence that they have re-established their credit history.

- Late payments on accounts following a credit event should be evaluated to determine a borrower's willingness to repay their obligations
- Multiple delinquencies on accounts including collections, charge-offs, judgments, or tax liens may require additional explanations, documentation, or may result in ineligibility for the program
- No new public records, judgments, etc., since the event occurred are permitted.

Waiting Period Requirements

SmartEdge

Smart Series Addendum

Foreclosure/Pre-Foreclosure/Short Sale/DIL/Bankruptcy/Notice of Default/Delinquency of 120 Days or More

- ≥ 4 years from discharge or dismissal date
- ≥ 2 years and < 4 years from discharge or dismissal date
 - 0x30x12 housing payment history
 - Non-warrantable condos not permitted
- If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

SmartSelf

Foreclosure/Pre-Foreclosure/Short Sale/DIL/Bankruptcy/Notice of Default/Delinquency of 120 Days or More

- ≥ 4 years from discharge or dismissal date
- ≥ 2 years and < 4 years from the discharge or dismissal date
 - 0x30x12 housing payment history
 - 5% LTV reduction for LTVs > 80%
 - Additional three months reserves for the subject property
 - Maximum loan amount \$1,500,000
- If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

SmartVest

Foreclosure

- ≥ 4 years from discharge or dismissal date
- ≥ 3 years and < 4 years from the discharge or dismissal date.
 - Lesser of 70% LTV or product guidelines
 - Greater of a minimum of 660 credit score or product guidelines
 - Additional three months reserves for subject to property

Pre-Foreclosure/Short Sale/DIL/Bankruptcy/Notice of Default/Delinquency of 120 Days or More

- ≥ 4 years from discharge or dismissal date
- ≥ 2 years and < 4 years from the discharge or dismissal date.
 - Lesser of 70% LTV or product guidelines
 - Greater of a minimum of 660 credit score or product guidelines
 - Additional three months reserves for subject to property

Debt Coverage Ratio (DSCR)

SmartVest

Smart Series Addendum

- The DSCR is the ratio of operating income available to debt servicing for PITIA.
- The DSCR is calculated by taking 100% the gross rents divided by the PITIA of the subject property.

Debt Coverage Ratio Requirement

- DSCR Purchase = 1.0
- DSCR Rate and Term Refi = 1.0
- DSCR Cash-out Refi = 1.15
- DSCR First Time Investor=1.25

DSCR Example One – Loan Qualifies

Gross Rent from Subject Property = \$2,000

PITIA = \$1,500

$\$2,000 \div \$1,500 = 1.33$ DSCR

Loan qualifies: 1.33 DSCR exceeds minimum 1.0 requirement

Example Two – Loan Does Not Qualify

Gross Rent from Subject Property = \$2,000

PITIA = \$3,000 $\$2,000 \div \$3,000 = .67$ DSCR

Loan does not qualify: DSCR of .67 is less than minimum 1.0 requirement

SmartEdge and SmartSelf

Not applicable.

Employment and Income

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

- A high probability of continuing for at least 3 years.
- A minimum history of two (2) years of receipt of income is required, however, income that has been received for 12 to 24 months may be considered acceptable income, as long as there are demonstrated positive factors that reasonably justify the use of the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history. If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of the loan application, the following are examples that may support an employment history of less than 2 years.
- Paystubs must meet the following requirements:
 - The paystub must clearly identify the borrower as the employee, gross earnings for the current pay period and year-to-date earnings, pay period, employer name and address, and date issued.
 - Paystubs must be dated no earlier than 30 days prior to the loan application.
 - Paystub must show the most recent 30 days year-to-date earnings.
 - If the borrower is paid hourly, the number of hours must be noted on the paystub.
 - Paystubs must be computer-generated or typed by the employer.
 - Paystubs must not have any alterations.
 - The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor; and

Smart Series Addendum

- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable.
- Documents must clearly identify the employer's name and source of information – for example, by including the information in the Internet banner.
- The following may be used in lieu of the W-2 form provided the documentation reflects the complete income earned in the previous calendar year:
 - Year-end paystub(s); or
 - Military Leave and Earnings Statement.
- Written Verification of Employment is required for a borrower's income sourced from commission, overtime, or other income when the income details are not clearly documented on W-2s or paystubs.

SmartVest (Not applicable to SmartEdge and SmartSelf)

- Income used to qualify is based on cash flow from the property owned using a [Debt Service Coverage Ratio](#) (DSCR) calculation.
- Borrower's employment and income not required and must not be disclosed on the application.
- Additional sources of income are not eligible to be used for qualifying purposes.

2106 Expenses

- Employee business expenses must be deducted from the adjusted gross income regardless of the income type.
- 2 years tax returns are required.
 - If 2017 tax returns reflect 2106 expenses and 2018 tax returns show no expenses due to tax law change, a 12-month average of expenses must be based on 2017 tax return and deducted from qualifying income.
- Two years tax transcripts are required.

Alimony/ Child Support Income

Income for alimony, child support, or maintenance income can be considered in qualifying when the following requirements are met:

- One of the following Documentation is required:
 - A copy of a written legal agreement or court decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received.
 - Any other type of written legal agreement or court decree describing the payment terms for the alimony or child support; or
 - Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.
- Evidence of receipt of full, regular, and timely payments for the most recent 12 months.
- Verification of receipt must be dated within 60 days prior to the Note date.
- The income must continue for at least three (3) years from the date of the application.
- For borrowers who receive child support or alimony as their primary source of income and there is a defined expiration date (even if more than three (3) years) additional analysis must be performed to

Smart Series Addendum

determine if the legal agreement has other provisions that may allow for termination or reduction of the income. If this is the case, income may not be eligible to include in the monthly qualifying income.

- Income may not be considered stable when a borrower:
 - Has been receiving full, regular, and timely payments for less than 12 months or has been receiving full or partial payments on an inconsistent or sporadic basis; or
 - Does not have a court order that specifies alimony or child support; or
 - Will receive proposed or receives voluntary payments.

Asset Based Income

SmartEdge and SmartSelf

An income stream from the depletion of assets may be used as income by using a calculation to generate a monthly income stream from a borrower's personal assets.

Document the following requirement:

- Primary residence and second homes.
- Borrower and co-borrower must be individual or co-owners of all asset accounts with no other account holders listed on the documentation.
- All assets must be in a U.S. financial institution (no foreign assets).
- The sum of eligible assets as defined are net of any discounts and minus any funds used for closing and/or minimum reserves.
- Other reported earnings from capital gains or interest/dividend may not be used.
- All assets must be readily available to borrower(s) with no penalties or limitations.
- 100% Checking, savings, money market accounts allowed.
- Investment Account:
 - May be comprised of publicly traded stocks, bonds and/or mutual funds.
 - May use 90% of the value; and
 - Value is determined based upon number of stock units at current market price.
- 100% Retirement Accounts value allowed:
 - 401(k)/403(b) plans or IRA, SEP or KEOUGH accounts.
 - Borrower must be at least 59 ½. Years old (retirement age)
 - Documentation has been provided confirming the borrower has full access to the funds
 - If the borrower is not 59 ½ years old, the borrower must have enough liquid assets to qualify until they reach 59 ½ years of age (maximum gap of 3 years until borrower reaches retirement age)
- Any outstanding loan or margin accounts should be backed out of the investment accounts balance.

SmartVest

Ineligible.

Smart Series Addendum

Asset Based Income Calculation

Down payment, closing costs, reserves, and any necessary adjustments as outlined above must be subtracted from eligible asset sources to determine net available assets. 100% of the eligible assets will be amortized over 240 months to calculate a qualifying asset-based income.

Example 1: Borrower is Retirement Age		
Account Type	Balance	Eligible Amount
Savings	\$200,000	\$200,000
Stock Fund	\$100,000	\$90,000
Mutual Fund	\$20,000	\$18,000
	Total	\$308,000
Down payment, closing costs and reserves		\$ 50,000
Net eligible assets (\$308,000 - \$50,000)		\$258,000
Asset Amortization Calculation = \$258,000/240 = \$1075 monthly income		

Example 2: Borrower is not Retirement Age (57 years old)		
Account Type	Balance	Eligible Amount
Savings	\$200,000	\$200,000
Stock Fund	\$100,000	\$90,000
Mutual Fund	\$20,000	\$18,000
	Total	\$308,000
Down payment, closing costs and reserves		\$50,000
Additional reserves for not of retirement age		\$58,050
Net eligible assets (\$308,000 - \$108,050)		\$199,950
Asset Amortization Calculation = \$199,950/240 = \$833.12 monthly income		

Ineligible Assets Based Income

The following are ineligible assets for asset-based income

- Business funds, including personal accounts used for self-employed income calculation
- Cryptocurrency (e.g., Bitcoin)
- Non-regulated financial companies
- Non-liquid assets (automobiles, artwork, etc.) privately held stock
- Restricted stock
- Stock options

Boarder Income

Rental income from a 1-unit primary residence may be used to qualify a borrower with a disability provided the rental income is from a live-in aide.

Smart Series Addendum

- Rental income may be considered in an amount up to 30% of the total gross income that is used to qualify the borrower. All of the following is required:
 - The subject property must be the borrower's primary residence
 - Evidence of receipt of the income for the most recent 12 months and
 - Documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statement, W-2s) that shows the live-in aide's address as the same the borrower.

Bonus and Overtime Income

- A period of more than two 2 years must be used in calculating the average overtime and/or bonus income if the income varies significantly from year to year.
- Income received for less than 2 years but not less than 1 year may be eligible with written justification for use of the income.
- Borrowers beginning employment with a new employer must have received bonus, incentive, or overtime income from the new employer in order to use for qualifying unless such bonus, incentive, or overtime income is guaranteed in writing as part of the borrower's employment agreement. Any guarantee must designate a specific dollar amount or percentage of income.
- Obtain the following:
 - A completed Written Verification of Employment and paystub(s); or
 - Most recent paystub(s) and 2 years W-2s.
 - Stable to increasing income should be averaged for the most recent 2 years.

Borrowers Employed by Family

SmartEdge

Obtain the following:

- Most recent paystub(s).
- Most recent 2 years' W-2s.
- Most recent 2 individual income tax returns; and
- A letter from the CPA or legal counsel confirming the borrower does not own more than $\geq 25\%$ of the business (Articles of incorporation or operating agreement cannot be used in lieu of CPA or legal counsel letter).

Smart Self

- Most recent paystub(s).
- Most recent 2 years' W-2s.
- A letter from the CPA or legal counsel confirming the borrower does not own more than 25% of the business.

SmartVest

Not applicable.

Capital Gains/Losses

SmartEdge

Smart Series Addendum

- A capital gain is generally a one-time transaction, and, therefore, should not be considered in determining income.
- Borrowers who have a constant turnover of assets that produces regular gains, the capital gain may be considered for qualifying income (e.g., a person who buys old automobiles, restores them, and sells them for profit).
- Capital losses identified on Schedule D of the borrower's individual income tax return do not have to be considered when calculating income or liabilities, even if the losses are recurring

Obtain the following:

- A minimum of the most recent 2 years' individual income tax returns with all schedules, including Schedule D. In some cases, additional years tax returns may be required; and
- Sufficient assets remaining after closing to support continuance of the capital gain income, at the level used for qualifying for at least the next 3 years.
- Documentation of asset ownership must follow age of documentation requirements.
- Current receipt of the income need not comply with age of documentation requirements.

Income Calculation:

- Develop an average income from the last 2 years and use the amount as part of the borrower's qualifying income as long as the borrower provides current evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage payments.
- If the trend of the amount of income is stable or increasing, the income should be averaged. If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

SmartSelf and SmartVest

Not applicable.

Commission Income

Commission income may be considered consistent if the income has been received for at least 2 years. Income received for less than 2 years but not less than 1 year may be eligible with written justification for use of the income.

Obtain the following:

- A written VOE showing year-to-date commission earnings.
- Most recent paystub(s) with commission earnings broken out
- Most recent 2 years W-2s.

Borrowers beginning employment with a new employer must have received commission income from the new employer in order to use for qualifying unless such Commission income is guaranteed in writing as part of the borrower's employment agreement. Any guarantee must designate a specific dollar amount or percentage of income.

Smart Series Addendum

Declining Income

When the borrower's income is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

Disability Income- Long Term

- Long-term disability payments (Veteran's disability compensation benefits, Social Security Disability Insurance (SSDI), etc.) may be treated as acceptable, stable income if there is 2-year history of receipt.
- Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.
- Obtain a copy of the benefit letter or benefits statement to determine:
 - The income sources.
 - The borrower's current eligibility for the disability benefits.
 - The payment amount and frequency of the disability payments and
 - If there is a contractually established termination or modification date at least three years continuance is required.
- Document with all of the following:
 - Most recent 2 years' W -2s or 1099s; and
 - Current evidence of receipt (pay statement, direct deposit, etc.).

Employment Offers/Recent Employment

Borrowers who have recently changed jobs within 30 days of application or will change jobs prior to the Note date may be eligible. Document the borrower's employment and income with all of the following

- Copy of the offer.
- Minimum of 1 paystub showing 1 week's pay from their new job.
- A written verification of employment.
 - A written verification of employment or the borrower's last paystub from prior employer must be provided in order to document the gap between the old and new employer.
- A copy of the borrower's offer or contract for future employment must be provided and include all of the following
 - Clearly identify the employer and the borrower.
 - Be signed by the employer and be accepted and signed by the borrower.
 - Clearly identify the terms of employment, including position, type, and rate of pay, and start date.
 - Be non-contingent, guaranteed, and non-revocable.
 - The borrower must start the new employment within 60 days of the Note date.
 - The borrower must have sufficient reserves to cover their housing payment and all other monthly obligations for the period prior to starting the new job in addition to all other applicable reserve requirements.

Smart Series Addendum

Foster Care Income

Foster care income may be considered acceptable if it is verified that the borrower has a history of providing foster care services under a recognized state or county-sponsored program.

- 2-year history of receipt is required
- Must reasonably expected to continue for 3 years.
- Income must be averaged over the past 2 years.

Gaps in Employment

- The borrower(s) must explain, in writing, any gaps in employment that span more than 1 month; and
- Indicate if they were in school or the military for the recent 2 full years, providing evidence, such as transcripts or discharge papers.

Re-entering the Workforce

Borrowers who are returning to work after an extended absence, defined as 6 months or more

- Must be at their current job for a minimum of 6 months in order to consider that income for qualification purposes. Document the following:
 - Two-year employment history from prior to the borrower's absence using traditional VOEs or copies of W-2s or paystubs; and
 - Three months of additional reserves required.

Recent Graduates and Military Personnel

If the borrower indicates they were in school or the military in their 2 most recent year's employment history, evidence must be provided (such as college transcripts and/or military discharge papers).

Hourly and Part-Time Income

Obtain the following:

- Most recent paystub(s).
- Most recent 2 years W-2s.
- Borrowers scheduled for a work week of less than 40 hours may be permitted. A written VOE verifying the stability of the income as regular and on-going is required.

Housing or Parsonage Allowance

Non-military housing or parsonage allowance may be considered qualifying income:

- Income has been received for the most recent 12 months.
- Income has continuity for the next 3 years.
- The housing allowance may be added to income but may not be used to offset the monthly housing payment. Document all of the following:
 - Written Verification of Employment, letter from employee, or paystub(s) documenting the amount of the housing or parsonage allowance and the terms under which the housing or parsonage allowance is paid and
 - Proof of receipt of housing allowance for most recent 12 months.

Smart Series Addendum

Interest and Dividend Income

Interest and dividend income may be used to qualify if it meets the following requirements:

- The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.
- Interest and Dividend income may not be used when Asset Based Income is being used as qualifying income.
- Income must have been received for the most recent 2 years.

To include interest or dividend income from cash or marketable securities in qualifying income, all of the following apply:

- Verify that the borrower currently holds underlying cash deposits or securities
- Subtract any funds required for closing on the subject transaction prior to the calculation of interest or dividend income and
- Average the year-to-date interest and dividend income over the last 2 years unless the income is declining.
- Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next 3 years from the date of the application.

SmartEdge

- Most recent 2 years individual income tax returns or 1099s.
- Most recent account statements.
- Year-to-date income is in line with previous earnings.
- The investment is from a publicly traded company; and Verification of stock asset values are no older than 90 days as of the Note date.

SmartSelf

- Most recent 2 years 1099s.
- Most recent account statements.
- Year-to-date income is in line with previous earnings.
- The investment is from a publicly traded company.
- Verification of stock asset values are no older than 90 days as of the Note date.

SmartVest

Not applicable.

Military Income

- Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarters allowance and proficiency pay may be counted as income if:
 - The income verified as regular and continuous.
 - Is typical for the position held; and

Smart Series Addendum

- There is evidence of probability of continuance of this income, in writing.
- A Leave and Earnings Statement (LES) may be used in lieu of paystub.
- Borrowers called to active duty before loan closing must be qualified based on the borrower's military income. The date that the in-service borrower is scheduled to be released from active duty must be verified via a LES, VOE or officer's order
- Document one of the following If the separation date is within 12 months of the projected loan closing:
 - Documentation that the service member has re-enlisted or extended his/her period of active duty beyond 12 months of the projected closing date.
 - Verification of civilian employment following release from active duty.
- Use military Reserve or Guard income to qualify Military Reservists and National Guard Not Called to Active Duty and follow Second-job employment requirement.
- If one of the borrowers is on active duty or has been called to active duty after the loan application has been taken and is in process, provide documentation regarding the temporary assignment (orders supporting the assignment including duration).
 - If the loan is a primary residence rate and term refinance and the mortgage payment is not changing or is decreasing, use the borrower's current employment and income.
 - For all other transactions, use the lesser of the Reservist or Guard pay or current employment income sources.

Non-Taxable Income

SmartEdge

Obtain the following:

- Tax returns must be provided to confirm income is non-taxable.
- Income will be grossed up by the amount of the tax rate for the consumer's last year income tax amount unless the borrower was not required to file a federal tax return, then use 25%.

SmartVest and SmartSelf

Not applicable.

Note Income

Revenue received from Note income may be eligible for loan qualification. Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

Obtain the following requirements:

- A copy of the Note must document the amount, frequency, and duration of the payment.
- Note income must have a 3-year continuance.
- If the borrower is not the original payee on the note, the creditor must establish that the borrower is able to enforce the note.
- One of the following must be provided to evidence of receipt for the most recent 12 months:
 - Bank statements showing regular deposits of funds cancelled checks.
 - Cancelled checks; or
 - Other account statements.

Smart Series Addendum

Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered as acceptable income.

- Verify that the income will continue for at least 3 years.
- Verify current receipt is required with one of the following:
 - The benefit verification letter, 1099, or third-party documentation showing type of income type, source, amount or
 - Most recent 1-month bank statement or other equivalent documentation evidencing receipt of the income.

Rental Income

Rental income may be used to qualify and must be disclosed on the loan application.

All of the following income documentation is required when using rental income to qualify from the subject property or other real estate owned:

SmartEdge

- Most recent 2 years' personal income tax returns, including all schedules.
- Current lease agreement(s). An expired lease agreement that states the lease agreement. Becomes a month-to-month lease once the initial lease/rental term expires is permitted.
- Airbnb or similar short-term rentals are not acceptable
- Rent rolls are not acceptable.
- When Schedule E is used to calculate net rental income (loss),
 - Any listed depreciation, interest, taxes, insurance, or homeowners' association dues must be added back in the cash flow. Non-recurring property expenses may be added back, if documented accordingly
 - The lesser of the rental income from the lease or Schedule E must be used to calculate net rental income
- When lease agreements are used to calculate net rental income (loss)
 - If rental income is not available on the borrower's tax returns (e.g., property owned less than 12 months or out of service due to rehabilitation), use 75% of the gross monthly rent or gross monthly market rent.
 - Rental income from a property from a purchase transaction may be used to qualify using the lesser of:
 - 75% of the appraiser's opinion of rent on appraisal form 1007/216 minus the full PITIA; or
 - 75% of the current lease minus the full PITIA (evidence of deposit must be obtained).
- Net rental income must be added to the borrower's total monthly income.
- Net rental losses must be added to the borrower's total monthly obligations.

SmartSelf

The following guidance applies to all properties, excluding departing primary residence:

- A current lease agreement(s) must be provided.

Smart Series Addendum

- An expired lease agreement that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is permitted.
- Use 75% of rental income based on the current lease(s) less PITIA for the property being rented to determine net rental income.
- For a 2- to 4-unit owner occupied property, the PITIA of the subject property is treated as debt and the rental income will be treated as income. Rental Income may not be a direct offset of the mortgage payment.

SmartVest

Purchase:

A Single-Family Comparable Rent Schedule (Form 1007/1000) is required to determine the monthly rent.

Refinance:

- The most recent lease agreement and Single-Family Comparable Rent Schedule (Form 1007/1000) is required to determine the monthly rent. An expired lease agreement that states that the lease becomes a month-to-month lease is permitted with proof of most recent month's rental payment to the borrower.
- If the lease agreement reflects market rents greater than those shown on Single Family Comparable Rent Schedule (Form 1007/1000).
 - If the lease is within a 10% variance from the Single-Family Comparable Rent Schedule (Form 1007/1000) use the rental income amount on the lease.
 - If the lease is > 10% variance, use the rental income shown on the Single-Family Comparable Rent Schedule (Form 1007/1000).
- Short Term Rental Income (Airbnb, VRBO, etc.):
 - Must have 12-month history with service and the yearly income statement must be provided.
 - If using Short Term Rental to qualify the LTV will be reduced by 5% of maximum borrower qualifies.
 - Proof property is eligible for short term rentals (letter from Condo association, HOA, or current governing body).
 - If no rent is received, use zero for that month.

Conversion of a Primary Residence

If the borrower is converting their current primary residence to an investment property and using rental income to qualify or offset the payment the following requirements apply:

- The borrower must have documented equity in the departure residence of 25%.
- Documented equity may be evidenced by an exterior to full appraisal dated within 6 months of the subject transaction or
- Documented unpaid principal balance is less than or equal to 75% of the original documented purchase price.
- Copy of current lease agreement is required.
 - Use 75% of the rental income verified by the current lease agreement; and
 - A copy of security deposit and evidence of deposit to the borrower's account.

Refer to SmartEdge, SmartSelf, and/or SmartVest program summary for reserve requirements.

Smart Series Addendum

Residual Income

SmartEdge and SmartSelf

- Residual income requirements must be met if DTI is > 43%
- Residual income = Gross Qualifying Income – Monthly Debt

Residual Income					
Family Size	1	2	3	4	5
Amount	\$2,000	\$2,500	\$3,000	\$3,300	\$3,500
Over 5 Family Members	Add \$150 for each additional family member up to a family of seven				

SmartVest

Not applicable.

Restricted Stock Units (RSU) and Stock Options

SmartEdge

Restricted Stock and Stock Options can be used as qualifying income if the income has been consistently received for 2 years and the vesting schedule indicates the income will continue for a minimum of 2 years at a similar level as prior 2 years.

A 2-year average of prior income received from RSU, or stock options should be used to calculate the income, with the continuance based on the vesting schedule used a stock price based on the lower of the current stock price or the 52-week average for the most recent 12 months reporting at the time of application. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule. For options or RSUs that have an initial strike price, the future vesting value is determined by the difference in the current stock price or the 52-week average, if less, and the strike price.

The following documentation requirements must be met:

- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.
- Most recent paystub(s) documenting all year-to-date earnings, including restricted stock payout(s).
- Most recent 2 years W2s.
- Restricted stock agreement. If the employer does not provide a restricted stock agreement:
 - W-2s may be used if the W-2s clearly identify restricted stock income amounts; and
 - Written verification of employment documenting all year-to-date earnings, including restricted stock payouts may also be used.

Note: Restricted stock units are not permitted with non-warrantable condos.

Smart Series Addendum

Retirement Income (Pension, Annuity, 401(k), IRA Distributions)

- Annuity and pension income may be used as qualifying income if it is expected to continue for at least 3 years.
- Evidence the income source and type, payment amount, and frequency must be documented with the following:
 - Must have bank statement showing current receipt and either the award letter or most recent 2 years 1099s
 - Copy of the bank statement showing current receipt

Distributions from Retirement Accounts Recognized by the IRS (e.g., IRA or Keogh)

Existing distribution of assets from an IRA, 401(k) or similar retirement asset must be sufficient to continue for a minimum for 3 years.

- Provide the most recent account statement for the asset being used for qualifying income to determine the three-year continuance of the income.
- Borrower(s) must have un-restricted access to funds without any penalties; and
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value must be used to determine the number of distributions remaining.

Documentation of regular and continued receipt of income can be verified by any of the following:

- Letters from the organization providing the income.
- Most recent 2 years 1099s
- Proof of current receipt

Note: If any retirement income will cease within the first 3 years of the loan, the income cannot be used.

Royalty Payments

Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible for loan qualification. All of the following documentation is required:

SmartEdge

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
- Most recent 2 years individual income tax returns and
- Evidence of receipt of royalty income for the most recent 12 months and that the payments will continue for a minimum of three (3) years.

SmartSelf

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
- Evidence of receipt of royalty income for the most recent 12 months and that the payments will continue for a minimum of three (3) years.

SmartVest

Smart Series Addendum

Not applicable.

Salaried Income

Obtain the following:

- Most recent paystub.
- Most recent 2 years W-2s.
- Borrowers scheduled for a work week of less than 40 hours may be permitted. A written VOE verifying the stability of the income as regular and on-going is required.

Seasonal Income

Seasonal employment may be accepted if:

- Borrower must have worked uninterrupted in the same job or same line of seasonal work for the most recent 2 years.
- The borrower must be employed at time of closing.
- The following is required to document seasonal income:
 - Most recent paystub(s).
 - Most recent 2 years' -2s and
 - Written VOE that indicates that the borrower is expected to be rehired for the next season.

Second-Job Employment

- Minimum 2 years uninterrupted history on all second or multiple jobs in order to include the income for qualification purposes with a strong probability of continuance for 3 years.
- A borrower may have a history that includes different employers is acceptable as long as the income has been consistently received.

Self-Employment Income

Self-employed borrowers are defined as having 25% or more ownership or receive 1099 statement to document income.

All of the following documentation is required to verify and document self-employed income:

SmartEdge

- Most recent 2 years individual income tax returns, including all applicable schedules.
- Most recent 2 years Business income tax returns, including all applicable schedules.
- Year-to-date (YTD) profit and loss statement and Balance Sheet is required for all businesses with 25% or greater ownership regardless if using the income to qualify
 - YTD through Q1 P&L and Balance Sheet for loans with Note dates 5/1 to 7/31.
 - YTD through Q2 P&L and Balance Sheet for loans with Note dates 8/1 to 10/31.
 - YTD through Q3 P&L and Balance Sheet for loans with Note dates 11/1 to 1/31.
 - Full year P&L and Balance Sheet for loans with Note dates 2/1 to 4/30 and filed returns have not been provided.
- Most recent 2 years W-2s and a current Paystub for corporation.

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- After May 17, a copy of the filed extension with evidence of any tax payments made, in addition to W-2 for corporations, 1099 forms for commission and
- A written evaluation of the self-employed borrower's personal income, including the business income or loss, reported on the individual income tax returns is required. Analysis of current business activity through a review of the year-to-date financial statement and/or the most recent three months business bank statements may provide support for this evaluation.
- Fannie Mae Form 1084 Cash Flow Analysis, Freddie Mac Form 91 Income Analysis or any other similar form may be used.

SmartSelf

- Borrower must be self-employed for a minimum of two years with business income being used to qualify.
- At least one borrower must be self-employed and earn a majority of their income ($\geq 51\%$) from their self-employment and use their self-employed income for qualification
- Borrower must complete the Smart Product Business Impact and Continuity Attestation.
- A borrower with a 25% or greater ownership interest in a business is considered self-employed
 - 1099 contractors are eligible provided a CPA or licensed tax preparer (with PTIN) with knowledge of the borrower's tax filing status confirms the borrower has filed Schedule C for the past two years.
 - All other self-employed borrowers: verify borrower(s) percentage and length of ownership with one of the following:
 - Letter from accountant/CPA or licensed tax preparer (with PTIN). Validation of the legitimacy of the CPA is required. One of the following tools may be used:
 - [CPAverify](#)
 - [CPAverify Participating States](#)
 - [AICPA](#)
 - Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association).
 - Any documents received must document that they have been filed properly with the state
 - Operating Agreement/Partnership Agreement
 - Must reflect all member-ownership interest in the business
- Borrower Affirmation must be signed at closing confirming the income and loan terms on the final application.
- Borrowers whose self-employment cannot be independently verified are not eligible.
- Do not provide tax returns.

SmartVest

Not applicable.

General Bank Statement Requirements

SmartSelf

- Unacceptable Deposits/Excluded Deposits, including but not limited to the following:

Smart Series Addendum

- Cash advances from credit cards or Gift funds
- Income sources already considered
- Non-business-related account transfers
- Tax refunds
- Product returns/credits
- Credit line deposits/business financing
- Non-Sufficient Funds are where payment of a check cannot be made due to insufficient funds in the account. The following requirements pertain to NSF's:
 - No more than four NSF's (Non-Sufficient Funds) in any 12-month period.
 - More than four NSF's in the prior 12-months may be eligible if the NSF's in the current 12-month period are below the minimum allowed with a borrower provided explanation to support that the prior 12-month period issues have been resolved.
 - Overdrafts are not considered an NSF if covered by funds transferred from another account.
- Decreasing monthly deposit trends may require an additional explanation and/or documentation.
- Income disclosed on the initial application should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn. Additional documentation may be required to further support the calculated income.

Personal and Business Bank Statement Requirements

- Provide the most recent 12- or 24-months consecutive bank statements
- If 24 months of statements are submitted and only 12 months are used; the borrower must provide a written explanation borrower detailing, why their income is a reasonable indication of current and future income.
- If 12 months of statements are submitted and the income analysis demonstrates a pattern of large fluctuations or inconsistencies in deposits, 24 months of statements may be required.
 - Eligible deposits will be added up and averaged over either 12 or 24 months to support monthly income, depending on the number of bank statements provided.
- Large or irregular deposits must be sourced as qualifying income or must be backed out of the average.

Personal Bank Statements

- If the borrower maintains separate bank accounts for personal and business, and uses personal bank statements for qualifying:
 - Three months of business bank statements must be provided to document the qualifying business is an operating entity. If business bank statements cannot be provided to evidence a separate business account with operating activity, then the personal statements must follow the requirements of business bank statements.
 - Personal bank statements reflecting other individuals who are not borrowers on the loan are not eligible.
 - No expense factor is applied as long as the business bank statements support operating activity with expense being paid.

Smart Series Addendum

Business Bank Statements

- If the borrower maintains separate bank accounts for personal and business or a borrower uses the same account for both personal and business purposes “combined,” and uses business bank or “combined” statements for qualifying.
 - Except in the capital-intensive industries listed below gross deposits will be multiplied by a 50% expense factor to determine a net deposit number and divide by 12 or 24 months, depending on the number of bank statements provided.
- The underwriter must review the bank statements and will use the Smart Product Business Impact and Continuity Attestation as a tool to assess the business operation.
- If a CPA letter is required to verify a different expense factor, the CPA or licensed third-party tax preparer (with PTIN) written statement.
 - Must specify the actual expense ratio of the business and acknowledgment that the expense ratio is based on their review of the most recent year’s financials. The statement must not include an unacceptable disclaimer /exculpatory language
 - The expense factor per the CPA or licensed third-party tax preparer (with PTIN) produced statement must be reasonable
 - The lowest acceptable expense factor for qualifying is 25% except for capital intensive industries.
 - Apply the expense factor to gross deposits to calculate the qualifying income
- Capital Intensive Industries
 - Gross deposits will be multiplied by a 70% expense factor to determine a net deposit number
 - Confirmation from the CPA or licensed third-party tax preparer (PTIN) to identify the actual business expense percentage if it is less than 70%. The lowest acceptable expense factor for qualifying in these industries is 50%
 - Automobile manufacturing or dealerships.
 - Construction.
 - Farming and Agriculture.
 - Manufacturing (food industry such as ownership in a store, store chain, restaurant, delicatessen, food supplier, etc.)
 - Medical centers (>20 employees)
 - Telecommunication
 - Transportation (e.g., Trucking, Uber/Lift, etc.)
- Underwriter to provide commentary on the Income Worksheet of their analysis.

Social Security Income

- Income will be considered effective and likely to continue if the Social Security Administration benefit verification letter does not indicate a defined expiration date within 3 years of loan origination.
- 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
- Document Social Security Retirement income with a copy of the benefit verification letter.

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- Supplemental Security Income should be documented with a copy of the Social Security benefit verification letter. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

Survivor and dependent benefit income

May be considered qualifying income with evidence of the type of survivor and/or dependent benefit income, source, payment amount, payment frequency, and current receipt.

- Survivor and Dependent Benefits must be expected to continue for a minimum of 3 years.
- The following documentation is required:
 - Copy of the Social Security benefit verification letter and
 - Benefits payable to/for dependents.

Temporary Leave

The following requirement must be met:

- Verification of pre-leave employment and income history.
- No evidence or information from employer indicating borrower does not have the right to return to work after leave period.
- Borrower's written confirmation of intent to return to work; agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third-party service designated by employer).
- Age of documentation compliance requirements not required.
- Verbal Verification of Employment (the borrower is considered employed if the employer confirms the borrower is currently on temporary leave.)
- Amount and Duration of borrower's temporary leave income.
- Amount of regular employment income the borrower received prior to leave and all available liquid assets used to supplement the reduced income for the duration of leave must be verifiable.
- Use the monthly pre-leave income for borrower returning to work prior to first mortgage payment.
- The lesser of the monthly leave income or pre-leave income must be used when the borrower will return to work after the first mortgage payment due date
 - Supplement with available liquid reserves.
 - Total qualifying income may not exceed the gross monthly income received upon return to work and
 - Assets required to support the payment may not be counted towards available reserves.
- Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income.
 - Available liquid reserves: subtract funds need to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
 - Number of months supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income.
- Total qualifying income = supplemental income plus the temporary leave income.

Smart Series Addendum

Tip Income

Tip income must be received for the past 2 years. All of the following is required:

- Written Verification of Employment and paystub(s) or
- Most recent paystub(s)
- Most recent 2 years' W-2s.
- Develop an average for the most recent 2 years.
- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

Trust Income

- Income from trusts may be used if the trust is non-revocable and constant payments will continue for at least 3 years.
- Copy of the fully executed trust agreement or trustee's statement specifying the amount, frequency, and duration of payments; and
- Evidence of a minimum of three (3) month history of receipt of trust income documented with bank statements or equivalent.
- Trust account funds may be used for the required cash investment if the borrower provides documentation that the withdrawal of funds will not negatively affect income.
- The funds must be verified by a copy of the check or the trustee's letter that shows the distribution amount.
- Trust must be reviewed by legal and approved.

Union Members

- Verification of income for a union member requires all of the following documentation:
 - Current paystub(s) from present employer. If there has been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings and
 - Most recent two (2) years' W-2s from all employers.
- The borrower does not have to be employed at the time of closing if all of the following are met:
 - The borrower works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand).
 - The union provides an executed employment offer or contract for future employment; and verbal confirmation may be obtained through the union.
 - All other requirements for Future Income above must be met.
- Develop an average of the most recent two (2) years.
- If the trend of the amount of income is stable or increasing, the income should be averaged.

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- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

VA Benefits

VA Benefits income (other than disability) may be used to qualify.

- Verification that the income can be expected to continue for a minimum of three (3) years from the date of the loan application.
- Document the following:
 - A letter or distribution form from the Veteran's Administration is required to document VA benefits income and duration of payment
- VA education benefits are not an eligible source of income.

Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.

- Two (2) or more years of receipt of variable income is recommended, however variable income that has been received for 12 to 24 months may be considered acceptable income, as long as there are demonstrated positive factors that reasonably justify the use of the shorter income history. This does not mean that income received for a minimum of 12-months is eligible for use when qualifying the borrower. There must be documented justification with a written analysis to mitigate the use of the shorter history.
- Determine the frequency of the payment (weekly, biweekly, etc.) to arrive at an accurate calculation of the monthly income to be used in the trending analysis.
 - **Example 1** If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three (3) months produces a much higher inaccurate monthly average.
 - **Example 2** If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, are there are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical, such as landscapers, snowplow operators, etc. The difference between current period overtime and year-to -date earnings must be investigated. Document the analysis before using the income amount in the trending analysis.
- After the monthly year-to-date income amount is calculated, it must be compared to the prior years' earnings using the borrower's W-2s or 1099s to determine if the income trend is stable, increasing, declining but stabilized or declining.
 - If the trend of the amount of income is stable or increasing, the income should be averaged.

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- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

Verification of Employment

Verbal Verification of Employment

A verbal verification of employment of the borrower's current employment status is required for each borrower. If verbal confirmation cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same time frame as a verbal confirmation.

Wage Earner

Verification of employment (VOE) is required for all borrowers and must be completed within **10 business days** from the Note date (or funding date for escrow states) and documented with the following information:

- Name and title of the person who confirmed employment
- Date of contact
- Name and title of associate contacting the employer
- Phone number and method and source used to obtain the phone number
- Borrower's employment status

When obtaining the VVOE from a third-party source (e.g., The Work Number, Quick Confirm, LexisNexis, etc.), request to third-party must be within **10 business days** of the Note date. Employment verification between employer and third-party must be within **35 calendar days** of the Note date.

Self-Employed

SmartEdge and SmartSelf

- Verification of existence is required for all borrowers and must be completed within **30 calendar days** of the Note date for self-employment income.
- Verification of the existence of the business from a third party is required. A borrower's website is not acceptable as third-party verification. Acceptable third-party sources include, but are not limited to:
 - A CPA (must be arm's length), regulatory agency or applicable licensing bureau or
 - Verification of a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.
 - If using an internet source, such as Whitepages.com, Yellowpages.com, the phone number must be called to ensure the business is still in existence.
- Verification of current existence of the business obtained verbally from an acceptable third-party source, must be documented with

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- Name and address of business,
- Name of individual and entity contacted,
- Date of verification; and
- Name and title of associate who completed the verification.

Written Verification of Employment (WVOE)

A written verification of employment must contain all of the following and may not be used as standalone documentation

- Borrower's name
- Dates of employment
- Position
- Probability of continued employment, when available
- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week
- Year-to-date earnings
- Most recent 2 years' earnings
- Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable.

Electronic verification systems are acceptable however the information received must contain the same level of information.

The borrower may not request completion of the written verification of employment directly from his or her employer.

Military Personnel

In lieu of a WVOE, verification of persons in the military requires either

- An LES (Military Leave and Earnings Statement) dated within 30 calendar days prior to the Note date, or
- A verification of employment through the Defense Manpower Data Center.

Ineligible Income

- Boarder income (Refer to [Boarder income](#))
- Expense account reimbursement
- Foreign income
- Grossing up nontaxable income (**Smart Self Only**)
- Income derived from the subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- Income that is not legal in accordance with all applicable federal, state, and local laws, and regulations, such as:
 - Foreign shell banks
 - Medical marijuana dispensaries
 - Any business or activity related to recreational marijuana use, growing, selling, or supplying of marijuana, even if legally permitted under state or local law.

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- Business engaged in any type of internet gambling.
- Lump sum payments of lottery earnings that are not on-going
- Lump sum payment such as inheritances or lawsuit settlements
- Mortgage credit certificates (MCC)
- Mortgage interest differential (MID) income
- Non-incidental income received from farming/agricultural use of a property
- Refund of federal, state, or local taxes
- Retained earnings in a company
- Stock options
- Trailing co-borrower income
- Unemployment income
- Unverifiable income
- VA education benefits

Escrow Holdback

- Caliber will permit escrow holdbacks/work completion escrows, for primary residences, on a limited basis, for weather-related repairs that do not impact the safety, soundness, and structural integrity of the improvement.
- The escrow holdback must be approved by the Delegated Client or by a Caliber underwriter for a Non-Delegated Client, when applicable.

Work Completion Escrows

Escrow holdbacks may be permitted for the following:

- Weather related repairs on purchase transactions only.
- Renovations are limited to cosmetic only; they cannot affect the safety, soundness, or structural integrity of the property.
- Repairs are limited to a maximum of \$5,000. The escrow withhold amount must be at least 1.5 times the cost of repairs.
Example: \$5,000 repairs x 1.5 = \$7,500 total escrow withhold amount.
- Repairs must be completed within 60 days of the closing date and
- The subject property may be appraised 'as is' or 'subject to repairs', but the property condition must be in average condition or better.

Liabilities

30-Day Charge Accounts

- Open 30-day charge accounts require the balance to be paid in full every month; it is not required that they be included in the DTI ratio.
- Open 30-day charge accounts with account balances that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, require the borrower to have sufficient assets to cover the balance in addition to the funds required for closing costs and reserves.

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- If sufficient liquid assets are not verified, obtain evidence the account has been paid in full and exclude the reported monthly payment from the DTI. If the account provides a monthly payment option other than the total outstanding balance, the account is not considered a 30-day charge account and these requirements do not apply

Alimony and Child Support Payments

- The payments must be considered for qualifying purposes, even if it appears likely that these obligations will be satisfied within 10 months or less. If there are fewer than ten 10 payments remaining and the underwriter determines these payments will not impact the borrower's ability to pay, payments may be excluded from the DTI with evidence of the remaining duration of the support payment in the file.
- Voluntary payments do not need to be taken into consideration.
- One of the following is required to document the payment and the number of remaining payments:
 - A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it will be received; or
 - Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made
- Review of the application and loan file documentation may require additional validation to determine child support obligations.

Authorized User Account

Does not need to be included in the borrower's DTI calculation.

Balloon Payment Notes

Balloon Payment Notes scheduled to begin or come due within 12 months of closing must be included as an anticipated monthly obligation during the underwriting analysis unless the borrower can document one of the following:

- Sufficient funds to pay off balloon payment after accounting for the costs associated with the loan transaction, including reserves or
- Documentation evidencing the borrower is refinancing the balloon payment. The new payment must be included in the DTI ratio.

Bridge Loans

The monthly payment from a bridge loan must be included in the borrower's DTI calculation. If payments are not scheduled on a monthly basis, at a minimum, use monthly interest payments.

Business Debt

- Business debts for which the borrower is personally liable are included in the debt calculation up to the amount of the personal recourse.
- These debts include business paid personal debt unless proof of payment by the business is established.

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- These debts may be excluded from the DTI calculation if a minimum of 12 months of consecutive canceled checks from the business are provided.
- If the account is new, it must be included in the DTI calculation, except when the new account took the place of an identical account that had at least a 12-month history of being paid for by the business.

Contingent Liabilities

Mortgage Assumptions

- Contingent liability must be considered when the borrower remains obligated on an outstanding mortgage secured by a 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.
- When a mortgage is assumed, contingent liabilities need not be considered if:
 - A payment history showing the assumed mortgage has been current during the previous 12 months, or
 - The value of the property is established by an appraisal or sales price on the Closing Disclosure from the sale of the property, results in a maximum 75% LTV ratio.

Co-Signed Loans:

- When a borrower co-signs for a loan to enable the primary obligor to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.
- The contingent liability must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making payments for a minimum of 12 consecutive months and the account is current with no history of delinquency during those 12 months.
- Evidence such as cancelled checks or automated savings withdrawals will be accepted.

Court- Ordered Assignment of Debt

- A copy of the court order transferring liability for payments to another party is required. Debts required to be paid by someone other than the borrower pursuant to a court order do not need to be included in the DTI ratio.
- The payment history of the debt need not be taken into consideration after the effective date of the Assignment.

Debt Paid by Others

When the borrower is obligated on a debt that is being repaid by another party, the monthly obligation may be excluded from the DTI ratio subject to the following:

- The other party may not be an interested party to the transaction, such as the seller or realtor
- The most recent 12 months cancelled checks or bank statements from the party paying the debt, documenting a 12-month satisfactory payment history evidencing no delinquent payments.
- The debt may only be excluded if the other party is paying the entire monthly obligation for a minimum of 12 months.

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Garnishments

- Garnishments with more than ten (10) months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.
- A garnishment is not required to be paid off prior to closing.

Home Equity Line of Credit (HELOC)

When the credit report shows a home equity line of credit (HELOC) with an outstanding balance, a monthly payment must be included in the recurring monthly debt obligations.

- Use the payment on the credit report. When there is no payment on the credit report, document with the current billing statement; and
- The payment does not need to be included in the DTI ratio if the statement confirms a \$0 payment unless the borrower is using the HELOC for down payment or closing costs.
- For new subordinate financing, the monthly payment must be based off of the fully amortized, fully indexed term for the full amount drawn at or before consummation of the loan.

Federal/State Income Tax Installment Plans

- When the borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the monthly obligation must be included in the DTI ratio.
- There must not be an indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The following documentation must be obtained:
 - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due.
 - Evidence the borrower is current on the payments associated with the tax installment plan.
 - Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing; and
 - The payment amount must be included in the DTI ratio regardless of the number of payments remaining.
- If a Notice of Federal Tax Lien has been filed, the lien must be paid off

Installment Debt

- Installment debt with 10 or more months remaining must be included in the DTI.
- A timeshare is considered an installment loan and not a mortgage debt, unless the borrower has a deed for the timeshare property, then the obligation is considered a mortgage.
- When a monthly payment on an installment debt is not reported on the credit report, obtain documentation verifying the monthly payment amount.

Pay Off or Pay Down of Debt

- Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis.
- The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification

Smart Series Addendum

- Revolving debt may be paid off to qualify and the monthly payment excluded from the DTI subject to all the following
 - Documentation must be provided to confirm the debt has been paid off
 - Debts may be paid off at closing and reflected on the final CD
 - Evidence and documentation of source of funds must be provided.
- Paying down revolving debt for loan qualification is not permitted

Lease Payments

Lease payment must be included in the DTI calculation, regardless of the number of remaining payments.

Loans Secured by a Financial Asset

- Loans secured by a financial asset (life insurance policies, 401(k), IRAs, CDs, etc.) do not require the payment to be included in the DTI calculation if documentation is provided to show the borrower's financial asset as collateral for the loan.
- Loans secured by artwork, collectibles, real estate, automobiles, etc. require the monthly payment to be included in the DTI ratio.
- If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient assets liquidity remaining.
- All of the following documentation must be provided:
 - Evidence of value and ownership of the asset.
 - Evidence the loan is secured by the asset and
 - Evidence of receipt of the loan proceeds.

Monthly Obligations Not Included in Liabilities

Some obligations, often identified on the borrower's paystub, are not considered a liability and will not be included as a debt or deducted from the borrower's gross income when calculating the borrower's DTI ratio. These obligations include

- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds)
- Commuting costs
- Union dues
- Voluntary deductions

Non-Applicant Accounts

Non-applicant account may be excluded from borrower's DTI ration If the debts do not belong to the borrower and documentation provided to validate.

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Other Real Estate Owned

Mortgage payments and related expenses on any real estate owned must be included in the borrower's recurring debt obligations.

Current Primary Residence Pending Sale

When the sale of the borrower's current residence is pending sale, but the sale will not close prior to the new loan closing:

- PITIA of the current primary residence must be included in the DTI ratio.
- The property must be included in the list of Real Estate Owned and requires 2 months PITIA reserves in addition to the program requirements.

Conversion of a Primary Residence

All of the following apply when the borrower is retaining their current residence:

- If the current primary residence is being converted to a second home, both the current and proposed mortgage payments must be used to qualify for the new loan and the home must meet the definition of a second home.
- If the current primary residence is being converted to an investment property, and rental income is being used, refer to [Rental Income](#) for requirements.
- Borrower(s) must sign the Occupancy Affidavit Form at closing.

Property Settlement Buyout

This contingent liability does not need to be included in the DTI ratio provided there is documentation to evidence the transfer of title of the property.

Revolving Accounts/Line of Credit

The monthly payment on revolving accounts with a balance must be included in the monthly DTI calculation, regardless of the number of months remaining.

- If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of \$10 or 5% of the outstanding balance.
- Revolving debt may be paid off to qualify and the monthly payment excluded from the DTI subject to all of the following:
 - Documentation must be provided to confirm the debt has been paid off
 - Debts may be paid off at closing and reflected on the final CD and
 - Evidence and documentation of source of funds must be provided.
- Paying down revolving debt for loan qualification is not permitted

Student Loans

For all student loans, whether deferred, in forbearance or in repayment, a monthly payment must be included in the DTI calculation. Documentation may include, but is not limited to:

- Direct verification from creditor.
- Copy of the installment loan agreement; or

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- Copy of the installment loan agreement or creditor's student loan certification documenting the payment amount that will be required once the deferment or forbearance period has ended.
- If the credit report does not provide a monthly payment, or if the credit report shows a \$0 monthly payment, use of the following to determine a monthly payment:
 - 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.
- If a student loan is placed for collection, obtain a copy of the repayment agreement and a copy of a canceled check, and include the payment in the DTI. Student loans listed as delinquent must be brought current.

Voluntary Recurring Debts

- Voluntary recurring debts should generally not be considered in the underwriting analysis or subtracted from gross income (401(k) contributions, 401(k) loans, union dues, commuting expenses, open accounts with zero balances, federal, state, and local taxes, or other voluntary deductions).
- Specific circumstances in an individual file must always be analyzed.

Occupancy

- Primary residence
- Second home
 - 2-unit second homes
 - Permitted when one unit is available for the borrower's exclusive use; no rental or time-sharing arrangements of the borrower's exclusive unit.
 - Must be suitable for year-round use.
 - Must be located in a recognized vacation area typical for second home properties.
 - Must be a reasonable distance from borrower's current owner-occupied property.
 - **SmartSelf** cash out refinances not allowed
- Investment Properties

Principal Curtailment

- A principal curtailment may be permitted. The maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount of the subject loan.
- The borrower may also receive cash back within program guidelines in addition to the amount of the curtailment. Refer to SmartEdge, SmartSelf, and SmartVest. program summary.
- If the curtailment is applied at closing, the amount must be documented on the Closing Disclosure. If the curtailment is applied after closing, but prior to deliver, the loan file (or servicing file) must be documented with the amount of the curtailment and the reason or source of the curtailment.

Property Eligibility

Eligible Properties

SmartEdge and SmartSelf

Smart Series Addendum

- 1-4 units
- Condominiums
 - Refer to SmartEdge program summary for requirements.
- Condotels (**SmartEdge** Only)
 - Refer to SmartEdge program summary for requirements.
- Leasehold estates
- Planned Unit Developments (PUDs)

SmartVest

- 1-4 units
- Condominiums
 - Refer to SmartVest program summary for requirements.
- Leasehold estates
- Planned Unit Developments (PUDs)
- AirBnB, VRBO and similar rental service

Ineligible Properties

- Condotels (**SmartSelf** and **SmartVest**)
- Co-ops
- Factory built homes
- Leasehold estate condo project
- Manufactured housing
- Modular homes
- More than 20 acres
- Properties with a C5 and C6 condition rating
- **Square footage**
 - **Less than 600 square feet**
 - **Condo less than 500 square fee**
- Mixed-use (**SmartVest**)
- Agricultural properties, such as working farms, ranches, or orchards
- Assisted living projects
- Bed and breakfast properties
- Boarding houses
- Builder model leaseback (purchase transactions)
- Commercial properties
- Hobby farms
- Houseboats
- Indian/Tribal land
- Industrial properties
- Illegally zoned properties
- Investment securities
- Land trusts

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- Log homes
- Mobile home
- Model home leasebacks
- Multi-family dwelling containing more than 4 units
- Properties located adjacent to or containing environmental hazards
- Properties encumbered with private transfer fee covenants
- Properties not suitable for year-round occupancy
- Properties with deed or resale restrictions (except for age restricted communities for **SmartSelf** and **SmartEdge**)
- Properties without full utilities installed to meet all local health and safety standards
- Residential property with a permanently affixed manufactured home on the property
- Unimproved or vacant land
- Tax-sheltered syndicate

Accessory Dwelling Units (ADU)

A one-unit property that includes 1 accessory dwelling unit may be acceptable. An ADU is typically, an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen, bathroom and sleeping area. Some examples may include a living area over a garage, living area in a basement, or a small addition to the primary dwelling.

When reporting the living area of an ADU, it should not be included with the gross living area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

Whether a property is a one-unit with an ADU, or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal.

All of the following must be met:

- The property is one-unit
- There is only one ADU on the subject property
- The ADU must be subordinate in size to the primary dwelling and contribute less to the value of the primary dwelling
- Subject property is typical, common, and readily acceptable in the subject property's market area
- Subject property must conform to all zoning laws and/or regulations
- Rental income from the ADU may not be used for loan qualification
- Legal non-conforming use may be acceptable provided the subject property's current use does not adversely affect value and marketability

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- The borrower qualifies without considering any rental income from the ADU
- The existence of the unit must not jeopardize any future property insurance claims

Condominiums

Refer to SmartEdge, SmartSelf, and/or SmartVest program summary for condominium requirements.

Condotels

Refer to SmartEdge program summary for condotel requirements

Properties Listed for Sale

- Subject property must not be currently listed for sale and must be taken off the market prior to the Note date for rate and term refinance transactions.
- Properties listed for sale in the six months prior to the Note date are limited to the lesser of 70% LTV/CLTV or product requirements for Cash-out transactions.
- Properties must be taken off the market prior to the Note date for cash-out transactions.

Reserves

Refer to SmartEdge, SmartSelf, and/or SmartVest program summary for reserve requirements.

Seller Contributions

Only used for closing costs and prepaid expenses. Interested party contributions cannot be used for down payment or reserves. Refer to SmartEdge, SmartSelf, and/or SmartVest program summary for requirements.

Subordinate Financing

The following requirements apply to the terms of the subordinate financing:

- The subordinate financing must be recorded and clearly subordinate to the new mortgage; title must indicate the lien is in second position.
- Subordinate financing must be reviewed to ensure that there are no terms that restrict prepayment. Terms that restrict prepayment are not permitted as acceptable subordinate financing. Terms that require payment of certain closing costs that were waived upon origination of the subordinate lien loan are not considered a restriction of prepayment.
- The subordinate financing must not be a natural person, with the exception of a seller second mortgage and must be an arm's length transaction.
- Subordinate financing must have regular monthly payments and be at a market interest rate.
- Must be included in the DTI, if applicable.
- Negative amortization is not allowed.
- The scheduled payments must be sufficient to cover at least the interest due.

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The following documentation is required for all subordinate financing:

- A copy of the signed subordinate note or direct verification from the lien holder verifying all items detailed above must be obtained.
- A copy of the unsigned subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

SmartEdge and SmartSelf

- Existing and New subordinate financing are eligible.
- Subordinate financing not permitted when gift funds are used.

SmartVest

- Existing subordinate financing are eligible.
- New subordinate financing is ineligible.
- All LTV/CLTV/HCLTV requirements must be met for loans with subordinate financing.

Tax Returns and Tax Transcripts

SmartEdge

Individual and business income tax return must be signed by the borrower unless the income flows through to the individual income tax transcripts.

- A signed and dated 4506-C for all borrowers must be signed at application and closing
- IRS Tax Transcripts and a Record of Account is required for the most recent 2 years filed personal tax returns must be provided.

The following standards apply with using Income Tax Returns to verify income:

Tax Return	Requirement
Individual Income Tax Return (Form 1040)	<ul style="list-style-type: none"> • Complete with all schedules and W-2s, 1099s, K-1s, etc. • Borrower's copy filed with the IRS
Business Income Tax Return (Form 1120, 1120S, 1065)	<ul style="list-style-type: none"> • Complete with all schedules and W-2s, 1099s, K-1s, etc. • Borrower's copy filed with the IRS
Amended Income Tax Returns Filed Prior to the Application Date	Amended tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the tax return was amended 60 days or less prior to the application, evidence of payment must also be provided.
Amended Income Tax Returns Filed After the Application Date	When amended tax returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted. The following documentation should be reviewed when income from the amended return is required: <ul style="list-style-type: none"> • A letter of explanation regarding the reason for the re-file • Evidence of filing; and

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	<ul style="list-style-type: none"> • Payment and the ability to pay the tax if the check has not cancelled. <p>The underwriter must provide justification and commentary regarding its use.</p>
IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns	If IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two (2) years as a measure of income source, stability, and continuance. If the estimated tax liability that is inconsistent with previous years, the current year tax return may be necessary.
Use of IRS Forms to Obtain Individual Income Tax Information	<p>Tax Returns Transcripts or Wage and Income Tax Transcripts may be used in lieu of obtaining the income tax returns as long as they contain all of the information that would be included on the tax return. In certain instances, copies of the actual returns, schedules, or forms may be needed because the tax transcripts will not provide the detail required to qualify the borrower.</p> <p>In addition, for loans underwritten by DU, Schedules B through F and Schedule K-1 are not required if:</p> <ul style="list-style-type: none"> • the income reflected on the applicable schedule transcripts is positive; and • the income supported by the schedule or form is not being used for qualifying. <p>If self-employment income from a sole proprietorship (Schedule C) is validated by DU validation service, tax returns may not be required. Document the loan per DU, which may permit a tax transcript rather than tax returns.</p>

Allowable Age of Income Tax Returns

SmartEdge

If Today's Date is	Then the Most Recent Years' Tax Return would be
February 18, 2021	2019
May 18, 2021	2020
December 15, 2021	2020

The below table provides the allowable age of individual and business income tax returns depending on the application and Note date.

Allowable age of Individual Tax Returns based on application date for borrowers whose income must be documented with tax returns (borrowers self-employed and non-self-employed).

- All Income types to verify return requirement.

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Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.)		
Application Date	Note Date	Documentation
Before May 17, 2021	Before May 31, 2021	2020 Tax Return Filed Most recent 2 year's tax returns <ul style="list-style-type: none"> • 2019 and 2020 2020 Tax Return Not Filed Most recent 2 year's tax returns <ul style="list-style-type: none"> • 2018 and 2019
On or after May 17, 2021	On or after May 31, 2021	2020 Tax Return Filed Most recent 2-year(s) tax returns <ul style="list-style-type: none"> • 2019 and 2020
All	Before November 1, 2021	2020 Tax Return Not Filed Most recent two (2) year(s) tax returns <ul style="list-style-type: none"> • 2019 and 2018 tax returns • Copy of Application for Automatic Extension of Time to File 2020 U.S. Individual Income Tax Return (IRS Form 4868) • Tax transcripts confirming "No Transcript Available" for 2020
All	On or after November 1, 2021	Most recent two (2) year(s) tax returns <ul style="list-style-type: none"> • 2019 and 2020 • Use of a Tax Extension is not permitted
Refer to the applicable section for complete income documentation requirements for all borrowers (self-employed and non-self-employed) whose income must be documented with tax returns.		

SmartSelf

- A signed and dated 4506-C for non-self-employment income must be signed at application and closing.
- W-2 transcripts may be obtained at the underwriter's discretion.

SmartVest

IRS Form 4506-C and Tax transcripts not required.

General Requirement

- All borrower(s) will complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, in order to obtain income information to validate income that is used for qualification.
- IRS Form 4506-C can be used to obtain wage transcripts for multiple years or tax periods, but only one tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution.
Note: IRS Form 4506-C is valid for 120 days.
- The signed Form 4506-C must include authorization for transcripts to coincide with the years of income documentation obtained for qualification.

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- Signature Requirements:
 - If filing jointly, each borrower (taxpayer) must sign the same IRS Form.
 - If separate filings, each borrower (taxpayer) must sign on separate forms.
 - The form must be signed exactly as the borrowers' name appears on the original return.
 - If a borrower's name changed, the borrower must sign with both the current name and changed name.

Alternatives to Record of Account

Proof of payment of tax due or receipt of refund for applicable tax years that tax returns were provided (Example: bank statement, copy of the refund check, IRS where's My Refund printout)

- Amount must match the tax transcript and tax returns; and
- Proof that the tax transcript was obtained by the lender and not the borrower (i.e., invoice from the IVES vendor) must be provided.

At Closing Requirements

Form 4506-C for each borrower whose employment income is used to qualify must be signed at closing; and Form 4506-C must be an original signature and cannot be e-signed.

Transaction Types

Eligible Transaction Types

- Purchase
- Cash-Out Refinance
- Rate Term Refinance

Net Tangible Benefit

- A Caliber NTB Worksheet must be completed for all refinance transactions in the following states:
 - AR, CT, IL, MN, NC, NM, OH, and WA
- A state specific NTB test must be completed on refinance transactions in the following states:
 - CO, MA, MD, ME, RI, SC, VA, and WV
 - CO requires NTB state specific forms to be completed for purchase and refinance transactions.
- For all other states, no NTB test is required.

Buyout of Owner's Interest

A refinance transaction that results in a buyout of the interest of another owner may be eligible as a Rate and Term refinance (e.g., divorce settlement, buyout of a sibling, etc.,) provided the following is met:

- All parties must have jointly owned the subject property for 12 months preceding the Note date (must be documented).
- All parties must provide a signed, written agreement that states the terms of the property transfer and the disposition of the proceeds (divorce decree or separation agreement, buy-out agreement).

Smart Series Addendum

- Primary residence.
- A written agreement signed by all parties is required stating:
 - the terms of the property transfer, and
 - the disposition of the proceeds from the refinance.
- The borrower who acquires sole ownership of the property may receive no cash-out from the proceeds of the refinance.

Cash-Out Refinance

- Pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that has no mortgage lien secured against it.
- Pay off any outstanding subordinate mortgage liens of any age.
 - Payoff of draws taken in the past 12 months on a HELOC are counted in the cash in the maximum cash in hand amount.
- One borrower must have held title to the subject property for at least 6 months preceding the Note date of the new loan, with the following exceptions:
 - There is no waiting period with documentation and verification that the borrower was legally awarded the property (divorce, separation, dissolution of a domestic partnership) or acquired the property through an inheritance. Refer to [Inherited Properties](#).
 - If the property was owned prior to closing by an Inter Vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's 6-month ownership requirement if the borrower is the primary beneficiary of the trust.
 - Title held in a limited liability company (LLC) that is controlled, or majority owned by the borrower(s) may be counted towards the borrower's six-month ownership requirement. Ownership must be transferred out of the LLC and into the name of the individual borrower(s) in order to close the transaction, unless permitted by product.
- Finance reasonable and customary loan costs or fees, including prepaid items within limitations imposed by applicable laws.

Construction-to-Permanent Financing

- LTV/CLTV will be based on the as-completed appraised value regardless of the length of time the borrower has owned the lot.
- Underwriting reserves the right to ask for additional documentation for use in the completion of the cost analysis when warranted.
- The proceeds may be used to:
 - Pay off interim construction loan and
 - Pay all transaction costs (closing costs, lot financing).
- No loan proceeds are disbursed to the borrower.
- A new Note and Mortgage for the refinance of the construction financing must be created and the mortgage recorded.
- Single-close construction-to-perm financing is not permitted.

Smart Series Addendum

- A Certificate of Occupancy from the applicable government authority must be obtained unless a Certificate of Occupancy is not required by a local government. In this case, an Appraisal Update and/or Completion Report (Form 1004D/442) must be obtained.

Inherited Properties

If the subject property was inherited less than 6 months prior to loan application, the transaction is considered a rate and term refinance and is subject to the following requirements:

- The borrower must have clear title or a copy of probate showing that the borrower was awarded the property.
- Proceeds must be used to buy-out the documented equity interest of co-owners.
- Equity owners must be paid at closing
- The borrower receives no cash at closing
- The current appraised value is used to calculate the LTV/CLTV.

Installment Land Contract

SmartSelf and SmartEdge

A land contract is an agreement to transfer title to a property once conditions of the contract have been fulfilled. A copy of the executed land contract must be in the loan file.

- Contract Execution >12 Months
 - Use Appraised value for LTV calculation
 - Rate and Term Refinance
 - Twelve months pay history documentation:
 - Canceled checks, bank statements or money order receipts
 - If the land contract was executed less than 12 months prior to the date of the loan application, the borrower's previous housing payment history (covering 12 months) must also be verified in addition to all payments made on the land contract
- Contract Execution ≤ 12 Months
 - Use lower of appraised value or total acquisition cost
 - Purchase Financing
 - Twelve months pay history documentation:
 - Canceled checks, bank statements or money order receipts.
 - If the land contract was executed less than 12 months prior to the date of the loan application, the borrower's previous housing payment history (covering 12 months) must also be verified in addition to all payments made on the land contract.
- Total acquisition costs are those costs incurred by the borrower for rehabilitation, renovation, refurbishment, or energy conservation improvements.
- The following requirements apply:
 - Purchase or rate and term refinance
 - Primary residence
 - Condos not permitted.
 - Land sale contracts must be recorded or notarized; a copy of the of contract and notice of payoff(s) are required; must not be a foreclosure bail-out or distress sale.

Smart Series Addendum

- The seller under a land sale contract must deed to the purchaser at or prior to closing.
- The Closing Disclosure at closing must indicate that all liens on title have been paid in full.
- The estate or interest insured in the title insurance policy is fee simple.
- The title insurance policy ensures full title protection to the lender.
- The title insurance policy states that title to the security property is vested in the purchaser under the land sale contract; and
- The title insurance policy must not list any exceptions arising from the land sale contract.

Permanent Financing for New Construction

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower obtained to fund the construction of a new residence. All permanent financing for new construction will be considered rate and term refinance transactions.

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

The borrower must hold legal title to the land prior to loan application and be named as the borrower on the construction financing

All of the following apply:

- LTV/CLTV will be based on the as-completed appraised value regardless of the length of time the borrower has owned the lot
- Underwriting reserves the right to ask for additional documentation for use in the completion of the cost analysis when warranted
- The proceeds may be used to
 - Pay off interim construction loan
 - Pay all transaction costs (closing costs, lot financing)
- No loan proceeds are disbursed to the borrower
- A new Note and Mortgage for the refinance of the construction financing must be created and the mortgage recorded. Single-close construction-to-perm financing is not permitted
- A Certificate of Occupancy from the applicable government authority must be obtained unless a Certificate of Occupancy is not required by a local government. In this case, an appraisal update and/or Completion Report (Form 1004D/442) must be obtained.

Property Flips

Must have been marketed openly and fairly. Examples include properties purchased at auction, review of multiple listing services, documented for sale by owner, developer marketing.

- There can be no pattern of previous flipping as evidenced by multiple transfers in the last 12 months, unless the property seller is a government sponsored entity (GSE), bank, or licensed mortgage company, then no seasoning is required.
- When two appraisals are required regardless of the transaction type the lesser of the 2 values will be used for qualification purposes.

SmartVest

Smart Series Addendum

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

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

SmartEdge and SmartSelf

- **Purchase**
 - Appreciation greater than 10% in the past 90 days requires two full appraisals regardless of loan amount
 - Appreciation greater than 20% in the past 91-180 days requires 2 full appraisals regardless of loan amount
 - The pay-off of seller financing is not permitted
 - The cost of the second appraisal must be paid for by the lender; and
 - Waiver of second appraisal is not permitted
- **No Cash-out Refinance**
 - Appreciation greater than 20% in the past 90 days requires two full appraisals regardless of loan amount: and
 - The pay-off of seller financing is not permitted
- **Cash-out Refinance**

Appreciation greater than 20% in the past 12 months requires two full appraisals regardless of loan amount.

 - The cost of the second appraisal must be paid for by the lender
 - Waiver of second appraisal is not permitted

The 90-180 time period is determined by subtracting the date the seller became the legal owner of the property from the date the purchaser signed the purchase contract. If the seller and purchaser signed the purchase agreement on 2 separate days, the latter of the 2 dates is to be used.

On a refinance transaction the 90–180-day time period is determined by the date the borrower became the legal owner of the property (or the last Note date) to the effective date of the appraisal.

Purchase Transaction

- A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:
 - Finance the acquisition of the subject property
 - Convert an interim construction loan or term note into permanent financing or
 - Pay off the outstanding balance on the installment land contract or contract for deed

Smart Series Addendum

- Complete purchase agreements, including all addenda, are required for all purchase transactions. All sales contract terms must be considered in the underwriting decision. Any evidence of undisclosed conditions of the transaction must be investigated
- Purchase transactions do not allow for cash back to the borrower at closing other than the following
 - Reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The Closing Disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund
 - Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees); and
 - A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.
- Foreclosure bailouts of any kind are not permitted (an arms-length purchase of a short sale is not deemed a foreclosure bailout.
- Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction.

Owner of Record and Chain of Title

- The property must be purchased from the owner of record and documentation to verify ownership must be obtained. Documentation may include, but is not limited to, one of the following:
 - A property sales history report
 - A copy of the recorded deed from the seller
 - A copy of the seller's closing Disclosure
 - A 36-month sales history from the appraisal (provided the appraisal shows the most recent sale of the property occurred at least 1 year ago); or
 - A property tax bill or title commitment/binder that demonstrates the seller's ownership of the property and the date it was acquired
- If there is any conflicting information reflected in the documentation, the discrepancy must be resolved, and the loan filed documented accordingly
- Transactions involving any sale or assignment of the sales contract are not permitted
- If the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject property
- When the transaction is part of a corporate relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract.

Conflict of Interest (Dual Capacity)

- Parties acting in multiple roles in a single mortgage transaction are not eligible. For example, the real estate agent (selling agent or buyer's agent) for the subject property may not act as the loan officer for the borrowers purchasing the same subject property or a loan officer may not take their own application
- Caliber will permit only the following:

Smart Series Addendum

- Loan officers who are appropriately licensed in the state of CA or FL who are acting as the buyer's agent.
- A copy of the Disclosure of Conflict of Interest or CA Dual Capacity Disclosure is required to be provided.

Non-Arm's Length Transactions

SmartEdge and SmartSelf

Non-arm's length transactions are permitted subject to all of the following requirements:

- Family member transactions permitted on owner occupied properties only
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase (confirm no foreclosure bailout)
- Borrower to provide a copy of the canceled earnest money check paid to the property seller
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property.
- When tenant is buying from landlord/seller, a Verification of Rent (VOR) from a third-party management company is acceptable. If there is no third-party management company, provide the most recent 12 months cancelled rent checks or 12 months bank statements; and
- Purchase of a newly constructed property is permitted for a primary residence if the borrower has a relationship with the builder/developer or seller

Exception: Borrower is allowed to be the selling agent in the transaction where borrower is the purchaser so long as borrower is not also the listing agent.

SmartVest

- Non-arm's length transactions are permitted subject to all of the following requirements:
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase (confirm no foreclosure bailout).
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.).
- Borrower may not be an owner of a business entity selling the subject property.
- New construction not permitted.

Rate and Term Refinance

Rate and Term refinance transactions must meet the following:

- Paying off the unpaid principal balance of the existing first lien (including an existing HELOC in first lien position) plus any required per diem interest
- Paying off a subordinate lien that was used in whole to acquire the subject property. Documentation must be provided to evidence that all proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property. The following are acceptable forms of documentation:
 - A copy of the closing disclosure for the purchase of the property
 - A copy of the title policy from the purchase transaction that identifies the subordinate financing.

Smart Series Addendum

- Other documentation from the purchase transaction that indicates that the subordinate lien was used to purchase the subject property.
 - If the purchase money second lien was refinanced with a new second lien, it may be paid off. The balance of the existing second lien must be less than or equal to the outstanding principal balance of the purchase money second at the time of previous payoff.
 - If the existing second lien is a HELOC, the HELOC may not have been used for any reason except to pay off the purchase money second lien. If the HELOC has been paid down since the refinance of the purchase money second lien, funds cannot have been redrawn. The draw history and Closing Disclosure must be provided from both transactions; purchase money transaction and refinance of the purchase money second lien transaction.
- Payoff of a non-purchase money subordinate lien provided the subordinate lien is seasoned at least 12 months. If the non-purchase money lien is a home equity line of credit it must have zero draws within the past 12 months
- Financing the payment of closing costs, points, and prepaid items.
- Incidental cash back not to exceed the lesser of 2% of the balance of the new loan or \$2000; and
- Prepayment penalties associated with the payoff of the existing mortgage.
- Properties inherited less than 6 months prior to the application date are considered a rate and term refinance and are subject to the following requirements:
 - The borrower must have clear title or a copy of probate showing that the borrower was awarded the property
 - Proceeds must be used to buy-out the documented equity interest of co-owners
 - Equity owners must be paid at closing
 - The borrower receives no cash at closing; and
 - The current appraised value is used to calculate the LTV/CLTV.
- Short payoffs where a new loan is originated resulting in a forgiveness of a portion of principal and/or interest on the first or second mortgage is not permitted.
- Refinancing of a subsidized loan, including loans subsidized by Habitat for Humanity, U.S. Department of Agriculture, FHA with a recapture or any city/county grant are ineligible.

Delayed Financing

SmartEdge and SmartSelf

Borrowers who purchased the subject property within the past six (6) months (measured from the date on which the property was purchased to the application date of the new mortgage) are eligible for a rate and term refinance if all of the following are met:

- No longer than 6 months has elapsed since the original cash acquisition of the property; measured from the loan application date
- Must be underwritten as a Rate and Term Refinance; a price adjustment may apply
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for a rate and term refinance based on the lesser of the purchase price or the current appraised value).
- Property must have been purchased using the borrower(s) own funds; and

Smart Series Addendum

- Settlement Statement/Closing Disclosure from the original purchase and documentation to show the down payment and closing cost used for the purchase were from the borrower’s own funds (no borrowed, gift or shared funds)

SmartVest

Ineligible.

Underwriting

SmartEdge

- All loans are manually underwritten but must be submitted to DU and receive an Approve/Ineligible (informational purposes only).
- Interest Only loans do not require DU submission.

SmartSelf and SmartVest

- All loans must be manually underwritten.

Revision History

Date	Summary of Changes	Updated By
09/30/2021	Created.	Product Guidelines
10/18/2021	Removed. LLCs allowed for SmartEdge and SmartSelf.	Product Guidelines
10/22/2021	Removed. Loans must be submitted to LoanScorecard and receive a Pass.	Product Guidelines