Jumbo Series D Product Profile: Retail, Call Center, Shelter, & Wholesale

Matrices

Occupancy Type	Transaction Type	Property Type	Maximum LTV/CLTV[2]	Maximum Loan Amount	Minimum FICO	Max Ratios[1,2]
Primary Residence	Purchase or Rate & Term Refinance	SFR, PUD, Condo	80%	$850,000	680	43%
				$1,000,000	700	
				$1,500,000	720	
		2-4 Unit	65%	$850,000	740	
	Cash-Out Refinance	SFR, PUD, Condo		$1,000,000		
		2-4 Unit		$850,000		
Second Home	Purchase or Rate & Term Refinance	SFR, PUD, Condo	70%	$1,500,000	740	43%
Investment Property	Purchase or Rate & Term Refinance	SFR, PUD, Condo,	65%	$1,000,000	740	43%
		2-4 Unit		$850,000		

1. First Time Homebuyers require maximum DTI of 38% and minimum FICO of 740
2. Non-permanent residents require maximum 75% LTV/CLTV and maximum 38% DTI.

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Section 1: Program Summary	
1.1 Program Summary	
Program Summary	The Jumbo D product is full document loan program designed for borrowers with excellent credit and reserves and documented income/employment suitable to support the ability to repay. Due to the strong characteristics associated with this type of borrower, the Jumbo D product provides for flexible financing solutions.
1.2 Underwriting	
Underwriting	All loans will be manually underwritten but are also required to be run through DU or LPA and must receive an Approve/Ineligible or Accept/Ineligible only unless the loan is an agency "high balance" loan in which case an Approve/Eligible or Accept/Eligible is required. The "ineligible" status must be due solely to the loan amount of the Mortgage Loan. Loans receiving refer with caution, Out of Scope, Caution, Caution 500 A-Minus or Incomplete/Invalid score are not eligible. Reduced documentation per DU/LPA is not permitted unless otherwise stated within this guide.
1.3 Ability to Repay and Qualified Mortgage Rule	
ATR/QM	All loans must be a Qualified Mortgage within the meaning of 12 C.F.R. 1026 (2),(e)(4), or (f) and comply with TILA and Regulation Z regarding the borrower's Ability to Repay.
Section 2: Transaction Details	
2.1 Minimum Loan Amounts	
Minimum Loan Amounts	Minimum loan amount is $510,401. High Balance Agency loans may be locked and submitted as a jumbo loan. These submissions will be manually underwritten and subject to all jumbo loan underwriting guidelines.
2.2 Eligible Terms and Programs	
Eligible Terms & Programs	**Term** / **Product Name** 15-year fixed / NewRez Jumbo Series D 15 Yr Fixed 20-year fixed / NewRez Jumbo Series D 20 Yr Fixed 30-year fixed / NewRez Jumbo Series D 30 Yr Fixed
2.3 Assumable	
Assumable	Loans originated under the Jumbo D Product line-up are not assumable
2.4 Convertible	
Convertible	Loans originated under the Jumbo D Product line-up are not convertible
2.5 Eligible Transactions	
Eligible Transactions	• Purchase Money • Rate & Term (Limited Cash-out) Refinance • Cash-out Refinance
2.6 Purchases	
Purchases	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. • Pay off the outstanding balance on an installment land contract or a contract for deed. Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing: • A reimbursement for the borrower's overpayment of fees. • Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees). • A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program. • Closing costs cannot be financed as part of a purchase money transaction unless otherwise permitted by law.

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	Requirements: • A copy of the fully executed purchase contract and all attachments or addenda is required. • Proceeds from the transaction cannot be used to give the borrower cash back other than an amount representing reimbursement for the borrower's earnest money deposit, overpayment of a fee, or a legitimate pro-rated real estate tax credit when real estate taxes are paid in arrears • If the subject property is deemed to be new construction, a Certificate of Occupancy from the applicable government authority must be retained in the file, unless a Certificate of Occupancy is not required by such applicable government. In this case, an Appraisal Update and/or Completion Report (442) must be obtained and a Processor or Account Manager Certification must be in the file verifying they have confirmed that a Certificate of Occupancy is not available. • Refer to Property Flips/Rapid Appreciation for additional requirements
2.7 Refinances (General)	
Refinances (General)	• Borrower(s) must meet the Continuity of Obligation (described below) • All refinance transactions must pass the NewRez Net Tangible Benefit Test. • Short pay-off (short refinances) where a new loan is originated resulting in a forgiveness of a portion of principal and/or interest on the first or second mortgage are not permitted. • The refinance of a previously modified mortgage is not permitted unless 24 months have passed since the modification and the borrower has a 0x30x24 mortgage history (see section 6.3 Derogatory Credit for additional information regarding modified mortgages) • Refer to Property Flips/Rapid Appreciation for additional requirements • Payoff or subordination of a Property Assessed Clean Energy loan (PACE) must follow Fannie Mae requirements • Using any portion of the allowable cash-back from a limited cash-out refinance transaction to pay off debt at the time of consummation will result in the loan being deemed a cash-out refinance.
2.8 Continuity of Obligation	

Continuity of Obligation	• At least one borrower on the new loan must also be obligated on the current lien; or
	• Borrower has been on title to the subject property for the previous 12 months; occupied the subject property for the previous 12 months; and can demonstrate having made the payments in the previous 12 months.
	
	Exceptions to this requirement include:
	
	• The borrower on a refinance transaction was added to title a minimum of 24 months prior to the subject transaction.
	• The borrower acquired the subject property through an inheritance or was legally awarded the property through a court ordered agreement. This scenario requires no minimum waiting period for continuity of obligation.
	• The borrower has been on title for at least 12 months but is not obligated on the existing mortgage which is being refinanced, and the borrower meets at least one of the following requirements:
	  ○ Can document he or she has been residing at the property for a minimum of 12 months.
	  ○ Can document he or she has paid the mortgage for a minimum of 12 months.
	  ○ Can demonstrate a relationship with the current obligor (for example, a relative or domestic partner).

2.9 Rate & Term Refinances	
	A rate/term refinance transaction is a mortgage loan where the proceeds of such are used to pay off an existing mortgage loan. The new first mortgage loan is secured by the same property.

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Rate & Term Refinances	• The new transaction may combine a first and seasoned non-purchase money subordinate lien or payoff a first lien HELOC into a new first loan. A seasoned non-purchase money subordinate lien or first lien HELOC is a mortgage that has been in place for a minimum of 12 months. A seasoned equity line is defined as not having any draws greater than $2,000 in the past 12 months. Withdrawal activity must be documented with a transaction history for the Line of Credit. • Cash to the borrower(s) is limited to 1% of the principal amount of the new loan. • Rate/term refinance transactions with new subordinate financing are ineligible. • Construction-to-Permanent loans are ineligible. Closing Disclosure settlement statement(s) are required with respect to any transaction involving the property within the past twelve months. • If the subject was acquired in the previous 12 months, but no less than 6 months, the file must contain the previous Closing Disclosure/Settlement Statement, and the LTV calculation would be based on the lesser of the purchase price or the current appraised value. • The payoff of a private mortgage lien requires cancelled checks and bank statements to support a satisfactory 12-month (most recent) payment history. Texas 50(a)(6) Refinances and Texas 50(a)(3), Owelty of Partition, are not permitted. For refinances in Texas, a copy of the current mortgage or note is required to determine the previous terms are not subject to Texas Section 50(a)(6) also known as (Home Equity Deed of Trust, Home Equity Installment Contract or Residential Home Loan Deed of Trust) requirements. • If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Equity and ineligible • If the first mortgage is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and is considered a rate and term refinance. The second lien must be subordinate to the NewRez first mortgage. Borrower cannot receive any cash back from first mortgage transaction. • If a Texas Section 50(a)(6) second lien is being paid off, the loan is restricted to the Texas Equity and is ineligible
2.10 Cash-out Refinances (including Debt Consolidation)	
Cash-out Refinances	Cash-out refinance mortgage loans are loans used to remove equity from the subject property. Funds received by the borrower from a cash-out refinance loan are not limited to a specific purpose. A cash-out refinance is eligible for primary residences only. For properties that have recently been listed for sale (greater than 6 months but less than 12 months), the subordination of secondary financing and length of ownership requirements are as follows: • Existing subordinate financing may be re-subordinated, provided that the CLTV requirements listed in the matrix grid are met. • The subject Mortgage Loan is considered a cash-out refinance if the previous transaction: ○ Combined a first and an unseasoned non-purchase money subordinate loan into a new first mortgage loan. The payoff of a non-purchase money or unseasoned second lien must be included in the maximum allowable cash back of $250,000. • Closing Disclosure or settlement statement(s) are required with respect to any transaction involving the property within the past twelve months. • If the subject was acquired in the previous 12 months, but no less than 6 months, the file must contain the previous HUD Settlement Statement or Closing Disclosure, and the LTV calculation would be based on the lesser of the purchase price or the current appraised value.

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	The following are ineligible for cash-out refinance transactions:
	• Transactions with new subordinate financing
	• Properties listed for sale in the last six months.
	• Second homes.
	• Investment properties.
	• Construction to permanent loans.
	• Owner-occupied properties located in Texas:
	  ○ Loans secured by owner-occupied properties located in Texas subject to Texas 50(a)(6) or Texas 50(a)(3), Owelty of Partition, are NOT eligible for sale to an Approved Buyer.
	  ○ A copy of the current mortgage or note is required to determine that the previous terms are not subject to Texas Section 50(a)(6) also known as (Home Equity Deed of Trust, Home Equity Installment Contract or Residential Home Loan Deed of Trust) requirements.
	• A letter of explanation is required on all cash-out refinances
	• Maximum cash in hand and debt consolidation combined may not exceed **$250,000**
	• Cash-back proceeds may be used to pay existing debts; all revolving debt must be paid off in order to be excluded from qualifying ratios

2.11 Seasoning Requirements for Refinances	
Seasoning Requirements for Refinances	Rate/Term and Cash Out Refinances: If the subject was acquired in the previous 12 months, but no less than 6 months, the file must contain the previous HUD Settlement Statement or Closing Disclosure, and the LTV calculation would be based on the lesser of the purchase price or the current appraised value.
2.12 Delayed Financing	
Delayed Financing	Not Permitted
2.13 Payoff Demands	

Payoff Demands	Payoff demands are required to ensure the current lien is paid in full prior to closing. The expiration date of the payoff demand must be reviewed. A loan may not move to closing if the payoff will expire prior to funding. If the payoff demand contains an expiration date, the underwriter must verify the date is after the funding date.
	
	If the payoff demand does not contain an expiration date, the underwriter must verify a per diem amount is listed. The per diem should be applied to the payoff amount to cover proceeds through the funding date; it can be used for an unlimited number of days; unless otherwise specified in the payoff letter.
	
	A payoff is considered expired when:
	• The document instructs the associate to void after a specified date; or
	• The interest accrued amount on the statement signals the borrower will be past-due when the new loan funds;
	  ○ The borrower must make a mortgage payment prior to closing to avoid a late payment on the credit; and
	  ○ The borrower must provide evidence the payment has been made and the updated payoff demand must reflect that a payment has been made.

2.14 Subordinate Financing	
Subordinate Financing	• Purchase money loans with simultaneous secondary financing are ineligible • Refinance transactions with new simultaneous secondary financing are ineligible. ○ Mortgage Loans with existing subordinate financing may be eligible, provided that such financing is re-subordinated to the first lien of the Mortgage Loan. The CLTV may never exceed the maximum LTV permitted with respect to the transaction type. **Ineligible Subordinate Financing (in addition to those identified by the applicable Agency)**

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Employer assistance secured by a subordinate lien against the subject property.
Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
Disaster Relief Grants or loans that require a subordinate lien against the subject property.

In all instances, the following items are required:

A copy of the 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.
A copy of the executed subordination agreement at closing.
Subordination agreements must be recorded

Nothing set forth in this Section shall be deemed to restrict secondary financing to the extent that such restriction would violate the terms of the Borrower’s loan documents or applicable federal or state law.
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<tr><td colspan="2">2.15 Maximum # of Financed Properties</td></tr>
<tr><td>Maximum # of Financed Properties</td><td>
The borrower may own a maximum of four financed, one- to four-unit residential real properties, including the subject property (regardless of occupancy type). Please follow Fannie Mae Guidelines as it pertains to properties owned in the name of a business. Financed commercial properties that are a borrower’s personal obligation must be included in the total count of maximum financed properties.

Borrowers on title to a property and not included on the property Mortgage Note would not be required to include said property in the maximum property count (file must contain evidence the borrower is not on the Mortgage Note).
Co-signed Mortgage Notes must be included in the maximum property count.

Loan files must include full PITIA (principal, interest, taxes, insurance, applicable association dues and/or assessments) for all REO listed on the 1003. Refer to Cash Reserves for additional requirements.
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<tr><td colspan="2">2.16 Ineligible Transactions</td></tr>
<tr><td>Ineligible Transactions</td><td>
Unacceptable loan types include but are not limited to the following, provided, however, that in the event that any of these limitations would violate the requirements of the Equal Credit Opportunity Act or the Fair Housing Act, the provisions of those laws and implementing regulations are controlling:

Blanket loans, covering multiple properties
Blind Trusts
Borrowers less than 18 years old or otherwise legally incapable of entering into a contract.
Borrowers with diplomatic Immunity or otherwise excluded from U.S. jurisdiction.
Bridge loans
Builder/seller bailout plans.
Cross-collateralization
Deed-Restricted Properties (exceptions will be considered on a case-by-case basis)
Flip transactions as defined in section 4.12
Foreclosure bailouts of any kind. (An arms-length purchase of a short sale is not deemed a foreclosure bailout.)
Installment Land Contracts
Leaseback of primary/second home purchases exceeding 60 days
Lease-Purchase Options
Loans to officers / owners of NewRez approved mortgage brokers, correspondents.
Loans to Principal Owners of NewRez, LLC
Loans with Principal Curtailments

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	• Model Home Lease-Backs • Multiple property payment skimming, which typically involves investors who purchase investment properties with seller carry back financing and collect rents but do not make the mortgage loan payments. • Permanent Financing for New Construction - Mortgage Loans for the purpose of paying off interim construction financing • Properties subject to an unexpired redemption period • Refinance of homes listed for sale • Refinance of Restructured Loan or Short Refinance Loan • 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. • Refinance of the Permanent Financing from a Construction Loan with less than 12 months seasoning. • Renovation/Rehab Mortgages • Section 32 and/ or other loans described in the "Responsible Lending Statement" • Single-Close (One Time Close) Construction to Permanent Mortgages • Straw Borrowers or straw buyer • Temporary or Permanent Buy downs • Texas 50(a)(6) or Texas 50(a)(3) transactions • Transactions consisting of an Assignment of Sales Contract
Section 3: Borrower Eligibility	
3.1 Occupancy	
Occupancy	• Owner Occupied Primary Residence • Second (2nd) Home • Investment Property
3.2 Borrower Eligibility	
Borrower Eligibility	Borrowers must be either U.S. Citizens or lawful permanent or non-permanent residents of the United States who have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. Details on Non-U.S. Citizen borrowers can be found below. There is no maximum age limit for a borrower. No more than four (4) borrowers may be party to any transaction.
3.3 Non-U.S. Citizen Borrowers	
Non-U.S. Citizen Borrowers	Loans made to Non-U.S. citizens who are lawful permanent or non-permanent residents of the United States are available under the same terms that are available to U.S. citizens so long as they are legally present in the U.S. Permanent Residents: Examples of acceptable evidence of permanent residency consists of a completed Certification of Residency, certifying that the Borrower's Alien Registration information has been reviewed by the originator and meets one of the following criteria: • I-151 – Alien Registration Receipt Card (Green Card) that does not have an expiration date on the back, or • I-551 – Alien Registration Receipt Card (Resident Alien Card/Green Card) that does not have an expiration date on the back; or • I-155 – Alien Registration Receipt Card (Conditional Resident Alien Card) that has an expiration date on the back, as long as it is accompanied by a copy of USCIS form I-751; or • Un-expired Foreign Passport with an un-expired stamp reading: Processed for I-155 or I-551 Temporary Evidence of Lawful Admission for Permanent Residence. [Valid until mm-dd-yy.] Employment Authorized. Non-Permanent Residents: Loans made to non-permanent residents are eligible provided the legal residency is documented and all the following criteria are met:

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	• H1B and L1 Visas are eligible. • Loans must meet current guideline requirements. • All loans must meet QM compliance. • Maximum 75% LTV/HCLTV • Maximum 38% DTI. • Primary residence only. • Social Security Number required. • Two full uninterrupted years of employment in the United States is required for all borrowers whose income is being considered in qualifying.
3.4 First Time Homebuyers	
First Time Homebuyers	Any borrower who has not owned a residential property at any time during the three years prior to the date of purchase is classified as a First Time Homebuyer (FTHB). For loans with more than one borrower where at least one borrower has owned a home in the past three (3) years, first-time homebuyer requirements do not apply. • Primary residence only • 38% DTI • 740 FICO • 12 months' reserves • 24 months' housing history with no lates for at least one borrower o Private housing history must be verified with cancelled checks, referencing the company or individual who completes the VOM. Checks must be dated prior to the next due date and reflect 0x30x24. Borrowers who have lived in a rent-free situation are ineligible.
3.5 Power of Attorney	

Power of Attorney	The use of a Power of Attorney must be approved by NewRez's Underwriting and Legal teams. Generally, a Power of Attorney may be used for closing in the following scenarios:
	• **Incapacitated Borrower** - the borrower is incapacitated and therefore unable to sign documents due to disability, legal incapability, or he/she lacks the physical ability;
	    o Incapacitated borrowers must occupy the property as their primary residence; the underwriter must validate occupancy and review for red flags within the loan file;
	    o Example: verify the signer of the POA is not acting as a straw buyer or purchasing an investment property utilizing the incapacitated borrower's credit.
	• **Military Personnel** - the borrower is currently deployed or stationed overseas and is unable to sign documents or attend closing;
	• **Hardship Circumstance** - the borrower is unable to attend closing because he/she is out of the state or country for an extended period of time, bedridden, in the hospital with a serious illness, or the borrower is incarcerated.
	    o POA will not be permitted for borrowers that are on vacation or short-term business trips.
	• **Government Contractor** – the borrower is employed by the government and currently working overseas
	    o A letter from the borrower's employer is required to verify overseas travel
	• **Business Travel** – permitted on Purchase and Rate/Term Refinance transactions when the co-borrower/spouse has Power of Attorney for the traveling borrower.
	    o If Cash Out Refinance transaction, a second review is required by a Team Lead or higher
	
	There are 4 acceptable types of power of attorney. The following persons may sign security instruments on a borrower's behalf:
	• Attorney-in-fact - he/she may sign the security instruments as long as NewRez obtains a copy of the POA. In some jurisdictions the POA must be recorded with the security instrument; in this case, NewRez must confirm the document has been recorded. The

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	person acting as the attorney-in-fact must have a familial, personal or fiduciary relationship with the borrower and can't have any type of financial interest in the transaction or be involved in the transaction in any capacity such as the closing agent / attorney, broker or realtor;
	• Specific - this type of POA is specific to the mortgage transaction; therefore, the POA must specify the legal description, property address, and transaction type within the body of the document. It must be recorded at closing;
	• Durable - traditionally a POA becomes ineffective upon the disability of the principal but the POA must remain valid even if the borrower becomes incapacitated or disabled prior to closing. In order for the POA to be acceptable it must contain the following language 'This POA shall not terminate on the disability of the principal' or 'This POA is not affected by the subsequent disability of incapacity of the borrower';
	• General Military - this type of POA is generally used in situations where a borrower or his/her spouse may be deployed or is on active duty.
	
	All loan files wishing to utilize a power of attorney must meet the following requirements:
	• POAs may only be used to execute the final loan documents
	    ○ The Borrower who executed the POA signed the initial Form 1003
	• A Letter of Explanation from the borrower advising why the loan is closing with a POA
	• Completed and Signed POA Form
	• No interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may act under Power of Attorney
	• Not permissible on cash-out transactions
	• Not permissible when both borrowers on the transaction are relying on the use of POA
	    ○ A Power of Attorney is acceptable on transactions with an individual borrower.

3.6 Trusts (1-Unit Properties Only)	

Trusts
(1 unit properties only)
	• Living Trust / Inter Vivos Revocable Trust Only
	• All trust requests must be approved in writing by the NewRez Compliance Group (newrezcompliance@newrez.com) with the following documentation:
	    ○ Title Commitment
	    ○ Any Existing Trust Certification
	    ○ Entire Trust Agreement (The trust must be signed, notarized, and dated by all applicable parties)
	    ○ All Amendments to the Trust
	    ○ Death Certificates, if applicable
	    ○ Divorce Decrees, Marriage Certificates and Proof of name change, etc.
	• Prior to submission, confirm the trust meets the following requirements:
	    ○ The borrower or borrowers must be creator(s) of the trust. The creators of the trust are usually called the Grantor, Settlor or Trustor
	    ○ The borrower(s) must be the trustee(s) of the trust (or there must be an approved institutional trustee)
	    ○ The trust must be revocable
	    ○ The borrower(s) must be the primary beneficiaries of the trust
	    ○ The trustee(s) must have the authority to borrow money and pledge the trust property as security
	    ○ The trust must have been created during the lifetime of the borrower(s); it may not have been created by a will
	• In the event NewRez Compliance Group feels the trust documentation provided is ambiguous or has concerns interpreting the documentation, an Attorney Opinion Letter from the borrower's attorney will be required
	• In the event a trust certification is not available for a state, Form A must be utilized
	• A Final Trust Certification, created by the NewRez Compliance Group, must be executed at

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	Closing California Exception • For Trust Properties in California a 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. Non-Inter-vivos Trust Estates • Blind trusts, Life Estates, and Land Trusts are not eligible • Irrevocable Trusts are not eligible
3.7 Non-Occupying Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors	
Non-Occupying Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors	Not Permitted
3.8 Non-Arm's Length Transactions	
Non-Arm's Length Transactions	A non-arm's length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. An at-interest transaction involves persons who are not closely tied or related to the borrower but may have a greater vested interest in the transaction. NewRez will not originate or purchase these types of transactions. Such relationships with the Borrower may be (but are not limited to): • Family Members – (Second Homes) • Mortgage loan officer • Originating lender (owner, employees or family members) • Loan Broker • Real Estate Broker (including listing and selling agents) • Employer • Closing Agent • Appraiser • Builder • Developer • Trading properties with the Seller • Foreclosure bailouts
3.9 At-Interest Transactions	
At-Interest Transactions	Transactions where: • Builder is acting as Realtor/Broker – permitted on primary residence only • Realtor/Broker is selling their own property – permitted on primary residence only • The originator is acting in another real-estate related role (Originators cannot have another real estate related position on any loan, regardless of the loan program
3.10 Ineligible Borrowers	
Ineligible Borrowers	• Borrowers who are citizens and not employed in the U.S. AND do not claim the income earned outside of the US on their tax returns (regardless of citizenship or immigration status); except for foreign nationals. • Borrowers whose income is not likely to continue for at least 3 years (e.g., a bonus or an inheritance). • Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction; • Borrowers with ITIN • Borrowers without a valid SSN

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	• Entities/Corporations • Leasehold Estates • Life Estates • Non-Occupying Co-Borrowers
Section 4: Collateral	
4.1 Eligible Properties	
Eligible Properties	Most residential use properties are eligible. Atypical improvements are considered provided marketability has been demonstrated through the appraisal; however, they may not be eligible. Eligible Property Types include: • Single-family residences • Two–four unit properties • Residential Condominium • Site Condominium (to be underwritten as a condominium) • Planned Unit Development (PUD) **Non-Conforming Additions/Granny or In-law Suites/Accessory Units:** Properties with accessory units, also known as Granny units, mother-in-law suites, etc., may be acceptable if all of the following criteria are met: • 1-unit property. • Subject property is typical, common and readily-acceptable in the subject property's market area. • Rental income from the accessory unit may not be used to help the Borrower qualify. • Existence of the unit must not jeopardize any future hazard insurance claim. • Subject property must conform to all zoning laws and/or regulations. • Legal non-conforming use may be acceptable provided the subject property's current use does not adversely affect its market value and marketability. • Accessory unit is substantially smaller than the primary unit.
4.2 Condos	
Condos	All loans secured by condos originated under the Portfolio Product must be reviewed by the NewRez Condo Review team prior to approval. In general, condos must meet FNMA Condo Project Manager Standards (CPM) or be FNMA/NewRez Approved. Non-warrantable condos, condominiums receiving a single loan project eligibility waiver or condominiums located in a project that received a Project Eligibility Review Service (PERS) are not eligible. All requests for condominium review should be emailed to projectreview@newrez.com. • A minimum of 50 percent of the units in a new condominium project to be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home. New projects can be based on the project or total of completed phases. • NewRez aligns with the Agencies for investor concentration requirements on existing projects where the subject property is a primary residence or second home. • Investment property transactions must have a minimum 50 percent of the units in the project conveyed or under contract to purchasers who will occupy the units as a primary residence or second home. • Non-realty limited common elements (e.g., boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property
4.3 PUD (Planned Unit Development)	
PUDs	A PUD is a real estate project or subdivision in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, parking space). PUDs must comply with Fannie Mae guidelines.

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4.4 SFR Attached with No Homeowner's Association	
Attached SFR with no HOA	Townhouses or single family attached properties use a method of construction of individual homes with common side walls and a common roof. Certain geographic areas have an architectural style that is not subject to a homeowner's association. An appraisal review is required for SFR Attached with No Homeowner's Association.
4.5 Multiple Dwellings on One Lot	
Multiple Dwellings on One Lot	Single family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject property's neighborhood. Typically, the additional dwelling(s) are smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for the additional dwellings should be supported by comparable sales. Properties with two or more detached single-family homes on a single lot are generally ineligible for financing but exceptions are considered if typical and common for the subject's market area. Properties that have a mobile or manufactured home as an additional unit on the subject lot are not acceptable regardless of whether they are used as storage or occupied.
4.6 Acreage/Agricultural Use	
Acreage/ Agricultural Use	Acreage and land value must be typical and common for the subject's market. The appraisal report must provide data which indicates that like-size properties with similar land values are typical and common in the subject's market area. Properties with minor agricultural usage will be considered, provided the agricultural use does not exceed 20% of the total acreage. Any agricultural usage should not have a material impact on the borrower's overall income, totaling no more than 10% of qualifying income • Properties with **15** or more acres are prohibited.
4.7 Leasehold Properties	
Leasehold Properties	Not permitted
4.8 Inherited Property	
Inherited Property	Inherited properties are permitted under both cash out and rate and term programs provided the borrower has recently inherited, or was legally awarded the property through a divorce, separation, or dissolution of a domestic partnership. Appropriate legal documentation is to be provided to support the inheritance. If the subject property was inherited less than 12 months prior to loan application, the transaction is deemed a Special Purpose Cash-Out refinance and is subject to the following requirements: • Proceeds must be used to buy-out the documented equity interest of others. Equity owners must be paid at settlement. • The subject property must have cleared probate and the property must be owned in the Borrower's name. • Current appraised value is used for LTV/CLTV determination.
4.9 Ineligible Properties	
Ineligible Properties	• A condominium located in a project that received a Project Eligibility Review Service (PERS) approval that allows exceptions to the Agency's published requirements. • A condominium that receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements. • Any Property Ineligible to the Agencies • Commercial Enterprises (e.g. Bed and Breakfast, Boarding House, Hotel) • Condotels • Co-ops • Group Homes • Log homes

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	• Manufactured/Mobile, Modular, or Factory Built Homes • Mixed-use properties • Non-Warrantable Condos • Properties held in a business name • Properties located adjacent to or containing environmental hazards • Properties located in a Lava Zone • Properties Purchased Through Auctions • Properties vested in an LLC or Corporation (title must be taken as an individual) • Properties with 15 or more acres • Properties with resale/deed restrictions • Properties with less than 750 square feet of living area • Property with Quality Rating of Q6 • Timeshares • Unimproved Land and property currently in litigation • Unique properties such as Geodesic Domes, Berms, Earth homes • Zoning violations including residential properties zoned commercial
4.10 Appraisals	

Appraisals	Appraisals must be ordered through a NewRez approved AMC; appraisers listed on the NewRez Ineligible Appraiser List are not eligible to complete appraisals for loans done through NewRez.
	
	• Full Uniform Residential Appraisal Report (URAR), with interior and exterior inspection required.
	• Clear Capital Collateral Desktop Analysis (CDA) is required for all appraisals
	  ○ Maximum tolerance to appraised value is 10%
	    ▪ When a Desk Review variance exceeds 10% below the value reported on the full appraisal report, a Field Review should be obtained to support the full appraised value.
	      • When a Field Review variance exceeds 10% below the value reported on the full appraisal report, a second full appraisal should be obtained. The lower value of the two full appraisal reports will be the value used to calculate LTV/HCLTV.
	
	Additional Requirements:
	• Property condition must generally be in average or better (Ratings of C1, C2, C3, or C4).
	• Quality rating must be Q1 – Q5. Q6 rating is not eligible
	• 2-4 unit properties require two full appraisals.
	• No transferred appraisals permitted
	• The re-use of an appraisal is not permitted
	• All versions of the appraisal report and any other evaluation documentation must be included in the final loan package. The appraiser must provide comments specific to any change requests made during the loan process with respect to the following:
	  ○ Who made the change request and why
	  ○ What was changed
	  ○ Was the appraised value impacted as a result of the change

4.11 Declining/Soft Markets	
Declining/Soft Markets	If any appraisal associated with the subject property is defined by the appraiser as declining, a 5% reduction to the maximum LTV is required. 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

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	• Any Appraisal Review indicates that the market is declining At its discretion, NewRez may publish a Market Risk Rating Listing requiring additional valuation products (field review or 2nd full appraisal) on properties in certain geographic areas. As of the date of this publication, there are no geographical areas defined in the Market Risk Rating List. When two appraisals are required, the lesser of the two values will be used for qualification purposes.
4.12 Property Flips/Rapid Appreciation	
Property Flips/Rapid Appreciation	If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, this transaction would be ineligible for purchase by an Approved Buyer. The following types of re-sale transactions are not considered property flips: • Property being sold by a spouse who acquired the property through a divorce settlement. • Property acquired by an employer through a relocation program. • Property being sold by an administrator or executor of an estate. • Property being sold by a lender, mortgage investor, or mortgage insurance company that was acquired through foreclosure or deed in lieu of foreclosure.
4.13 Properties Previously Listed for Sale	
Properties Previously Listed for Sale	The listing must have been expired or withdrawn a minimum of 6 months prior to the application date.
4.14 Disaster Areas	

Disaster Areas	Refer to the list of affected counties published by FEMA at the following link: https://www.fema.gov/disasters.
	
	The following policy applies to properties located in Presidential/State declared disaster areas.
	
	For loans secured by properties appraised prior to the Presidential/State declaration, the following post-disaster guidelines apply for 120 days after the declaration date:
	
	1. An interior and exterior inspection of the subject property is required.
	  a. The original appraiser should perform the inspection and provide a certification stating:
	    i. Subject property is free from damage and is in the same condition as previously appraised;
	    ii. Marketability and value remain the same.
	  b. If the original appraiser is not available:
	    i. The inspection may be completed by any of the following:
	      1. Property / building inspection company;
	      2. Licensed general contractor;
	      3. Building or safety inspector from local municipality; or
	      4. Licensed structural engineer.
	    ii. The inspector must be given a copy of the original appraisal report
	    iii. The inspector must provide certification, on his/her letterhead, stating:
	      1. Original appraisal has been reviewed;
	      2. Interior inspection has been completed; and
	      3. To the best of his/her knowledge:
	        a. Subject is free from significant damage;
	        b. All repairs, if needed, have been completed.
	2. Borrower must sign a certification of acceptable property condition.
	
	For loans secured by properties appraised after the Presidential/State declaration, the following post-disaster guidelines apply:
	  1. Appraiser must note any damage and its effect on marketability and value.
	  2. Electronic evaluations are not acceptable.

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4.15 Dampness	
Dampness	If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem and if typically incurable in the surrounding neighborhood. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value and marketability.
4.16 Electrical Systems	
Electrical Systems	An electrical certification from a licensed electrician is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.
4.17 Foundation Settlement	
Foundation Settlement	If the appraisal report notes evidence of excessive foundation settlement, the appraiser must clearly define the effect on value and marketability of the property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior a decision.
4.18 Heating Systems	
Heating Systems	A central heat source with ductwork or baseboard in all rooms is required on all properties except those in geographic regions where heating is not required. If the subject property does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating: • The heat source is typical for the area • The heat source is permanently attached • The heat source is adequate for the dwelling • The heat source is externally vented
4.19 Sewage Disposal System	
Sewage Disposal System	Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or qualified entity stating: • The sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or • Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property. For systems one year old or less, the certification may be no more than one year old on the date of loan closing. For systems more than one year old, the certification may be no more than 120 days old on the date of loan closing.
4.20 Water Supply	
Water Supply	A water supply certification is required if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating: • The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and • The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water certification(s) for existing properties may be no more than 120 days old on the date of loan closing. If new construction, the report may be one year old as of the date of loan closing.

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4.21 Insulation	
Insulation	The appraiser should indicate if the subject property contains adequate insulation. Subject properties containing Urea Formaldehyde Foam Insulation (UFFI) are handled on a case by case basis, but will always require the mortgagor's acknowledgment of condition.
4.22 Pest Infestation	
Pest Infestation	If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.
4.23 Plumbing/Plumbing Certification	
Plumbing/Plumbing Certification	A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.
4.24 Private Roads	
Private Roads	If the subject property is located on a private road, or access to the property requires the use of a private road, the file must contain at a minimum, one of the following documents: • Title policy with the private road maintenance agreement language contained within. • Private road maintenance agreement. • Evidence the property is located within a state or county that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street; then no separate agreement or covenant is required.
4.25 Geographic Restrictions	
Geographic Restrictions	At this time, NewRez cannot finance or purchase loans secured by properties located in Alaska or Hawaii.
4.26 Environmental Hazard Assessment	
Environment Hazard Assessment	If it has been identified that environmental problems exist through the performance a project review process and due diligence review, and an environmental assessment would be required, then the loan is ineligible.
Section 5: Income & Employment	
5.1 Income	

Income	Full Income Documentation is required, which includes:
	• A 4506-T, signed at application and closing, is required for all transactions
	• Taxpayer Consent Disclosures for each borrower must be provided in the closed loan package. The disclosure must provide express purpose and permission and should be signed at the time of application. IRS Tax Transcripts are required for the most recent two years personal returns (1040s). Tax transcripts are not permitted to be used in lieu of signed tax returns
	• All income documentation must be dated within 120 days of the date the Note is signed
	• Verbal verification required for all salaried or self-employed borrowers within 10 business days prior to the note date.
	
	• **Wage Earner:**
	  ○ a minimum of a full 30 days of paystubs dated no earlier than 30 days prior to the initial loan application date
	  ○ two years of W-2 statements
	    ▪ W-2s may be waived if one (1) paystub reflecting 30 days YTD earnings and a Written Verification of Employment covering two (2) years of employment history is provided
	    ▪ W-2 transcripts may be used in lieu of W-2s. A written explanation signed by the borrower should be included indicating why W-2s were not available
	
	• **Self Employed:** Refer to section 5.3 Self-Employed Borrowers

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	The most conservative approach for the income calculation must be used when income is declining. If income has been declining or is inconsistent, further documentation is required based on underwriting review. If the decline or inconsistency cannot be shown to be isolated or nonrecurring in nature, then the lowest annual compensation over the 2-year period prior to the date of loan application must be used to qualify the Borrower.
5.2 Employment History	
Employment History	Employment must be reviewed for stability and continuity, with at least a two-year history in the same job or jobs in the same or related field. Other circumstances may also be acceptable as outlined in this section. In all instances the source of the borrower's income must align with their overall employment history and profile. **Gaps in Employment** The Borrower should explain, in writing, any gaps in employment **of one month or more.** **Recent Graduates and Military Personnel** If the borrower indicates they were in school or the military in their two most recent year's employment history, evidence of the claim must be provided (such as college transcripts and/or military discharge papers). **Frequent Job Changes** A Borrower who changes jobs frequently to advance within the same line of work should receive favorable treatment if this advancement can be verified. Frequent job changes without advancement or in different fields of work should be reviewed carefully to ensure consistent or increasing income levels and the likelihood of continued stable employment. **Borrowers who are re-entering the workforce** Borrowers who are returning to work after an extended absence (defined as six months) must be at their current job for a minimum of six months in order to consider that income for qualification purposes. A two-year employment history from prior to the borrower's absence must be documented using traditional VOEs or copies of W-2s or paystubs. The length of employment is measured from the date a borrower began or returned to work to the note date.
5.3 Self-Employed Borrowers	
Self-Employed Borrowers	A borrower is considered to be self-employed when their primary source of income or the majority of their income is from self-employment. A self-employed borrower is an individual who has a 25 percent or greater ownership interest in a business or receives 1099s to document income. The documentation below is required for self-employed borrowers regardless of whether the income is being considered in qualifying. **Documentation Requirements** • Two most recent years signed federal tax returns with all applicable tax schedules are required – both personal and business. Both years must be evaluated/averaged to derive income level. If the most recent of the two-year income trend is downward, the most recent tax year's income must be used ○ Includes, K-1s, Form 1065, 1120s, Schedule E, etc. • An unaudited year-to-date (YTD) Profit and Loss (P&L) Statement and Balance Sheet is required for all business structures including Sole Proprietorships. • If the current year tax return is not yet available due to an extension being filed, a copy of the extension and the prior two-year returns are required. For transactions closed on or after October 15 of any given year (where the borrower had filed an extension for their previous year's return); tax returns for said previous tax year will be required regardless of application date.

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Self-Employed Borrowers Cont.	**Identifying Self-Employed Income**
	• **Sole Proprietorship** – In a sole proprietorship, the Borrower is the "sole" or individual owner of the business. The business income is most likely reported on the Borrower's individual federal tax returns and is reflected as Schedule C earnings.
	• **Partnerships** – A partnership is formed when two or more people start a business together. The partners share profits (or losses) and control of the business. Partnerships generally fall into two main categories, General and Limited:
	  ○ **General Partnerships -** Each partner is personally liable for all debts of the business. Personal liability to the partnership creditors will continue even after the partnership is dissolved.
	  ○ **Limited Partnerships -** Generally, a limited partnership exists for investment and tax purposes. Limited partners generally take a loss on the investment, which will show as a loss under Schedule E on their personal tax returns. Determine if the limited partnership income is real or a tax shelter.
	  ○ **Partnership Income**
	  Documentation required to calculate partnership income is:
	    ▪ Most recent 2 years signed, personal Federal tax returns, complete with all schedules including Schedule E, and W-2s (if latter is applicable); and
	    ▪ K1s; and
	    ▪ Form 1065
	• **Corporations** – A Corporation is a business owned by stockholders instead of individually. The percentage of the borrower's ownership must be confirmed; if the Borrower has more than 25% ownership in a corporation, he/she is considered to be self-employed. A Borrower who is self-employed as a corporate officer will receive a W-2 and will report income on his/her personal tax returns. All corporate income or losses are reported on the corporate tax returns (Form 1120 or 1120S with Schedule K-1). Corporate income documentation is
	  ○ Most recent 2 years signed, personal federal tax returns, and
	  ○ W-2s (if latter is applicable); and
	  ○ Two (2) years' 1120s
	    ▪ Where the application date is more than 3 months after either calendar or corporate year end a year to date profit and loss statement is required.
	• **"S" Corporations** - "S" Corporations are generally small corporations that are taxed in the same manner as partnerships. They pass gains and losses through to their shareholders, which are then, taxed at the tax rates for individuals. "S" Corporation income is reported on both a W-2 and Schedule E, or just on Schedule E (section 27). The profit of the corporation is distributed to each owner according to his/her share of ownership. The adjusted profit (i.e., the net income) is then divided by the Borrower's share of ownership and combined with W-2 income used for qualifying. To document the file, you must obtain:
	  ○ The most recent 1-year complete personal, federal tax returns including Schedule E and K1s, with W-2s (if applicable); and
	  ○ Two (2) years 1120S for the corporation.
	  ○ Where the application date is more than 3 months after either calendar or corporate year end a year to date profit and loss statement is required.
	• **1099 – Miscellaneous Income** – Payments to sole proprietors or contract employees will also be reported on a 1099 form and included in the Borrowers Schedule C. If a Borrower receives 1099 income, the prior two years' complete, signed federal tax returns (Form 1040) are needed to verify the amount of income which is calculated based on how the income was filed.
	• Co-borrowers jointly applying for a Mortgage Loan whose income is not being used for qualifying must provide the most recent two years' signed tax returns, Profit & Loss, and Balance Sheet; any losses must be included in the ratios.

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5.4 Income Documentation	

Income Documentation	**Paystubs and W-2s**
	When the pay stubs and W-2s are provided for income and employment verification, the documentation must meet the following criteria:
	• Pay stubs and W-2s must be typed or computer generated.
	• They must verify:
	  ○ Borrower's full name and address
	  ○ Borrower's Social Security number
	  ○ Employer's name and address
	  ○ Year to date earnings and Borrower's rate of pay
	
	Tax Returns
	Tax returns must be signed and dated by the Borrower(s) and contain all schedules and attachments.
	
	4506-T
	A signed 4506T will be required on all applicants both prior to closing and at closing. NewRez will execute the 4506T for tax transcripts (i.e. 1040s) on all income qualifying borrowers. Income as documented must be claimed on the tax returns in order to be used to qualify. The executed 4506T will not be sufficient to replace the requirement for signed tax returns that are required as per guidelines.
	
	As a reminder, IRS transcripts must be obtained for the years of income documented in the file. In instances where transcripts are not available for the most recent year documented, the branch should obtain the same number of years of transcripts, using the most recent years available.
	
	If the borrower has not filed their current year tax returns, obtain the number of year(s) income documentation according to the stated guidelines.

5.5 Eligible Income Sources	
Annuity and Pension Income	
Annuity and Pension Income	Annuity income may be used as qualifying income if it is properly documented and is expected to continue for at least three years. Acceptable documentation includes a copy of the award letter and a copy of the bank statement showing automatic deposit of said income. Nontaxable pension and annuity income may be grossed up by based upon the tax rate on the borrower's returns (1040s) which will also confirm the income is non-taxable.
Automobile Allowance	
Automobile Allowance	Automobile allowances are considered acceptable income provided receipt of such income has been documented for the previous two years and the income is likely to continue. The amount by which the consumer's automobile allowance or expense account payments exceed actual expenditures may **not** be considered income for qualifying. To establish the amount of the auto allowance to use, the consumer must provide the following: • IRS Form 2106, Employee Business Expenses, for the previous two years; and • Employer verification that the payments will continue. If the consumer uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include: • The consumer's monthly car payment, unless offset by the auto allowance; and

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	• Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.
Borrowers Regularly Scheduled for <40 Hours	
Borrowers Regularly Scheduled for <40 hours	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.
Bonus and Overtime Income	
Bonus and Overtime	Bonus or overtime income is compensation in addition to an employee's straight salary or hourly wage. When bonus or overtime income is used for qualifying the following requirements must be met: • The DU/LPA automated underwriting findings must recognize bonus or overtime income when being used for qualifying. • Bonus and overtime income must be documented for the previous two or more years. • The documentation submitted for the loan cannot indicate that this income source will likely cease. • Bonus or overtime income received from the current employer for less than two years, but more than 18 months may be eligible for qualifying, with strong compensating factors and documentation. • Bonus income should be averaged based on a minimum of two years receipt from the current employer. • Overtime income should be averaged based on a minimum of the previous two years plus year-to-date. If the earning trend is stable or increasing, the income must be averaged. • If the earning trend is declining, the use of this income should be carefully considered, and the file must contain strong rationalization for the use of this income for qualifying purposes. If the declining bonus or overtime income is being used for qualifying, only the most current lower earnings should be averaged. • A borrower who has recently changed employment, remaining in the same field, and has guaranteed bonus income documented in an employment contract, may be qualified with said bonus income if fully documented and averaged with bonus earnings from the previous employer. If bonus earnings from previous employer were higher than the guaranteed new bonus earnings, the higher amount may not be considered in the average, and the new guaranteed bonus earnings must be annualized.
Capital Gains	
Capital Gains	Capital gains earned from the sale of assets (including mutual funds but excluding sales of real estate) are considered stable monthly income if the Borrower has a three-year history of earning capital gains and sufficient assets to continue generating similar earnings. Federal tax returns & transcripts for the past three years should be provided. Income is averaged over the past 36 months, provided that the income is expected to continue.
Child Support, Alimony or Maintenance Income	
Child Support, Alimony or Maintenance Income	Child support, alimony or maintenance payments may be used as income only if this information is volunteered by the Borrower and if the file substantiates the receipt of funds on an ongoing basis. Copies of the divorce decree/legal separation agreement or voluntary payment agreement along with copies of court records, bank statements or canceled checks showing payments for a minimum of twelve months are required. • Periods between 10 and 12 months may be acceptable, provided payer's on-time pay history is adequately documented. There can be no evidence of arrearages. In order to be used as income, these payments must reasonably be expected to continue for three years based upon all factors, including without limitation the terms of the divorce decree or separation agreement.

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	For child support, the age of the children and any stipulations for continuance in the divorce decree or separation agreement must be considered when determining if funds received are eligible as qualifying income.
Commission	
Commission	Commission income is defined as a fee or percentage paid to an employee for performing a service and is more than 25% of employee's income. When commission income is used for qualifying the following requirements must be met: • The DU/LPA automated underwriting findings must recognize commission income when being used for qualifying. • A minimum history of two years commission earnings is required. However, if the borrower has a history of commission income earnings with less than 24 months but more than 18 months and has been with their current employer for no less than 18 months, the commission income may be considered for qualifying, provided there are positive factors to reasonably offset the shorter history. • Commission income must be averaged over the previous two years and year-to-date period using all of the following: ○ Two years' 1040s, W-2s, and a paystub dated within 30 days of the date of application. • All 2106 Expenses (non-reimbursed business expenses) must be averaged and deducted from the borrower's earnings.
Disability Income	
Disability Income	Long-term disability benefits may be used as qualifying income if a two-year history of receipt has been documented. Benefits should be verified with a copy of the award letter supported by two years W-2s or 1099s and current evidence of receipt (current pay stub or evidence of direct deposit into the Borrower's bank account). The award letter must indicate the benefit amount, length of time that the benefits are received and the conditions for receipt of benefits. Documentation must also be provided proving the continuance of this income for a minimum of 3 years.
Dividend/Interest Income	

Dividend/Interest Income	Interest and dividend income may be used as long as tax returns or account statements support a two-year receipt history. This income must be averaged over the two years. Investment income may be used as stable monthly income if the file contains the following documentation:
	• The income has been received for at least 24 months;
	• Year to date income is in line with previous earnings;
	• The investment is from a publicly traded company(s);
	• The Borrower has a diversified portfolio;
	• Verification of stock asset values no older than 30 days at closing; and
	• Sufficient assets remain after closing to continue to generate an acceptable level of earnings in view of the totality of the circumstances.
	
	To include interest or dividend income from cash or marketable securities in qualifying income, follow these guidelines:
	• 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.
	• Average the year-to-date (YTD) interest and dividend income over the last two years with the borrowers' tax returns, unless the income is declining
	  ○ YTD earnings can be calculated by applying a realistic market interest rate to the account balances and averaging over the number of months the income has been received for the year
	  ○ Do not include interest from pass-through tax entities (Partnerships and S Corporations), or from margined securities in the calculation of interest or dividend Income

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	Note: Interest and dividend income is typically found on Schedule B of the personal tax return but may be on Schedule D and Form 6252 - Installment Sales.
Employment Offers/Recent Employment	
Employment Offers/Recent Employment	• Recent Employment: Borrowers who have switched jobs within 30 days of application must provide a copy of the offer and a minimum of one paystub from their new job. A written VOE will be required. • Employment Offers: Written employment contracts, confirmation letters, and accepted offer letters may be used as verification of employment and income when the requirements listed below are met. ○ The written contract or confirmation letter, signed and accepted by the borrower, must provide the employment and income information required when using the standard forms of employment/income verification (for example, start date, position, and salary). The confirmation letter must indicate that employment is guaranteed and that the contract is non-revocable. ○ The borrower must begin the new job within 15 days of the note date, and prior to delivery of the Mortgage Loan. ○ Verbal Verification of Employment verifying the authenticity of the executed written contract or confirmation letter, and that employment has begun in accordance with the written contract or offer letter. ○ Verification that all conditions of the written contract or offer letter have been satisfied. ○ The borrower must have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment.
Employment by a Relative/Family Business	
Employment by a Relative/Family Business	Income for a Borrower who is employed by a relative must be verified using federal tax returns for the past two years and a current pay stub. Proof must be provided that the borrower is not an owner of the business (signed personal or corporate tax returns). For Family Businesses, the borrower must provide a signed copy of the corporate tax returns detailing their ownership percentage. In any instance where the Borrower owns more than 25% of the company, full self-employed documentation must be provided. Qualifying income must be calculated using a two-year average of W-2 earnings amortized over 24 months (unless a substantial decrease is reported during said 24-month period). If there has been a decline in earnings, the lower income should be used for qualifying and the stability of the new income level must be established. Written verifications of employment are not permitted.
Foreign Income	
Foreign Income	Not permitted
Foster Care Income	
Foster Care Income	Income derived from foster care payments may be considered if it is regular, recurring and likely to continue for three years. A two-year history of past receipt is required. Income used to qualify must be averaged over a two-year period. Projected income may not be used in the calculation.
Installment Sales and Land Contracts	
Installment Sales and Land Contracts	Not permitted
Military Income	
Military Income	Borrowers employed in military services typically receive compensation in addition to base pay, which may be used as qualifying income. Rations, base housing pay and flight pay may be considered, provided that the income is typical for the position held, and proof of probability of such pay continuing is verified in writing. Non-taxable income may be "grossed up" by the tax

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	rate on the borrower's returns (1040s) on most programs. See Non-Taxable Income section for more details. Generally, only base pay and rations are taxable. 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 Leave and Earnings Statement (LES), VOE, or Officer's orders. If the separation date is within 12 months of the projected loan closing, the file must include one of the following: • 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. For Borrowers with a reservist or National Guard obligation, an assessment should be performed to determine the impact of activation on the Borrower's income.
Mortgage Differential Income	
Mortgage Differential Income	An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed loan payments. These payments may be considered as acceptable stable income if the Borrower's employer verifies its subsidy in writing, stating the amount and duration of the payments. The payments must continue for at least three years from the date of the loan application. The differential payments should be added to the Borrower's gross income when calculating the qualifying ratio. They cannot be used to offset directly the loan payment, even if the employer pays them to the lender rather than to the Borrower.
Mortgages, Notes and Bonds Due and Payable Within the Tax Year	
Mortgages, Notes and Bonds Due and Payable Within the Tax Year	Analysis of business income: All mortgages, Notes and bonds due within the tax year must be deducted from the borrower's business income, unless evidence can be provided to show the account has since been paid in full and closed.
Note Receivable Income	
Note Receivable Income	Note receivable income may be used as qualifying income if received for at least 12 months and expected to continue for at least three more years from the date of closing. Acceptable evidence includes a copy of the note and the previous year's federal tax returns to evidence receipt of income or copies of bank statements to evidence deposit of note income received. If the consumer is not the original payee on the note, the creditor must establish that the consumer is now a holder in due course, and able to enforce the note.
Non-Taxable Income	
Non-Taxable Income	Non-taxable income must be shown on the tax returns as non-taxable in order to be grossed up. This income may be "grossed up" by the amount of the tax rate used to calculate the consumer's last year's income tax. If the borrower was not required to file a federal tax return, a 25% tax rate should be used to gross up the income. Non-taxable income may include but is not limited to: • Disability income • Social Security income • Worker's compensation • Aid to dependent children (ADC)/foster care • Public assistance • Federal Employees Compensation Act Benefits • VA benefits (VA education benefits may not be used as qualifying income) • Military allotment (food and housing) • Municipal bond interest
Part-Time/Second Job and Overtime Income	
Part-Time/Second Job and Overtime	Part-time and overtime income is considered as stable income if it has been received for the previous 24 months, uninterrupted, and has a strong probability for continued receipt at current

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Income	or increasing levels. A written VOE and two years' signed tax returns required. Periods of overtime income less than two years, but longer than 18 months, may be acceptable, provided the creditor can justify and document in writing the reason for using the income for qualifying purposes. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.
Relocating Life Partners (RLP)/Trailing Co-Borrowers	
Relocating Life Partners (RLP)/Trailing Co-Borrowers	For primary residence purchase transactions, income from a Relocating Life Partner (RLP) is not permitted as qualifying income.
Rental Income	
Rental Income	• Rental income for qualification purposes may be derived from owner-occupied two-four unit properties or other real estate owned provided the stability of income can be documented. o Rental income from the subject investment property may not be used for qualification on a purchase transaction. o When a borrower vacates a principal residence in favor of another principal residence refer to section 6.7 Conversion of Primary Residence • **Documentation Required to Verify Rental Income is as follows:** o Two years' IRS Form 1040 Schedule E (One-year IRS Form 1040 Schedule E will be considered when rental history is less than 24 months); and o Current 12-month leases/rental agreements from a non-interested third party. • **Analyzing IRS Form 1040 Schedule E** o The IRS Form 1040 Schedule E is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss. o Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability. • **Using Current Leases to Analyze Rental Income** o The borrower can provide a current signed lease or other rental agreement from a non-interested third party for a property that was acquired since the last income tax filing, and is not shown on Schedule E. o In order to calculate the rental income: ▪ Reduce the gross rental amount by 25 percent for vacancies and maintenance; ▪ Subtract PITI and any homeowner's association dues; and ▪ Apply the resulting amount to income (if positive) or recurring debts (if negative) **Rental Income from Borrower Occupied Property:** • The rent for multiple-unit property, where the borrower resides in one or more units and charges rent to tenants of other units, may be used for qualifying purposes. • Projected rent for the tenant-occupied units only may: o Be considered gross income, only after deducting vacancy and maintenance factors, if newly acquired from the time the borrower filed their most recent 1040. o Not be used as a direct offset to the mortgage payment. • If rental income has previously been reported on the 1040(s), income would be based on the average of rental income reported on the 1040 Schedule E.
Retirement Income (401K/IRA Distributions)	
Retirement Income – 401K/IRA Distribution	• Borrowers must have unrestricted access without penalty to the accounts. • If the assets generating income are in the form of stocks, bonds, or mutual funds; 70% of the value (remaining after any applicable deductions for the subject transaction) must be used to determine the number of distributions remaining, in order to account for the market volatility.

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	• Account distribution income must have already begun prior to consummation and must continue for a minimum of three years from the Mortgage Loan closing. • In order to document the retirement distribution income, the file must contain one of the following: o The most recent two (2) months of statements reflecting the dollar amount of the distribution being used for qualifying. If the distribution is received annually or quarterly, then a letter from the Account Custodian must be provided to evidence the annual or quarterly amount. o If the retirement income distribution was recently established, a letter from the Account Custodian indicating the amount, frequency and start date of the distribution is required in addition to evidence of the first month's distribution. o Two years' tax returns and a letter from the Account Custodian indicating the current amount and frequency of the distribution or two years' tax returns and the most recent account statement.
Royalty Income	
Royalty Income	Two years of personal tax returns including Schedule E should be used to determine the supplemental income to use for royalties. The lender must include the total amount of royalty payments received, and must document the borrower's receipt of royalty income for 12 months and the likelihood of continued receipt of such income for at least three years.
Seasonal Income	
Seasonal Income	Seasonal income is considered uninterrupted, and may be used to qualify the consumer, if the lender documents that the consumer: • Has worked the same job for the past two years • Expects to be rehired the next season
Social Security Income	
Social Security and Retirement Income	These types of income can be verified with the most recent Social Security Administration's benefit award letter plus tax returns or bank statements evidencing regular monthly deposits in the Borrower's account. Tax returns or bank statements cannot be used in lieu of the benefit award letter. Social Security survivor benefits must be expected to continue for at least three years in order to be considered as income. Non-taxable Social Security may be grossed up by the tax rate on the borrower's returns (1040s) which will also be used to demonstrate that the income is non-taxable. Social Security Disability Income, Child's Benefit, or other income paid by Social Security must be evidenced by: • A copy of the Social Security award letter o If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three years of loan origination, the Seller shall consider the income effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue. • A copy of the Borrower's most recent three (3) months' bank statements showing the direct deposit of the income into the Borrower's account. **Benefits payable to/for minors:** • The minor must be under the age of 18. • This income may be used for qualifying purposes only if it is expected to continue for a minimum of three (3) years.
Teacher Income	
Teacher Income	Teachers are generally paid on a 9-month, 10-month or 12-month contract; however, the income should be annualized for qualification purposes. Document and obtain the 2 most recent pay stubs dated within 30 days of the application date

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	AND A copy of a valid unexpired contract; verify the term of payment **or** Verification of employment showing payment schedule (i.e. 9, 10, 12 months)
Trust Income	
Trust Income	Trust income may be considered if the trust is irrevocable and the income will continue for at least three years from the date of loan application. Income loss or negative income reported from a trust must be factored into the qualifying ratios for a borrower. Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the: • Amount of the trust; • Frequency of distribution; and • Duration of payments. • The Underwriter reserves the right to request tax returns to verify trust income. Trust account funds may be used for the required cash investment if the consumer provides adequate documentation that the withdrawal of funds will not negatively affect income. The consumer may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.
VA Survivors' Benefits/Dependent Care	
VA Survivors' Benefits/Dependent Care	This income may be considered if received for at least 12 months and is expected to continue for at least three years. A copy of the award letter outlining the duration and amount of payments must be provided by the Borrower.
5.6 Unacceptable Sources of Income	
Unacceptable Sources of Income	• Bank Statements as Income Verification • Boarder Income • Educational benefits (such as grants and scholarships) • Expense account reimbursement • Foreign income • Gambling winnings (except lottery payments continuing for 5 years) • Homeownership Subsidies • Illegal income or income not reported to the IRS • Income derived from farm income from the subject property • Income Derived from the Sale or Distribution of Marijuana • Income derived from the subject property with land being leased to another party • Income determined to be Temporary or One-Time in Nature • Income Received from Roommates • Lump Sum Payments of Lottery Earnings that are not on-going • Lump Sum payments such as inheritances or lawsuit settlements • Mortgage Credit Certificates • Non-Incidental Income received from farming/agricultural use of a property • Refunds of federal, state or local taxes • Rental Income from the Subject Property • Rental Income received from the borrower's single family primary residence or second home • Retained Earnings in a company • Stock Options – non-vested • Taxable forms of income not declared on personal tax returns • Training co-borrower income • Unverifiable income • VA Education Benefits

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5.7 Verification of Employment	
Verification of Employment	Verbal VOEs are required for all loans. VVOEs must meet the following criteria: **Wage Earner Verification** A verbal verification of employment dated within 10 business days of the note date is required for all borrowers. The verification of employment must include the phone number contacted to complete the verbal, which must be documented as associated with the business. As part of the verification, the employer must be asked about borrower's probability of continued employment. If an employer refuses to answer the question, this must be documented on the VVOE. Electronic verifications of employment completed through Work Number for Everyone or TALX are acceptable as well. If the VVOE is obtained from The Work Number, the 10-day timeframe is measured from the date of the request to the vendor, not the date the information was updated in the vendor's database. However, the information must have been updated within the past 35 days. This policy applies to all income types with the exception of passive and self-employed income (see below for self-employment verification requirements). If the borrower has seasonal employment, the borrower must be employed at the time of closing to be eligible. **Self Employed Borrower Verification** For Self Employed borrowers, independently obtain and document a phone number and address for the business. The lender must document the existence of the borrower's business within 10 days of the note. This can be accomplished through: A third party, such as a CPA, regulatory agency, or the applicable licensing bureau, AND By verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. If the contact is made verbally, the lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information. **Written Verifications of Employment** Income and employment for non-self-employed Borrowers may be obtained via direct written verification from the Borrower's employer and borrower paystubs. The verification must be signed by a member of the company's human resource department or one of the business owners/officers. At a minimum, the verification must include: • Borrower's name • Position • Dates of employment • Base salary • YTD Earnings
Section 6: Credit	
6.1 Credit	
Credit	A Tri-merge Credit Report is required for every Borrower who executes the Note. The Credit Report should generally include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the Borrower has resided in the past two years. A three-bureau merged credit report is required. A report with a partially displayed SSN is not considered eligible documentation. Each Borrower must have a valid and usable score from at least two of the following three agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these three agencies are acceptable (Each borrower must have at least two credit scores).

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	A valid and usable score is one that is generated based upon credit history and credit patterns that accurately reflect the Borrower's history. • The score for each borrower must be generated from a minimum of three traditional trade lines reflecting a satisfactory payment history and be evaluated for at least 12 months. Trade lines for closed accounts may be used to meet this requirement. A trade line for which a payment has never been made may not be used to satisfy this requirement (for example, a deferred student loan). Authorized user accounts may not be used to satisfy this requirement unless the borrower can provide documentation that they have been the actual and sole payer of the monthly payment for at least the 12 months preceding the date of the application. • Loans on which the Borrower is not obligated to make payments (such as loans in a deferment period), collection or charged off accounts, and "authorized user" accounts are not acceptable trade lines for establishing the minimum history. 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. • To ensure validity, closely review the scores, the score codes and the Borrower's credit history. Score codes must be consistent with trade line information. For example, if the score code identifies delinquent accounts, the Credit Report must also contain delinquent trade lines. Scores that do not appear to represent an accurate picture of the Borrower's credit risk will not be considered usable. • Borrowers may not use a credit enhancement product in order to qualify for the Jumbo Products or to improve tiers from a pricing standpoint • Rapid re-score credit reports are not permitted **Frozen Credit** Frozen credit is only acceptable when one credit score is impacted. Each borrower must have a minimum of two current active credit scores in order to qualify. **Non-Traditional Credit** • Non-Traditional Credit Any loan for which one or more borrowers do not have a valid credit score, or borrowers who do not have at least two valid credit scores, are considered "non-traditional" credit loans. All nontraditional credit loans are ineligible for sale to an Approved Buyer. <u>Determining the Borrower's Score</u> • Determine the score for each Borrower on the loan. Select the middle score when three agency scores are provided and the lower score when only two agency scores are provided. This is the individual Borrower's score. Then, to determine the representative Credit Score for the loan (each loan has only one representative Credit Score), the lowest representative Credit Score of all borrowers is used. **Timeshares** For credit review purposes, timeshare obligations are usually considered installment loans. If the Borrower has a deed to the timeshare property, then the timeshare obligation must be considered a mortgage loan for review purposes.
6.2 Housing Payment History	
Housing Payment History (Rental History or Mortgage History)	Min. 24 months housing payment history; all mortgages showing on the credit report must reflect a 0x30 payment history for the lesser of 24 months or the length of the mortgage. Borrowers who do not own their homes free and clear and have less than 24 months total mortgage payment history, must meet FTHB guidelines; only one borrower must show a mortgage history to be eligible as a standard homebuyer meet this requirement in order to meet the homeownership requirements. Housing histories through private parties must be verified with cancelled checks, referencing the

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	company or individual who completes the VOM. Checks must be dated prior to the next due date. Standalone VORs or VOMs from private parties are not permitted. Borrowers living rent-free in the most recent twelve months are eligible provided there is an acceptable previous rental or mortgage history documented in the file. The borrowers may not be first-time homebuyers and the file must contain an acceptable letter of explanation.
6.3 Derogatory Credit	

Derogatory Credit	All liens that affect title to the security property must be paid at closing and all past due accounts must be brought current prior to closing.
	• All delinquent credit that will impact title to the security property, including but not limited to delinquent taxes, judgments, charged-off accounts, tax liens and mechanics' liens, must be paid off prior to or at closing. Title insurance must insure NewRez first lien position without exception. Any item secured by the subject property must be paid in full at or prior to closing
	
	A written explanation is required for all derogatory credit within the past 12 months. All settled debts reported in the previous 24 months must be fully explained and taken into consideration in the full credit review.
	
	• Major Adverse Credit (Collections, Charge-offs, Judgments, Liens)- All delinquent credit that will impact title – including but not limited to delinquent taxes, judgments, charge off accounts, tax liens and mechanics' lines – must be paid off prior to or at closing of the loan. Title must insure NewRez lien position without exception. Any credit item secured by the subject property must be paid in full.
	  ○ All collections and charge-offs must be paid if an individual collection or charge-off is equal to or greater than $1000 or if the cumulative total of collections and charge-offs per loan is equal to or greater than $2500.
	• Past due open accounts must be brought current prior to closing.
	
	Recovery time requirements are based on the discharge, dismissal or completion date to the date of the application.
	• Borrowers with a bankruptcy filing in the past seven years are ineligible
	• Borrowers with foreclosures, deeds in lieu of foreclosure, and pre-foreclosure sales (short sales) in the past seven years are ineligible.
	  ○ Foreclosure/NOD includes:
	    ▪ Property Taxes >60 days delinquent
	    ▪ Foreclosure consummated
	    ▪ Foreclosed property redeemed
	    ▪ Delinquency of 120 days or more
	    ▪ Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs
	    ▪ Borrowers may have the opportunity to lease a property for which they have given a deed in lieu of foreclosure. When the borrower's loan file references a deed for lease, the underwriter must determine the completion date of the deed in lieu of foreclosure to ensure the seasoning requirements are met
	• Consumer Credit Counseling Services (CCCS) – Borrowers who have received credit counseling as a result of derogatory credit within the past 4 years are ineligible.
	• A borrower who has had a loan restructured in the past seven years, where the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following is ineligible:

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Derogatory Credit Cont.	◦ Forgiveness of a portion of principal and/or interest on either the first or second mortgage; ◦ Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness; ◦ Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or ◦ Conversion of any portion of the original mortgage debt from secured to unsecured. ◦ Any short refinance transaction (a new refinance loan that includes any of the above) is ineligible **Rolling Lates** A “rolling late payment” occurs when the Borrower on a contractually delinquent loan makes a monthly payment that does not bring the loan current, and the delinquency status remains the same from one month to the next. For example, a loan is 30 days delinquent on May 1 (due for April and May). The Borrower makes only one payment in May (contractually satisfying the April payment). On June 1 the payment is still 30 days delinquent (due for May and June). The Credit Report reflects this as two 30-day late occurrences, and this is a “rolling 30”. No rolling late payments are permitted. Each occurrence of a contractual delinquency is considered individually for purposes of loan eligibility and pricing. **Lawsuits/Pending Litigation** If the application, title, or credit documents reveal that the Borrower is presently involved in a lawsuit or pending litigation, a statement from the Borrower’s attorney may be required. The statement must explain the circumstances of the lawsuit or litigation and discuss the Borrower’s liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of NewRez first lien position. This exception to the otherwise-applicable requirement that the Borrower not be involved in a lawsuit or pending litigation may be made only on an Owner Occupied, Purchase or Rate/Term refinance. **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 in the following circumstances: • The file contains a copy of the divorce decree or separation agreement which 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; and • If the delinquent payments in question relate to mortgage debt, 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. **Delinquent Credit Belonging to a Co-Signor** Delinquent credit that belongs to the Borrower’s co-signer must be considered in determining the Borrower’s credit acceptability. **Re-established Credit** A Borrower with a prior bankruptcy, foreclosure, CCCS or other similar serious credit default in his/her credit history must prove that he/she has re-established his/her credit history. The borrower will be considered as having acceptable re-established credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments. Credit must be reestablished for the most recent 24-month period (48 months in the case of a foreclosure), meeting the following minimum requirements:

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<tr><td>Derogatory Credit Cont.</td><td>

- The Minimum Credit History requirements must be met
- One reference must be the Borrower's prior 24-month housing payment history, verified by the Borrower's:
  - mortgage loan payments disclosed on the Borrower's credit report, or
  - canceled checks or money orders for mortgage loan or rental payment, or
  - bank statements clearly indicating the mortgage loan or rental payment, or
  - a standard mortgage loan verification or loan payment history from the mortgage servicer, or
  - Borrower's year-end mortgage loan account statement (provided that it includes a payment receipt history), supplemented by the Borrower's canceled checks for the months that have elapsed since the statement was issued.
- Evidence on the credit report and other credit documentation of the length of time since completion of the significant derogatory event to the date of the loan application, and of completion of the recovery time period requirements as identified below.
- No late payments or credit derogatories on credit cards in the previous 24 months.
- No new public records, judgments, collections, etc., since the problem occurred.

Disputed Tradelines
The automated underwriting requirements and the applicable Agency guidelines to determine how to treat the disputed account should be followed. The disputed trade line must be considered in the overall AUS risk assessment.

Written Explanations
A satisfactory written explanation signed by the Borrower(s) explaining the reason(s) for adverse credit is required if determination is made that the adverse credit has a significant negative impact on the creditworthiness of the Borrower(s). The explanation must satisfactorily identify the reason(s) for the adverse credit and the timing of the event(s) must be consistent with other application information. Documentation supporting the Borrower's explanation(s) is required. A Borrower with an unfavorable credit history may be deemed acceptable if the occurrences of adverse credit use do not appear to be typical for the Borrower and are due to circumstances beyond the Borrower's control. Additionally, the instances should not be indicative of the Borrower's negligence or unwillingness to repay.
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<tr><td colspan="2">6.4 Qualifying Ratios</td></tr>
<tr><td>Qualifying Ratios</td><td>

The maximum debt-to-income ratio is 43%. The maximum debt-to-income ratio for First Time Homebuyers is 38%. Borrower must be qualified using the note rate.

- In instances where the borrower's current primary residence is pending sale, but the sale will not be finalized prior to the new loan's closing, the PITIA of the current principal residence must be included in the borrower's debt ratios in all instances; exceptions will not be made based on reserves.

Transactions resulting in significant payment shock should always be considered by the underwriter. The borrower's income must clearly support the borrower's ability to make the higher monthly payment. It is always at the underwriter's discretion to require additional verification of assets or a larger down payment as a compensating factor for a loan with high payment shock.

Housing Payment Ratio:
The monthly housing expense is the sum of the following charges as they apply to any properties owned and financed by the borrower:

- Monthly principal and interest payment.
  - Fixed interest rate loans, qualify at the principal and interest calculated at the note rate.
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	○ ARMs and Balloon loans (loans with an initial interest-only period), regardless of loan term or the period to initial adjustment, must be based on: ▪ Higher of the initial interest rate or the fully indexed rate (sum of current index rate plus margin), and ▪ Fully amortizing payment (principal and interest), and ▪ Term to maturity of the note. • 1/12th of the annual hazard insurance premium. • 1/12th of the annual real estate taxes. (1/12th of 1.5% of the sales price if the property is new construction) • 1/12th of the annual flood insurance premium, when applicable. • Monthly Mortgage Insurance Premiums • Monthly leasehold payments, when applicable. • Monthly homeowner association dues, condominium maintenance fees and monthly assessments (when applicable). • Monthly payment for other secured financing (when applicable). **Total Debt Ratio** The qualifying debt-to-income ratio compares the Borrower's total monthly obligations with his/her qualified monthly gross earnings based on the rate of the loan for which the Borrower is applying. The Debt to Income ratio (DTI) is calculated based upon the sum of the following obligations, divided by the Borrower's stable monthly income: • Monthly housing expense as per qualifying rate. ○ Fixed rate mortgages qualified using the fully amortized payment. • Outstanding monthly obligations such as: ○ All installment debt with more than ten (10) payments remaining. (Installment debts may not be "paid down" to 10 payments in order to eliminate such debts from DTI calculation, but they may be paid in full) ○ All revolving debt payments ○ Alimony, child support or maintenance payments with more than ten (10) payments remaining. Refer to section 6.5 Liabilities: Alimony, Child Support Maintenance ○ Losses associated with rental properties from all investment properties owned by the Borrower and with respect to which rental income was used in the income calculation. ○ Other obligations where a monthly payment is legally required.
6.5 Liabilities	
Liabilities	Monthly payments on all existing debts are included in the Borrower's total liabilities or obligations. Installment debt that is paid off at closing may be excluded from the DTI provided the final Closing Disclosure reflects the payoff. Revolving debt that is paid off in full at closing may be excluded from the DTI. The account is not required to be closed. Paying down of debts to qualify is not allowed. • Proof of payments made by other parties must be documented with twelve (12) months canceled checks however; in every case the party making the payment must be obligated under the Note. The debt should not have been delinquent at any time. • Any debt payments scheduled to begin or come due within 12 months of the mortgage closing must be included in the borrower's liabilities • Lease obligations, regardless of the remaining lease term, are included in the DTI calculation. • Unreimbursed business expenses must be deducted from qualifying income when calculating the debt to income ratio.
30 Day Accounts (American Express)	
30 Day Accounts (AMEX) / Open Ended Accounts	• For open 30-day charge accounts that do not reflect a monthly payment on the credit report, 5% of the current outstanding balance must be included in the qualifying ratios.

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	• For 30-day accounts that reflect a monthly payment that is identical to the account balance, the payment must be used unless paid off prior to closing. If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in addition to the source of funds used to pay the account balance.
Installment Debt	
Installment Debt	Installment Debt is the monthly obligation on accounts with fixed payments and terms (e.g., car loans, student loans, etc.). The monthly payments may be excluded from the DTI calculation if there are fewer than ten (10) monthly payments remaining to repay the debt in full. However, if the monthly payment is substantial and inclusion would result in an excessive DTI, underwriting discretion will be used to ensure that exclusion of that debt is reasonable under the circumstances. Installment loans may be paid off to qualify but may not be paid down to qualify.
Revolving Debt	
Revolving Debt	Revolving debt is open ended debt of which the principal balance on an account may vary from month to month (e.g., department store credit cards). The minimum required payment as stated on the Credit Report or current statement should be used in calculating the DTI unless as noted below. If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, an estimated payment based on the greater of 5% of the outstanding balance or $10 must be used as the Borrower's recurring monthly debt obligation for this account. Revolving debt that is paid off in full at closing may be excluded in from the DTI. The account is not required to be closed. Paying down of debts to qualify is not allowed.
Alimony, Child Support, or Maintenance	

Alimony, Child Supports or Maintenance	Borrowers making monthly child support or alimony payments must be qualified with the monthly payment:
	• Arrearages must be satisfied prior to closing.
	• If the installment debt is scheduled to be repaid in less than ten months, the debt may be excluded from the borrower's DTI, provided one following scenarios apply:
	    ○ The obligation does not impact the borrower's ability to pay the mortgage after closing. Or;
	    ○ The borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt.

Balloon Payment Notes	
Balloon Payment Notes	Balloon Payment Notes scheduled to come due within 12 months of the new mortgage's loan closing must be included as an anticipated monthly obligation during the Underwriting process.
Business Debts	

Business Debts	• 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. If the account is new, it must be included in the DTI calculation.
	• These debts may be excluded from the DTI calculation if the following criteria are met:
	    ○ A minimum of twelve (12) months of consecutive canceled checks from the business are provided.
	    ○ No history of delinquency on the account in question
	    ○ Evidence the obligation was paid out of company or business funds.
	    ○ Tax returns or cash flow analysis to reflect the business making said payment.

Contingent Liabilities	
Contingent Liabilities	Contingent liability must be considered when the consumer remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that:

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	• 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 the originating creditor of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months, or the value of the property, as established by an appraisal or the sales price on the Closing Disclosure/Settlement Statement from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.
Student Loans	
Student Loans	All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans: • A payment that when made will fully amortize the loan, and is documented by the credit report or student loan lender. • A payment based on 1% of the outstanding balance of the loan and documented by the credit report of student loan lender. • A calculated payment that will fully amortize the loan based on the documented repayment terms provided in the file. If a student loan is charged off, the total of the amount charged off will be included in the cumulative charge off balance in the last 24 months. If a student loan is placed for collection, get a copy of the repayment agreement and a copy of a canceled check and include the payment in the DTI.
Co-Signed Debts	
Co-Signed Debts	Debts that have been co-signed by the Borrower may be excluded from the Borrower's DTI ratio under the following scenarios, provided that the debt has been paid currently and as agreed for at least the previous twelve (12) months. • A debt secured by property that has been bought out by the former co-owner (for example, in connection with a divorce). The file must include evidence of transfer of title to the former co-owner. • A mortgage loan that has been assumed by a third party without a release of the Borrower's liability. A copy of the formal assumption agreement and evidence of transfer of ownership of the property should be in the file. Do not include payment history, and the assumption does not need to include a release of the Borrower from liability. • Debts required to be paid by someone other than the Borrower pursuant to a court order. A copy of the court order transferring liability for payments to another party is required to be in the file. • Co-signed accounts paid by a third party, with twelve months of cancelled checks evidencing payment by the third party. If none of these requirements can be satisfied, then the liability must be indicated on the application and considered as a monthly debt payment for mortgage loan eligibility purposes.
HELOCs	
HELOCs	• The payment used for qualifying a borrower with an existing home equity line of credit (HELOC) must be based on the current balance owed on the HELOC documented by either the credit report or the current statement from the creditor dated after the date of the credit report. • When funds drawn from an existing HELOC are being considered as assets for the transaction, the qualifying payment must be based on the new outstanding home equity line balance. • The fully amortizing payment must be used for qualifying when an interest only HELOC or second lien will be converting to a fully amortized payment within 12 months of the note date

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<table>
<tr><th colspan="2">Tax Payment Plans</th></tr>
<tr><td>Tax Payment Plans</td><td>Loans with borrowers making monthly installment payments to the Internal Revenue Service (IRS) may be eligible provided the borrower is being qualified with the installment payment, and the following documentation is included in the loan file:
Document a satisfactory payment history for a minimum of six (6) months (account must be in good standing).
Evidence of the approved installment agreement with the IRS.
If the installment debt is scheduled to be repaid in ten months or less, the debt may be excluded from the borrower’s DTI, provided the obligation does not impact the borrower’s ability to pay the mortgage after closing.
If the debt is a lien placed against title, it must be paid in full prior to closing, and funds for the payoff verified. Subordination is not permitted.</td></tr>
<tr><th colspan="2">6.6 Borrowers Retaining their Current Residence</th></tr>
<tr><td>Borrowers Retaining their Current Residence</td><td>When a borrower is purchasing a new home and retaining his/her current residence, it is often a source of concern for occupancy fraud and potential risk to the company. The underwriter must review the application and supporting documentation to determine if any red flags are present and that the reserve/equity requirements are met.

The liability must be included in the borrower’s debts and the borrower(s) must sign the Occupancy Affidavit Form prior to closing.</td></tr>
<tr><th colspan="2">6.7 Conversion of Primary Residence</th></tr>
<tr><td>Conversion of Primary Residence</td><td>When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor (25%), may be considered in the underwriting analysis to off-set a portion of the PITIA under the circumstance listed below:
Positive net rental income may not be added to qualifying income. Rental income can be used to off-set a portion of the PITIA
The borrower has a loan-to-value ratio of 70 percent or less, as determined by a current residential appraisal (no more than six months old)
Single-Family units on form Fannie Mae 1004/Freddie Mac 70 or Condominium units on form Fannie Mae 1073/Freddie Mac 465).
The current 12-month lease must be to an unrelated arm’s-length third party.
Must provide evidence the security deposit and first month’s rent has been received and deposited.</td></tr>
<tr><th colspan="2">Section 7: Assets</th></tr>
<tr><th colspan="2">7.1 Assets</th></tr>
<tr><td>Assets</td><td>Assets must be sourced using the two most recent consecutive month’s bank statements (covering a minimum of 60 days); if account information is reported quarterly the most recent quarter. The source of funds used to establish accounts opened less than 90 days must be verified.
If the latest bank statement is more than 45 days earlier than the date of the loan application, NewRez should ask the borrower to provide a more recent, supplemental or bank generated form that shows the account number, balance and date. The statements may be computer generated forms including online account or portfolio statements downloaded from the Internet. Documents that are faxed to NewRez or downloaded from the internet must clearly identify the name of the depository or investment institution and the source of the information – for example, by including that information in the internet or fax banner at the top of the document
Assets for Income (AFI) or asset depletion is not permitted</td></tr>
<tr><th colspan="2">7.2 Asset Documentation</th></tr>
<tr><td>Asset Documentation</td><td>Assets must be sourced/seasoned and may be verified using:
A minimum of two months bank statements or most recent quarterly statement.</td></tr>
</table>

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	○ Account statements must provide all of the following information: ▪ Clearly identify the borrower as an account holder ▪ Include the account number ▪ Include the time period covered by the statement ▪ Include all deposits and withdrawal transactions ▪ Include all purchase and sale transactions ▪ Include the ending balance in U.S. Dollars • A verification of deposit (VOD) form is acceptable if accompanied by a minimum of one full month bank statement. • Copies of retirement account statements. They must be the most recent statements and they must identify the borrower's vested amount and terms • All funds from accounts opened for 90 days or less, must be sourced if used for down payment, closing costs, or reserves. • Large deposits exceeding 50 percent of total qualifying income must be sourced. • If source of funds cannot be documented, it is acceptable to exclude a large deposit, so as not to consider these funds for qualifying
7.3 Down payment, Closing Costs & Reserves	
Down payment, Closing Costs & Reserves	**Down payment** On purchase transactions, the Borrower must make a minimum down payment with funds from his/her own resources. The amount of the minimum required down payment depends upon the occupancy of the subject property, documentation type and loan program. A minimum of 5% of the purchase price must be from the Borrower's own funds. **Reserves** Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using his or her financial assets. Refer to 7.6 Cash Reserves for reserve requirements. PITIA is defined as: • Principal and Interest. • Hazard, flood, mortgage insurance premiums (as applicable). • Real estate taxes. • Ground lease. • Special assessments. • Association dues. • Any payments on subordinate mortgages loans secured by the subject property. NOTE: Certain assets are discounted when used for reserves. Refer to the applicable asset type for additional information.
7.4 Acceptable Assets	
Checking & Savings	
Checking & Savings	• 100% of the funds held in a checking or savings account may be used for the down payment, closing costs, and financial reserves. • Unverified funds are not acceptable for the down payment or closing costs unless they satisfy NewRez's requirements for borrowed funds • NewRez must investigate any indications of borrowed funds. They include recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. • NewRez must obtain a written explanation of the source of funds from the borrower and must verify those funds. • Funds held jointly with a non-borrowing spouse are considered the Borrower's funds. ○ Provide account statements to support the borrower's history as an account holder, in addition to supporting the borrower's past and continued contributions to the account.

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	○ All large (a-typical/non-payroll related) deposits must be sourced, and will not be considered eligible if the funds are originally from a source solely associated with the non-borrowing spouse.
Business Assets	
Business Assets	If business funds are used for down payment or closing costs the borrower must be the sole proprietor or 100% owner of the business. Business funds are not eligible as reserves. Two months most recent bank statements are required. A CPA letter verifying no impact to the business is acceptable and that the withdrawal is not an advance on future earnings is required; however, if no CPA letter is available the UW will review the tax returns of the business and their bank statements to determine any impact via a 12-month cash flow analysis based on the lowest daily balance from the statements. If the number is negative, the borrower is short eligible funds to close. Additionally, any significant withdrawal should be considered in relation to the overall strength of the borrower's company.
Certificates of Deposit	
Certificate of Deposit	Evidence of liquidation and receipt of funds must be provided for this type of asset if used for any portion of the down-payment or required cash to close
Stocks, Bonds, and Mutual Funds	
Stocks, Bonds and Mutual Funds	Stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs and reserves provided their value can be verified. Vested stock options may be an acceptable source of funds, but only for down payment and closing costs NewRez must verify • The borrower ownership of the account or asset • The value of the asset at the time of sale or liquidation and • The borrower's actual receipt of funds realized from the sale or liquidation of the assets if the stocks, stock options, bonds and mutual funds will be used for the down payment or closing costs. **Stocks and mutual funds** When used for down payment or closing costs, NewRez must determine the value of the asset at the time of sale or liquidation (net of any margin accounts) by obtaining either: • The most recent monthly or quarterly statement from the depository investment firm or • A copy of the stock certificate accompanied by a newspaper stock list that is dated as of or near the date of the loan application Receipt of funds must be verified. When used for reserves the value of stocks and mutual funds must be discounted by 30%. Non-vested restricted stock is ineligible. **Government Bonds** The value of government bonds must be based on their purchase price unless the redemption value can be documented. When used for reserves, the value of bonds must be discounted by 30%.
Trust Accounts	
Trust Accounts	• Funds disbursed from a borrower's trust account are an acceptable source for the down payment, closing costs and reserves provided the borrower has immediate access to the funds. To document the trust funds, NewRez must • Obtain written documentation of the value of the trust account from either the trust manager or the trustee AND • Document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on the trust income used in qualifying the borrower for the mortgage

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Retirement Accounts	
Retirement Accounts	• Vested funds from individual retirement accounts (IRA/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment, closing costs, and reserves. ○ The portion of self-directed IRA accounts invested in real estate or other non-liquid assets are ineligible as reserves • NewRez must verify the ownership of the accounts and the borrower's actual receipt of the funds realized from the liquidation of the assets if needed to complete the transaction. • When funds from retirement accounts are used for reserves, NewRez does not require the funds to be withdrawn from the account(s). Terms of withdrawal from the account program administrator are required when using the account for reserves. If the retirement assets are in the form of stocks, bonds, or mutual funds, in order to be considered for reserves, the account must be discounted by 30% to account for market volatility. In addition, if the borrower is not at retirement age (typically 59 ½) and will be assessed an early withdrawal penalty, that penalty (10% unless confirmed otherwise) must be added to the discount for a total discount of 40%. If the borrower is at or above retirement age, the additional 10% penalty does not need to be applied. If the retirement account only allows withdrawals in connection with the borrower's employment termination, retirement (unless the borrower is of retirement age), or death, NewRez must not consider the vested funds as effective reserves.
Earnest Money Deposit	
Earnest Money Deposit	The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs. Verification of source of funds • If the deposit is being used as part of the borrower's minimum contribution requirement NewRez must verify that the funds are from an acceptable source • A request for Verification of Deposit may be used however, VODs are not acceptable as a standalone documentation source, bank statements are always required • Bank statements must be seasoned according to matrix requirements and must evidence that the average balance for this time was large enough to support the amount of the deposit. If a copy of the cancelled check is used to document the source of funds, the bank statements must cover the period up to and including the date the check cleared the bank. • If it cannot be determined that these funds were withdrawn from the borrowers account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent or settlement attorney should be provided. • Large earnest money deposits or deposits that exceed the amount customary for the area should be closely evaluated. Receipt of the deposit must be verified by: • Copy of canceled check; • Copy of check not canceled with bank statement to evidence check cleared; • Evidence from the real estate broker (not the agent) that the funds were deposited into the broker's trust account (i.e., copy of broker's trust account statement); or • Escrow agent/attorney's letter acknowledging receipt of funds. Other forms of verification may be acceptable, so long as the verification clearly indicates that the funds were in the Borrower's possession for at least 90 days prior to transfer.
Anticipated Sales Proceeds	
Anticipated Sales Proceeds	If the borrowers currently owned home is listed for sale but has not been sold, NewRez may qualify the borrower on the basis of anticipated sales proceeds Determining the amount of net proceeds

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	• Sales price established
	  ○ Sales price-(sales costs +all liens) = estimated proceeds
	• Sales price not established
	  ○ 90% of listing price – all liens = estimated proceeds
	
	Sales proceeds needed for down payment and closing costs
	• If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, NewRez must verify the source of funds by obtaining a copy of the fully executed Closing Disclosure/Settlement Statement on the existing home before or simultaneously with the settlement of the new home, showing sufficient cash proceeds to consummate the purchase of the new home.
	
	Corporate relocation plans
	• When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, NewRez must 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 considered an acceptable source of verification of proceeds from the sale.

Borrowed Funds Secured by an Asset	
Borrowed Funds Secured by an Asset	Borrowed funds secured by an asset are an acceptable source of funds for the down payment and closing costs since the borrowed funds represent a return of equity. Assets that may be used to secure funds include: • Automobile • Artwork • Collectibles • Real estate • Financial assets • Savings accounts • CDs • Stocks • Bonds • 401k When qualifying the borrower, the underwriter must consider the monthly payments for secured loans as a debt. If the secured loan doesn't require a monthly payment NewRez must calculate an equivalent amount and consider it a recurring debt. Federal Insurance Contributions Act (FICA) or other retirement contributions such as 401k loans are not required to be included as a liability. Documentation • Verification of the value of the asset must be provided • A copy of the note securing the financing must be provided • Evidence of the transfer of funds from NewRez to the borrower must be provided • Evidence that the party providing the secured loan is not a party to the sale
Credit Card Financing	
Credit Card Financing	Not permitted except for payment of certain costs that may be paid early in the loan process: • Appraisal • Lock in fee • Commitment fee • Credit report fee • In no case may credit card financing be used for down payment funds
Sale of Personal Assets	
Sale of Personal Assets	Proceeds from the sale of personal assets are an acceptable source of funds for the down payment and closing costs, but may not be used for reserves, provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction

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	Documentation requirements required are: • Evidence the borrower owns the asset • The value of the asset as determined by an independent and reputable source • The transfer of ownership of the asset as documented by either a bill of sale or a statement from the purchaser. The borrowers receipt of the sale proceeds from documents such as • Deposit slips • Bank statements • Copy of purchasers cancelled check
Cash Value of Life Insurance	
Cash Value of Life Insurance	Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs and reserves. NewRez must assess repayment or additional obligation considerations to determine the impact on borrower qualification or reserves If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt to income ratio. If additional obligations are indicated, the obligation amount must be factored into the total debt to income ratio or subtracted from the borrower's financial reserves To document receipt of funds from the insurance company NewRez must obtain: • A copy of the check from the insurer OR • Payout statement issued by the insurer
Bridge Loans	
Bridge Loans	Proceeds from a bridge loan secured against a borrower's current residence are permitted as an acceptable source of funds for down payment, closing costs and reserves. The following requirements must be met: • Bridge loan must be from a financial institution • Borrower must qualify with the bridge loan payment and any taxes, mortgage payment, insurance or HOA dues on the existing home • A copy of the bridge loan note is required • Evidence of receipt of the bridge loans funds is required
7.5 Unacceptable Assets	
Unacceptable Assets	• Anticipated Savings • Assets held in Foreign Accounts • Cash-on-hand/Mattress Money • Community Savings Plans • Credit Card or unsecured line of credit financing • Digital Currencies (Bitcoin, etc.) • Disaster Relief Grants or loans that require a subordinate lien be recorded against the property • Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing contributions in the Seller Concession • Donation from Equities • Employer Assistance • Funds from a Community Second Mortgage/Down Payment Assistance Program • Funds in a Custodial or "In Trust For" account • Gifts from seller-funded programs. • Grants • Individual Development Account (IDA) matching funds

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	• Individual Development Accounts (IDA) • Interested Party Contributions • Lending clubs • Lot Value (when received as a gift) • Net proceeds from a 1031 exchange. • New simultaneous secondary financing funds • Personal, unsecured loans (Borrowed funds that are not secured by an asset owned by the borrower) • Pooled Funds • Proceeds from a cash-out refinance cannot be used to meet reserve requirements • Rent Credits • Sales Concessions • Stocks held in an unlisted corporation • Sweat Equity (labor performed by the Borrower or goods or materials provided by the Borrower) • Trade Equity • Withdrawing funds/taking a loan from a non-liquid/retirement account to meet the reserve requirements for the specific loan program
7.6 Cash Reserves	
Cash Reserves	See Reserves table and notes below
7.7 Gifts	
Gifts	Gift funds are eligible for down payment and closing costs. Minimum 5% borrower contribution from their own funds. • Primary residence only. • Purchase and Limited Cash-out only (Cash-out transaction are not eligible). • Single Family, PUD, and condominiums only. • Maximum 38% DTI for first-time home buyer program; maximum 40% DTI for all other loan programs. • Co-mingled accounts are an ineligible source of funds for the borrower's minimum required contribution. • Relative, spouse, domestic partner, fiancé or fiancée are all considered eligible donors. • Gifts must be supported with a fully executed gift letter, proof of donor's ability to provide the gift, and evidence the borrower has received the gift funds. Gift fund receipt may not be evidenced on the Closing Disclosure/Settlement Statement or Closing Disclosure. • Gift funds are not eligible for reserves.

Reserves

Occupancy	Cash Reserves Required
Primary Residence	1 unit: • Loan amount ≤ $1,000,000: 6 months' PITIA • Loan amount >$1,000,000: 12 months' PITIA 2-4 units: • 12 months' PITIA
Second Home or Investment	18 months' PITIA

- **Regardless of property type, First Time Homebuyers require a minimum of 12 months PITIA as reserves**
- Additional financed properties other than the subject property will require an additional six months PITIA per property. Properties owned free and clear require six months of taxes, insurance and HOA dues.
- Borrowers who do not currently own a primary residence, are required to have six months of rent payments in reserves when financing a second home or investment property.

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	• A donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. • Gifts of equity are not permitted.
7.8 Short Funds to Close Variance	
Short Funds to Close Variance	Not permitted
7.9 Sales & Financing Concessions	
Sales & Financing Concessions	For purposes of determining the impact of costs paid by the seller of the subject property, or an interested third party, distinctions are made between financing concessions and sales concessions. IPCs are not permitted to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements. **Financing Concessions (Seller or Other Interested Party Paid Closing Costs)** Financing concessions are considered to be funds originating from an interested party to pay closing costs on a purchase transaction. Allowable financing concessions include any of the following: • Permanent reductions in the interest rate on the mortgage loan; • Contributions related to the mortgage loan financing charges that traditionally would be paid by the Borrower, including but not limited to the payment of discount points, loan fees, commitment fees and/or origination fees, property taxes, and insurance escrows; or • Payment of the cost of other items traditionally paid by the Borrower, such as application fees, appraisal fees, transfer taxes, tax stamps, attorney fees, surveys, non-recurring closing costs and title insurance. Homeowner's Association Dues are not allowed to be included in an interested party contribution. NewRez will ensure that the following are satisfied: • Ensure that any and all IPCs are identified and taken into consideration • Provide the appraiser with all appropriate financing data and IPCs for the subject property granted by anyone associated with the transaction • Ensure that the property value is adequately supported • Ensure that the LTV and CLTV ratios after any IPCs are taken into consideration remain within NewRez stated eligibility limits • Ensure that the mortgage insurance coverage, if applicable, has been obtained, based on LTV ratio after any IPC adjustment has been made • Scrutinize all loan and sales contract documents (the sales contract, the GFE, the 1003, the appraisal report, the Closing Disclosure/Settlement Statement, etc.) • Ensure that all elements of the Closing Disclosure/Settlement Statement, were taken into consideration during the underwriting process • Ensure that fees and expenses are consistent between all documents. Analyze and resolve any discrepancies. **Sales Concessions or Property Inducements** Sales Concessions are IPCs that take the form of non-realty items. They include: • Cash • Furniture • Automobiles • Decorator allowances • Moving costs • Other giveaways • Financing concessions that exceed NewRez limits The value of any sales concession must be deducted from the sales price or appraised value when calculating the LTV and CLTV ratios for underwriting and eligibility

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	purposes.
	
	Ineligible Concessions
	• Undisclosed IPCs
	  ○ Examples of these types of contributions include but are not limited to:
	    ▪ Moving expenses
	    ▪ Payment of various fees on the borrower's behalf
	    ▪ Silent second mortgages held by the property seller
	    ▪ Other contributions that are given to the borrower outside of closing and are not disclosed on the Closing Disclosure/Settlement Statement,
	• Temporary Interest Rate Buy down
	• Payment Abatements
	  ○ The payment of HOA fees is not considered abatement unless the fee extends for more than 12 months

7.10 Interested Party Contributions	
Interested Party Contributions (IPC)	• Primary Residence or Second Home - Cannot be greater than 3% of the lesser of the mortgaged property's sales price or its appraised value. • Investment Properties - Cannot be greater than 2% of the lesser of the mortgaged property's sales price or its appraised value.
Section 8: Program Details	
8.1 Age of Documentation	
Age of Documentation	• Credit Report – 120 days old on the date the Note is signed • Income – 120 days old on the date the Note is signed* • Assets – 120 days old on the date the Note is signed* • Appraisals: 120 days old on the date the Note is signed; appraisal updates are permitted (follow FNMA Guidance) • Project documentation cannot exceed 90 days from the date of the note *Assets and Income may be up to 120 days old on the date the note is signed if the property is new construction.
8.2 Electronic Signatures	
Electronic Signatures	Electronic Signatures are permitted on all documentation except on the Mortgage and the Mortgage Note and any Power of Attorney. All Electronic Signatures must comply with applicable federal and state law regarding enforceability. Documentation notarized via an e-notary service is ineligible as a replacement for traditional notary documents.
8.3 Escrow Holdbacks and Repair Requirements	
Escrow Holdbacks	Not permitted
8.4 Escrow Waivers	
Escrow Waivers	An escrow of funds for the payment of mortgage insurance, property taxes, and hazard insurance, wind, earthquake, flood, and HO6 premiums is required. (Escrow of the HO6 policy is not required if coverage is for personal contents only.) Two months escrows are required unless otherwise mandated by state law. Escrow waivers are eligible with the exception of flood insurance. If flood insurance is required based on the property's flood zone, escrows for flood insurance are required and cannot be waived.
8.5 Excluded Parties Lists	
Excluded Parties Lists	All parties involved in each transaction are screened for inclusion on various lists, including without limitation: • Freddie Mac's Exclusionary List; • GSA List of Excluded Parties • Office of Foreign Asset Control (OFAC);

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	• Approved Buyer's internal exclusionary list. If a match is determined, the loan may be ineligible. All name variations found throughout the loan file must be run when performing the searches. This requirement includes: • Borrowers • Seller • Builder • Processor • Underwriter • LO • Account Executive • Broker • Listing Agent & Listing Company • Selling Agent & Selling Company • Title Agent • Title Company • Closing Attorney • Appraiser and Appraisal Company
8.6 Flood Insurance	
Flood Insurance	Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. Such area is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing. Life of the loan coverage monitoring is required. **Flood Certificate** Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). In addition, the appraisal report should accurately reflect the flood zone. **Coverage and Deductibles** If the subject property is located in a Special Flood Hazard Area, flood insurance is required. The amount of flood insurance must be an amount representing coverage not less than the least of • the outstanding principal balance of the Mortgage Loan (plus any additional amount required to prevent the Mortgagor from being deemed a co-insurer), • the full insurable value of the related Mortgaged Property, and • the maximum amount of insurance which was available under the Flood Disaster Protection Act of 1973, as amended. For condominium projects, the homeowner's association should provide a project blanket policy with coverage for the building in which the unit is located. Coverage must be the lesser of 100% of the replacement cost of the building in which the unit is located, including all the common elements and property, or the maximum coverage available under the National Flood Insurance Administration Program times the number of units in the building. Other requirements: • Deductibles permitted up to the maximum deductible available under the National Flood Insurance Program (NFIP); • The Borrower name and the subject property must be on the flood insurance application or binder; • The flood insurance policy must contain a mortgagee clause, naming Selene Finance as the loss payee;

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	• Evidence of coverage must be provided at closing; and
	• The insurance must be maintained throughout the duration of the loan. The flood insurance requirement may be waived if:
	  ○ The subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
	  ○ The Borrower obtains a letter from FEMA stating that its maps have been amended such that the subject property is no longer in an area of Special Flood Hazard. The appraisal report should accurately reflect the flood zone.
	• If flood insurance is required based on the property's flood zone, escrow for flood insurance is required and cannot be waived.

8.7 Hazard Insurance	
Hazard Insurance	The subject property must be protected (including when vacant) against loss or damage from fire and other perils within the standard extended coverage. The coverage amount should not be less than the insurable value of the improvements. If such insurable value cannot easily be determined, then the coverage amount should be at least equal to the actual unpaid balance of the loan(s) secured by the property, or the insurer must indicate guaranteed replacement cost coverage. However, the terms of the coverage amount must fully compensate for any damage or loss on a replacement cost basis. In addition, homeowner's insurance must meet the following requirements: • Documentation should be in the form of a declaration page or policy. Binders are not considered acceptable evidence of insurance unless policy number is reflected on binder. • Deductibles may not exceed 5% of the face amount of the insurance policy. • The policy must contain the Borrower's name, the agent's signature and the full address of the subject property and be in effect at closing. • The loan file must evidence the existence of homeowner's insurance for the subject property. Acceptable proof would be front and back copy of canceled check, the Closing Disclosure/Settlement Statement, showing payment and receipt for payment of the premium, the insurance binder or the insurance policy. • In those states that require NewRez to accept an insurance binder, the original policy must be received within 30 days after the date of the application. • The policy must be effective for the life of the loan. Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a "homeowners" or "package" policy is acceptable as long as the Borrower is not obligated to renew any part of the coverage that exceeds the required coverage. **Project Insurance Requirements: Required Coverage for PUDs and Condos** Most condominium projects have master or blanket policies that address the insurance requirements for each unit. Each loan file must contain a copy of the blanket policy as well as a copy of the Evidence of Insurance that specifies the individual unit. Blanket policies may not permit: • A blanket policy covering multiple unaffiliated condo associations or projects OR • Self-insurance arrangements in which the HOA is self-insured or has banded together with unaffiliated associations to self-insure the general and limited common elements of various associations. For policies covering the common elements in a PUD project and for policies covering condominium or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement value of the unit. Most units in PUD projects are insured as individual residences; therefore, their insurance

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	requirements are similar to those for single-family residences. However, if a project covers individual units with a master policy, the master policy is acceptable. **Special Endorsements** The requirements for endorsements for PUD and condo projects are as follows: • Inflation Guard Endorsement, when it can be obtained, • Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.), and • Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of $2 million or the insurable value of the building(s) housing the boiler or machinery.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage. **Special Endorsements for Condo Projects Only** A Special Condo Endorsement is required if the policy doesn't provide that: • Any Insurance Trust Agreement is recognized and the right of subrogation against unit owners is waived. • The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners' association. • The policy must be primary, even if a unit owner has other insurance that covers the same loss. **Loss Payee**

COVERAGE TYPE	REQUIRED FOR NAME INSURED
Condo Projects	The policy must show the homeowners' association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowners' association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the homeowners' association as the named insured.

8.8 Interest Credit	
Interest Credit	Not Permitted
8.9 Mortgage Insurance	
Mortgage Insurance	Not required
8.10 Multiple Mortgages to the Same Borrower	
Multiple Mortgages to the Same Borrower	NewRez Exposure not to exceed $2.5m with MAX $1.5m in non-primary residence, max 4 financed properties. Maximum of 1 financed unit in a single condo project.
8.11 Prepayment Penalty	
Prepayment Penalty	Not Permitted
8.12 Process to Add or Remove Borrowers	
	Adding Borrowers • Adding a borrower to a loan at any time during the loan process, unless the loan has received an adverse credit decision, is acceptable. When this occurs a new RESPA package

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Process to Add or Remove Borrowers	will be sent out and cool off period will be 7 days. File should be submitted back to UW for review of additional borrower's information.
	Removing Borrowers
	• Removing a borrower from a loan is allowed only in the following scenarios
	  ○ No credit decision has been made on the loan and borrower expresses desire to withdraw their name from the application
	  ○ Loan has been approved with both borrowers as submitted and one borrower expresses desire to withdraw their name from the application.
	    ▪ In both of the above scenarios - Request in writing from borrower should be placed in in the file supporting their desire to withdraw their name from the application.
	    ▪ Detailed notes should also be placed in Destiny to eliminate any possible confusion with the file.
	• Removing a borrower from a loan is NOT allowed in the following scenarios
	  ○ Loan is declined by underwriting
	    ▪ In this scenario the loan would need to be adversed and a new application would need to be taken with only the 1 borrower.
	  ○ Underwriting should not be issuing loan approvals with any type of condition that states 1 borrower needs to be removed. The loan should be declined and have a new application submitted with only the one borrower.
	
	Exceptions
	• Any exceptions to the above rules or scenarios not explained above should be submitted to NewRez Compliance for review

8.13 Rent Loss Insurance	
Rent Loss Insurance	Rent loss insurance covers rent losses that are incurred during the period that the property is being rehabilitated following a casualty. The coverage must be for at least six months' rent loss. Rent loss insurance must be maintained for: • 2-4 Unit primary residences and 1-4 unit investment properties when rental income from the subject property is used to qualify the borrower. Rent loss insurance may be waived when: • Rental income from the subject property is not used for qualifying, **and** • PITIA and operating expense from the subject is included in the borrower's qualifying ratios
8.14 Title Insurance	
Title Insurance	Loans must be covered by a title insurance policy that has been paid in full, and is valid, binding and remains in full force and effect. The title insurer must be acceptable to NewRez and be qualified to do business in the state where the subject property is located. The title insurance policy must be a current standard form of the American Land Title Association (ALTA) Policy, and, except as provided in Section 8.13.5.1, must affirmatively insure ingress and egress to and from the subject property and against encroachments by or upon the subject property or any interest therein. For an adjustable rate mortgage, an ARM endorsement in the form of ALTA 6.0 or 6.1 is required. For a loan secured by a condominium unit, an ALTA Form 4 endorsement or its equivalent is required. For a loan secured by a PUD unit, an ALTA Form 5 endorsement or its equivalent is required. For a loan secured by a leasehold estate, an ALTA Form 13.1 or its equivalent is required. • Preliminary title report must be within 45 days of funding. Gap coverage or an updated title must be provided after such time. Gap coverage provided in written form will be good for an additional 60 days. • Preliminary title must indicate that the final title policy will be issued after funding. • Coverage to equal loan amount • Purchase money loans require a 12-month chain of title.

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Title Insurance	• The chain of title will be reviewed for flips as part of the underwriting process. • Borrower name must be indicated on the title commitment. • If borrower's marital status appears to be different than on Form 1003, the discrepancy must be addressed. • Cross reference seller name to purchase agreement. • Cross reference seller name to AVM chain of title. • Proposed insured must reflect lender's name. **Title History Review** The following information outlines required documentation and/or acceptable sources to satisfactorily verify property ownership for at least 12 months. All files are to contain a 12-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 12 months. **Acceptable Sources for Title Transfer Verification** • Title commitments, preliminary title, full attorney's title opinion, short form title policy • Copies of recorded title transfer deed. • Third-party database sources such as Data Quick, SiteX TM, Appintell, History Pro. NOTE: The appraisal is not an acceptable source to support transfer information. Any requirements to obtain clear title and a clean title policy, such as Statements of Information or copies of Trust Agreements, must be cleared prior to closing. The preliminary policy or title commitment must indicate that the final title policy is to be issued after closing. **Final Title Policy** All loans must be covered by a title insurance policy or other approved form of title evidence that is paid in full, and is valid, binding and remains in full force and effect. • Final Title Policy must insure NewRez as the First Lien holder of the subject property **Acceptable Title Exceptions** • Customary public utility subsurface easements, the location of which is fixed and can be verified. The exercise of rights of easement will not interfere with the use and enjoyment of any present improvement of the subject property or proposed improvements upon which the appraisal or loan is based. • Above-surface public utility easements that extend along one or more property lines for distribution purposes or along the rear property line for drainage, provided that they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; restrictions, provided that their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property. • Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them. • Encroachments of one (1) foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a ten (10) foot clearance between the buildings on the subject property and the property line affected by the encroachments. • Encroachments on the subject property by improvements on adjoining property, provided that these encroachments extend one (1) foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not

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	interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements. • Encroachments on adjoining properties by hedges or removable fences. • Liens for real estate or ad valorem taxes and assessments not yet due and payable. **Survey Requirements** If not insured against loss by title insurance, each loan file must contain a survey. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. The survey must conform to Fannie Mae/Freddie Mac guidelines. Surveys are always required on new constructions homes and are reviewed for: • Easements, encroachments and possible boundary violations • Dwelling location reflected on the survey • Unimproved land surveys are not acceptable • An elevation survey to confirm if the property is in a Flood Zone
8.15 Recast Option	
Recast Option	Not permitted
8.16 Ineligible Programs	
Ineligible Programs	• HPML/Section 32 • Mortgage Credit Certificates (MCC) • Temporary Buy downs • Land trusts in the state of Illinois are not eligible • Leaseholds secured by Indian/Tribal lands
Section 9: References	
9.1 Disclosures	
Disclosures	**Fair Lending Statement** NewRez operates in strict compliance with the provisions of the Fair Housing Act and the Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided that the borrower has legal capacity to enter into a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. NewRez fully supports the letter and spirit of both of these laws and will not condone discrimination when it determines whether to purchase any particular loan. It should be noted, however, that all credit decisions with respect to all mortgage loans are made solely by the related originator, and NewRez does not participate in such decisions. **Responsible Lending Statement** NewRez will not originate or purchase loans that are: (a) Mortgage Loans subject to 12 CFR Part 226.32 of Regulation Z, the regulation implementing the Home Ownership and Equity Protection Act of 1994, as amended, or (b) classified and/or defined, as a “high cost,” “threshold,” “predatory high risk home loan” or “covered” loan (or a similarly-classified loan using different terminology under a law imposing additional legal liability for mortgage loans having high interest rates, points and/or fees) under any other applicable federal, state or local law.

Section 10: Version Control		
2.1 Minimum Loan Amounts	Updated minimum loan amount to $510,401	January 1, 2020
2.7 Refinances (General)	Added any debt paid at closing with allowable cash-back will be deemed a cash-out transaction	March 9, 2020
2.9 Rate & Term Refinances	Added Texas 50(a)(3), Owelty of Partition, as ineligible	March 9, 2020

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2.10 Cash-out Refinances	Added Texas 50(a)(3), Owelty of Partition, as ineligible	March 9, 2020
2.16 Ineligible Transactions	Added Texas 50(a)(3), Owelty of Partition, as ineligible	March 9, 2020
3.3 Non-U.S. Citizen Borrowers	Clarified that two year employment history must be in the US, and applies for any borrower whose income is used to qualify	March 9, 2020
4.2 Condo	Removed requirement for 2-4 unit condos to have all but one unit in the project conveyed or under contract to owner-occupant principal residence or second home purchasers	March 9, 2020
4.3 PUDs	Updated to follow Fannie Mae guidelines	March 9, 2020
4.25 Geographic Restrictions	Removed Mississippi	March 9, 2020
5.1 Income	Added Taxpayer Consent Disclosure requirements	March 9, 2020
5.5 Eligible Income Sources	Child Support, Alimony or Maintenance Income • Added allowance for 10-12 months' receipt	March 9, 2020
5.5 Eligible Income Sources	Retirement Income – 401K/IRA Distribution • Reorganized section • Updated to state that distribution must have begun prior to mortgage loan closing and requirements to verify	March 9, 2020
6.7 Conversion of Primary Residence	Removed conflicting language regarding allowing an exterior appraisal form	March 9, 2020

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