Jumbo Series C Product Profile: Retail, Call Center, Shelter and Wholesale

Matrices

Purchase and Rate & Term Refinances						
Occupancy	Property Type	Max LTV- No Sec Fin	Max LTV- With Sec Fin	Max CLTV/ HCLTV	Loan Limits	Credit Score
Primary Residence	1 Unit	85%	85%	85%	$750,000	720
		80%	75%	80%	$1,000,000	
		75%	70%	75%	$1,250,000	
		70%	65%	70%	$2,000,000	
Second Home	1 Unit	70%	65%	70%	$1,250,000	720

First Time Homebuyer Purchases						
Occupancy	Property Type	Max LTV- No Sec Fin	Max LTV- With Sec Fin	Max CLTV/ HCLTV	Loan Limits	Credit Score
Primary Residence	1 Unit	80%	75%	80%	$1,000,000	720

Cash Out Refinances							
Occupancy	Property Type	Max LTV- No Sec Fin	Max LTV- With Sec Fin	Max CLTV/ HCLTV	Loan Limits	Credit Score	Max Cash Out
Primary Residence	1 Unit	75%	75%	75%	$1,250,000	720	$400,000
Second Home	1 Unit	Ineligible					

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Section 1: Program Summary	
1.1 Program Summary	
Program Summary	The Portfolio Product is designed for borrowers with pristine credit, significant reserves and disposable income. Due to the strong credit characteristics associated with this type of borrower, the Portfolio Product provides for more flexible financing solutions. **Eligible in the Retail, Call Center, Wholesale, and Non-Delegated Correspondent Channels only.**
1.2 Underwriting	
Underwriting	All loans will be manually underwritten but are also required to be run through DU and must receive an Approve/Ineligible or Approve/Eligible response; the AUS decision is used from an informational standpoint and is not to be considered an eligibility or decision tool. All loans that meet Agency guidelines and score Approve/Eligible must contain a valid/documented reason why loan is in portfolio product and be submitted for an exception. The DU findings are required to be updated and imaged throughout the process by the NewRez underwriter and loan level data is required to match the loan file at clear to close/purchase.
1.3 Ability to Repay and Qualified Mortgage Rule	
Ability to Repay and Qualified Mortgage Rule	No mortgage loan may be originated under NewRez's Jumbo program(s) unless the loan qualifies as a "Qualified Mortgage" eligible for safe harbor protection under the CFPB's "Qualified Mortgage Rule" (12 CFR Part 1026.43).
Section 2: Eligibility	
2.1 Minimum Loan Amounts	
Minimum Loan Amounts	Conforming Loan Limit(s) + $1.00 Loan amounts less than the limits posted above, that do not meet agency guidelines will be considered on an exception basis; requests must be submitted as an exception. These loans will be subject to a price adjustment.
2.2 Eligible Terms and Programs	
Eligible Terms & Programs	See table below
2.3 ARM Adjustments	
ARM Adjustments	See table below
2.4 Assumable	
Assumable	Assumable after the fixed rate period.

Eligible Terms & Programs:

Term	Product Name
15 Year Fixed	NewRez Jumbo Series C 15 Yr Fixed
5/1 ARM	NewRez Jumbo Series C 5/1 Libor ARM 2-2-5

ARM Adjustments:

ARM Characteristics			
Index	LIBOR – The average of interbank offered rates for 1-year U.S. dollar-denominated deposits in the London market (LIBOR) as published in the "Money Rates" section of *The Wall Street Journal*.		
Margin	2.25%		
Life Floor	The floor is the margin.		
Interest Rate Caps	**First**	**Subsequent**	**Lifetime**
	2%	2%	5%
Change Date	The first Change Date is the 61st payment due date. Subsequent Change Dates are every twelve (12) months thereafter.		
Conversion Option	Not available		

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2.5 Convertible	
Convertible	Not convertible
2.6 Eligible Transactions	
Eligible Transactions	• Purchase • Rate & Term (Limited Cash-out) Refinance • Cash-out Refinance
2.7 Purchases	
Purchases	A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property or to finance the acquisition and rehabilitation of a property. In order to determine eligibility, the following requirements must be satisfied: • 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 overpayment of a fee or a legitimate pro-rated real estate tax credit when real estate taxes are paid in arrears • A Certificate of Occupancy from the applicable government authority must be retained in the loan file (required on all new construction regardless of whether the transaction is a construction-to-permanent loan) • Refer to Property Flips/Rapid Appreciation for additional requirements
2.8 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-offs (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. • Refer to Property Flips/Rapid Appreciation for additional requirements • Properties currently listed for sale are not eligible. If property was recently listed but has been taken off the market, it is eligible for rate & term refinance only
2.9 Rate & Term Refinances	

Rate & Term Refinances	Rate & Term Refinances consist of the following transaction types:
	• Payoff of the current mortgage (and any purchase money seconds) to include principal balance plus accrued interest, and any required prepayment penalty, only. (Other costs such as late fees and past-due amounts may not be paid with the new loan proceeds.)
	• Payoff of non-purchase money second liens may be considered rate-term refinances if the following requirements are met:
	  ○ The second lien is a seasoned non-purchase money subordinate lien that has been in place for a minimum of 12 months.
	    ▪ Seasoning is based on the note date of the second lien to the application date of the subject Mortgage Loan.
	    ▪ A seasoned equity line of credit is defined as not having cumulative draws greater than $2,000 in the past 12 months.
	    ▪ Withdrawal activity must be documented with a transaction history for the Line of Credit.
	• Paying off a first lien HELOC used to purchase the subject property.
	• Refinances where the borrower receives incidental cash-back (amount limited to 1% of the subject loan principal amount)
	• A co-owner is completing an equity buy-out due to a divorce and all of the following criteria are met:
	  ○ The property was jointly owned by all parties for at least the 12 months preceding the date of the mortgage application.

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	○ The property must be the primary residence. ○ A written agreement signed by all parties is required stating: ▪ the terms of the property transfer, and ▪ the disposition of the proceeds from the refinance ○ The borrower who retains sole ownership of the property may not receive any cash proceeds from the refinance. • New subordinate financing is not permitted Standard loan fees (e.g., closing costs on the new mortgage; prepaid finance charges, such as interest, taxes, insurance, etc; and points) may be included in the refinance transaction. The current appraised value is used to calculate the LTV regardless of length of time the borrower has owned the subject property. See Rapid Appreciation for additional information.
2.10 Cash-out Refinances (including Debt Consolidation)	
Cash-out Refinances	The amount of a Cash-Out Refinance may include the present first mortgage loan payoff, subordinate liens (if applicable), closing costs and additional cash in hand to the Borrower. Requirements: • Borrower must have 12-month minimum ownership at the time of loan application in order to base LTV on current appraised value; otherwise the lesser of purchase price or current appraised value will be used. • A letter of explanation is required on all cash-out refinances • Maximum cash in hand and debt consolidation combined may not exceed $400,000 • Cash-back proceeds may be used to pay existing debts; all revolving debt must be paid off and closed in order to be excluded from qualifying ratios • Properties listed for sale within six months of application are limited to cash out up to 70% LTV/CLTV/HCLTV
2.11 Continuity of Obligation	
Continuity of Obligation	Continuity of obligation is met when any one of the following exists: • At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced. • The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor. • The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower was a member of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement. • The borrower has recently inherited, or was legally awarded, the property (divorce, separation, or dissolution of a domestic partnership). **Unacceptable Continuity of Obligation** If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or if there is no outstanding lien against the property, the loan is still eligible for delivery. The loan must be underwritten, priced, and delivered as a cash-out refinance transaction, unless the file is eligible for delayed financing. If there is an outstanding lien and the borrower has been on title at least six months, the LTV Is limited to 50% of the current appraised value.
2.12 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,

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	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 rate and term 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/HCLTV determination.
2.13 Delayed Financing	
Delayed Financing	Permitted with the following restrictions: • No longer than 6 months has elapsed since the original cash acquisition of the property; measured from the loan application date • Must be underwritten as a rate & term refinance; a price adjustment will apply • The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for a rate and term refinance based on the lesser of the purchase price or the current appraised value) • Property must have been purchased using the borrower(s) own funds • HUD-1 from the original purchase and documentation to show the down payment and closing costs used for the purchase were from the borrower's own funds (no borrowed, gift or shared funds)
2.14 Subordinate Financing	
Subordinate Financing	New subordinate financing is not permitted. Resubordination of existing subordinate financing will be allowed. The pay-off of an existing subordinate lien with the borrower's own funds is also permitted. The following requirements apply to the terms of the subordinate financing: • Maximum CLTV/HCLTV does not exceed the maximum LTV permitted by the program matrix • The subordinate financing must be recorded and clearly subordinate to the new mortgage; title must indicate the lien is in second position • If there is an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt to income ratio. The qualifying payment is the payment evidenced on the credit report or for new draws the periodic payment required under the terms of the plan and the amount of credit to be drawn at or before consummation of the covered transaction. • Secondary financing must be reviewed to ensure that there are no terms that restrict prepayment. Terms that restrict prepayment are not permitted as acceptable secondary financing. Terms that require payment of certain closing costs that were waived upon origination of the subordinate lien loan are not considered a restriction of prepayment. • The source of the secondary financing is not a natural person except when the natural person is the seller of the subject property. • Negative amortization is not allowed. The scheduled payments must be sufficient to cover at least the interest due. If the debt is a home equity line of credit:

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	• The CLTV ratio is calculated by adding the amount drawn on the HELOC (not the credit limit unless the full amount has been drawn) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the mortgaged premises. • The HCLTV ratio is calculated by adding the full HELOC credit limit to the first mortgage amount, plus any other subordinate financing, and dividing the sum by the value of the mortgaged premises. • The terms of a HELOC may not provide for a balloon or call option within the first five years after the note date of the new first mortgage If the second is a closed end subordinate lien: • Maturity date or amortization basis of the junior lien must not be less than five years after the note date of the first lien mortgage, unless the junior lien is fully amortizing • The loan cannot have a balloon or call option within five years of the date of the Note If the subordinate financing is from the borrower's employer: • The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing. 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.
2.15 Land Contracts (Installment Land Contract or Contract/Bond for Deed)	
Land Contracts	When the proceeds of a loan are used to pay off the outstanding balance on an installment land contract that was executed within 12 months preceding the date of the loan application, the transaction will be considered a purchase transaction. When the installment land contract was executed 12 months or more before the date of the loan application, the transaction will be considered a rate and term refinance. The following requirements apply: • Purchase or Rate and Term Refinance of a Primary Residence Only • Land sale contracts must be recorded or notarized; a copy of the of contract and notice of payoff(s) are required; must not be a foreclosure bail-out or distress sale • The seller under a land sale contract must deed to the purchaser at or prior to closing • The HUD-1 Settlement Statement at closing must indicate that all liens on title have been paid in full. • The estate or interest insured in the title insurance policy is Fee Simple • The title insurance policy ensures full title protection to the lender • The title insurance policy states that title to the security property is vested in the purchaser under the land sale contract. • The title insurance policy must not list any exceptions arising from the land sale contract. • Twelve (12) full months of payment history must be verified with 12 months cancelled checks or equivalent financial documentation (bank statements, wire transfers, etc.) ○ If the land contract was executed less than 12 months prior to the date of the loan application, the Borrower's previous housing payment history (covering 12 months) must also be verified in addition to all payments made on the land contract.
2.16 Construction to Permanent Financing	
Construction to Permanent Financing	• All transactions will be treated as Rate and Term Refinances • Borrower must have legal title to the land prior to application and be named as the borrower on the construction financing

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	• LTV/CLTV/HCLTV will be based on the as-completed appraised value regardless of the length of time the borrower has owned the lot • Underwriting reserves the right to ask for additional documentation for use in the completion of the cost analysis when warranted • In all cases, a new note and mortgage for the refinance of the construction financing must be created and the mortgage recorded. Single- close construction-to-perm financing is not available; therefore, modifications of existing construction loans are not permitted • A Certificate of Occupancy from the applicable government authority must be retained in the loan file (required on all new construction regardless of whether the transaction is a construction-to-permanent loan)
2.17 Payoff Demands	

Payoff Demands	Payoff demand statements are required to ensure the current lien is paid in full prior to closing. The expiration date of the statement must be reviewed. A loan may not move to closing if the payoff will expire prior to funding. If the statement contains an expiration date, the underwriter must verify the date is after the funding date.
	
	If the statement 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 demand statement 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.

2.18 Maximum # of Financed Properties	
Maximum # of Financed Properties	Borrower may own up to four financed properties; however, the borrower may not own more than 10 properties total (financed or free and clear). Follow Fannie Mae Guidelines as it pertains to properties owned in the name of a business. 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.
2.19 Multiple Mortgages to the Same Borrower	
Multiple Mortgages to the Same Borrower	NewRez Exposure not to exceed $2.5m, maximum of 4 financed properties; maximum of 1 financed unit in a single condo project.
2.20 Ineligible Transactions	
Ineligible Transactions	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: • 1031 Reverse Exchanges • Blanket loans, covering multiple properties • Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction. • Bridge loans

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	• Cross-collateralization • Deed-Restricted Properties (exceptions will be considered on a case-by-case basis) • Flip transactions (multiple private transfer in the last 12 months; see Property Flips/Rapid Appreciation for more details) • Foreclosure bailouts of any kind. (An arms-length purchase of a short sale is not deemed a foreclosure bailout.) • Interest Only Loan Programs • Investment Properties • Land trusts in the state of Illinois are not eligible • Leaseholds secured by Indian/Tribal lands • Lease-Purchase Options • Loans to fund escrows for work completion except as provided in this guide • Loans to officers / owners of NewRez's approved mortgage brokers, correspondents. • Loans with any fraudulent activities including but not limited to straw borrowers, straw buyers, builder/seller bailout plans, 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. • Model Home Lease-Backs • Mortgage Credit Certificates (MCC) • Non-Arm's Length Transactions • 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. • Section 32 and/ or other loans described in the "Responsible Lending Statement" • Temporary Buydowns
Section 3: Borrower Eligibility	
3.1 Occupancy	
Occupancy	Eligible occupancy types include: • Primary residences for 1-unit properties, including condos • Second home residences for 1-unit properties, including condos
3.2 Borrower Eligibility	
Borrower Eligibility	Borrowers must be either U.S. Citizens or lawful 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. There is no maximum age limit for a borrower. Details on Non-US Citizen borrowers can be found below. No more than 4 borrowers may be party to any transaction.
3.3 Non-US Citizen Borrowers	
Non-US Citizen Borrowers	NewRez originates or purchases mortgages made to non–U.S. citizens who are lawful permanent residents of the United States under the terms defined in the Fannie Mae Selling Guide.
3.4 First Time Homebuyers	
First Time Homebuyers	A First Time Homebuyer (FTHB) is defined as a borrower whose credit report does not reflect a 12-month mortgage history within the last 7 years (unless their real estate is owned free and clear). Only one borrower must meet the homeownership requirements to meet standard guidelines and not be considered a first-time homebuyer loan. First Time Homebuyers must have a 0x30x24 cumulative housing history. Housing histories through private parties must be verified with cancelled checks (or equivalent financial institution records such as wire transfers or bank statements), referencing the company or

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	individual who completed the VOM/VOR; cancelled checks/financial institution records are not required for VOMs/VORs completed by a Property Management Company. Checks must be dated prior to the next due date and reflect 0x30x24. If all borrowers have lived in a rent-free situation, they are ineligible for financing. Twelve (12) months of reserves are required.
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 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:

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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.

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<tr><td colspan="2">3.6 Trusts (1-Unit Properties Only)</td></tr>
<tr><td>Trusts
(1-unit properties only)</td><td>

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 closing

<u>California Exception</u>

For Trust Properties in California a trust certification <u>completed by the borrower or the borrower's attorney</u> 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, <u>this exception cannot be applied,</u> and the complete trust documents must be provided
This exception to trust documentation is ONLY for properties located in California.

<u>Non-Intervivos Trust Estates</u>
Blind trusts, Life Estates, and Land Trusts are not eligible for financing.
</td></tr>
<tr><td colspan="2">3.7 Non-Arm's Length Transactions</td></tr>
<tr><td>Non-Arm's Length Transactions</td><td>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</td></tr>
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	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 – (Permitted on Owner Occupied purchases only) • Mortgage loan officer • Originating lender (owner, employees or family members) • Real Estate Broker (including listing and selling agents) • Employer • Closing Agent • Appraiser • Builder/Developer • Trading properties with the Seller • Foreclosure bailouts
3.8 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
3.9 Ineligible Borrowers	
Ineligible Borrowers	The following Borrowers are not eligible for financing: • 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 qualifying 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; • Non-Occupant Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors • Non-permanent resident aliens • Properties vested in an LLC or Corporation (title must be taken as an individual)
Section 4: Collateral	
4.1 Eligible Properties	
Eligible Properties	Eligible Property Types include: • 1-Unit Attached/Detached SFRs • 1-Unit Attached/Detached PUDs • Low/Mid/High-Rise Condos and Site Condos (Warrantable only) **Mixed Use Properties:** For mixed use properties, originators may follow Fannie Mae guidelines with the exception that the square footage of commercial part of the property cannot exceed 25% of the total square footage. **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. • Appraisal contains three comparables with similar additional accessory units. • 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.

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	• 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 Fannie Mae (FNMA) Condo Project Manager Standards (CPM) or be FNMA/NewRez Approved; If project is currently FNMA approved, a HOA Certification is still required. All requests for condominium review should be emailed to projectreview@newrez.com.
4.3 PUD (Planned Urban Development)	

PUDs	Planned Unit Developments (PUDs) must comply with the PUD project requirements of Fannie Mae or Freddie Mac. There are two distinct classifications for PUD projects – Type E established PUD projects and Type F new PUD projects. If the subject property is a detached unit, no analysis is required. If the subject is an attached PUD, the following review is required:
	• Type E Warranty applies to established PUD projects in which the owners' association has been turned over to the unit purchasers. This is the sole eligibility criterion for qualifying as a Type E project (manufactured homes not allowed).
	• Type F Warranty applies to new PUD projects that are still under the control of the developer. The project must meet the following eligibility criteria:
	  ○ The project cannot have been created by the conversion of existing buildings into a PUD.
	  ○ The project may not include any multi-dwelling units that represent the security for a single mortgage loan.
	  ○ The project must not be composed of manufactured homes.
	  ○ 70% of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order for the lender to determine whether the presales will support the responsibilities of the homeowner's association for at least two years.
	  ○ The units must be owned in fee simple or leasehold, and the unit purchasers must have the sole ownership interest in, and right to the use of, the project's facilities once control of the homeowner's association has been turned over to them. The homeowner's association should complete a questionnaire so that the originator can make the appropriate determination if the Type F requirements have been met.

4.4 Attached SFR 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 ineligible. 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.

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4.6 Properties on over 10 Acres	
Properties over 10 Acres	Properties are limited to 10 acres. If property has acreage, appraiser must indicate total acreage. It is not acceptable to have property appraised with only 10 acres in order to meet eligibility.
4.7 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.
4.8 Rural Properties	
Rural Properties	A property indicated by the appraisal as rural, or containing any of the following characteristics, is usually considered a rural property: • Neighborhood is less than 25% built-up. • Area around the subject is zoned agricultural. • The photographs of the subject show a dirt road. • Comparables are more than five miles away from the subject. • Subject property is located in a community with a population of less than 25,000. • Distances to schools and/or amenities are greater than 25 miles. • Subject property and/or comparables have lot sizes greater than 10 acres. • Subject property and or comparables have outbuilding or large storage sheds. Rural properties must comply with the following criteria: • The lot size and acreage must be typical for the area and similar to the surrounding properties. • The subject property must be within reasonable commuting distance to a metropolitan area. • The subject property must be accessible by public roads and highways. • The present use must be the "highest and best use" for the subject property. • The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information. • Property cannot be subject to any idle acreage tax benefit or other tax incentive program.
4.9 Leasehold Properties	
Leasehold Properties	Leasehold estates are deemed as acceptable provided the following guidelines are met: • Leaseholds secured by Indian/Tribal lands are not permitted • The term of the leasehold estate runs for at least five years beyond the maturity date of the mortgage • All lease rents, other payments, or assessments that have become due must be paid • The borrower must not be in default under any provision of the lease nor may such a default have been claimed by the lessor. • The least must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery or reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee or sub lessee • The lease must provide for the borrower to retain voting rights in any association.

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	• The lease must provide that the borrower will pay taxes, insurance, and homeowner's association dues related to the land in addition to those he or she is paying on the improvements.
	• The lease must be valid, in good standing, and in full force and in effect in all respects.
	• The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.
	• The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
	• The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower and the option to either cure the default or take over the borrower's rights under the lease.
	• The lease must provide lenders with
	  ○ The right to receive a minimum of 30 days' notice of any default by the borrower, and
	  ○ The options to either cure the default or take over the borrower's rights under the lease.
	
	Redemption of Ground Rents - A property that is currently a leasehold may have the ground rents redeemed subject to the following information:
	• The Preliminary Title report/ Title Commitment report must show a requirement that ground rents are to be redeemed at settlement and the property is recorded as Fee Simple.
	• The appraisal must be appraised as Fee Simple.
	• Ground rents must be fully redeemed prior to or at closing.

4.10 Ineligible Property Types	
Ineligible Property Types	• 2-4 Unit Properties • Co-ops • Condotels • Non-Warrantable Condos • Manufactured/Mobile, Modular, or Factory Built Homes • Investment Properties • Log homes • Timeshares • Geodesic Domes, Berms, Earth homes • Properties with Excessive Acreage (> 10 acres) • Properties with resale deed restrictions • Properties vested in an LLC or Corporation (title must be taken as an individual) • Properties Purchased Through Auctions • Unimproved Land and property currently in litigation • Commercial Enterprises (e.g. Bed and Breakfast, Boarding House, Hotel) • Zoning violations including residential properties zoned commercial • Properties with less than 750 square feet of living area • Properties held in a business name • Properties located in a Lava Zone • Properties located adjacent to or containing environmental hazards • Properties appraised with a property condition of C5 or worse
4.11 Appraisals	
Appraisals	Appraisals must be ordered through a NewRez approved AMC (see Forms Section for approved AMCs); appraisers listed on the NewRez Ineligible Appraiser List are not eligible to complete appraisals for loans done through NewRez. • **Loans ≤ $1,000,000 require one full appraisal** • **Loans >$1,000,000 require two full appraisals**

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	Additional Requirements: • No transferred appraisals permitted • The re-use of an appraisal is not permitted
4.12 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 • 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.
4.13 Property Flips/Rapid Appreciation	
Property Flips/Rapid Appreciation	• Purchases and Rate & Term Refinances: Appreciation greater than 20% in the past 90 days requires 2 full appraisals regardless of loan amount; the pay-off of seller financing is not permitted • Cash-out Refinances: Appreciation greater than 20% in the past 12 months requires 2 full appraisals regardless of loan amount When two appraisals are required, the lesser of the two values will be used for qualification purposes. There can be no pattern of previous flipping as evidenced by multiple transfers in the last 12 months, unless the property seller is a GSE, bank, or licensed mortgage company, then no seasoning is required.
4.14 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.
4.15 Disaster Areas	

Disaster Areas	Refer to the list of affected counties published by FEMA at the following link: https://www.fema.gov/disasters.
	
	For loans secured by properties appraised prior to the Federal/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;

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	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 Federal/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.
4.16 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. Prior to closing satisfactory evidence that the condition was corrected or a professionally prepared report indicating that the condition does not pose any threat of structural damage must be provided.
4.17 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.
4.18 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 subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. A structural engineer’s report is required prior to making a loan decision.
4.19 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
4.20 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.

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	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.
4.21 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.
4.22 Hazardous Conditions	
Hazardous Conditions	When the appraiser has knowledge of any hazardous condition (whether it exists in or on the subject property or on any site within the vicinity of the property) - such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, radon gas, etc. – it must be noted on the appraisal report and any influence that the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal) must be commented on. Appropriate adjustments in the overall analysis of the property's value must be made.
4.23 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.
4.24 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.
4.25 Private Roads	
Private Roads	The property should front a publicly dedicated and maintained street, which meets community standards and is accepted in the market area. If the property fronts a street that is not typical of those found in the community, the appraiser must address the effect of that location on the marketability and the value of the subject property. The presence of sidewalks, curbs, and gutters, street lights, and alleys depends on local custom - if they are typical in the community, they should be present on the subject site. If the property is on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction: • Responsibility for payment of repairs, including each party's representative share o Any maintenance costs for which the borrower is responsible must be included in the Borrower's housing ratios • Default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations

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	• The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners Additionally, the title company must affirmatively insure access to the subject property from a public street. If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. If a legally enforceable, recorded use and maintenance agreement is not in place, the following information will be acceptable: • Statement from the borrower acknowledging the existence of the private road and his or her responsibility to maintain and repair the road when necessary. • Affirmative statement from the appraiser confirming the private road is common in the area and is supported by comparable properties exhibiting the same characteristics. Additionally, the appraiser must state the existence of the private road is not a detriment to marketability, accessibility, or the value of the property. • Comparable properties must be subject to the same access conditions. • Appraiser must comment on the condition of the road and indicate that the road is in good condition. • Municipality or the appraiser must confirm that the private road does not detrimentally affect the availability of public services for the property, particularly fire protection and police protection. • Legal ingress and egress must be available to the property, and no exceptions may be noted on the title report for these characteristics.
4.26 Geographic Restrictions	
Geographic Restrictions	At this time, NewRez cannot finance or purchase loans secured by properties located in Alaska, Arizona, California, Hawaii, Michigan, Nevada, or Texas.
Section 5: Income & Employment	
5.1 Employment	
Employment	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	
Gaps in Employment	The Borrower must explain, <u>in writing</u>, any gaps in employment that span one or more months.
Recent Graduates and Military Personnel	
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	
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 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.

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5.2 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 non-self-employed borrowers. The verification of employment must include the phone number contacted to complete the verbal, which must be documented as associated with the business. In addition, the verification should be completed through the Human Resource Department of the employer, the owner of the company or direct supervisor for small businesses. 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 30 calendar 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
5.3 Income	
Income	All income documentation must be dated within 90 days of the date the Note is signed. Full Income Documentation is required, which includes: • Paystubs and W-2s or Personal tax returns, signed and dated, plus business tax returns when the borrower has 25% or more ownership interest in the business (See Section 5.4 Self-Employed Borrowers for additional documentation requirements) • A 4506-T, signed at application and closing, is required for all transactions. IRS Tax Transcripts are required for the most recent two years.

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	• A signed Taxpayer Consent Form is required for all transactions.
	• A Verbal Verification of Employment is required for all borrowers (See Section 5.2)
	
	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:
	• Must include 30 days' worth of paystubs, showing a minimum of 30 days YTD earnings
	• Two year's W-2s
	• Pay stubs and W-2s must be typed or computer generated.
	• Verifying:
	  ○ 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
	
	The following items must also be confirmed:
	• Whether or not pay stubs reflect garnishments (child support, IRS, etc.)
	• if there are any loan deductions
	• For all W-2s, confirm that the Employer's ID (EIN) is nine digits and that a Social Security tax of 6.2% and a Medicare tax of 1.45% are shown. Maximum income limits subject to Social Security tax can be found by visiting http://www.ssa.gov/planners/maxtax.htm
	  ○ One of the two websites below should be referenced to determine if the borrower's W-2 is valid.
	    ▪ http://www.paycheckmanager.com/FreeCal/free_payroll_calculator.aspx
	    ▪ http://www.adp.com/tools-and-resources/calculators-and-tools/payroll-calculators/hourly-paycheck-calculator.aspx
	
	Tax Returns
	Tax returns, when required, must be signed and dated by the Borrower(s) and contain all schedules and attachments; tax returns should cover the most recent two year period.
	
	4506-T
	A signed 4506T will be required on from all applicants both prior to closing and at closing. NewRez will execute the 4506T for tax transcripts on all loans. 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.
	
	IRS transcripts must be obtained for the two most recent years of income as documented in the file.
	
	In instances where transcripts are not available for the most recent tax year, the file must contain results showing "No Record Found" and evidence of an extension (if after April 15) for the most recent year's taxes and tax transcripts for the two tax years prior to that.

5.4 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; Self-Employed Borrowers are permitted with a minimum 4-year history; a 4 year history in the same line of work including two full years of self-employment will also be considered. **Documentation Requirements** • Two years tax returns with all applicable tax schedules are required – both personal and business. Both years must be evaluated/averaged to derive income level; borrowers with declining income will be carefully scrutinized ○ Includes, as applicable, K-1s, Form 1065, 1120s, Schedule E, etc.

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	• An unaudited year-to-date (YTD) Profit and Loss (P&L) Statement and Balance Sheet is required when application is dated more than 90 days after the end of the business' year end (calendar or fiscal)
	
	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:
	  o **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.
	  o **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.
	• **Corporations** – A Corporation is a business owned by stockholders instead of individually. The percentage of the borrower's ownership must be confirmed; A borrower with a 25 percent or greater ownership interest in a business is considered 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).
	• **"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 either 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.
	1099 – Miscellaneous Income – Payments to sole proprietors or contract employees will also be reported on a 1099 form and included in the Borrower's Schedule C.

5.5 Income Trends	
Income Trends	After the monthly year-to-date income amount is calculated, it must be compared to the prior year's earnings using the borrower's W-2s or signed personal income tax returns to determine if the income trend is stable, increasing, declining but stabilized or declining. A level, upward or previously declining but stabilized trend in earnings must be established. Any decreasing income trends could affect the stability of the borrower's income and would require further analysis and a satisfactory explanation. If a satisfactory explanation cannot be provided, the income will be considered questionable and should not be used to qualify the borrower.
5.6 Residual Income (Disposable Income)	
Residual Income (Disposable Income)	Residual income is the qualified gross monthly income less the gross monthly debt. The debt and income used to calculate the debt-to-income ratio should be used for the residual income evaluation. A minimum monthly residual income is required based on total household size:

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	One person	Two persons	Three persons	Four persons	Five persons*
Required Gross Residual Income	1,515	2,964	3,227	3,644	3,688

*An additional $100 should be added for each individual over 5

5.7 Eligible Income Sources	
Annuity and Pension Income	
Annuity and Pension Income	Annuity and/or Pension 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 direct deposit of said income. Nontaxable pension and annuity income will be grossed up by the percentage of the tax rate for the consumer's last year's income tax, unless the borrower was not required to file a federal tax return, in this instance use 25%. The borrower's 1040s must be analyzed to confirm the income is non-taxable.
Automobile Allowance and Expense Account Payments	
Automobile Allowance and Expense Account Payments	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. Only the amount by which the consumer's automobile allowance or expense account payments exceed actual expenditures may be considered income. To establish the amount to add to gross income, 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; payments must be projected to continue a minimum of three years to be included in qualifying income. Qualifying income is the verified allowance minus all unreimbursed business expenses as reported by the Borrower in his/her personal tax returns on IRS schedule 2106. If the result is positive, the allowance may be added to qualifying income. If the result is negative, qualifying income must be reduced accordingly. 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; and • Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.
' 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, Incentive, and Overtime Income	
Bonus, Incentive, and Overtime Income	Bonus, incentive, or overtime income can be considered if it is consistent for a period covering 2 or more years. Periods of income less than two years may be acceptable, provided the lender 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, bonus, and/or incentive income if the income varies significantly from year to year. Qualifying income is calculated as an average over 24 months provided that the income is expected to continue. To establish bonus earnings, written verification from the employer must define the dollar

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	amount paid to the Borrower during the past 24 months. When this type of income is used for a down payment and is the only source of funds for the down payment, it may not be used as qualifying income. In addition, when the bonus is received infrequently throughout the year, the Borrower must have sufficient income reserves in savings to supplement his/her income until the next bonus is received.
Capital Gains	
Capital Gains	Capital gains or losses generally occur only one time and should not be considered qualifying income.
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. 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. 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	A commissioned consumer is one who receives 25 percent or more of his/her annual income from commissions. Commission income is considered stable monthly income if it has been received for two years and is likely to continue. Two years of signed federal tax returns are required to substantiate commission income. NOTE: Commission income that has been earned for less than one year cannot be used as qualifying income. Consideration will be given to situations in which the consumer's compensation was changed from salary to commission within a similar position with the same employer and the change is documented in the loan file. Commission income is established with all of the following: • Most recent pay stubs with year to date commission earnings broken out • A verification of employment showing year to date commission earnings • Two years' W-2s or 1099s, and two years tax returns, signed and dated with all schedules and attachments
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: • Signed and dated federal tax returns or 1099s for the previous two years • 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;

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	• 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
	
	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	Borrowers who have switched jobs within 30 days of application or will switch jobs prior to close, must provide a copy of the offer and a minimum of one paystub from their new job. A written VOE will be required.
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.
Foreign Income	
Foreign Income	Income from a non-US source may be considered only if such income is paid by a corporate entity and is not subject to tax in any jurisdiction outside of the US. Any and all income used to qualify a borrower must be verified through filed tax returns and validated through tax transcripts.
Foster Care Income	
Foster Care Income	Income derived from foster care payments may be considered if it is regular, recurring and reasonably be expected 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 considered
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 will be “grossed up” by tax rate for the consumer’s last year’s income tax, unless the borrower was not required to file a federal

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	tax return, in this instance use 25%. 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.
Note Receivable Income	
Note Receivable Income	In order to include notes receivable income to qualify a consumer, the following must be documented: • A copy of the note to establish the amount and length of payment ○ If the consumer is not the original payee on the note, the creditor must establish that the consumer is able to enforce the note. • Evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns. • The note must indicate that the income will continue for at least the first three years of the mortgage term
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 will be "grossed up" by the amount of the tax rate for the consumer's last year's income tax, unless the borrower was not required to file a federal tax return, then use 25%. 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	
Part-Time/Second Job Income	Part-time and second job 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 for a minimum of three years at current or increasing levels. Two years signed tax returns required.

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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	Rent received for properties owned by the borrower are acceptable so long as the stability of rental income can be verified through a current lease/agreement to lease or rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation). Rental income used to qualify must be disclosed on the loan application. The rent for multiple unit property where the borrower will reside/resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes. The full Housing Expense (PITIA) of the subject property is treated as debt. Usable Rental Income is treated as income. Rental Income is not to be treated as a direct off-set of the mortgage payment. Underwriters may not consider any rental income from a borrower's primary residence that is being vacated in favor of another primary residence, except under the conditions described below: • Relocation- If the borrower is relocating with a new employer (or being transferred by their current employer to an area not within a reasonable commuting distance), rental income, reduced by the 25% vacancy and maintenance factor, may be used to qualify if an executed lease (signed by the borrower and the tenant) of at least one year's duration after the loan is closed is in file. Evidence of the security deposit and/or evidence of the first month's rent being paid to the borrower must be obtained. • Sufficient Equity in the Vacated Property – Rental Income, reduced by the 25% vacancy and maintenance factor, may be used to qualify with a full 1004 or 2055E, dated within 6 months of the application date, documenting a minimum of 25% equity in the home. Properties owned free and clear may document equity by comparing the unpaid principal balance ($0) to the original sales price of the property. Rental Income may be analyzed using IRS Form 1040 Schedule E and Current Leases/Rental Agreements. A copy of the current 12-month rental lease and most recent two years 1040s must be provided. Analyzing IRS Form 1040 Schedule E (typically properties owned for more than 12 months) • 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. • Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability. • The lender must confirm that the borrower still owns each property listed, by comparing Schedule E with the real estate owned section of the Uniform Residential Loan Application (URLA). Using Current Leases to Analyze Rental Income (typically properties owned for less than 12 months) • The borrower can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on Schedule E. In order to calculate the income, reduce the gross rental amount by 25 percent for vacancies

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	and maintenance, subtract PITIA, and apply the resulting amount to income, if positive, or recurring debts, if negative.
Retirement Income (401K/IRA Distributions)	
Retirement Income – 401K/IRA Distribution	The Borrower must provide verification of the assets of the plan and verification of receipt of monthly income. Assets in the plan must be sufficient to sustain income continuance for a minimum of three (3) years, determined based upon 1) with respect to fixed income investments, the remaining time of the instrument and the coupons, and 2) with respect to equities, dividend income times .50. If any retirement income, such as employer pensions or 401(k)s, will cease within the first full three years of the mortgage loan, such income may not be used in qualifying. If the borrower has not yet retired but discloses plans to retire during the first three-years after loan closing, Underwriting review must include the amount of documented retirement benefits, Social Security payments, other payments anticipated to be received in order to verify continuation of income from their current employment and future earnings.
Royalty Income	
Royalty Income	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 Income	Social Security 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 from the consumer's last year's income tax, unless the borrower was not required to file a federal tax return, then a factor of 25% should be used. 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, and • Two years' tax returns, signed and dated Benefits payable to/for dependents: • This income may be used for qualifying purposes only if it is expected to continue for a minimum of three (3) years.
Stock Options	
Stock Options	Employers frequently use corporate stock options as an incentive to attract new hires or to compensate employees with a more direct interest in the success of the company. Stock options are not permitted as a source of income as values are subject to significant fluctuations or may not be readily quantified. Additionally, there are often restrictions on when and how the options may be exercised.
Trust Income	
Trust Income	Income from trusts may be used if the trust is non-revocable and constant payments will continue for at least the first three years of the mortgage term as evidenced by trust income documentation. A copy of the trust agreement or the trustee's statement confirming the amount, frequency and duration of the payments must be obtained to verify the income and

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	continuance of the 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.
5.8 Unacceptable Sources of Income	
Unacceptable Sources of Income	• Bank Statements as Income Verification • Boarder Income • Capital Gains • Educational benefits (such as grants and scholarships) • Expense account reimbursement • Gambling winnings (except lottery payments continuing for 5 years) • Homeownership Subsidies • Illegal income or income not reported to the IRS • Income Received from Roommates • Mortgage Credit Certificates • Projected Income • Projected Income for a New Job that starts after Closing • Refunds of federal, state or local taxes • Stock Options
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. 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. Generally, thin or alternative credit is not allowed, and the borrower's financial position should translate into the borrower's credit profile for analysis. A valid and usable score is one that is generated based upon credit history and credit patterns that accurately reflect the Borrower's history. It should be generated based upon at least the following: • Three (3) trade lines from traditional credit sources (such as a bank or other financial institution) that reported for 12 months or more prior to the date of loan application (may be opened or closed); • 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.

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	• 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 <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. **Payment Histories** Typically, payment histories may be requested and reviewed when the Credit Report indicates that delinquencies have been removed or when the majority of credit is from a non-institutional lender.
6.2 Housing History	
Housing History	A minimum twelve (12) months housing payment history reflecting 0x30 is required; all mortgages showing on the credit report must reflect a 0x30 payment history for the lesser of twelve (12) months or the length of the mortgage. Borrowers who do not own their homes free and clear and have less than 12 months total mortgage payment history, must meet FTHB guidelines; only one borrower must have an established mortgage history to be eligible as a standard (non-FTHB) homebuyer. See the First Time Homebuyers section for additional details. Housing histories through private parties 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. Standalone VORs or VOMs are not permitted.
6.3 Derogatory Credit	
Derogatory Credit	Select credit events that generate severe negative impact to a borrower's credit history are defined as serious derogatory credit, and these events must reach minimum seasoning requirements (waiting period) since completion as detailed in the sections below. The waiting period is measured from the defined end of the event to the application date of the new loan. 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, collections, judgments, charged-off accounts, tax liens and mechanics' liens, must be paid off prior to or at closing. Title insurance must insure the loans first lien position, with said policy transferable to the lender's successors or assigns, without exception. Any item secured by the subject property must be paid in full at or prior to closing. All borrowers with previous derogatory credit events require a letter of explanation and the re-establishment of their credit. **Letter of Explanation** A satisfactory written explanation signed by the Borrower(s) explaining the reason(s) for

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	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.
	
	Re-Establishment of 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. Credit must be reestablished for the most recent 24 month period (48 months in the case of a foreclosure), meeting the following minimum requirements:
	
	• 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:
	    o mortgage loan payments disclosed on the Borrower's credit report, or
	    o canceled checks or money orders for mortgage loan or rental payment, or
	    o bank statements clearly indicating the mortgage loan or rental payment, or
	    o a standard mortgage loan verification or loan payment history from the mortgage servicer, or
	    o 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.
	• In addition to a housing payment history, at least one other active trade line must have been established for at least the previous 12 months.
	• 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.

Bankruptcy	
Bankruptcy	• Chapter 7 Bankruptcy - None in the past 4 years. • Chapter 13 Bankruptcy - Must have been discharged at LEAST 4 years prior to the application date; when Chapter 13 bankruptcy has been discharged less than 7 years prior to application date, a copy of all bankruptcy paperwork (discharge, petition and schedule of debts) must be provided.
Foreclosure / Notice of Default (NOD)	
Foreclosure / Notice of Default (NOD)	No Foreclosure/NOD filed in the past 8 years; this includes: • Property Taxes >60 days delinquent • Foreclosure consummated • Foreclosed property redeemed • Delinquency of 120 days or more
Deed-in-Lieu of Foreclosure/Pre-Foreclosure Sale	
Deed in Lieu of Foreclosure or Pre-Foreclosure Sale	A minimum 4 years must have elapsed since the event– Lesser of 80% max LTV/CLTV/HCLTV or Program Limit; after seven years have elapsed, the borrower is eligible at matrix maximums
Previous Shortsale or Short Pay-off	
Previous Short Sale or Short Payoff	Prior non-delinquent short sales or short payoffs are permitted at standard LTVs as long as the event can be classified as being due to extenuating circumstances as defined by the Fannie Mae Selling and Servicing Guides or Freddie Mac Sellers' and Servicers' Guide. Non-Delinquent events not due to extenuating circumstances and events with a Mortgage Delinquency in the

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	last 4 years must follow Pre-Foreclosure UW guidelines. The loan must be documented with a statement from the previous lien holder stating that a deficiency judgment will not be placed against the borrower and that their credit will not be negatively impacted as a result of this event.
Consumer Credit Counseling Services	
Consumer Credit Counseling Services	Must be treated as a Chapter 13 Bankruptcy; Loan is not eligible if the last action date of CCCS was within the previous 4 years.
Rolling Lates	
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	
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's 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 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.
6.4 Qualifying Ratios	
Qualifying Ratios	DTI is set forth in the product matrix; under no circumstances may the DTI on a loan file exceed 43%. **Mortgage Type** — **Qualifying Interest Rate** Fixed Rate Mortgage — Note Rate 5/1 ARMs — Greater of the Fully Indexed Rate or the Note Rate + 2% • 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

Mortgage Type	Qualifying Interest Rate
Fixed Rate Mortgage	Note Rate
5/1 ARMs	Greater of the Fully Indexed Rate or the Note Rate + 2%

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	properties owned and financed by the borrower:
	• Monthly principal and interest payment as per the qualifying rate
	• 1/12th of the annual hazard insurance premium.
	• 1/12th of the annual real estate taxes.
	• 1/12th of the annual flood insurance premium, when applicable.
	• 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.
	• Outstanding monthly obligations such as:
	  o Installment debt
	  o Revolving debt payments
	  o Alimony, child support or maintenance payments
	  o Losses associated with other real-estate owned
	  o 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 as detailed below. In instances where the debt is being paid by another party, proof of payments made by said 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.
30 Day Account	
30 Day Account	A 30-day charge account is defined as an account where the borrower must pay off the total outstanding balance each month. There are no alternative monthly payment options. For open 30-day charge accounts (for example, American Express), the borrower must have sufficient verified liquid assets to pay off the balance in addition to any reserves necessary to meet the reserve requirements for the loan program. If sufficient liquid assets are available, then exclude the reported monthly payment from the DTI. If sufficient liquid assets are not verified, obtain evidence the account has been paid in full and exclude the reported monthly payment from the DTI. Note: If the account provides a monthly payment option other than the total outstanding balance, the account is not considered a 30-day charge account and these requirements do not apply.
Alimony, Child Support, or Maintenance	
Alimony, Child Supports or Maintenance	**Monthly alimony, child support or separate maintenance obligations** with ten or more payments remaining are included in the DTI. If there are fewer than ten payments remaining and the underwriter determines these payments will not impact the borrower's ability to pay, payments may be excluded from the DTI with contain evidence of the remaining duration of support payments in the file.

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Asset Secured Loans	
Asset Secured Loans	Loans secured against the borrower's financial assets, such as 401k loans will be considered in reviewing the borrower's overall capacity to repay. Loans should be included in calculating the borrower's ratios as an installment debt (i.e. if there are less than 10 payments, this debt may be excluded).
Balloon Payment Notes	
Balloon Payment Notes	**Balloon Payment Notes** scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the lender as an anticipated monthly obligation during the underwriting analysis.
Bridge Loans	
Bridge Loans	Include bridge loan payments in the borrower's DTI. If payments are not scheduled on a monthly basis, at a minimum, use monthly interest payments.
Business Debt in Borrower's Name	
Business Debt in Borrower's Name	**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 a minimum of twelve (12) months of consecutive canceled checks from the business are provided.
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: • 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 lender 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 HUD-1 Settlement Statement from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.
Co-Signed Loans	
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. • 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.
Home Equity Lines of Credit	
Home Equity Lines of Credit (HELOC)	Monthly payments on Home Equity Lines of Credit (HELOC) must be included in the DTI ratio, regardless of the balance. In the absence of a stated payment on the credit report, the greater

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	of $20 or the greater of the current payment or the full credit line limit amortized over 20 years at the current prime rate plus the margin must be used or as required per HELOC note must be used. If the loan is scheduled to enter the amortization period within 36 months of our loan's closing, the greater of the current payment or the full credit line limit amortized over 20 years at the current prime rate plus the margin must be used or as required per HELOC note.
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.
Investment Gains and Losses	
Investment Gains and Losses	Average and include any net recurring loss on a cash investment or investment property as an expense in the DTI
Lease Payments	
Lease Payments	Lease obligations, regardless of the remaining lease term, are included in the DTI calculation
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 may be paid off to qualify when proof of the debt being paid and closed prior to loan closing is available, except in the case of a cash-out refinance, where the debt must be closed prior to loan closing, but may be paid-off at closing with loan proceeds and shown on the HUD-1.
Student Loans	
Deferred Student Loans	Student loans (including those that are deferred) are included in the DTI calculation as a long term obligation. If no payment is shown on the credit report for a student loan payment, then the payment information should be provided by the student loan lender. If the monthly payment amount cannot be determined, use 2% of the original loan amount. 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. Student loans listed as delinquent must be brought current.
Timeshares	
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.

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Unreimbursed Business Expenses	
Unreimbursed Business Expenses (URBE)	Unreimbursed business expenses must be deducted from qualifying income when calculating the debt to income ratio; a two year average based on the borrower's tax returns should be utilized, unless debts are increasing, then the most recent tax year should be used.
6.6 Current Primary Residence Pending Sale	
Current Primary Residence Pending Sale	If the current property residence is pending sale but the transaction will not be closed prior to the new transaction, both the current and proposed mortgage payments must be used to qualify the borrower for the new loan regardless or reserves or equity. The property must be included in the list of Real Estate Owned and cash reserve requirements apply.
6.7 Borrowers Retaining their Current Residence	
Borrowers Retaining their Current Residence (Conversion of Primary Residence)	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. "Purchase / Keep" scenarios where the borrower is purchasing a new primary residence and retaining his/her current residence are subject to the following: • For all transactions, the borrower(s) must sign the Occupancy Affidavit Form prior to closing. • If the current primary residence is being converted to a second home, both the current and proposed mortgage payments must be used to qualify for the new loan; the current primary residence must meet the definition of a 2nd home • If the current primary residence is being converted to an investment property, rental income from vacating a primary residence may only be used if the borrower is relocating with a new employer or being transferred by current employer to an area that is outside realistic commuting range or the borrower has 25% equity as verified from a 2055E/1004 issued within 6 months
Section 7: Assets	
7.1 Assets	
Assets	• Assets must be sourced using the two most recent consecutive month's financial institution records (covering a minimum of 60 days); if account information is reported quarterly the most recent quarter. • If the latest financial institution records are more than 45 days earlier than the date of the loan application, the borrower must provide a more recent, supplemental or bank generated form that shows the account number, balance and date. The records may be computer generated forms including online account or portfolio records downloaded from the Internet. Documents that are faxed to the lender 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) is not permitted
7.2 Asset Documentation	

Asset Documentation	Assets must be sourced/seasoned and may be verified using:
	• Financial Institution Records 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 record
	  ○ Include all deposits and withdrawal transactions
	  ○ Include all purchase and sale transactions
	  ○ Include the ending balance in U.S. Dollars
	  ○ Retirement account statements must be the most recent statements and must

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	identify the borrowers vested amount and terms Large disparities between the current balance and the opening balances may require additional verification or documentation. Large or irregular deposits must be explained and documented; for W-2 employees large deposits are deposits greater than 25% of the loans qualifying income.
7.3 Downpayment, Closing Costs & Reserves	
Downpayment, Closing Costs, and 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. **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. Minimum required reserves may vary depending on a number of factors, including: • The transaction • The occupancy status and amortization type of the subject property • The number of units in the subject property • The number of other financed properties the borrower currently owns AND • The status of the borrower's current primary residence (pending sale or converting to second home or investment property) 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 the requirements for borrowed funds • Any indications of borrowed funds must be investigated. They include recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. • A written explanation of the source of funds from the borrower must be obtained and the funds must be verified. • Funds held jointly with a non-borrowing spouse are considered the Borrower's funds.
Business Assets	
Business Assets	If business funds are used for down payment, closing costs and/or reserves, the borrower must be the sole proprietor or 100% owner of the business. A CPA letter verifying no impact to the business is acceptable; however, if no CPA letter is available the UW will review the tax returns of the business to determine any impact. Any

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	significant withdrawal should be considered in relation to the overall strength of the borrower's company.
Stocks, Stock Options, 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. Stock options may be an acceptable source of funds, but only for down payment and closing costs 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. **Stock Options** • Vested stock options are an acceptable source of funds for down payment and closing costs if they are immediately available to the borrower. • The value of the vested stock options can be documented by • Referencing a statement that lists the number of options and the option price AND • Using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock • Vested stock options are not an acceptable source for reserves. • Non-vested stock options are not an acceptable source of funds for the down payment, closing costs or reserves. **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: • 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
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. • NewRez must verify the ownership of the accounts and the borrower's actual receipt of

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	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). However, NewRez must exercise caution when considering retirement accounts as effective reserves because these accounts often feature significant penalties for early withdrawals, allow limited access, or have vesting requirements. • 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, the funds must be verified as being 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 • Financial institute records 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 records 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 borrower's 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 financial institute record(s) 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	**Sales Proceeds from Real Estate Owned Pending Sale** • If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the source of funds must be verified by obtaining a copy of the fully executed HUD-1 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.

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	Corporate relocation plans • When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, obtain a copy of the executed buyout agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not 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, calculate an equivalent amount and consider it a recurring debt. 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 to the borrower must be provided • Evidence that the party providing the secured loan is not a party to the sale • Reduce the value of the remaining asset by the amount of the secured loan balance (financial assets only)
Credit Card Financing	
Credit Card Financing	In no case may credit card financing be used for down payment funds. Certain costs that may be paid early in the loan process may be paid via credit card. These costs include: • Appraisal • Lock in fee • Commitment fee • Credit report fee
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, closing costs and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.
	
	Documentation requirements required are:
	• Evidence the borrower owned the asset prior to sale
	• The value of the asset as determined by an independent and reputable source
	• A bill of sale or statement from the purchaser showing the transfer of ownership of the asset
	• Proof of the borrower's receipt of the sale proceeds from documents such as
	    ○ Financial Institution Records
	    ○ Copy of purchaser's cancelled check

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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. Repayment or additional obligation considerations must be assessed to determine the impact on borrower qualification or reserves. If additional obligations are indicated, the obligation amount must be factored into the total debt to income ratio. To document receipt of funds from the insurance company a copy of the check from the insurer OR payout statement issued by the insurer must be retained in the loan file.
7.5 Unacceptable Assets	
Unacceptable Assets	• Anticipated Savings • Bridge Loans • Cash-on-hand/Mattress Money • Digital Currency (ex. Bitcoin) • 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 • Gift funds which must be repaid in full or in part. • Gifts from seller-funded programs. • Individual Development Accounts (IDAs) • Net proceeds from a 1031 exchange. • Personal, unsecured loans • Pooled Funds • Proceeds from a cash-out refinance cannot be used to meet reserve requirements • Rent Credits • 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 Reserve Requirements table below) • Additional financed properties other than the subject property will require an additional six (6) months PITIA per property. • FTHB requires twelve (12) months of reserves
7.7 Gifts	
Gifts	Owner Occupied loans only. **Gifts are eligible with a minimum downpayment of 25% from the borrower's own funds**. • Subordinate Financing is not permitted • Gift funds cannot be used for reserves

Reserve Requirements		
Primary and Second Homes	Loan Amount	Minimum Reserves
	≤$750,000	6 months
	$750,001 - $1,250,000	12 months
	>$1,250,000	18 months

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	Acceptable Donors
	• A relative, defined as the borrower's spouse, child or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship
	• A fiancé', fiancée or domestic partner
	
	The donor may not be, or have any affiliation with, the builder, developer, the real estate agent, or any other interested party to the transaction.
	
	Documentation Requirements
	• Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must
	  ○ Specify the dollar amount of the gift
	  ○ Specify the date the funds were transferred
	  ○ Include the donors statement that no repayment is expected AND
	  ○ Indicate the donor's name, address, telephone number and relationship to the borrower
	• The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes any of the following:
	  ○ a copy of the donor's check and the borrower's deposit slip,
	  ○ a copy of the donor's withdrawal slip and the borrower's deposit slip,
	  ○ a copy of the donor's check to the closing agent, or
	  ○ proof of wire transfer from the donor's account to the borrower's
	
	Gifts of Equity
	• A gift of equity refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction.
	• A gift of equity is permitted for primary residences if:
	  ○ The sales price for the property is at market rate
	  ○ The acceptable donor and minimum borrower contribution requirements for gifts also applies to gifts of equity.
	
	Gift of Equity- Documentation Requirements
	• Signed gift letter
	• HUD-1 settlement statement showing gift of equity
	• If the requirements shown here are met, the gift of equity is not subject to the IPC requirements

7.8 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. **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

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	• 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.
	
	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 purposes.
	
	Reviewing Concessions
	• Interested Party Contributions (IPCs) are not permitted to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements
	• 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/CLTV after any IPCs are taken into consideration remain within stated eligibility limits
	• Scrutinize all loan and sales contract documents (the sales contract, the GFE, the 1003, the appraisal report, the HUD-1, etc.)
	• Ensure that all elements of the HUD-1 were taken into consideration during the underwriting process
	• Ensure that fees and expenses are consistent between all documents. Analyze and resolve any discrepancies.
	
	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 HUD-1
	• Temporary Interest Rate Buy-down
	• Payment Abatements
	  ○ The payment of HOA fees is not considered abatement unless the payments extend for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

7.9 Interested Party Contribution Limits	
IPC Limits	Maximum third party concessions, as a percentage of the purchase price, are: • 6% for LTVs ≤ 80% • 2% for LTVs > 80%

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Section 8: Program Details	
8.1 Age of Documentation	
Age of Documentation	Credit Report – Not to exceed 90 days old on the date the Note is signed Income – Not to exceed 90 days old on the date the Note is signed* Assets – Not to exceed 90 days old on the date the Note is signed* Appraisals: Not to exceed 120 days old on the date the Note is signed; appraisal updates are permitted (follow Fannie Mae Guidance) *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	NewRez does not accept electronic signatures on any documents provided to the borrower by NewRez. Purchase contracts and other documents not prepared or provided by NewRez may contain electronic signatures.
8.3 Escrow Holdbacks and Repair Requirements	
Escrow Holdbacks	Renovations are limited to cosmetic only; it cannot affect the safety, soundness, or structural integrity of the property. Repairs must be limited to a maximum of $5,000 and must be completed within 60 days of the closing date. The subject property may be appraised 'as is' or 'subject to repairs'; but the property condition must be in average condition or better.
8.4 Escrow Waivers	
Escrow Waivers	Allowed, as permitted by state law, except in cases where the loan is determined to be a High Priced Mortgage Loan (HPML); a pricing adjustment may apply Flood insurance premiums must be escrowed if flood insurance is required. No exceptions will be made
8.5 Exception Process	
Exception Process	Loans that do not fully comply with documented guidelines, policies, or procedures are known as "exceptions". Exceptions may be granted with the presence of strong compensating factors to mitigate any additional performance risks. Such exceptions require approval as outlined in this Loan Exceptions Approval Policy and may require special pricing, as determined on a case-by-case basis. Exception requests must be submitted through the loan file's underwriter.
8.6 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); • Any prior-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 • Third Party Originator (Broker/Correspondent) • Third Party Originator's Loan Officer • Listing Agent and Listing Company • Selling Agent and Selling Company • Title Agent • Title Company

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	• Closing Attorney • Appraiser and Appraisal Company
8.7 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 at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Administration program. 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:
	• The flood insurance policy must contain NewRez's Mortgagee Clause
	• Flood insurance premiums must be escrowed if flood insurance is required. No exceptions will be made
	• 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;
	• 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.

8.8 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: • Deductibles may not exceed 5% of the face amount of the insurance policy.

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	• The policy must contain the Borrower's name 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 HUD-1 showing payment and receipt for payment of the premium, the insurance binder or the insurance policy. • In those states that require lenders to accept an insurance binder, the original policy must be received within 30 days after the date of the application. 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 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:

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- 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 homeowner's 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.

8.9 Interest Credit Hardships

Interest Credit Hardships	Not Permitted

8.10 Mortgagee Clause

Mortgagee Clause	NewRez LLC ISAOA ATIMA PO Box 7050 Troy, MI 48007-7050

8.11 Mortgage Insurance

Mortgage Insurance	Not Required

8.12 Prepayment Penalty

Prepayment Penalty	Not Allowed

8.13 Process to Add or Remove Borrowers

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 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 the loan file 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

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	▪ 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
8.14 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 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
8.15 Title Insurance	
Title Insurance	Loans must be covered by an American Land Title Association mortgagee title insurance policy or other generally acceptable form of policy or insurance acceptable under the Fannie Mae Selling and Servicing Guides or Freddie Mac Sellers' and Servicers' Guide, issued by a title insurer generally acceptable under the Fannie Mae Selling and Servicing Guides or Freddie Mac Sellers' and Servicers' Guide insuring the Originator, its successors and assigns. The final policy must be paid in full, and valid, binding and in full force and effect with language evidencing the policy is transferable to the lender and its successors or assignees. An opinion of counsel will be accepted in lieu of title insurance in jurisdictions where this practice is considered to be usual and customary. In all instances the following criteria must be met: • Preliminary title report must be dated no more than 45 days prior to 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 • 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 • 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.

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	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. **Acceptable Title Exceptions** (typically must not have an impact on the customary use, enjoyment, or appraised value or marketability of the subject property) • Customary public utility subsurface easements, the location of which is fixed and can be verified. The exercise of rights of easement must not have an impact on the customary use, enjoyment, or appraised value or marketability of the subject property. • 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 customary use, enjoyment, or appraised value or marketability 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 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 the Fannie Mae Selling and Servicing Guides or Freddie Mac Sellers' and Servicers' Guide. 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
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

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	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		
Eligibility Matrix	ARMs updated to 85% LTV to align with Fixed	March 9, 2020
2.8 Refinances (General)	Added that properties currently listed for sale are not eligible	March 9, 2020
2.9 Rate & Term Refinances	• Updated incidental cash-back limit to 1% of the loan amount • Added for payoff of non-purchase money second liens, withdrawal activity must be documented with a transaction history for the Line of Credit. • Added that new subordinate financing is not permitted	March 9, 2020
2.10 Cash-Out Refinances	Added that properties listed for sale within six months of application are limited to cash out up to 70% LTV/CLTV/HCLTV	March 9, 2020
3.2 Borrower Eligibility	Removed non-permanent as eligible borrowers	March 9, 2020
3.3 Non-US Citizen Borrowers	Removed non-permanent as eligible borrowers	March 9, 2020
3.9 Ineligible Borrowers	Removed non-permanent as eligible borrowers	March 9, 2020
5.3 Income	Added that a signed Taxpayer Consent Form is required for all transactions	March 9, 2020
6.2 Housing History	Updated housing payment history to 12 months (from 24)	March 9, 2020
7.6 Cash Reserves	Added reserve requirements (removed from eligibility matrix)	March 9, 2020
4.26 Geographic Restrictions	Added Texas as an ineligible state	March 17, 2020

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