

# LEAD+

WHOLESALE LENDING

## NON-QM ITIN GUIDELINES



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# GENERAL PROGRAM INFORMATION

## 1.1 PROGRAMS

Lead Plus Wholesale and Correspondent Lending offers several loan programs. See the Lead Plus Wholesale and Correspondent Lending Matrices for complete details.

LEAD PLUS ITIN (Full Doc / Alt Doc)

## 1.2 DOCUMENTATION

Documentation types include

- Full Documentation,
- Bank Statement Documentation, and
- 1- Year Alternative Income Documentation.

## 1.3 AGE OF LOAN DOCUMENTATION

Credit reports and Appraisals must be dated within 120 days of the note date.

Income and Asset Documentation must be dated within 60 days of the note date.

Title Report must be dated within 90 days of the note date.

## 1.4 PRODUCTS

	QUALIFYING RATE	TERM	I/O TERM	AMORT TERM
15 YR FIXED	Note Rate	180	N/A	180
30 YR FIXED	Note Rate	360	N/A	360
30 YR FIXED	Note Rate	360	120	240

Note: Refer to Matrices for I/O Max LTV restrictions for LEAD PLUS ITIN Full & Alt Doc.

## 1.5 FULLY AMORTIZING

- Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
- 15 Year Fixed.
- 30 Year Fixed.

## 1.6 INTEREST-ONLY

Loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA. For example, a 30-year loan with a 10-year interest-only period would have a 20-year fully amortizing payment.

- Loan Terms: 360 Months.
- Min Credit score 680
- Max LTV 80%
- 30 Year Fixed.
  - Qualifying rate (All Doc Types): qualify borrower(s) at the Note Rate.



## 1.7 LOAN AMOUNTS AND LOAN-TO-VALUES

See applicable Lead Plus Wholesale and Correspondent Lending Matrix. Loan amounts up to \$2,500,000.

## 1.8 ASSUMABILITY

Loans must not be assumable.

## 1.9 STATE RESTRICTIONS

- This product is eligible Nationwide with the following exceptions: excluding Puerto Rico, Guam, the US Virgin Islands, New York, North Dakota and South Dakota.
- ALL: Short Term Rentals require evidence from a third-party vendor (such as Property Guard, Vrolio or equivalent), validating that the governing municipality where the subject STR is located allows properties to be rented as STRs.
- ALL: Refer to the Prepayment Penalty Requirements by State section in this guide and/or the Lead Plus Wholesale and Correspondent Lending Website and Matrices for additional information related to transaction specific restrictions.

## 1.10 ALTERNATIVE LOAN PROGRAM ANALYSIS

Lead Plus Wholesale and Correspondent Lending and Correspondent Lending staff will complete the Lead Plus Wholesale and Correspondent Lending Alternative Program Analysis Form to ensure borrowers are proceeding under the appropriate loan program.

The following loans are exempt from this requirement:

- Loans qualified using Alternative Documentation

## 1.11 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. All exception requests must be submitted in writing to Lead Plus Wholesale and Correspondent Lending on the Lead Plus Wholesale and Correspondent Lending Exception Request Form along with all supporting documentation must also be uploaded.

LEAD PLUS decision to allow or deny any exception request relates only to whether Lead Plus Wholesale and Correspondent Lending will fund the loan. The decision does not bind a client with respect to the underlying decision. Credit committee may grant a maximum 5% LTV exception but never more than 5% above the grade and never more than the maximum for the grade.

Top Compensating Factors for Exception Consideration (Package Minimum 2+ of the below)
<ul style="list-style-type: none"><li>• Significant Gross Disposable Income</li><li>• Significant Reserves (beyond requirements)</li><li>• DTI well below program max</li><li>• Lengthy &amp; deep credit history of solid performance</li><li>• Demonstrated capacity to carry a heavy debt load with on time performance</li><li>• FICO well above program minimum with solid performance</li><li>• LTV well below Program Max w/ CDA value w/in 5% and C3 condition</li><li>• Long, Clean Mortgage History</li><li>• Significant time on the same job</li></ul>



## 1.12 PREPAYMENT PENALTIES, POINTS, AND FEES

Prepayment penalties are not permitted and are prohibited on this product.

Total points, fees, and APR may not exceed current state and federal high-cost thresholds. In addition, with the exception of Investment Property transactions, points and fees may not exceed the lesser of state regulations or 5%.

## 1.13 HIGHER PRICED MORTGAGE LOANS (HPML)

Higher Priced Mortgage Loans are permitted with certain restrictions:

- Escrow accounts are required.
- A Full Interior/Exterior Appraisal is required to include a certification from the appraiser indicating that the appraisal was prepared in accordance with the requirements of title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12 U.S.C. 3331 ET SEQ.), and any implementing regulations.
- On a purchase transaction, a second appraisal is required if:
  - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
  - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
  - The second appraisal must be obtained prior to the note date.
  - The second appraisal must be provided to the borrower (standard delivery requirements apply).
  - The cost of the second appraisal may not be passed along to the borrower.
  - Note that the timelines are measured from the date the seller became the legal owner of the property and the date the purchase agreement was signed by all parties.
- If the seller acquired the property through the following methods, a second appraisal is not required:
  - Bridge loans (for 12 months or less),
  - Reverse mortgages,
  - Loans for the initial construction of a dwelling – note that this is for a true construction loan, not for the end loan purchase of a newly constructed property,
  - A local, state, or federal government agency, Through a foreclosure or deed in lieu, or Inheritance or through a dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets.

## 1.14 STATE AND FEDERAL HIGH COST LOANS

Lead Plus, Federal does not permit high cost ITIN mortgages. In addition, any loan that meets the definition of "high cost", "high risk", "covered", "subprime" or any similar designation under state or local law is not permitted.

States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, Lead Plus Wholesale and Correspondent Lending does not purchase or originate 1st Lien loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.





## 1.15 WAIVING ESCROWS

Waiving escrows is not permitted.

## 1.16 PRINCIPAL CURTAILMENT

A curtailment may be applied to refund the overpayment of fees or charges paid by the borrower, in any amount.

If the borrower receives more cash back than is permitted for cash out refinances, a curtailment to reduce the amount of cash back to the borrower to bring the loan in compliance may be applied however the maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount.

## 1.17 MAXIMUM INTEREST CREDIT

Lead Plus allows an interest credit through the 5th of the month.

# TRANSACTIONS

## 2.1 OCCUPANCY

Eligible occupancy types are Primary Residence, Second Home, Business Purpose Investment Properties.

### 2.1.1 PRIMARY RESIDENCE

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

To qualify as a primary residence, the transaction must meet each of the following criteria:

- Property is located in the same general area as the borrower's employment.
- Borrower intends to occupy the subject property for the majority of the year.
- Property possesses physical characteristics that accommodate the borrower's family.

### 2.1.2 SECOND HOME

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second homes are restricted to 1-unit dwellings.

Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence. Must be occupied by the borrower or members of the borrower's family for some portion of the year.
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.

### 2.1.3 INVESTMENT PROPERTY (BUSINESS PURPOSE)

- An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.
- Investment loans must be Business Purpose and processed as non-TRID transactions.
- Business Rider to the Mortgage/Deed of Trust must be executed at closing.
- All Borrowers must execute a Borrower Certification of Business Purpose and Occupancy



- Certification.
- Proceeds must be used for business purposes only. If there is any indication that the transaction is not a Business Purpose Loan, the loan would be ineligible.
- Acceptable Business Purpose Cash-Out Use:
  - Payoff of debt secured by an investment property.
  - To pay cost of improvements for an investment property.
  - Refer to Judgments and Tax Liens for applicable eligibility.

## 2.2 PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

An assignment of the purchase contract is not permitted with the exception of an individual assigning the contract to an entity in which they have ownership.

## 2.3 REFINANCE

Rate/term refinance, cash-out refinance, and debt consolidation transactions are allowed.

### 2.3.1 BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower. When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property
- retention Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to.

Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage. A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Lead Plus Wholesale and Correspondent Lending must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Lead Plus Wholesale and Correspondent Lending must take special care to ensure a net tangible benefit to the borrower.

### 2.3.2 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:



- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
  - For closed end seconds, the loan is at least six months seasoned as determined by the time between the note date of the subordinate lien and the note date of the new mortgage.

### 2.3.2.1 DETERMINING LOAN TO VALUE (R/T)

The appraised value is used to determine loan-to-value, regardless of the acquisition date. If the refinance is being completed within six months of a prior refinance, there must be a minimum of 10% savings in payment to demonstrate sufficient benefit to the borrower.

### 2.3.2.2 PROPERTIES LISTED FOR SALE (R/T)

**Owner Occupied or Second Home rate and term refinance:**

- The subject property must be taken off the market on or before the application date. The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.

**Investment Properties**

- If the new loan does not have a prepayment penalty (including when a PPP is not permitted due to state laws), the property must be taken off the market on or before the application date.
- On all occupancy types: if the property was listed for sale in the six (6) months prior to the application date, the value will be based on the lesser of the appraised value or the lowest listing price.

## 2.3.3 CASH-OUT REFINANCE

### 2.3.3.1 ELIGIBILITY REQUIREMENTS

The following requirements apply to a cash out refinance:

- A cash-out refinance is a refinance that does not meet the rate/term refinance definition.
- A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.
- A signed Borrower Certification of Business Purpose disclosing the purpose of the cash-out must be obtained on all Investment Property transactions. The purpose of the cash-out should also be reflected on the loan application. If the loan purpose for a NOO property is anything other than Business Purpose, the loan will be ineligible for approval or purchase by Lead Plus Wholesale and Correspondent Lending.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in Rate/Term Refinance
- Paying off delinquent real estate taxes (60 or more days past due)
- The amount of any non-mortgage related debt paid off through closing. Additional cash in hand reflected on the settlement statement.

### 2.3.3.2 OWNERSHIP REQUIREMENTS

- On a cash-out transaction, at least one borrower on the new loan must have been on title to the subject property (not a borrower) for at least six (6) months prior to the



disbursement date of the new loan, unless one of the following exceptions apply:

- There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- The delayed financing requirements are met.
- If the property was owned prior to closing by a limited liability corporation (LLC), partnership), or corporation that is majority-owned or controlled by the borrower(s), the time held by the entity may be counted towards meeting the borrower's six-month ownership requirement.
- Note however if the new transaction is an owner occupied or second home transaction, ownership must be transferred out of the entity's name at/prior to closing.
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

### 2.3.3.3 SEASONING

For all cash-out refinance transactions, a minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property unless otherwise specified in a product section or matrices. The most recent mortgage transaction includes either the most recent purchase of the property or a subsequent refinance of the property. This requirement does not apply in the following situations:

- Delayed Financing
- When buying out a co-owner pursuant to a legal agreement

Note date to note date is used to calculate seasoning requirements.

### 2.3.3.4 DETERMINING LOAN TO VALUE (C/O)

For cash out refinances on properties owned  $\geq 6$  months to  $< 12$  months, the appraised value may be utilized to determine property value. If the new appraised value is more than 120% of the acquisition cost, the appraisal should show signs of recent improvements justifying the increase in value.

If the property was acquired  $\leq 6$  months, cash out is only permitted for Delayed Financing.

### 2.3.3.5 PROPERTIES LISTED FOR SALE (C/O)

**Owner Occupied or Second Home cash-out refinance:**

- The subject property must be taken off the market on or before the application date.
- The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.

**Investment properties**

- If the new loan does not have a prepayment penalty (including when a PPP is not permitted due to state laws), a cash out refinance is not permitted. The loan must be completed as a rate and term refinance.
- On all occupancy types: If the property was listed for sale in the six (6) months prior to the application date, the value will be based on the lesser of the appraised value or the lowest listing price.

### 2.3.3.6 CASH-OUT LIMITS

See program matrix for cash out limits.

## 2.3.4 DELAYED FINANCING (CASH-OUT)

Cash-out on properties purchased by the borrower with cash and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction.



- Settlement statement from purchase confirms no mortgage financing used to acquire subject with the exception of instances in which the borrower has obtained a short term and/or hard money type loan which is being paid through proceeds. A copy of the note is required to verify the terms.
  - Note that in Texas on an owner-occupied transaction, delayed financing is only permitted when the property was purchased entirely in cash; the payoff of a short term and/or hard money loan is not permitted.
- Source of funds used for purchase are documented, such as bank statements, personal loan documents, or a HELOC on another property. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured to another property), the settlement statement for the refinance transaction must reflect that all cash out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Note that funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new loan.
- 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.

#### 2.3.4.1 BENEFIT TO BORROWER

Debt consolidation transactions must result in the following benefits to the borrower:

- Total monthly debt payments are lowered by at least 10%; and
- Closing costs must be recouped within 60 months, excluding Taxes, insurance, prepaids and interest.
  - Note: If not saving 10%, revert to Cash Out LTV on Lead Plus Wholesale and Correspondent Lending Matrices

#### 2.3.4.2 DETERMINING LOAN TO VALUE

For properties owned between (6) to (12) months, the appraised value may be utilized to determine property value with some restrictions.

- The loan amount may not exceed 100% of the acquisition cost plus documented improvements, or
- The new appraised value may not exceed 120% of the acquisition cost

If the property was acquired  $\leq 6$  months from application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

#### 2.3.4.3 PROPERTIES LISTED FOR SALE

If the property was listed for sale within six (6) months prior to the application date, the lesser of all the recent list prices or the current appraised value will be used to determine loan- to-value.

## 2.4 FLIP TRANSACTIONS

When the subject property is being resold within 180 days of its acquisition by the Seller with more than a 20% increase in value, the transaction is considered a “flip”. To determine the 180-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction including but not limited to the spouse of the Seller or Borrower being the Realtor on the transaction.
- No pattern of previous flipping activity may exist in the last twelve (12) months.



Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan. The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.

- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.
- If the value of the property being purchased after being rehabbed appraises at more than 20% of the seller's acquisition cost and the 6-months seasoning requirement is not met, one
- full interior/exterior appraisal and a Clear Capital Desk Review is required, unless the loan is an HPML Purchase Transaction in which case the below requirement applies.
- HPML Purchase Transactions
  - On a purchase transaction, a second appraisal is required if:
    - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
    - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
    - The second appraisal must be obtained prior to the note date.
    - The second appraisal must be provided to the borrower (standard delivery requirements apply).
    - The cost of the second appraisal may not be passed along to the borrower.
    - Note that the timelines are measured from the date the seller became the legal owner of the property and the date the purchase agreement was signed by all parties.
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: [Appraisals for Higher-Priced Mortgage Loans | Consumer Financial Protection Bureau](#)

If the seller acquired the property through the following methods, a second appraisal is not required:

- Bridge loans (for 12 months or less),
- Reverse mortgages,
- Loans for the initial construction of a dwelling – note that this is for a true construction loan, not for the end loan purchase of a newly constructed property,
- A local, state, or federal government agency,
- Through a foreclosure or deed in lieu, or
- Inheritance or through a dissolution of marriage, civil union or domestic partnership, or through the partition of the seller's joint or marital assets.

## 2.5 NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan.

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Renters purchasing from current landlord.
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.

Non-arm's length transactions are subject to all of the following requirements for Primary Residence, Second Home and Investment Properties:

- Relationship must be fully disclosed.



- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
  - Letter is not required when borrower is purchasing the property they have been residing in, i.e., lease purchase or tenant-purchase situations.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- Lead Plus Wholesale and Correspondent Lending must be satisfied that the transaction makes sense.
- All liens on title to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property.

The following additional requirements apply only to family sales:

- Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months (if applicable)
- Verification that the borrower has not been in title to the property in the past 24 months.
- Gift of equity is permitted. See the Gift of Equity section in this Guide

## 2.6 INHERITED PROPERTIES AND PROPERTY BUYOUTS

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out.

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained.
- Equity owners must be paid through settlement.
- Subject property has cleared probate, and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value.

## 2.7 LAND CONTRACT/ CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered rate/term refinance.

If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase.

The following requirements apply:

- Primary Residence only when the land contract is unrecorded. Second Homes and Investment Homes are permitted only when the Land Contract has been recorded for a minimum of 12 months prior to closing on the new transaction.
- Copy of fully executed land contract and payoff(s) to be obtained.
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history.
- Liens on title to be paid in full and reflected on settlement statement at closing.
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash-out and non-arm's length transactions not eligible





- If the Land Contract was recorded it is not considered a Non-Arm's Length Transaction.
- If they have been in the Contract for Deed agreement for more than 12 months, the borrower will not be considered a FTHB.

## 2.8 LEASE WITH PURCHASE OPTION

Lease with purchase option transactions is allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See Rent Credit for Lease with Purchase Option for detailed requirements.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments
- If they have been in the lease purchase agreement for more than 12 months, the borrower will not be considered a FTHB.

## 2.9 PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for construction loan.

A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete. See New Construction.

- For lots owned  $\geq 12$  months from application date for the subject transaction, LTV is based on the current appraised value.
- For lots owned  $< 12$  months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

## 2.10 USE OF FOREIGN NOTARIES FOR CLOSING

Documents signed outside of the United States must be notarized by a US embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention: [U.S. Hague Convention Treaty Partners](#)

Model Apostille forms can be found on the following link: [HCCH | Apostille Section](#)

## 2.11 TEXAS HOME EQUITY LOANS

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. Texas 50(a)(4) allows for a rate or term refinance of an existing Texas Home Equity loan.

All Texas Home Equity transactions must comply with the more restrictive of the Lead Plus Wholesale and Correspondent Lending Loan Purchase Eligibility Guidelines or Texas Home Equity Loans Requirements.





### 2.11.1 LENDER CERTIFICATION

The Lender certifies that with respect to all the Texas Section 50(a)(6) mortgages delivered to Lead Plus Wholesale and Correspondent Lending:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The Lender has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that Lender failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages. Such a process must be adequate to ensure that the Lender will correct the failure to comply by one of the authorized means no later than the 60th day after the date the Lender is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the Lender regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The Lender certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the Lender given to Lead Plus Wholesale and Correspondent Lending connection with each Texas Section 50(a)(6) mortgage.

### 2.11.2 GENERAL REQUIREMENTS

The following parameters apply to Texas Section 50(a)(6) mortgages: Eligible Products:

- 30 Year Fixed Rate Term (Fully amortizing)
- Full Documentation, 1099, Personal Bank Statement, Business Bank Statement and Asset Utilization Documentation allowed.
- Maximum LTV/CLTV 80/80% 1-unit properties only

### 2.11.3 LOAN PARAMETERS

**The following are considered Texas Section 50(a)(6) loans:**

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work)
- Loans using proceeds to pay off federal tax debt liens.
- Loans using proceeds to pay property tax liens on the property securing the new loan.
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property.
- Loans with any cash back to the borrower

**The following are NOT considered Texas Section 50(a)(6) loans:**

- Loans using proceeds to pay current taxes due on the property securing the loan.
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement)
- Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount (new loan must have a new title policy issued without exception to the financing of the prepayment fee)
- Loans that include the payment of HOA dues if the title company requires them to be paid.



- Lead Plus Wholesale and Correspondent Lending will do NOO properties in Texas.

## 2.11.4 RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans may not be refinanced more than once a year (>12 months)
- There can be only one outstanding 50(a)(6) loan on a property at any given time.
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off.
- The 50(a)(6) loan may not be used to acquire the property or to finance construction.

## 2.11.5 OCCUPANCY

Texas Home Equity loans are allowed on primary residences only. All borrowers on the loan must be in title and occupy the subject property as their primary residence.

Cash-out transactions are permitted on 2nd homes and investment properties in Texas as long as they were never previously Texas A6 loans.

## 2.11.6 PAYOFF OF DEBT

Lead Plus Wholesale and Correspondent Lending may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- Lead Plus Wholesale and Correspondent Lending may not require any other Lender-owned debt be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other sellers/creditors is required to qualify the borrower, then those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.
- Debts that are elected to be for paid off by the borrower but are not required to be paid off to qualify the borrower, may be disbursed directly to the borrower.
- Installment debts a payoff is required.
- Revolving debt uses the balance on the credit report.

## 2.11.7 BORROWERS

The following borrowers are permitted on Texas Home Equity loans. All borrowers must maintain primary occupancy in the subject property:

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens

The following borrowers are not allowed:

- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- Foreign Nationals
- Corporations, partnerships, or LLCs
- Trusts

## 2.11.8 NON-BORROWING SPOUSE

A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following:

- Notice Concerning Extension of Credit and an application signed by all property owners. The signing of both documents starts the 12-day “cooling off” period.
- Security Instrument (including any Riders)
- Federal Truth-in-Lending (TIL) Disclosure
- Statement Right of Rescission Notice
- Discount Point Disclosure



- Acknowledgment of Fair Market Value
- Premium Pricing Disclosure
- All owners must sign the application and the Notice Concerning Equity Loan Extension of Credit (English or Spanish). The signing of both documents starts the 12-day 'cooling off' period.
- Notice of Presentment of CD One Day Before Closing
- Texas Home Equity Affidavit and Agreement
- Owner's Affidavit of Compliance Receipt of Copies of Documents Certificate of Non-Cancellation of Loan

## 2.11.9 REFINANCING AN EXISTING HOME EQUITY LOAN

Effective for loans made on or after 1/1/18, existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed.
- the additional loan amount only covers the actual costs of the refinancing and does not provide the consumer with additional funds.
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The 'Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner:

For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner/owner's spouse.

Note: All the above requirements must be met for the home equity loan to be refinanced as a non-home equity loan.

**NOTICE CONCERNING REFINANCING A HOME EQUITY LOAN**

YOUR EXISTING LOAN THAT YOU DESIRE TO REFINANCE IS A HOME EQUITY LOAN. YOU MAY HAVE THE OPTION TO REFINANCE YOUR HOME EQUITY LOAN AS EITHER A HOME EQUITY LOAN OR AS A NON-HOME EQUITY LOAN, IF OFFERED BY YOUR LENDER.

HOME EQUITY LOANS HAVE IMPORTANT CONSUMER PROTECTIONS. A LENDER MAY ONLY FORECLOSE A HOME EQUITY LOAN BASED ON A COURT ORDER. A HOME EQUITY LOAN MUST BE WITHOUT RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE.

IF YOU HAVE APPLIED TO REFINANCE YOUR EXISTING HOME EQUITY LOAN AS A NON-HOME EQUITY LOAN, YOU WILL LOSE CERTAIN CONSUMER PROTECTIONS. A NON-HOME EQUITY REFINANCED LOAN:

- (1) WILL PERMIT THE LENDER TO FORECLOSE WITHOUT A COURT ORDER;
- (2) WILL BE WITH RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE; AND
- (3) MAY ALSO CONTAIN OTHER TERMS OR CONDITIONS THAT MAY NOT BE PERMITTED IN A TRADITIONAL HOME EQUITY LOAN.

BEFORE YOU REFINANCE YOUR EXISTING HOME EQUITY LOAN TO MAKE IT A NON-HOME EQUITY LOAN, YOU SHOULD MAKE SURE YOU UNDERSTAND THAT YOU ARE WAIVING IMPORTANT PROTECTIONS THAT HOME EQUITY LOANS PROVIDE UNDER THE LAW AND SHOULD CONSIDER CONSULTING WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THESE PROTECTIONS.

YOU MAY WISH TO ASK YOUR LENDER TO REFINANCE YOUR LOAN AS A HOME EQUITY LOAN. HOWEVER, A HOME EQUITY LOAN MAY HAVE A HIGHER INTEREST RATE AND CLOSING COSTS THAN A NON-HOME EQUITY LOAN.



## 2.11.10 12-DAY COOLING OFF PERIOD

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English.

And an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Equity Loan Extension of Credit.
  - E consent signatures are acceptable.
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non-borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
  - The date the initial loan application is signed, or
  - The date that the Notice Concerning Equity Loan Extension of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

## 2.11.11 SECONDARY FINANCING

New subordinate financing is not allowed, but existing subordinate financing may remain in place. See Secondary/Subordinate Financing.

## 2.11.12 PROPERTY CHARACTERISTICS

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in the state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

## 2.11.13 URBAN AND RURAL HOMESTEAD DEFINITIONS

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may exceed 10 acres. However, the lot size must be typical and common with highest and best use as residential. In no case may the lot size exceed 20 acres.
PROPERTY LOCATION AND SERVICES	Property must be located: <ul style="list-style-type: none"><li>- Within municipal boundaries, or</li><li>- Its extraterritorial jurisdiction, or</li><li>- A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a municipality or under contract to a municipality:<ul style="list-style-type: none"><li>• Electric</li><li>• Natural gas</li><li>• Sewer</li><li>• Storm sewer</li><li>• Water</li></ul></li></ul>	The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is located in one of those types of areas: <ul style="list-style-type: none"><li>- It is not served by police protection or paid, or volunteer fire protection provided by the municipality or under contract to a municipality, and</li><li>- The municipality provides directly or under contract less than three (3) of the following services:<ul style="list-style-type: none"><li>• Electric</li><li>• Natural gas</li><li>• Sewer</li><li>• Storm sewer</li><li>• Water</li></ul></li></ul>



Properties determined to be 'Urban' cannot exceed 10 acres. Property determined to be 'Rural' may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

### 2.11.14 CLOSING REQUIREMENTS ATTORNEY REVIEW ATTORNEY REVIEW

All documents must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by Lead Plus Wholesale and Correspondent Lending

- McGlinchey Stafford and Youngblood & Associates
- Polonsky Betel Green, LLP
- Brown, Fowler, Alsip
- Beadle, Newman, & Lawler
- Gregg & Valby, LLC
- Black, Mann and Graham, LLP
- Robertson Anschutz Vettters, LLC

### 2.11.15 CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The Lender is responsible for ensuring all timing requirements under Regulation Z and state law are complied with. Borrowers must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

### 2.11.16 POINTS AND FEES

Borrower paid fees are limited to 2% of the principal balance (including the origination fee). The following are not included in the 2% limitation:

- Lender paid closing costs.
- Per diem interest
- Bona fide discount points are used to reduce the interest rate.
- Escrow/impound funds.
- Appraisal fee paid to third-party appraiser.
- Surveys (completed by state registered or licensed surveyors)
- A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law; or if a mortgagee title policy is not issued, a title examination report (if cost is less than the state base premium for a mortgagee title policy without endorsements)

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment. Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

### 2.11.17 POWER OF ATTORNEY

Power of Attorney is not allowed.

### 2.11.18 SURVEY

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size.
- Evidence homesteads property and any adjacent land are separate.
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available.
- Properties must be served by municipal utilities, fire, and police protection.
- Homestead must be separate parcel within permissible acreage.





A T19 endorsement is permitted in lieu of a survey when title is willing to insure over it; title survey and/or encroachment exceptions are not permitted.

## 2.11.19 TITLE

A title insurance policy written on Texas Land Title Association forms (standard or short) including T42 and T42.1 endorsements are required.

For self-employed borrowers operating a business from the homestead property, the title company must issue a T42.1 endorsement without exception or deletion. Title may not include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance”; or
- defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company’s office or attorney’s office. No mobile notaries are permitted.

## 2.11.20 TEXAS HOME EQUITY DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and seller must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)
- Texas Home Equity Note (Form 3244.1)
- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condominium Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Lender’s Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the Seller’s Attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings if borrower owns more than one. Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)
- Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan or a HELOC) with subordination agreement, if applicable

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size.
- Evidence homesteads property and any adjacent land are separate.
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available.
- Properties must be served by municipal utilities, fire, and police protection.
- Homestead must be separate parcel within permissible acreage.

A T19 endorsement is permitted in lieu of a survey when title is willing to insure over it; title survey and/or encroachment exceptions are not permitted.

# BORROWERS

A borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage/deed of trust and note. If two or more individuals own the property jointly, and are jointly and severally liable for the note, all are considered to be borrowers.



While only individuals may act as borrowers, a related Business Entity or Inter Vivos Revocable Trust may have an ownership interest through title to the subject property under certain circumstances as enumerated in the Vesting and Ownership section.

### 3.1 CUSTOMER IDENTIFICATION PROGRAM ( CIP)

The 28USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers. Lenders are to follow the published CIP procedures for each Lender to ensure the identity of all borrowers has been documented.

### 3.2 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers and/or guarantors. Report findings must cover standard areas of quality control including, but not limited to borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the Lender. If the Lender cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the Lender is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the Lender's underwriting staff or operations management personnel.

## ITIN

### 4.1 ITIN - PROGRAM RESTRICTIONS

- ITIN eligible with the LEAD PLUS ITIN - See related Program Matrix
- Minimum loan size \$125,000
- Maximum DTI 50%
- Escrow Impounds required.

### 4.2 ITIN MATRIX

PRIMARY						
Credit Score	Max Loan Amount	Max LTV/CLTV Purchase & Rate/Term		Max LTV/CLTV Cash-Out Refinance		Property Type¹
		Full Doc²	Alt Doc	Full Doc	Alt Doc	
740	1,500,000	85*	80	80	80	1-Unit SFR/PUD, Condo (Warrantable and Non-Warrantable)
	2,000,000	80	80	80	80	
	2,500,000	75	75	75	70	
720	1,500,000	85*	80	80	80	
	2,000,000	80	80	80	75	
	2,500,000	60	60	75	60	
700	1,500,000	85*	80	80	80	
	2,000,000	70	70	75	70	
660	1,500,000	80	80	75	75	
640	1,500,000	75	75	75	70	
720	1,500,000	80	80	75	75	2-4 Units
	2,000,000	75	75	60	60	
	1,500,000	80	80	70	70	
700	1,500,000	80	80	70	70	
	2,000,000	70	70	60	60	
680	1,500,000	75	75	70	70	
* Max 85% LTV; Full Doc & Purchase Only of 1-Unit SFR/PUD/TH (Condo: Ineligible). Alt Doc Purchase and R/T: Max 80% LTV.						
SECOND HOME						
Credit Score	Max Loan Amount	Max LTV/CLTV Purchase / Rate & Term		Max LTV/CLTV Cash-Out Refinance		Property Type¹
720	1,500,000	75		70		1-Unit SFR/PUD, Condo (Warrantable and Non-Warrantable)
	2,000,000	75		60		
700	1,500,000	75		70		
	2,000,000	70		60		
660	1,500,000	70		65		
INVESTMENT PROPERTY						
Credit Score	Max Loan Amount	Max LTV/CLTV Purchase / Rate & Term		Max LTV/CLTV Cash-Out Refinance		Property Type¹
700	1,500,000	75		70		1-4 Units, PUD, Condo (Warrantable and Non-Warrantable)
	2,000,000	75		70		
	2,500,000	70		65		
680	1,500,000	70		65		
	2,000,000	70		65		
	2,500,000	65		60		
660	1,500,000	70		65		
	2,000,000	60		N/A		



## 4.3 ITIN - DOCUMENTATION REQUIREMENTS

- Government photo ID from US or eligible country of origin. Examples include:
  - Government license,
  - passport,
  - matricular consular, etc.
  - A Visa is not required in addition to the above for an ITIN borrower.
- ITIN card or letter from the IRS
  - ITIN is required to be assigned to the borrower prior to application (See ITIN – Borrower Eligibility).
- All documentation in the file must support the borrower’s ITIN number and cannot reference a SSN belonging to another individual.
  - Evidence of unexpired ITIN can be accomplished as follows:
- Full Doc/1099 loans: Current executed transcripts will validate the borrower’s current ITIN status.
- Alt Doc loans: Provide one of the following:
  - IRS letter dated less than three years ago.
  - Fully executed W7, including agent’ signature.
  - Letter from Tax Preparer confirming they have filed the borrower’s most recent tax return with the IRS.
- DACA is eligible with ITIN / SSN with Valid US driver’s license along with EAD card evidencing their DACA status.

## 4.4 ITIN - PRODUCTS / LOAN TERMS

- 30-Yr FRM Fully Amortizing & I/O
- 15-Year FRM Fully Amortizing
- I/O Products: 30-Yr FRM/30-yr term only

## 4.5 ITIN - BORROWER ELIGIBILITY - LEAD PLUS

### 4.5.1 ITIN ELIGIBLE

ITIN must be valid and at least 2 years consistent ITIN payments reporting to the IRS is required. This can be validated with the borrower’s current ITIN # along with a 2-year employment history. If multiple borrowers, one borrower must have ITIN.

### 4.5.2 INELIGIBLE

- Irrevocable or Blind Trusts
- Inter-Vivo Revocable Trust
- Limited partnerships, general partnerships, corporations.

## 4.6 ITIN - CREDIT REQUIREMENTS

- Housing/Rental History: 0x30x12, plus VOR/VOM
  - Borrowers who own their primary residence free and clear are considered to have an acceptable housing history.

### 4.6.1 ITIN - CREDIT SCORE REQUIREMENTS

- A minimum of two credit scores is required.
- One score is permitted when the credit report has sufficient tradeline activity, defined as follows:
  - 3 trades reporting for 12+ months, OR





- 2 trades reporting for 24+ months, OR
- 2 year mortgage history.
- Middle of three or lower of two scores for the primary wage earner is considered the qualifying score. When only one score is present, that score is considered the qualifying score.

#### 4.6.2 ITIN - MINIMUM TRADELINES

- If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived.
- Spouses can combine tradelines.
- If no full housing history and has 3 scores, OR when only 2 scores are available:
  - Two open and active trades reporting for 24 months; or
  - Three open and active trades reporting for 12 months
  - Authorized user accounts and/or collections and charge-offs are not considered a valid tradeline.

#### 4.6.3 ITIN - NON-TRADITIONAL CREDIT

Can be considered when borrowers have at least two (2) credit scores, but do not meet the standard tradeline requirements.

If the borrower is unable to meet the above tradeline requirements, they may qualify using Non-Traditional Trades as defined below.

- A minimum of two (2) credit scores is required.
- Loan Amount is  $\leq$  \$1,500,000.
- The credit history must include three (3) credit references covering the most recent 12 months' activity from date of application with cancelled checks.
- Acceptable tradelines may be mortgage/rental verification, utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of nontraditional credit.
- It is permissible to combine trades from the credit report along with non-traditional credit to meet the tradeline requirements.

### 4.7 ITIN - Income

#### 4.7.1 ITIN - WAGE EARNER

- Wage Earner: Fully executed Written Verification of Employment (WVOE) covering the previous 1- or 2- years.
- 1-2 years' W2 borrower's income, including but not limited to variable income, is calculated by using the previous years' WVOE unless the YTD income is declining. Declining income will be viewed on a case-by-case basis to determine stability of earnings.
- Verbal Verification (VVOE) within 10 days of the Note Date. 1-2 years signed 1040s.
- Executed 4506-C on 1040s.

#### 4.7.2 ITIN - SELF EMPLOYED

**Required Documentation for all Borrowers:**

- 1- or 2- years signed 1040s, including all pages, schedules, statements.
- Year to date Profit and Loss Statement signed by the borrower along with most recent two
- (2) months of bank statements that align with the good through date on the P&L
- K-1's on all corporations and Schedule E business entities for the prior 1- or 2- years.
- Business returns on all Corporations and Schedule E business entities prior 1- or 2- years; if ownership is  $\geq$  25%, including all pages, schedules, statements.
- Executed 4506-C on 1040s



- Verification of business existence within 30 days of the Note Date

### 4.7.3 ITIN - ALT DOC

ITIN borrowers can qualify using the following alternative documentation options:

- 12- or 24- months personal or business bank statements, or
- 2- years 1099, or
- Asset Utilization (See ITIN – Asset Utilization)

### 4.7.4 ITIN - RENTAL INCOME

- Owner Occupied 2-4-Units: may add 75% of gross rent to borrower's qualifying income. NOO: Income used to qualify is 75% or the lesser of documented rent or market rent per appraisal.

### 4.7.5 ITIN - ASSET UTILIZATION

Asset Utilization is permitted for ITIN borrowers up to 80% LTV using a 60-month amortization of the eligible assets to determine qualifying income stream.

## 4.8 ITIN - RESERVES

- $\leq \$500,000 = 3$  months PITIA w/LTV  $\leq 80\%$
- $\leq \$500,000 = 6$  months PITIA w/LTV  $> 80\%$
- $\$500,000$  to  $\$1,500,000 = 6$  months PITIA
- $> \$1,500,000$  to  $\$2,500,000 = 9$  months PITIA
- $> \$2,500,000$  to  $\$3,500,000 = 12$  months PITIA
- Cash-out proceeds may be used to satisfy reserves.
- Min of 30-days asset verification required; any large deposit must be sourced
- Reserves not required when using Asset Utilization solely to qualify

## 4.9 ITIN - GIFT FUNDS

Gift Funds are acceptable with the following requirements:

- Allowed with 5% minimum contribution from borrower's own funds for Owner Occupied. Allowed with 10% minimum contribution from borrower's own funds for 2nd Home.
- 100% of down payment and closing cost may come from gifted funds for OO and SH to 75% LTV.
- Gift funds are not permitted on NOO.
- May not be used to meet reserves.
- Fannie Mae guidelines should be used for donor eligibility, documentation, proof of funds, and evidence of receipt.
- Gift of Equity allowed for Primary Residence only and 75% maximum LTV.
- Must meet all other guidelines for Gift Funds.

## 4.10 ITIN - ELIGIBLE PROPERTY TYPES

- Single Family Residences PUDs
- Townhouses
- Condominiums - Warrantable
- Condominium Non-Warrantable (Max 75% LTV)
- 2-4 Units (See Matrices for LTV Restrictions)

## 4.11 CO-BORROWERS

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note. All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards. All co-borrowers must occupy and take title to the subject property. A related Business Entity or Inter Vivos Revocable Trust may have an ownership interest in title to the subject



property. Co-borrowers may not be an interested party to the transaction. Examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is generally permitted.)

### 4.11.1 NON-OCCUPANT CO-BORROWERS

Non-occupant co-borrowers are allowed under the LEAD PLUS ITIN Program when the following requirements are met:

- Primary occupancy only
- Purchase and rate/term only (non-occupant must be on the current mortgage for a rate/term refinance)
- Non-occupant co-borrower must be a relative
- Max 80% LTV
- Max 50% Total DTI.
- Max 65% DTI for Occupying Borrower on manually underwritten loans only.
- Max loan amount \$1,000,000
- Still use primary wage earners score, whether it be the occupant or non-occupying coborrower.

## 4.12 FIRST-TIME HOME BUYERS

A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 5-year period.

The following requirements apply to First-Time Home Buyer transactions:

- Primary residence, second homes; and investment properties.
- Minimum 640 score
- Permitted on LEAD PLUS ITIN for loan amounts up to \$1,500,000.

If a spouse is on the deed of a principal residence in the last 36 months, they are not a first-time home buyer.

If either borrower has had ownership interest, as defined above, the loan is not subject to the First Time Homebuyer restrictions.

## 4.13 EMPLOYEES OF CLIENT

Loans to employees of Client are allowed. Transactions must meet the following requirements:

- Primary residence and second homes only.
- Loans must adhere to non-arm's length transaction guidelines.
- Officers of the Lender are permitted on an exception basis only.

## 4.14 LIMITED POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when following requirements are met:

- Signed and Notarized Recorded with the mortgage/deed of trust.
- Contains an expiration date.
- Used only to execute the final loan documents.
- Borrower who executed the POA signed the initial 1003.
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney.
- POA is not permitted on cash out or when title is vested in a trust or an entity.

## 4.15 VESTING AND OWNERSHIP

### 4.15.1 FEE SIMPLE OWNERSHIP

Acceptable forms of vesting with Fee Simple ownership are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity (NOO ONLY)
  - Limited Liability Company (LLC)
  - Limited and General Partnerships
  - Corporations
  - S Corporations

Note: Only individuals can act as borrowers. The other entities listed above relate only to an ownership interest in the subject property.

Ineligible forms of vesting are:

- Land Trusts
- Blind Trusts
- Life Estates
- Non-Profit Corporations
- Irrevocable Trusts

#### 4.15.2 INTER VIVOS REVOCABLE TRUST

Inter Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers). The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) who establish the trust. The trust must become effective during the lifetime of the person establishing the trust.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage. A Power of Attorney is not permitted on loans when title is vested in a trust.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the individual parties establishing the trust must use personal income or assets to apply and qualify for the mortgage.

A copy of the trust is required, or a signed attorney's opinion may be obtained in lieu of the trust documents. The opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed.
- Settler(s) of the trust
- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees
- Name of trustees
- Manner in which vesting will be held.

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.



The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

Trust Certs are allowed when permitted by the state.

Closing Documents must be executed in compliance with FNMA signature requirements for Mortgages to Inter Vivos Trusts : [Signature Requirements for Mortgages to Inter Vivos Revocable Trusts | Fannie Mae](#)

### 4.15.3 ENTITY VESTING

Ownership or title vesting in the name of an LLC, partnership, or corporation (collectively 'Entity') is acceptable on investment property transactions only. While only individual owners of the Entity must qualify as the borrowers, ownership of the subject property may vest in an Entity.

To vest ownership in an Entity, the following requirements must be met:

- Investment properties only
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders)
- Personal Guarantees are required from the authorized signor(s) who are borrowers on the loan along with any individual with 50% or greater ownership in the entity.
- The loan application, credit report, income, and assets for the authorized signer will be used to determine qualification and pricing.
  - If the operating agreement does not state an authorized signer, then all entity owners must apply as a borrower and complete a 1003 as an individual applicant.

Entity must be domiciled in a US State

- Each Entity owner must receive notice of the loan and its terms prior to closing.
- LLCs owned by LLCs will be reviewed on a case-by-case basis.
  - LLC documentation requirements must be met for each of the layered entities

The following Entity documentation must be provided:

- Limited Liability Company (LLC)
  - Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
  - Corporate documents that contain a list of owners along with titles
  - Tax Identification Number (EIN)
  - Good Standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from the state website).
  - Certificate of Good Standing for the current year.
  - Certificate of Authorization for the person executing all documents on behalf of the Entity Borrowing Certificate (LLC Borrowing Certificate – Single Member or LLC Borrowing Certificate – Multiple Member). Examples of these forms can be found on the portal in the Documents section.
- Corporation
  - Filed Certificate/Articles of Incorporation (and all amendments) By-Laws (and all amendments)
  - Certificate of Good Standing issued by the Secretary of State where the corporation is incorporated.
  - Tax Identification Number (EIN)
  - Borrower Resolution/Corporate Resolution granting authority of signer to enter into a loan obligation.
  - Receipt of current year franchise tax payment or clear search
- Partnership
  - Filed Partnership Certificate (if a general partnership, filing with the SOS may be required)
  - Partnership Agreement and all amendments



- Certificate of Good Standing issued by the Secretary of State where the partnership is registered.
- Tax Identification Number (EIN)
- Limited partner consents (where required by partnership agreement)

**Documents must be completed and signed as follows:**

- Loan Application (1003)
  - Completed and signed by the authorized signer or each individual owner.
  - 1003 section labeled “Title will be held in what Name(s)” should be completed with only the Entity name.
- Personal Guaranty
  - Is not required, WHEN ALL members of the entity sign the note personally AND for the entity and sign the mortgage as a member of the entity.
  - If the above is not true, then:
    - Personal Guaranty is required and must be executed by all borrowers, as well as any individual with 50% or greater ownership in the entity.
    - The guaranty for any non-borrower with a 50% or greater ownership in the entity may be executed prior to closing, however any terms referenced on the guaranty must reference the final terms on the loan.
    - Spousal Consent to Pledge on loan amounts \$1,000,000 and up
    - Spousal Consent to Pledge in community property states (AK, AZ, ID, LA, NM, TX, WA, WI).
    - Each individual who is providing a personal guaranty; the authorized signer is required to sign.
    - The guaranty should be executed at loan closing and dated the same day as the Note.
- Borrowing Certificate
  - Signed by all entity members providing acknowledgement to terms of the financing.
- Disclosures (GFE/LE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each individual borrower.
- CD or HUD 1 - completed and signed by the authorized signer.
- Other Closing Documents (Final TIL, Business Purpose and Occupancy Affidavit, etc.) - completed by the Authorized signer or individual owners(s) of the Entity.

Note– must be completed by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property when accompanied by a Personal Guaranty OR by all members of the Entity both individually and as members when a Personal Guaranty is not executed.

- Deed of Trust/Mortgage, and all attached Riders – must be completed as a member by the authorized owner(s) of the Entity who can legally sign and bind the Entity that is the vested owner of the subject property.

**Entity Signature Requirement Examples:**

- [Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing member, Member, etc.).
- Example 1:
  - Borrower: SS Properties, LLC by Steve Smith, Single Member of LLC
  - Signature Block of Note, Security Instrument, and all Riders:

SS Properties, LLC a [                      ] limited liability company <u>Steve Smith</u> By: Steve Smith Title: [                      ]
---



- Example 2:
  - Borrower: SS Properties, LLC by Steve Smith and Mary Smith, two Members of LLC; both Members are Authorized Signatories of LLC.
  - Signature Block of Note, Security Instrument, and all Riders:

SS Properties, LLC a [                      ] limited liability company <u><b>Steve Smith</b></u> By: Steve Smith Title: [                      ] And SS Properties, LLC a [                      ] limited liability company <u><b>Mary Smith</b></u> By: Mary Smith Title: [                      ]
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#### 4.15.4 LEASEHOLD ESTATE

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. See also Leasehold Appraisal Requirements.

The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

- Leasehold condominiums are not permitted.

##### 4.15.4.1 LEASE REQUIREMENTS

The following requirements must be met for leases associated with leasehold estate mortgage loans:

- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage unless fee simple title will vest at an earlier date in the borrower's name.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), 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 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.

#### **4.15.4.2 ADDITIONAL ELIGIBILITY REQUIREMENTS**

The following requirements must be met before a lender can deliver a leasehold estate mortgage for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor.

#### **4.15.4.3 OPTION TO PURCHASE FEE INTEREST**

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

### **4.15.5 MULTIPLE FINANCED PROPERTIES AND Lead Plus Exposure**

Lead Plus Wholesale and Correspondent Lending exposure may not exceed \$10M aggregate with a maximum of 10 loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis to a maximum of 15 million.

### **4.15.6 INELIGIBLE BORROWERS**

The following borrowers are not eligible:

- LLCs, partnerships, or corporations (may qualify for vesting only)
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction.
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts (trusts may qualify for ownership vesting only)
- Borrowers less than 18 years old
- Refer to matrices for vesting restrictions on loans with Prepayment Penalties.
- Refer to the State Restrictions section in this Guide and Matrices.

## **CREDIT ANALYSIS**

### **5.1 EQUAL CREDIT OPPORTUNITY ACT, FAIR HOUSING ACT & STATE FAIR LENDING LAWS**

The Federal Equal Credit Opportunity Act prohibits lenders from discriminating against credit borrowers on the basis of race, color, religion, national or ethnic origin, sex, marital or familial status, age (provided the borrower has the capacity to enter into a binding contract), disability, because all or part of the borrower's income is derived from a public assistance program or because the borrower has, in good faith, exercised any rights under the Consumer Credit Protection Act. State laws may also prohibit discrimination on certain additional basis such as sexual orientation.

Similarly, the Fair Housing Act prohibits lenders from discriminating against mortgage borrowers on the basis of race, color, religion, sex, familial status, national origin, or disability.





Lead Plus Wholesale and Correspondent Lending expects lenders originating loans for sale to Lead Plus Wholesale and Correspondent Lending to adhere to the letter and spirit of federal and state fair lending laws.

## 5.2 CREDIT REPORT

A credit report is required for all borrowers on a loan. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan. Either a three-bureau merged report, or a Residential Mortgage Credit Report (RMCR) is required. The credit report should 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 individual has resided in the last 2 years.

## 5.3 FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved prior to closing. The actions must be reasonable and compliant with applicable laws. A final underwriting decision cannot be made without full resolution of the alert.

## 5.4 CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report will be obtained to reflect current and updated information from all repositories.

## 5.5 INQUIRIES

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request.

## 5.6 UPDATED PAYMENT HISTORIES

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

## 5.7 CREDIT RESCORE

Credit Rescoring:

- Lead Plus Wholesale and Correspondent Lending, will allow credit rescoring on Business Purpose loans only. Credit rescoring for all other loan transactions involving owner occupied and second home occupancies are not permitted for the purpose of increasing the score to qualify, except to correct a reporting error as indicated in the permissible scenarios listed below.
- Lead Plus Wholesale and Correspondent Lending, will not purchase a loan that does not meet the requirements listed above and/or below.

Permissible scenarios for owner occupied and second home transactions in which an updated credit report would be permitted (These rare instances must be acceptable at the sole discretion of the Underwriter based on the documentation provided):

- Borrower disputed erroneously reported account activity:
  - Mortgage, Installment, or Revolving account with current balance does not belong to



the borrower(s)

- Delinquent account does not belong to the borrower(s)
- Borrower's account was paid off prior to making loan application; however, credit report shows a current balance and payment.
- The creditor must acknowledge responsibility for the reporting error in writing (no exceptions); the reporting agency must correct the error; and borrower must provide evidence of the investigation and corrective action.
- All credit reports pulled during the loan process must be in the loan file.
- The credit report date has expired per Age of Documentation Policy.

## 5.8 GAP CREDIT REPORT

A credit refresh or undisclosed debt monitoring report dated within 10 days of closing is required, unless the original credit report is dated within 10 days from the Note Date. Evidence of undisclosed debt monitoring report is permitted to satisfy this requirement.

## 5.9 CREDIT SCORE REQUIREMENTS

For LEAD PLUS ITIN Loans, the primary income-earner's score is used as the Representative Credit Score for each loan. The primary income-earner must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable. Additional borrowers on the loan must have at least one valid score of 540 or greater. It is permissible that a non-occupying coborrower be the primary wage earner.

To determine the Representative Credit Score for the primary wage-earner, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided. When qualifying income amount is equal for all borrowers on the loan, the highest Representative Credit Score of all borrowers will be used.

TRADELINE REQUIREMENTS			
MINIMUM TRADELINES			
If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived			
	OCCUPANCY	TRADELINE HISTORY	MINIMUM STANDARDS
STANDARD TRADELINE	Primary, Second Homes and Investment	3 tradelines reporting for 12+ months with activity in last 12 months or 2 tradelines reporting for 24+ months with activity in last 12 months or 24-month mortgage history reporting on credit report	0x30 for most recent 12 months
LIMITED TRADELINE	Primary and Second Homes	Does not meet minimum <u>tradeline</u> requirements	N/A

Only the primary wage-earner must meet the minimum tradeline requirements listed above, and married couples may combine tradelines.

**To qualify as a valid tradeline, the following requirements apply:**

- The credit line must be reflected on the borrower's credit report.
- The account must have activity in the past 12 months and may be open or closed.
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months.
- An acceptable 12- or 24-month housing history not reporting on credit may also be used as a tradeline.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized



user accounts. Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

### 5.9.1 STANDARD TRADELINES

Borrowers qualifying with Standard Tradelines are eligible for all occupancy types and programs.

### 5.9.2 LIMITED TRADELINES

The following requirements apply when qualifying with Limited Tradelines:

- Primary residence only
- 640 minimum Score
- Maximum DTI of 43%
- 10% minimum borrower contribution
- Max LTV 80%
- Must have a rental history with canceled checks or Management Company VOR.

When qualifying with Limited Tradelines, the lower of either the Representative Loan Score or a 640 score is used to qualify the borrower on the Lead Plus Wholesale and Correspondent Lending LEAD PLUS ITIN Matrix. The loan may be priced using the actual Representative Loan Score.

### 5.9.3 INSUFFICIENT TRADELINES/NON-TRADITIONAL CREDIT

Non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in Credit Score Requirements.

If the borrower does not meet the requirements for Standard Tradelines but still has a valid credit score, he or she may qualify under Limited Tradelines.

## 5.10 MORTGAGE AND RENTAL PAYMENT VERIFICATION

Mortgage and rental payments not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history. If the borrower is making payments to an individual or interested party, one of the following is required:

- A VOM/VOR along with the most recent 6 months of cancelled checks or bank statements, or
- A copy of the note/lease along with 12 months of cancelled checks.

All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify the account is current. Balloon mortgages with an expired maturity date can be considered provided an extension has been executed. They will be considered a delinquency (1x30) not a housing event, provided the extension is executed within 180 days of the balloon's maturity.

### 5.10.1 LEAD PLUS ITIN

All mortgages and rental payments are permitted to a maximum of 0x90 over the past 12 months. See matrix for applicable LTV reductions.

## 5.11 NO HOUSING HISTORY OR LESS THAN 12 MONTHS VERIFIED

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- 10% minimum borrower contribution
- Maximum LTV of 80%
- VOR/VOM or PPVOR along with any available portion of a 12-month housing history must be paid as agreed, unless otherwise noted in guides.

Borrowers who are living rent free must provide a rent-free letter from the property owner.



Borrowers are not considered to have “no housing history” under the following circumstances and standard program guidelines can be followed:

- Borrower(s) who own their primary residence free and clear.
- Borrowers living in the marital home.
- Borrower(s) who sold a primary residence within the past 12-months and are currently residing rent free until subject transaction closes.

## 5.12 MODIFICATIONS AND COVID RELATED FORBEARANCE

A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines under Housing Events:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured.

For COVID Related Forbearance and for Modifications as a direct result of COVID, follow below:

- Borrowers who entered into a forbearance plan but continued to make timely payments and remained employed without income disruption are eligible without any restrictions.
- Borrowers who entered a forbearance plan with missed payments, are eligible with the following restrictions:
  - For LEAD PLUS ITIN, if a minimum of three (3) timely payments have been made since the forbearance period expired, the borrower exited forbearance and there has been no modification to the loan and/or a deficiency balance placed on the loan, they are eligible without restrictions. If a deficiency balance has been applied to the loan, the borrower must be out of forbearance and have a minimum of six (6) timely payments prior to the close of the new transaction.

## 5.13 ROLLING LATE PAYMENTS

All mortgages and rental payments are permitted to a maximum of 0x90 over the past 12 months. See matrix for applicable LTV reductions.

## 5.14 HOUSING EVENTS AND PRIOR BANKRUPTCY

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history
- Charged off second mortgage or junior lien

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of the court order to the note date of the new transaction. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed. See also Mortgage Modification, and Second Lien – Housing Event and Bankruptcy Seasoning Requirements.

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

Charged off second or junior liens are subject to foreclosure seasoning periods, based on the date of the charge-off.



### 5.14.1 LEAD PLUS ITIN

Please refer to Program Matrices. Housing events must be completed as follows prior to Note Date:

Housing History and Housing Event Seasoning Restrictions				
Past due balloon will be considered a delinquency (1x30) and not a housing event, only if within 180-days of maturity.				
Ch.13: use filing date if discharged; use dismissal date if dismissed				
Housing History	1x30x12	2 x 30 x 12	0x60x12	0x90x12 O/O Only
BK/FC/SS/DIL/Mod:	>=48 Mo	>= 36 Mo	>= 24 Mo	>= 12 Mo

### 5.14.2 WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT

Housing Events and bankruptcies in the most recent 2 years must be explained by the borrower with a signed letter of explanation. Housing lates > 60 days in the last 12 months are not acceptable. Explanation letters for medical collections, revolving lates or collections are not required.

For No Ratio loans, all derogatory revolving and installment accounts 60 days delinquent within four years of closing require a full explanation.

### 5.14.3 COLLECTIONS AND CHARGE-OFFS

Delinquent credit, such as charge-offs of non-mortgage accounts are to be considered as follows. The following accounts may remain open for all programs except No Ratio:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of \$5,000
- All medical collections
- Collections from factoring companies when the original debt can be verified on the credit report.

Under all programs, except for No Ratio, collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI  $\leq$  50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

For the No Ratio Program, non-title charge-offs and collections within three years and exceeding \$5,000 (individually or aggregate) must be paid. Medical collections less than \$15,000 are not required to be paid.

### 5.14.4 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report,



the balances can be excluded from the charge-off and collection limits in Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation.

If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

#### **5.14.5 DELINQUENT CREDIT BELONGING TO EX-SPOUSE**

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all of the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse.
- Late payments occurred after the date of the divorce or separation.
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of buyout as part of court proceedings.

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse. See also Contingent Liabilities.

#### **5.14.6 DISPUTED ACCOUNTS**

When the credit report contains tradelines disputed by the borrower:

- If the tradeline is paid as agreed, no further action is needed.
- If the disputed account has a zero balance or is being paid at closing, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is \$2,500 or less, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is over \$2,500, the credit file should be documented with a credit supplement showing the dispute has been resolved.
- If the total aggregate balance of accounts in dispute exceeds \$5,000, a minimum of 5% of the total balance must be included in the DTI.

#### **5.14.7 JUDGMENTS, LIENS AND IRS TAX REPAYMENT PLANS**

Judgments, Liens and IRS Tax Repayment Plans must be paid off prior to or at closing unless the requirements listed below are met.

Adverse credit that will impact title must be paid in full as title must insure our lien position without exception.

Tax liens and IRS repayment Plans on a refinance may remain open when (scroll below for No Ratio requirements):

- A copy of the repayment agreement is obtained.
- A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
- The maximum payment required under the plan is included in the debt-to-income ratio.

Tax liens and IRS Repayment Plans on a purchase may remain open on purchase transactions only (additional LTV reductions may be required based on the size of the lien).

- A copy of the repayment agreement is obtained.
- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided.
- The maximum payment required under the plan is included in the debt-to-income ratio; and When a tax lien remains open, the title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

IRS tax payment plans approved by the IRS are permitted on No Ratio loans provided they are current and do not carry a lien on the property.

- A copy of the approved repayment plan is required.





- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided.

#### **5.14.8 LAWSUIT/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 is 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 our first lien position.

#### **5.14.9 PAST DUE ACCOUNTS**

Past due active consumer debts can be no more than 30 days past due at the time of closing.

## **LIABILITIES**

### **6.1 INSTALLMENT DEBT**

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full prior to or at closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement, direct verification from the creditor, or the CD can be used for verification the debt was paid off. Installment debt may also be paid down to qualify.

If a vehicle lease is paid off to qualify, evidence the car was purchased is required. The lease payments themselves are not considered paying off the debt.

### **6.2 REVOLVING DEBT**

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the debt-to-income ratio calculation. A credit supplement can be obtained to verify the minimum payment if it is not reflected on the credit report.

Revolving accounts can be paid off prior to or at closing and do not need to be closed to exclude the monthly payment from the DTI. Supporting documentation, such as a credit supplement, direct verification from the creditor, or the CD can be used for verification the debt was paid off. See Asset Documentation for sourcing and seasoning requirements.

### **6.3 AUTHORIZED USER ACCOUNTS**

Authorized user accounts should not be considered in the borrower's debt-to-income ratio.

### **6.4 CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS**

When the borrower is required to pay alimony, child support, or separate maintenance payments under





a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten (10) months— the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration, and an exception is allowed for alimony. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

Note: For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the alimony or separate maintenance payment, the lender must enter the amount of the monthly obligation as a negative alimony or separate maintenance income amount. If the borrower also receives alimony or separate maintenance income, the amounts should be combined and entered as a net amount.

## 6.5 CONTINGENT LIABILITIES

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the debt-to-income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner (i.e., divorce): file must include the court order and evidence of transfer of ownership.
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership.
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party.

The payment history for the assigned debt after the effective date of the assignment does not need to be evaluated.

## 6.6 DEBTS PAID BY OTHERS

When a borrower is obligated on a non-mortgage debt but is not the party actually repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor).

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- the party making the payments is obligated on the mortgage debt,
- there are no delinquencies in the most recent 12 months, and
- the borrower is not using rental income from the applicable property to qualify.

## 6.7 BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio.

Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 6 months canceled checks drawn against the business account; along with



- business financials reflecting the business expense; or
- Business bank statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

If the debt is less than 3 months old, the payment must be included in the debt-to-income ratio unless it is a vehicle and evidence the previous vehicle was paid by the business.

## 6.8 CURRENT RESIDENCE PENDING SALE

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

Lead Plus Wholesale and Correspondent Lending aligns with Fannie Mae in not requiring the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

- The executed sales contract for the current resident; and
- Confirmation that any financing contingencies have been cleared.

## 6.9 HOUSING PAYMENTS

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues, including Mandatory Membership Dues
- Any subordinate financing payments on mortgages secured by the subject property.

## 6.10 LEASE OBLIGATIONS

Car Lease obligations must be included in the debt-to-income ratio calculation, regardless of time remaining on the lease.

## 6.11 MATERIAL RECURRING NON-DEBT OBLIGATIONS

Lenders are not permitted to make inquiries or verifications prohibited by Regulation B.

A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that are expected to continue for greater than one year.

If the borrower informs the Lender of a recurring non-debt obligation, the loan file must be noted. If the Lender believes it could be material to the borrower's ability to repay the loan, escalation is required.

Documentation of material recurring non-debt obligations should be done consistent with Lender's ability to repay policies and in a form acceptable to Lead Plus Wholesale and Correspondent Lending.

## 6.12 OPEN 30-DAY CHARGE ACCOUNTS

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

If the borrower paid off the account balance prior to closing or at closing, proof of payoff may be



provided in lieu of verifying funds to cover the account balance.

## 6.13 RETIREMENT/ SAVINGS PLAN LOANS

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) can be excluded from the total debt-to-income ratio provided the debt can be repaid by liquidating the asset. The value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

## 6.14 STUDENT LOANS

Student loan payments must be included regardless of deferment or repayment in the DTI. If a payment amount is not identified, 1% of the current loan balance may be used.

If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is \$0. The borrower may then qualify with a \$0 payment.

## 6.15 TIMESHARES

For credit review purposes, timeshare obligations will be considered installment loans.

## 6.16 UNDISCLOSED DEBTS

If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed letter of explanation from the borrower is sufficient. If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

# EMPLOYMENT/INCOME

## 7.1 EMPLOYMENT/ INCOME DOCUMENTATION

Documentation of income is allowed using Full Documentation, Bank Statement Documentation, and 1-Year Alternative Income Documentation.

## 7.2 IRS 4506-C TAX TRANSCRIPTS

A signed IRS 4506-C must be completed and signed by all borrowers on full doc transactions. The form must request the appropriate type of transcript based on the level of loan documentation (W-2s, full tax transcripts, etc.).

On full doc loans, one of the following is required:

- Wage earner's employment and income documented through a FNMA DU Validation Electronic Verification of Employment vendor (i.e., Blend, Equifax, Experian, Finicity, Truework), OR
- Transcripts executed for 1 or 2 years, depending on the level of income documentation.

In the event the most recent year's transcripts are not available, one of the following is required:

- The prior 1- or 2-years transcripts, depending on the level of income documentation, OR
- All of the following:
  - The prior year's transcripts when qualifying as a two-year full doc,
  - Copy of the e-filing certificate for the most recent year,



- Proof the check cleared for any taxes due, or proof of receipt of the tax refund, and
- Tax Transcript confirming “No Record Found.”

The transcripts must be reviewed and compared to the qualifying income to confirm consistency. The results should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the transcripts and the qualifying income should be addressed.

### 7.3 PAY STUBS AND W-2S

Pay stubs and W-2s must be typed or computer generated. They should provide the borrower’s full name, address, employer name, year-to-date earnings, and rate of pay.

If pay stubs reflect garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt- to- income ratio calculation.

W-2s should reflect a nine-digit Employer ID Number (EIN). Also, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

### 7.4 FEDERAL INCOME TAX RETURNS

For some types of income, federal income tax returns (personal and/or business) are required. See Self-Employed Income for detailed requirements.

### 7.5 WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

Income and employment for wage-earners or salaried borrowers may be obtained via direct written verification from the borrower’s employer (FNMA Form 1005). The verification should be signed by a member of the company’s human resource department or one of the business owners or officers. At a minimum, the verification must include the borrower’s name, position, dates of employment, and base salary.

### 7.6 VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all of the following criteria:

- Completed within 10 business days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of the person processing the VVOE.
- Include the name, position and phone number of the person providing the verification (employer)
- The telephone number for the borrower’s employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

When VVOEs are completed through a third-party vendor, because their databases are typically updated monthly, the verification must evidence that the information in the vendor’s database was no more than 35 days old as of the note date.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 30 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau
- Secretary of State listing reflecting current year registration
- Verification of a phone and address listing using the Internet.

### 7.7 CPA/TAX PREPARER’S VERIFICATION

Tax Preparers must have a PTIN Number when available. If the state does not require a PTIN Number, it must be from a verifiable 3rd party tax preparer (verified by a business through the internet or state



website) This requirement is for all sections of this guide that a Tax Preparer maybe utilized.

CPA license verification must be completed through an online search such as [CPA Verify](#). If unable to verify online, sufficient documentation must be provided to validate the license.

## 7.8 EMPLOYMENT HISTORY

Employment must be stable with at least a 2-year history in the same job or in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years.

## 7.9 FREQUENT JOB CHANGES

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

## 7.10 GAPS IN EMPLOYMENT

Borrowers should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24.

Recent graduates and borrowers re-entering the workforce after an extended period are allowed assuming they have been back to work for 6 months.

Note: Illness and childbirth are not considered for gaps in employment

## 7.11 FULL DOCUMENTATION

For all income sources, borrowers are qualified based on calculated stable monthly income over the most recent 2-year period. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

## 7.12 WAGE-EARNERS

Income derived from a consistent hourly, weekly or monthly wage, must be verified by all of the following:

- W-2s for the most recent number of years per income doc type or Electronic Verification of Employment with income; and
- Pay stub(s) providing year-to-date earnings; and
- Signed and executed 4506-C (W-2 transcripts only); and
- Verbal Verification of Employment (VVOE) completed within 10 days of closing.

## 7.13 ANNUITY INCOME

Annuity income can be used for qualification when the following requirements are met:

- 12-month history must be verified using 1099s, tax returns, and/or bank statements
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.
- 

Annuities less than 12 months old must be in a non-revocable trust with a minimum term of 40 months in order to use the income to qualify. For annuity distributions from a 401(k) or pension, see Pension/Retirement.

## 7.14 AUTOMOBILE ALLOWANCE

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. The full amount of the allowance must be added to the



borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

## 7.15 BONUS AND OVERTIME

Bonus and overtime can be used to qualify if the borrower has received the income for the past 2 years and it is likely to continue. An average of bonus or overtime income should be used.

A written Verification of Employment (FNMA Form 1005 or Electronic Verification of Employment) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent 2 years. If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

## 7.16 CAPITAL GAINS

When income from capital gains is used to qualify the borrower, tax returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain appears to be a onetime occurrence, it should not be considered when calculating income available.

For the income to be considered stable and likely to continue, sufficient assets must be documented to show the borrower will continue receiving capital gains for a minimum of 3 years from note date. If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.

In addition, if assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

## 7.17 CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME

In order for child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.

Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

Note: Lead Plus Wholesale and Correspondent Lending expects lenders originating loans for sale to Lead Plus Wholesale and Correspondent Lending to make appropriate disclosures, as required under the federal Equal Credit Opportunity Act, that child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

## 7.18 COMMISSION INCOME

Commission earnings should be averaged over the most recent 2 years and require the following documentation:

- Most recent year-to-date pay stub reflecting the commission earnings; and
- W-2 forms covering the most recent 2-year period or a complete written Verification of Employment.

A borrower on their current job for less than 2 years with a minimum 2-year history of receiving commission in the same line of work may also qualify to use commission earnings.

If there are large fluctuations, the borrower must provide a signed, written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a decline in earnings from one year to the next.



With borrowers that receive a draw against the commission earnings, the draw income is not to be considered in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

## 7.19 DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

## 7.20 DISABILITY INCOME

Long-term and short-term disability income can be used for qualification. The following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and there is no evidence the income is not likely to continue.
- A copy of the most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

- Signed letter from borrower stating intent to return to work once the disability no longer exists.
- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

In documenting disability income, lenders originating loans for sale to Lead Plus Wholesale and Correspondent Lending must not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

## 7.21 DIVIDEND/INTEREST INCOME

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

Document a two (2) year history of income, as verified by:

- Copies of the borrower's signed federal income tax return; or
- Copies of the account statements

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings.





## 7.22 EMPLOYMENT BY A RELATIVE

Income for borrowers who are employed by a relative must be verified with one of the following:

- Federal income tax returns for the most recent 2 year with transcripts. or
- W-2s for the most recent 2 years with transcripts; and
- Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2-year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required. A borrower may be an officer of a family operated business but not an owner. Verification of their status should be provided by written confirmation obtained from a CPA or legal counsel.

## 7.23 FOREIGN INCOME

Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency.

Borrowers may use foreign income to qualify if the following requirements are met:

- Two years U.S. federal income tax returns reflecting the foreign income.
- Income is translated to U.S. dollars.
- Standard income stability and continuance requirements are met.
- Standard documentation requirements apply based on the type of income.
- Income from sanctioned countries administered by OFAC is not allowed.

## 7.24 FOSTER CARE INCOME

Income derived from foster care payments may be considered if there is a 2-year history of receipt and there is no evidence the income is not expected to continue.

The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposit of the payments, or by providing federal income tax returns for the most recent 2 years. The documentation received must clearly show the number of foster children involved, their ages, and length of care.

Income must be averaged over the 2-year period and may not be considered for children who will reach the age of 19 within 3 years.

## 7.25 HOURLY WAGES

Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

## 7.26 LUMP-SUM DISTRIBUTIONS

Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source. See Dividend/Interest Income for related allowable income sources.

## 7.27 MINISTER/CLERGY INCOME

Ministers are individuals duly ordained, commissioned or licensed by a church or church denomination. Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt, an exception from the IRS must be provided.

Rental or housing allowance received can be considered income for qualifying the borrower. Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income. The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. Housing allowance for ministers is non-taxable income and can be grossed up for qualifying.



The church may budget for educational, medical insurance, life insurance, retirement, etc. to be paid on behalf of borrower; however, these items will not be considered as qualifying income, unless exempted by the IRS. The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's 1040 should include housing allowance paid.

## 7.28 NON-TAXABLE INCOME

Non-taxable income can be grossed up by 25%. Examples of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.

Some income types may contain both taxable and non-taxable income. Federal income tax returns may be required to accurately determine the non-taxable portion. Income may not be grossed up for calculating Residual Income.

## 7.29 NOTES RECEIVABLE INCOME

Income from notes receivable can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 2 years and can verify that the income will continue for at least 3 years from note on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with tax returns for the most recent 2-year period (including Schedule B) or 12 months' bank statements showing consistent deposits of funds. Income from a recently executed note/contract (less than 12 months) may not be used as qualifying income.

## 7.30 PART-TIME/SECOND JOB INCOME

Verification of a minimum history of two years from secondary employment is recommended, however income that has been received for at least one year may be considered, as long as there are positive factors to offset the shorter income history.

## 7.31 PENSION/RETIREMENT

Pension and retirement income must be verified with any of the following:

- Letters from the organization providing the income.
- Copy of retirement award letters.
- Tax returns for the most recent 2 years
- W-2 forms or 1099 forms for the most recent 2 years
- Bank statements reflecting regular deposits for the most recent 2 months.

### 7.31.1 PROOF OF CONTINUANCE

If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves. See also Retirement Accounts.

### 7.31.2 FORTHCOMING RETIREMENT

Any borrower presently employed but anticipating retirement within 3 years from note date must be evaluated upon the verified anticipated retirement income. Effective income for borrowers planning to retire (or end employment for other reasons) during the period must include the



amount of documented retirement or other benefits to be received, Social Security payments, or other payments expected to be received in retirement. A combination of present earnings and future retirement income does not represent a supportable level of earnings.

## 7.32 PUBLIC ASSISTANCE

Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letters or copies of grant statements.

In documenting and evaluating public assistance income, Lead Plus Wholesale and Correspondent Lending expects lenders originating loans for sale to Lead Plus Wholesale and Correspondent Lending to comply fully with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

## 7.33 RENTAL INCOME

Rental income can be used for qualifying when disclosed on the loan application.

### 7.33.1 RENTAL INCOME ON THE TAX RETURNS

When tax returns are used for qualifying, rental income should be calculated using the FNMA Cash Flow Analysis Method. When income is being qualified using two-years, an average of income should be used unless the rental income is declining, in which case the most recent year's income should be used for qualifying.

- Cash Flow Analysis of the Schedule E should be completed as follows:
  - Gross Rents and Royalties received.
  - Less Total Expenses
  - Plus Depreciation
  - Plus Insurance
  - Plus Mortgage Interest
  - Plus Taxes
  - Plus HOA fees (if included on the Schedule E)
  - Subtotal / 12 (24) months
    - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
    - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.

### 7.33.2 RENTAL INCOME NOT ON TAX RETURNS

In instances when tax returns are not provided in the loan file, rental income should be documented in the following manner.

- Evidence of borrower's ownership of the property
- For a refinance and/or to document rental income on other REOs:
  - Lease agreement
  - Two months of bank statements demonstrating receipt of rental income.
  - Evidence the rental amount is at market rate, which can be documented via a 1007 or through an online source.



- 75% of the rental amount on the lease is used for qualifying.
  - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
  - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.
- **Rental income from a new property being acquired through a purchase transaction:**
  - 75% of the appraiser's opinion of market rent on FNMA Form 1007 or Form 1025, as applicable
    - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
    - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.
- **Rental Income from a Departing Residence:**
  - 75% of the rental amount on the lease if used for qualifying.
  - Evidence the rental amount is at market rate, which can be documented through an online source or a 1007.

### 7.33.3 SHORT TERM RENTALS

Short Term Rental (STR) income received directly from a home-sharing service (such as Airbnb, VRBO, HomeAway) may be used for qualification when the following requirements are met on Full and Alt Doc loans.

- Short Term Rentals are properties leased on either a nightly, weekly, monthly, or seasonal basis.
- All STRs require evidence from third party vendor (such as Property Guard, Vrolio or equivalent), validating that the governing municipality where the subject STR is located allows properties to be rented as STRs.
- **Rental Income Documentation Options:**
  - Option 1: Lesser of 1007/1025 completed using either long-term or short-term market rents.
    - When the 1007/1025 is prepared with the use of short-term rentals, the appraiser is required to address the seasonality of the subject property short term rental market in computing the market rent. If the appraiser fails to appropriately address for seasonality, gross rents should be computed using the vacancy factor as determined by the AirDNA Property Earning Report. For example, if the occupancy rate is 40%, a 60% vacancy factor must be applied to the short-term rental income from the comparable rent schedule.
    - When long-term rents are used on the 1007/1025, a 25% vacancy factor must be applied when computing the rental income.
    - On a refinance, a screen shot of the online listing must show the property is actively marketed as a short-term rental.
  - Option 2: 12-month lookback period to determine avg rents or annual or monthly statements from AirBNB or similar service.
  - Option 3: 1040s along with a Schedule E.

## 7.34 RESTRICTED STOCK UNITS (RSU)

Restricted stock units (RSUs) are issued to an employee as a form of compensation based on either performance or time. They can be awarded as either stock or an equivalent cash value of the number of shares awarded and usually vest over a certain number of years. After they vest, the employee may sell the shares at the current price or hold the stock for future sale. To be used as qualifying income, the restricted stock must have vested and been distributed to the borrower without restrictions.



For performance-based awards:

- A minimum of 24 months history of restricted stock income from the current employer is recommended. Restricted stock income received from 12 to 24 months from the current employer may be considered acceptable if there are positive factors to offset the shorter income such as:
  - Future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or
  - Restricted stock income received from the previous 5 years from any employer.
  -

For time-based awards:

- A minimum of 12 months history of restricted stock income from current employer

Note that sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered as eligible income.

The following documentation is required:

- Evidence that stock is publicly traded;
- Current vesting schedule reflecting past and future vesting;
- Brokerage or bank statement showing receipt of previous year(s) distribution of restricted stock and, at minimum, the number of vested shares or cash equivalent; and
- A completed WVOE that shows restricted stock distributions, or the borrower's recent paystub and year end W2s or paystubs showing the stock distributions.

## 7.35 SEASONAL INCOME

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers being rehired. Seasonal income should be averaged over a 2-year period.

## 7.36 SELF-EMPLOYED INCOME \*NOTE FNMA LIQUIDITY TEST IS NOT REQUIRED

A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S corporation.

To utilize self-employed income for loan qualification, borrowers must be self-employed for at least 2 years and the business must be in existence for at least 2 years.

### 7.36.1 QUALIFYING INCOME

Qualifying income is determined from the tax returns and the P&L is used to determine the stability of that income. The bank statements for the most recent months must reflect deposits that support those sales from the P&L and the qualifying income from the prior year's tax return.

When analyzing tax returns, the following may be added back to compute the qualifying income:

- Depreciation
- Depletion
- Business use of the home
- Amortization/casualty loss
- Nonrecurring losses: note that nonrecurring income must be excluded
- Net operating losses being carried forward from prior years



## 7.36.2 SOLE PROPRIETORSHIP

A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

## 7.36.3 PARTNERSHIPS

A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.

Documents required for determining partnership income are:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years (if applicable); and
- Partnership tax returns (IRS Form 1065) for the most recent 2 years, including all schedules and K-1s (Note: If borrower is a limited partner with less than 50% ownership, partnership tax returns are not required); and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

## 7.36.4 CORPORATIONS

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered to be self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub and W-2 and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).

Documents required for determining income from a corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120) for the most recent 2 years, including all schedules; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.



## 7.36.5 S CORPORATIONS

A Subchapter S corporation is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S corporations are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

Documents required for determining income from an S corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120-S) for the most recent 2 years, including all schedules and K-1s; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

## 7.36.6 1099 INCOME

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's schedule C.

Tax returns may be waived and wage-earner documentation requirements followed in Wage-Earners when all of the following requirements are met:

- 1099s for the most recent 2 years are provided or 1 yr with evidence the borrower has been 1099 a minimum of 24 months.
- 1099s are validated with a wage and income transcript from the IRS only when borrower is employed by family members or related individuals.
- When the most recent 1099 is greater than 60 days from the note date, evidence of year-to-date earnings, are verified via a YTD paystub, written VOE, or other equivalent third-party documentation or YTD Bank statements.
- Documentation is obtained from employer/employers confirming borrower has no job-related expenses or will assume 10% expenses.

If the borrower does not meet the requirements above, tax returns for the most recent 2 years (IRS Form 1040) are required to determine income and related expenses.

Note: 1099 forms covering a full 2-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position. Documentation must be obtained from the employer confirming the borrower has no job-related expenses.

## 7.36.7 REDUCED DOCUMENTATION FOR A SECONDARY BUSINESS

Business tax returns, associated schedules, and profit and loss statements may be waived when all of the following requirements are met for LEAD PLUS ITIN:

- Income/loss referenced on personal tax returns is generated from a secondary business that is not the borrower's primary income source; and
- Income/loss from each separate business is  $\leq 10\%$  of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements





must be obtained. Discretion may be used whether or not to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

### 7.36.8 CASH FLOW ANALYSIS

Lead Plus Wholesale and Correspondent Lending will prepare a written evaluation of the analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's federal income tax returns.

## 7.37 SOCIAL SECURITY INCOME

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained. When a borrower is drawing Social Security benefits from another person's account/work record, all of the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

See also Non-Taxable Income.

## 7.38 TEACHER INCOME

Teachers are paid on a 9-month, 10-month or 12-month basis. The pay structure should be determined before calculating the monthly income. If uncertainty exists, the borrower may provide a copy of their contract or the school district's personnel office may provide verbal confirmation.

## 7.39 TIPS AND GRATUITIES

Tips and gratuity income can be considered if receipt of such income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.). Income should be received for at least 2 years and documented through the most recent year-to-date pay stubs along with one of the following:

- 2 years W2s and W2 Transcripts, OR
- 2 years 1040s, along with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income (when necessary), to verify tips not reported through the employer, and Tax Transcripts. See Alt Doc – Tip Income for alternative qualifying options.

## 7.40 TRAILING SPOUSE OR CO-BORROWER INCOME/RELOCATION

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.

## 7.41 TRUST INCOME

Trust income can be used for qualification as follows:

- Variable trust payments require a 24-month history of receipt and must be documented by tax returns.
- Fixed trust payments require either:
  - A minimum 12-month history of receipt; OR
  - A minimum of one payment received prior to closing provided:
    - The payments are fixed, AND
    - The borrower is not the grantor of the trust.

In either case, proof of current receipt of the income is required and must be documented with a current bank statement or equivalent documentation.

Continuance of the trust income must comply with standard income requirements:



- When trust income is derived from rental income, evidence of three-year continuance is not required.
- When the income is a fixed payment from a depleting asset, three years' continuance is required.

## 7.42 UNACCEPTABLE INCOME

- Gambling winnings (except lottery continuing for 5 years)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement

## 7.43 UNEMPLOYMENT COMPENSATION

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction). The income can be used to qualify on with a 2- year employment history in the same field of work and a 2-year history of receipt of unemployment compensation. Income should be averaged over the time period verified.

## 7.44 - VA SURVIVORS' BENEFITS/DEPENDENT CARE

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.

## 7.45 1-YEAR INCOME DOCUMENTATION

1- Year Alternative Income Documentation is available under LEAD PLUS Programs. See applicable Lead Plus Wholesale and Correspondent Lending Matrix for LTV, and credit score restrictions.

In lieu of the standard 2-year documentation requirement for wage-earners and self-employed borrowers, the following will be accepted:

- Wage-Earners: the most recent year W-2 and pay stub(s) covering the most recent 30-day period providing year-to-date earnings (1099 also acceptable: see 1099 Income)
- Self-Employed Full Doc: the most recent year filed federal income tax returns (personal and business; extensions are not allowed) and year-to-date P&L and 2 months business bank statements for the most recent 2 months on the P&L.
- Self-Employed Bank Statements: 12 months complete personal or business bank statements from the same account

Self-employed borrowers must be self-employed for at least 2 years, and the business must be in existence for at least 2 years.

Bonus, overtime, and/or commission income for wage-earners may also be documented for 1 year. A written VOE must be obtained stating that the bonus, overtime, and/or commission income is likely to continue. Certain types of supplemental income are not eligible for 1-Year Alternative Income Documentation (i.e., dividend/interest income, capital gains, or any source requiring a two- year lookback).

All other requirements for Full Documentation apply. See the following sections for complete documentation requirements:

- Wage-Earners
- Self-Employed Income
- Personal Bank Statements
- Business Bank Statements



## 7.46 BANK STATEMENT DOCUMENTATION

### 7.36.9 GENERAL REQUIREMENTS

Self-employed borrowers are eligible for either Personal Bank Statement Documentation or Business Bank Statement Documentation. The following restrictions apply to both documentation types:

- Borrowers must be self-employed for at least 2 years; and the business must be existence for a minimum of 2 years as evidenced by a letter from either the business tax professional, regulatory agency or licensing bureau. For LEAD PLUS ITIN, borrowers with less than 2 years as self-employed may be eligible under one of the following 2 options:
  - Option 1: Must be self-employed for a minimum of 18 months and must have a minimum of three (3) years prior experience in the same line of business.
    - See applicable overlays below.
  - Option 2: Self-employed borrowers in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that's been in existence for less than two (2) years, but greater than one (1) year provided the borrower meets the following requirements:
    - Borrower has at least three (3) years of documented previous experience in the same profession, or
    - Evidence of formal education in a related field, and
    - See applicable overlays below:
  - **For Option 1 and Option 2, the following overlays apply:**
    - Minimum 700 score
    - Max LTV of 80% O/O; 75% 2nd Home; 70% for N/O/O
- For borrowers who are independent contractors and do not necessarily own their own business, they may be qualified under the bank statement program and must follow the co- mingled accounts guidance. Evidence of filing tax returns and a Schedule C for 2+ years must be provided by their CPA/Tax preparer, as well as an Expense Factor and/or P&L supporting their expenses. See Calculating Qualifying Income for more detail.
- The Employment Section of the application must include a minimum of 2 years employment history.
- Non-Permanent Resident Aliens without U.S. Credit are ineligible. Non-Profits and Not for Profits are not permitted.
- At least one of the borrowers must be self-employed.
- Verify the business is active and operating within 30 days of closing with either a phone listing and/or business address using directory assistance or internet search. In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e. consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.
- Tax returns and 4506-C are not required for the program. If Tax returns and/or Transcript are provided, the loan will be ineligible for the Alt Doc Program.

### 7.36.10 BANK STATEMENT ANALYSIS REQUIREMENTS

- Statements must be consecutive and reflect the most recent months available.
- Transaction Histories are not acceptable in lieu of bank statements.
- Asset Statements received via a third-party asset verification vendor are acceptable as long as:
  - The information provided conforms to the information that would be provided on bank statements, and
  - Provider is an authorized FNMA DU Validation vendor. A list of approved vendors can be found at: <https://singlefamily.fanniemae.com/applications-technology/desktop->



underwriter-validation-service/du-validation-service-verification-report-vendors

- Statements must support stable and generally predictable deposits.
- ATM deposits may be included if a consistent pattern of deposits is present.
- Deposits greater than 50% of the average gross deposits over a 12-month period must be sourced.
- Any deposit deemed as non-business income will be excluded from the income analysis. Statements should show a trend of ending balances that are stable or increasing over time. Decreasing or negative ending balances must be explained.
- Transfers from other accounts on personal/comingled account statements must be documented or excluded. Net transfers between accounts must be excluded when multiple accounts are used for qualifying.
- Transfers from other accounts on business account statements must be documented or excluded only if above the large deposit threshold, or if the deposits appear not to be business income (i.e. proceeds from a loan, online transfers from other accounts owned by the borrower, refunded expenses, tax refunds, another source of documentable income, etc.). Net transfers between accounts must be excluded when multiple accounts are used for qualifying. Wire transfer deposits on personal account/co-mingled statements must be sourced as business income or excluded.
- Wire transfer deposits on business account statements must be sourced only if above the large deposit threshold, or if the deposits appear not to be business income (i.e. proceeds from a loan, refunded expenses, tax refunds, another source of documentable income, etc.).
- If bank statements provided reflect payments being made on obligations not listed on the credit report, see Undisclosed Debts for additional guidance.
- The most recent bank statement used for the Bank Statement Analysis must be within 60 days of the Note Date. For LEAD PLUS ITIN, in the event updated bank statements are provided to source additional assets and/or funds to close, the Bank Statement Analysis would not need to be updated to reflect those updated statements provided the statements in file not expired as of the note date. When updated bank statements are provided, the income must be recomputed using the most recent statements provided.
- Any supporting documentation, such as a P&L statement used in conjunction with the bank statements must align with the dates of the bank statements used for qualifying.

### 7.36.11 ALT DOC COMBINED WITH OTHER INCOME SOURCES

W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in Wage-Earners along with a processed 4506-C verifying the W-2 earnings only.

Rental Income: Borrowers using Bank Statement Documentation, who also receive rental income as a secondary source, are permitted to qualify using both sources of income. When considered, a 25% expense ratio can be used with evidence of deposits of the rent and copies of the lease. The deposits must be verified through 2-month bank statements from a separate account other than the one used to calculate the self-employed income.

### 7.36.12 UNDERWRITING NSFS

- NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility at underwriter's discretion.
- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered unless tied to Overdraft protection. NSF Fees associated with a pre-arranged link to a savings account, line of credit, or when handled according to a banking institution's standard policy are acceptable when:
  - Overdraft protection from a depository/checking account: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account



balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.

- Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
- Overdraft protection as standard policy from a banking institution: Occurrences may be excluded if the standard policy of the banking institution automatically provides clients with overdraft protection services that are not linked to another account and the overdrawn transactions are paid in full and not returned as NSF on or after the transaction date.
- Bounced check NSF fees are not considered when it's a customer's check that was returned.
- Occurrences included in the analysis are subject to the following tolerances:
  - An occurrence is defined as one or more checks returned the same day excluding customer checks that were returned. NSFS are reviewed for the past 12-month period only.
  - If there are two (2) or more occurrences in the most recent two (2) month time period, up to five (5) occurrences are allowed in the most recent twelve (12) month time period.
  - If there are zero (0) occurrences in the most recent three (3) month time period, up to seven (7) occurrences in the most recent twelve (12) month time period is acceptable.
- The Underwriter, at their discretion, may consider tolerance deviations outside of the above with a sufficient letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified. The letter will be reviewed by the underwriter to ensure the explanation supports the viability of income and overall strength of the transaction.

### 7.36.13 PERSONAL BANK STATEMENTS - 12- OR 24- MONTHS

Borrowers may provide either 12 or 24 consecutive months of personal bank statements. See the applicable Lead Plus Wholesale and Correspondent Lending Matrix for credit score and LTV restrictions.

The following documentation is required (see also Bank Statement Documentation):

- 12 or 24 months complete personal bank statements from the same account
- Most recent 2 months of BUSINESS bank statements if available. If a business account does not exist, see co-mingled accounts section below for guidance.
- To consider allowing 100% of deposits, evidence of online transfer/check from the business account to the personal account must be evident.
- When using 100% of online transfer/check deposits going from the business account to the personal account, all other deposits are excluded.
- A pattern/history of deposits from the business account to the personal account must be established.
- When personal accounts are jointly owned and the other party is not an owner of the business and/or a borrower on the loan, all deposits not able to be readily identifiable as business income must be excluded.

For LEAD PLUS ITIN, verify the borrower owns a minimum of 20% of the business by providing a CPA/tax preparer letter, operating agreement or equivalent reflecting the borrower's ownership percentage.



### 7.36.13.1 CALCULATING QUALIFYING INCOME

- Qualifying income using Personal Bank Statement Documentation is the sum of total eligible deposits divided by 12 or 24 months.
- Only transfers or deposits from the business account(s) are considered eligible deposits.

### 7.36.14 CO-MINGLED ACCOUNTS

Co-mingled accounts are defined as a single account reflecting both personal and business expenses. Co-mingled accounts are considered a business bank statement and one of the Expense Methods under the Business Bank statements section below must be used to calculate the income.

### 7.36.15 BUSINESS BANK STATEMENTS

Borrowers may provide either 12 or 24 consecutive months of business bank statements. See the applicable Lead Plus Wholesale and Correspondent Lending Matrix for credit score and LTV restrictions.

The following documentation is required (see also Bank Statement Documentation):

- 12- or 24-months complete business bank statements from the same account
- Multiple bank accounts maybe used for multiple businesses.
- Multiple bank accounts may also be used if a borrower shows they closed the initial account to use another.
- Multiple bank accounts may be used for the same business, provided transfers amount accounts are excluded.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- Required Expense Statement Documentation applicable to Calculation Option chosen (see Calculating Qualifying Income for requirements).
- Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction.
- Verification borrower is minimum 25% owner of business for LEAD PLUS ITIN
  - Ownership percentage must be documented via Tax Preparer, CPA letter, Operating Agreement, or equivalent.
  - All non-borrowing owners of the business or the CFO, Tax Preparer, or CPA for the company must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes.

### 7.36.15.1 CALCULATING QUALIFYING INCOME

To calculate qualifying income using Business Bank Statement Documentation, choose one of the documentation options below applicable to the Expense Statement method chosen:

#### **OPTION 1: 50% EXPENSE RATIO**

Qualifying Income is the monthly net income from deposits less the 50% expense ratio.

#### **OPTION 2: P&L FROM A CPA OR TAX PREPARER WITH 12- OR 24- MONTHS BANK STATEMENTS**

Qualifying Income is the monthly net income from deposits less the P&L expense ratio (minimum 10%)

Required P&L Documentation:

- P&L Statement covering the same 1- or 2-year period as the bank statements.
- P&L must be signed and dated by the tax preparer.
- The tax preparer must attest that they have prepared the borrower's most recent tax returns.

#### **OPTION 3: THIRD-PARTY PREPARED EXPENSE STATEMENT**

- Qualifying Income is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense percentage provided by CPA or tax preparer and divided by either 12 or 24 months.
- The Expense Statement must be prepared and signed by a third-party (CPA or licensed tax preparer) specifying business expenses as a percentage of the gross annual sales/revenue.





The tax preparer must attest they have either prepared or reviewed the borrower's most recent tax return. A minimum 10% Expense Ratio is required.

## 7.47 ALT DOC - 1099 DOCUMENTATION

1099 Income documentation eligibility is limited to individual borrowers being paid via a 1099 but are not the business owner of the entity issuing the 1099. Self-Employed borrowers who are business owners paying their earnings via a 1099 are not eligible for this income documentation.

- Evidence of year-to-date earnings via YTD bank statements, a printout of YTD wages from their employer/employers or the Lead Plus Wholesale and Correspondent Lending VOE with YTD income must be completed by each employer, only when the 1099 is > 60 days from the Note Date.
- A 10% automatic expense ratio will apply when the 1099 is paid to the borrower individually. In the event the 1099 is paid to the borrower's business, the loan may be considered, however an Expense Letter from the borrower's CPA/Tax preparer is required to determine the qualifying income.
- 1099 Transcripts from the IRS

## 7.48 ALT DOC - ASSET UTILIZATION

Asset Utilization may be used as the primary source of income or supplemental income to other primary sources of income, to determine qualifying income. See the applicable Lead Plus Wholesale and Correspondent Lending Matrix for credit score and LTV restrictions. Asset Utilization is allowed under the LEAD PLUS ITIN Alt Doc Programs. Additionally, Asset Utilization may be combined with LEAD PLUS ITIN Full Doc. Refer to the Alt Doc matrix for OO LTV limits and the Occupancy Restrictions section in the matrix for Second Homes and Non-Owner-Occupied.

### 7.36.16 ELIGIBLE ASSETS

Qualified Assets can be comprised of publicly traded stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. Three (3) months' seasoning of all assets is required.

When asset utilization is the only source of income, reserves are not required. When asset utilization is a supplemental source of income, traditional reserve requirements must be met.

All individuals listed on the asset account must be on the note and mortgage. Assets held in the name of a business are not eligible to be used for the asset utilization calculation.

Asset statements utilized for asset utilization cannot be used to document any other income source.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets (Borrowers younger than 59 ½ use 60%)

Assets held in a trust are eligible as long as the following requirements are met:

- If the funds are held in a revocable trust, the borrower is the trustee.
- If the funds are held in an irrevocable trust, the borrower is the beneficiary and the borrower has immediate access to the assets of the trust.
- Based on the asset type, use the above percentages to calculate the Qualified Assets.

### 7.36.17 CALCULATING QUALIFYING INCOME

For the LEAD PLUS ITIN Program, to calculate qualifying income using Asset Utilization, choose one of the options below:

**OPTION 1: DEBT RATIO CALCULATION** in addition to any other income type When the DTI without asset utilization is 60% or less, then follow the below calculation when determining the amount of income to use as secondary income from assets.

The income calculation is as follows:

Monthly Income = Net Qualified Assets / 36 Months





**OPTION 2: Debt Ratio CALCULATION ASSET CALCULATION** When the DTI without asset utilization is > 60% or when the borrower's entire income is comprised of income from assets, the monthly income calculation is as follows:

Monthly Income = Net Qualified Assets / 60 Months Employment is left blank.

## 7.49 ALT DOC - WVOE

- Verification of delivery and receipt of the FNMA Form 1005 must comprise the following form of documentation: Physical mail, Fed-Ex, facsimile, or email communication. Physical mail, Fed-Ex, and facsimile must come directly from the employer's address. An email communication must properly identify the Company representative.
- WVOE – FNMA 1005 completed with the past 2 years of income/employment. The form must be completed by Human Resources, Payroll or an Officer of the Company.
- Two (2) most recent months of bank statements reflecting deposits from the employment verified via the WVOE in both statements. The deposits must support at least 65% of the gross wages reflected on the WVOE.
- One-year history with the same employer with minimum two (2) years in the same line of work. Minimum credit score of 680.
- One-year 0x30 housing history is required; borrowers without a housing history must qualify under a different documentation type.
- Owner Occupied Max 80% LTV; Second Homes and Non-Owner-Occupied Max 75% LTV. Maximum loan amount of \$1,500,000
- Borrowers may not be employed by family members or related individuals. W2s, Tax Returns, Paystubs, 4506-C are not required.
- Borrowers can have no other active source of income; passive income such as rental income may be included.

## 7.50 ALT DOC - TIP INCOME

Tip income for borrowers such as restaurant servers, bartenders, cabdrivers, etc. may be documented via a Written VOE with a minimum of 2 months of bank statements to support the tip income. The borrower must have a minimum history of receipt of the income for at least one year on the current job with no gaps in employment. In addition, the borrower may not be employed by a family member. A minimum credit score of 680 is required and the maximum LTV permitted is 80%.

# RATIOS AND QUALIFYING

## 8.1 DEBT TO INCOME RATIO (DTI)

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income. The maximum DTI varies by program and can be found on the applicable matrix.

On LEAD PLUS ITIN, a maximum DTI of up to 55% is permitted with the following restrictions:

- Minimum FICO of 680
- 0x30x12
- 48 months since a housing event
- Minimum \$3,500/m residual
- Maximum loan amount \$2.5M

## 8.2 RESIDUAL INCOME

Minimum residual income thresholds apply to HPML loans or when the DTI is > 43% on OO and 2nd homes only using the following calculation:

Residual Income = Gross Monthly Income - Total Monthly Obligations



The initial 1003 should reflect the number of members in the household for all borrowers on the transaction.

<u>Number of Household Members</u>	<u>Minimum Residual Income*</u>
1 Person	\$1,500
2 Persons	\$2,500
For each additional household member	\$150

Instructions for using the Household Members table above:

- For the household member count, include all related and unrelated members of the household who depend on the borrower(s) for support.

## 8.3 ADJUSTABLE-RATE QUALIFYING

For all ARM loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index. See the Products Section for the margin, index, and other restrictions.

## 8.4 INTEREST-ONLY QUALIFYING

Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA.

For example, a 30-year loan with a 10-year interest-only period would have a 20-year fully amortizing payment.

# ASSET

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff, and applicable reserves. A borrower's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances. Assets must be dated within 60 days of the note date.

## 9.1 ASSET DOCUMENTATION

- **Assets required for down-payment, closing costs and reserves are to be documented as follows:**
  - One-month account statement or most recent quarterly statement. Statements must include:
    - Opening and closing balances
    - Borrower as account holder
    - Account number
    - Statement date and time period covered
    - Current balances in US dollars
  - Written Verification of Deposit, completed by the financial institution. Accounts verified using a FNMA approved third-party vendor.
  - Non-Borrowing parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also Spousal Accounts.
  - Large deposits on purchase transactions when personal accounts are used must be documented. Large deposits are not required to be sourced under the following circumstances: when business accounts are used, or on a refinance. Note that when using Alt Doc for Income Purposes, large deposits must be documented in accordance



with the Bank Statement Analysis Requirements.

- **Business assets are permitted as follows:**
  - All programs:
    - Borrower must have minimum 25% ownership and must be an owner on the business account.
    - The balance of the business assets must be multiplied by the borrower's ownership percentage of the business unless the other business owners provide a letter stating the borrower has full access to the funds. In that instance, 100% of the funds may be used.
  - Borrower's ownership is to be documented via a CPA letter, Operating Agreement or equivalent.
  - **When the borrower is not the sole owner of the account, the transaction must be acknowledged and borrower's access to the funds must be documented via one of the following:**
    - A letter signed and dated by all non-borrowing owners of the business (not required when the spouse is the only other owner), or
    - A letter signed and dated by the CFO or Board of Directors, or
    - Evidence of the borrower's access to the funds via the Operating Agreement.
- **Foreign Assets** may be verified from a letter of reference on company letterhead from a verifiable banking institution. Contact information for the person signing the letter must be provided, and the letter must state the type of relationship, length of the relationship, how accounts are held and the current balance. Any letters must be translated by a certified translator. **In addition, assets held in foreign accounts must be seasoned 60 days and meet one of the following requirements:**
  - Must be seasoned in a US depository institution for 10 days prior to closing unless funds are held in a foreign bank with US Based FDIC insured branches: OR
  - Wired directly to the closing agent.
  - Note that Foreign Assets must be converted to US dollars using the current exchange rate.

## 9.2 OTHER ASSETS

### 9.2.1 BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, publicly traded stocks and/or bonds, and 401(k) accounts.

The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction. The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).

If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

### 9.2.2 COLLEGE SAVINGS ACCOUNT - 529 PLAN

Typically, a 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account, and the account is revocable. A copy of the plan is required to ensure it is a



savings plan, and not a prepaid tuition plan. 529 accounts may be used to satisfy reserve requirements at 60% of the value.

### 9.2.3 EARNEST MONEY/CASH DEPOSIT ON SALES CONTRACT

If earnest money is needed to meet the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source. Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check.
- Certification from the deposit holder acknowledging receipt of funds.
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit.
- If funds were given over 12 months ago per the sales contract, then an escrow letter will suffice for sourcing of any funds given greater than 12 months from the closing date.

If the earnest money check has cleared the bank, bank statements should cover the period up to and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with a processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

### 9.2.4 EMPLOYER ASSISTANCE

Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage or deferred payment second mortgage or unsecured loan, and shared appreciation down payment assistance are permitted. Funds must come directly from the employer, may be used for down payment / closing costs subject to minimum Borrower contributions, may be used for reserves except for unsecured loans and are only eligible for primary residence. Any obligation for the borrower that arises from receipt of this assistance must be included in qualifying the borrower.

#### Documentation Requirements:

- That the Assistance program is an established company program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer's assistance.
- An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

### 9.2.5 GIFT FUNDS

#### Gift Funds are acceptable as follows:

- **For Owner-occupied and Second Home properties:**
  - Max LTV per the matrix permitted with 5% down payment from the borrower's own funds.
  - 100% gift funds are allowed for downpayment and closing costs on LEAD PLUS ITIN, using Full or Alt Doc on owner-occupied and second home loans up to a maximum of 80% LTV.
  - For the Super Jumbo Program, gift funds are acceptable on Purchase transactions, after the borrower meets a minimum contribution of 20% towards the down payment, closing costs, prepaids and reserves from their own funds.
- **For Investment properties:**
  - Gift funds are acceptable only if a 10% down payment has been made by the borrower from their own funds.

#### Gift requirements

- Gift funds can be used for down payment and closing costs.



- Gift funds may not be used to meet reserve requirements.
- Funds from a spouse or domestic partner are not considered gift funds. See Spousal Accounts for additional criteria when using funds held solely in the name of a spouse.

#### **Eligible Donors**

A gift can be provided by:

- A relative, defined as an individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.
- 

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

#### **Documentation Requirements**

A signed gift letter is required to provide all of the following information:

- Donor's name, address, phone, and relationship to borrower (donor must be a relative, spouse or domestic partner); and
- Dollar amount of gift; and
- Donor's statement that no repayment is expected.

#### **Verifying Donor Ability and Transfer of the Gift Funds**

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip.
- Copy of the donor's withdrawal slip and the borrower's deposit slip. Copy of the donor's check to the closing agent.
- Evidence of wire transfer from donor to borrower Settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

## **9.2.6 GIFT OF EQUITY**

Gifts of equity can be used for down payment or to pay closing costs (including prepaid items).

Below please see the applicable requirements :

- Primary residence transactions only.
- Borrower contribution is not required.
- Six (6) months of reserves required of borrower's own funds.
- Signed Gift of Equity letter is provided containing the following:
  - Donor's relationship to Borrower, (Gift of equity must be from immediate family member).
  - Indicate that the gift is being provided in the form of a gift of equity.
- All liens on title to be paid in full and reflected on the settlement statement. Any mortgages being paid off must not be reflected as seriously delinquent per the payoff. Transaction must not be a bailout.
- Gift of equity must be listed on the settlement statement.
- Borrower has not been on title in the previous 12 months.
- The gift of equity is not subject to IPCs.
- The lesser of the sales price or appraised value will be used to determine the LTV.



## 9.2.7 INTERESTED PARTY CONTRIBUTIONS

MAXIMUM CONTRIBUTIONS		
Occupancy	LTV	MAX PERCENTAGE
Primary and 2 <sup>nd</sup> Homes	≤ 75%	9%
	75.01% - 90%	6%
Investment	ALL	6%
<i>Note: Percentage is based on of the lesser of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.</i>		

### 9.2.7.1 Sales concessions include:

- Financing concessions more than the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded)

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

## 9.2.8 LIFE INSURANCE

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, Lenders must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio. If additional obligations are indicated, the amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

## 9.2.9 NET PROCEEDS FROM SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final signed settlement statement verifying sufficient net proceeds must be obtained.

## 9.2.10 NON-REGULATED FINANCIAL ASSETS

Crypto Currency – such as Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization / depletion.

- Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
- Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30-days of the loan note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.





### 9.2.11 RENT CREDIT FOR LEASE WITH PURCHASE OPTION

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See Lease with Purchase Option for full requirements.

The following documentation must be obtained:

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rents as determined by the subject property appraisal.

### 9.2.12 RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of publicly traded stocks, bonds, or mutual funds, the account must meet the requirements of Stocks, Bonds, and Mutual Funds for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.

If the borrower intends to use the retirement account to also satisfy income requirements, see also Proof of Continuance.

### 9.2.13 SALE OF PERSONAL ASSETS

Proceeds from the sale of personal assets are an acceptable source of funds for down payment, closing costs, and reserves, provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction.

The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source.
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.

### 9.2.14 SECONDARY/SUBORDINATE FINANCING

Secondary or subordinate financing is allowed to the maximum CLTVs listed on the applicable matrices with the following requirements.

Secondary financing is permitted for investor-occupied purchase transactions if they are full doc only and the 2nd is institutional. Existing subordinate financing is permitted on a refinance of an investment property for all doc types.

Secondary or subordinate financing is allowed to the maximum CLTVs listed on the applicable matrices with the following requirements.

Secondary financing is permitted for investor-occupied purchase transactions if they are full doc





only and the 2nd is institutional. Existing subordinate financing is permitted on a refinance of an investment property for all doc types.

**If the subordinate financing has a simultaneous closing, the following is required:**

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

**If the subordinate financing is being subordinated, the following is required:**

- The repayment terms of the existing second lien.
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

**The following requirements apply to all subordinate liens:**

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage. Payment on the subordinate financing must be included the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

Subordinate liens can be paid off through closing. See Rate/Term Refinance and Cash-out Refinance for more information

## 9.2.15 SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in Asset Documentation.

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements unless the spouse will also be on title.

## 9.2.16 STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price.

## 9.2.17 STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of publicly traded 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. The borrower's ownership of the account or asset must be verified.

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the portion of the amount of funds needed from the stocks, bonds, or mutual funds for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.



## 9.2.18 TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, both of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

See Trust Income if trust is also being used as a source of income to qualify the borrower.

## 9.2.19 UNACCEPTABLE FUNDS

- Cash-on-hand
- Custodial accounts that are irrevocable trusts like Uniform Transfer to Minor Act (UTMA)
- Down payment assistance programs
- Gift or grant funds which must be repaid
- Sweat equity
- Section 8 Voucher Assistance
- Unsecured loans or cash advances

## 9.2.20 RESERVES

Reserves are measured by the number of months of housing expense a borrower can pay using his or her financial assets. See the applicable Lead Plus Wholesale and Correspondent Lending Matrix for complete reserve requirements. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

- Net proceeds from cash-out transactions can be used to meet the reserve requirement.
- 1031 Exchange funds cannot be used towards reserves.

Reserves from a person that is party to the transaction is not considered a gift. They must be on the contract and Title on a purchase and must be on title at time of application for a Refinance. Refer to matrices for reserves requirements based on loan amounts for LEAD PLUS ITIN

# PROPERTY

## 10.1 GENERAL PROPERTY REQUIREMENTS

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The client is responsible for all of the following:

- Ensuring the accuracy and completeness of the appraisal and its assessment of the marketability of the property
- Reviewing the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report. Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales



- concessions that are associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.
- Any Cost to Cure exceeding \$2000 will be reviewed case by case basis and requires and Exception Approval

## 10.2 APPRAISAL INDEPENDENCE POLICY STATEMENT

It is the policy of Lead Plus Wholesale and Correspondent Lending to comply with all the requirements of the Appraiser Independence Policy provisions of Dodd-Frank as adopted by Fannie Mae, Freddie Mac, and the mortgage industry in general. Lead Plus Wholesale and Correspondent Lending will only accept appraisals completed by appraisers who are properly licensed or certified in the state in which the property is to be appraised is located.

- Appraisal orders may not contain any estimated or requested value. Comparable sales may not be suggested to the appraiser.
- The appraisal must be ordered online through the appraisal company's website, with proof of same retained in the e-loan file.
- Appraisal order date may NOT be prior to initial signed dated borrowers Application and "Intent to Proceed" issued with the initial application and disclosure package.
- A copy of the appraisal is required to be sent to the borrower on all loans regardless of whether the loan is closed, cancelled, or denied. Borrowers must receive a copy of their appraisal within 3 business days of the time it is delivered to Lead Plus Wholesale and Correspondent Lending from the appraisal management company and/or appraiser.

## 10.3 APPROVED APPRAISAL MANAGEMENT COMPANIES (AMC)

Retail and Wholesale Appraisals are to be ordered through the Lead Plus Wholesale and Correspondent Lending appraisal desk, with the exception of transferred appraisal which must be in compliance with the Appraisal Transfer Policy

Correspondents are responsible for ensuring appraisal orders through their approved AMCs or fee panel appraisals comply with the Dodd-Frank Appraisal Independent Policy. The AMCs are responsible to ensure that appraisers selected are fully licensed, insured and meet all Lead Plus Wholesale and Correspondent Lending requirements. Any noted aberrations or concerns are referred to the AMC for discussion and resolution, which can result in removing appraisers from being allowed to perform for Lead Plus Wholesale and Correspondent Lending.

## 10.4 APPRAISAL TRANSFER POLICY

Transferred appraisals are only allowed when the client has received prior approval from Lead Plus Wholesale and Correspondent Lending To ensure compliance with the Appraiser Independence Requirements, the following items are required for consideration:

- Evidence appraisal was ordered according to Appraisal Independence Requirements, Appraisal Invoice along with proof of payment unless being paid through closing,
- Transfer Letter, signed by an employee of the transferring lender who is not in a production capacity (i.e., Loan Officer, Loan Officer Assistants, etc. are not eligible to sign the transfer letter),
- SSRs, and MISMO .XML format of the full appraisal including color photos.

Transfers are fully reviewed by underwriting, which may still reject the appraisal if not deemed acceptable.

Lead Plus Wholesale and Correspondent Lending will transfer appraisals out upon request on denied or withdrawn loans, and will provide appropriate documentation, AIR certs and transfer letters as needed.



## 10.5 REQUEST FOR APPRAISAL RECONSIDERATION

If there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file, Corporate Appraisal Management will review and may authorize a second appraisal order in cooperation with Underwriting Management by requesting underwriting review and determine acceptability. This is done on an exception basis only and is not allowed just because a party to the transaction does not agree with the value on the original appraisal.

The Appraisal Reconsideration Form (located on the Intranet under Forms) must be completed and submitted with any documentation via email to the Appraisal Management Area.

AMCs have their own Reconsideration Form, and the appropriate form must be used if a dispute is being requested for any appraisal ordered through an AMC.

## 10.6 ORDERING / AUTHORIZING A SECOND APPRAISAL

Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction is generally not allowed except under specific circumstances.

- If the program requires a second appraisal, the same process is followed to order the appraisal, unless the program requires that the appraisal be ordered from a specific source. In that instance, the lower of the two values is used to determine LTV eligibility.
- If the Underwriter requires a second appraisal or review appraisal because they identify flaws or issues with the initial appraisal, a second appraisal may be ordered.
  - Should a second appraisal be ordered after underwriting review (or as noted, approved and allowed by senior management on an exception basis), the valuation shall be determined by the second appraisal, regardless of whether the value is higher or lower than the original appraisal. [i.e., if the second appraisal returns a higher or lower value than the first appraisal, second appraisal will be used to establish value; cannot revert to original appraisal.]

### 10.6.1 CHARGES FOR SECOND APPRAISAL OR INSPECTION

Second appraisals and/or inspections, unless previously disclosed on the Loan Estimate may not be charged to the borrower in most cases. It is advised to correctly disclose appraisal, second appraisal and/or inspection fees (if required by program or if anticipated to be required) at the time the initial Loan Estimate is issued.

Should a program change necessitate a second appraisal or inspection, a correctly completed re-disclosure and Change of Circumstance must be completed to enable the amount to be charged to the borrowers.

## 10.7 COMPLAINT PROCESSES

Lead Plus Wholesale and Correspondent Lending shall not retaliate, in any manner or method, against any person or entity that makes a complaint to any controlling body or regulator and shall respond promptly to any complaint upon receipt.

Lead Plus Wholesale and Correspondent Lending has an 800 number to receive complaints regarding appraisal concerns with access given to appraisers, borrowers and all third parties.

- Email address is appraisaldesk@LEADpluswholesale.com
- The phone number is TBD

## 10.8 UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004)



- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties when rental income is used to qualifying (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

## 10.9 APPRAISAL REPORT REQUIREMENTS

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condominium project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparable used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- The appraiser must identify if the property is located in a declining market. A 5% LTV reduction off Matrix Max LTV applies to properties in declining markets, unless the LTV is 65% or less.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.
- A copy of the appraiser's Errors and Omissions Insurance Policy, valid as of the date of the appraisal report, must be included with the appraisal unless confirmation is obtained from the AMC that a copy is on file with them.

## 10.10 APPRAISER QUALIFICATIONS

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The Lender must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The Lender may choose to use an appraisal management company; however, the Lender must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by



a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment.

## 10.11 ELECTRONIC SUBMISSION OF APPRAISAL REPORT

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Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

## 10.12 AGE OF APPRAISAL AND APPRAISAL UPDATES

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### Residential Appraisal (1-4 Units):

The appraisal must be dated within 365 days of the Note date. A recertification of value is required if the report exceeds 120 days of the Note Date. Refer to the Appraisal Report Requirements section for details.

When an appraisal report will be more than 4 months old (120 days) on the date of the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), a photograph of the front of the subject property must be included.

- If the appraiser indicates on Form 1004D that the property value has declined, then the Lender must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the Lender may proceed with the loan in process without requiring any additional fieldwork.

The original appraiser should complete the appraisal update; however, Lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser’s opinion of market value was reasonable on the date of the original appraisal report. The Lender must note in the file the reason(s) why the original appraiser was not used.

## 10.13 MINIMUM PROPERTY STANDARDS

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All properties must:

- Be improved real property.
- Be designed and available for year around residential use.
- Contain a kitchen and a bathroom.
- For single family, 2+, and condominium, must contain a minimum 400 square feet per unit.
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Average or better than average condition
- Represent the “highest and best” use of the subject.
- Be free of all health and safety violations.
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property.





## 10.14 PROPERTY LOCATION

See applicable Lead Plus Wholesale and Correspondent Lending Matrix. Subject property must be subject to the laws of the state in which the loan is made.

ELIGIBLE PROPERTY TYPES	
PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 Unit Multi-Family Properties*	Yes
<u>Condominium (low-rise and high-rise)*</u>	Yes
<u>Non-Warrantable Condominiums*</u>	Yes
<u>Condotels or Condo Hotels*</u>	Yes
<u>Site Condominium</u>	Yes
<u>Modular Homes</u>	Yes
Log Homes - Log exterior <u>façade</u> only with like comps, not true log cabins. Must also have fully functioning HVAC system, water source, gas or electric Suitable for year-round occupancy.	Yes
<u>Mixed-Use Properties</u>	No
Assisted Living/Continuing Care Facilities	No
Baltimore City Row Homes	No
Boarding Houses	No
Co-operative Units	No
Farms or Hobby Farms	No
Leasehold Condos	No
Properties receiving tax abatements or incentives for farming	No
Properties located on islands not connected to the mainland by a bridge	Will be considered on a case-by-case basis
Manufactured Homes	No
Properties Subject to Rent Control Regulations <i>Permitted when the restriction is only due to limiting the increase of rents to a certain percentage per year</i>	No
Unique Properties (Earth Homes, <u>Barndominiums</u> , Berm Homes, Dome Homes, etc.)	No
Timeshares	No
<i>*See the applicable LEAD PLUS Wholesale Matrix for LTV restrictions.</i>	

## 10.15 MARKET ANALYSIS

### 10.15.1 NEIGHBORHOOD REVIEW

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and supply
- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of subject property
- Appeal to market and marketing time





## 10.15.2 COMPATIBILITY OF SUBJECT PROPERTY AND NEIGHBORHOOD

The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood as reported on the URAR. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use are considered. Residential properties in areas that are zoned as either agricultural or commercial may be considered acceptable risks so long as their location does not impact marketability.

## 10.15.3 PROXIMITY OF COMPARABLES TO SUBJECT PROPERTY

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.

For properties in established subdivisions, condominium projects or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity. Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

For properties in new subdivisions, condominium projects or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property.

## 10.15.4 AGE OF COMPARABLES

Generally, appraisals should contain comparable sales dated within 6 months from the report date. Comparable from 6 to 12 months are permitted on a limited basis with an explanation from the appraiser. Older comparable sales that are the best indicator of value for the subject property may be used if appropriate. Value must be supported, and market acceptance demonstrated when older comparable are utilized.

## 10.15.5 PROPERTY VALUES WITHIN MARKET AREA

The value of the subject property should be in line with the home prices in the subject's market area. The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the following:

- the trend of property values
- the supply of properties in the subject neighborhood
- marketing time for properties

The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over 6 months.

## 10.15.6 REDLINING PROHIBITION

Prohibited bases such as race, ethnicity, gender, minority geography or any other prohibited basis category should not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which make reference to a prohibited basis category (e.g., race or minority geography) are not acceptable. The use of code phrases as proxies for race which are not necessarily descriptive of value or risk is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.



### 10.15.7 OVER-IMPROVEMENTS

An over-improvement is an improvement that costs more than its contributory value within the marketplace. The appraiser must comment on over-improvements and indicate their contributory value in the “sales comparison analysis” adjustment grid. Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. Appraisals on properties with over-improvements that may not be acceptable to the typical purchaser must be reviewed to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

## 10.16 VALUATION ANALYSIS

### 10.16.1 SALES COMPARISON APPROACH

Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property should bring in a competitive and open market under all condition's requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller of property are typically motivated.
- Both parties are well informed or well advised, acting in what they consider their best interest. A reasonable time is allowed for exposure in the open market.
- Payment is made in terms of cash in US dollars or in terms of comparable financial arrangements.
- The price represents the normal consideration for the subject property sold unaffected by special financing or sales concessions granted by anyone associated with the sale.

A minimum of 3 closed comparable must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Comparable sales utilized in the market approach should:

- Be within one mile of the subject property.
- Have been closed within the last 6 months.
- Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.
- Result in an overall net adjustment not exceeding 15% of the sales price of that comparable and a gross adjustment not exceeding 25% of the sales price of that comparable
- Reflect adjustments for individual line items not exceeding 10%
- Have a sales price that is within the general range of value as the subject.
- Have at least 3 of the comparable should be recently closed sales.
- 

In instances where comparable conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparable.

### 10.16.2 COST APPROACH

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of land value to total value exceeds 50%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. See also Land Value.

Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.



### 10.16.3 INCOME APPROACH

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

### 10.16.4 VALUATION ANALYSIS AND FINAL RECONCILIATION

In the final reconciliation, appraisers must reconcile the reasonableness and reliability of each applicable approach to value along with validity of the indicated values. The appraiser must select and report the approaches that were given the most weight. An averaging technique cannot be used.

### 10.16.5 APPRAISAL REVIEW PROCESS

The Appraisal Review Process requires a secondary appraisal product to support the appraisal value for the transaction. Acceptable review products include:

- Clear Capital Desk Review (must contain a value and comparative sales data to support the valuation result),
- Field Review
- Second Full Appraisal (appraisals must be completed by different, independent appraisers and the lower of the two appraised values used to determine value)

The Appraisal Review product can be waived if the loan is submitted to Collateral Underwriter and receives a FNMA SSR score of 2.5 or lower.

**The following transactions require a 2nd full appraisal:**

- Loan amounts > \$2,000,000
- HPML purchase transactions subject to flipping. See HPML section for details.
- 

Lead Plus Wholesale and Correspondent Lending reserves the right to request additional appraisal products at their discretion based on review of the appraisal and loan file.

### 10.16.6 APPRAISAL REVIEW TOLERANCE

A 10% tolerance is permitted for the desk review. If the desk review value is more than 10% below the appraised value, either a field review or a second full appraisal must be obtained, and the lower of the two values must be used for qualifying.

## 10.17 PROPERTY CONSIDERATIONS

### 10.17.1 ACCESSORY UNITS

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all of the following are met:

- Property is typical, readily acceptable, and common in the subject's market area.
- Property must conform to all zoning laws and/or regulations. The ADU is not required to be permitted provided the appraiser indicates the improvements represent a legal use of the property and completed in a workmanlike manner.
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability.
- Property is a Single Family Residence with one ADU.
  - Note that Single Family Residences with more than one Accessory Dwelling Unit (ADU) or 2-4 unit properties with an ADU are permitted when the property is located in a municipality allowing for such a set up. The appraiser must specifically confirm compliance with local regulations.



**Appraisal Considerations:**

- Appraisal contains 2 comparable with similar additional accessory units. Accessory unit is substantially smaller than the primary dwelling.
- Rental Income: If zoning (current or grandfathered) permits an accessory unit, the rental income may be included, subject to the following:
  - Appraisal reflects the accessory unit is legal, and the appraiser report includes at least one comp with an accessory unit.
  - Refinance – the market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease with two months proof of current receipt.
  - Purchase – the market rent for the accessory unit should be documented on FNMA Form 1007.

**Note: if all of the above are not met appraisal must give the accessory unit zero value.**

### 10.17.2 DAMPNES

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. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

### 10.17.3 DECLINING MARKETS

The appraiser must identify if the property is located in a declining market.

- A 5% Max LTV reduction applies to properties in declining markets, unless the LTV is 65% or less.

### 10.17.4 DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

**Age Restricted Communities**

Deed restrictions must be reviewed to ensure all of the following requirements are met:

- Appraisal supports property is common and typical for the market area.
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

**Limitations on Ability to Sell/Right of First Refusal**

Any right of first refusal in the condominium project documents will not adversely impact the rights of a mortgagee or its assignee to:

- Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage,
- Accept a Deed or Assignment in lieu of Foreclosure in the event of Default by a mortgagor, or
- Sell or lease a unit acquired by the mortgagee or its assignee.

### 10.17.5 DEFERRED MAINTENANCE

Property must be in average or better conditions. Properties in C5 or C6 condition are not acceptable. Structural deferred maintenance is not permitted. Non-structural deferred maintenance can be considered provided:

- The deficiencies are not excessive; and



- The deficiencies do not represent a health or safety concern; and
- The appraisal report is completed as-is with an appropriate adjustment for the current condition of the property.

For additional deferred maintenance guidance for Condominiums, refer to Review Requirements for Condominiums and the Condominiums Significant Deferred Maintenance and Unsafe Conditions sections.

### 10.17.6 ELECTRICAL SYSTEMS

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

### 10.17.7 ENVIRONMENTAL HAZARDS

The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated.
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI)

A property inspection completed by a licensed inspector is required in order to make a final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.

### 10.17.8 ESCROWS FOR WORK COMPLETION

Generally, escrow holdbacks are not allowed but may be considered on a case-by-case basis per Underwriter discretion. Lock must cover the escrow period.

### 10.17.9 FLOOD ZONE

The appraisal should indicate if the property is located in a flood zone. Refer to Flood Insurance for additional information on flood certifications and flood insurance.

### 10.17.10 FOUNDATION SETTLEMENT

If the appraisal report notes evidence of excessive 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. Generally, a structural engineer's report is required prior to making a loan decision.

Properties with evidence of sinkhole activity are ineligible for financing.

### 10.17.11 HEATING SYSTEMS

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject 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.

### 10.17.12 LAND VALUE AND ACREAGE

Acreage and land value must be typical and common for the subject's market.

- Maximum acreage permitted is 20 acres with the following exceptions:
  - Investment property transactions are limited to 5 acres.



Special consideration should be taken for properties with land values that exceed 50% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area. See also Rural Properties.

### **10.17.13 LEASEHOLD APPRAISAL REQUIREMENTS**

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met.

When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. See also Community Land Trust Appraisal Requirements.

#### **10.17.13.1 APPRAISAL REQUIREMENTS FOR LEASEHOLD INTERESTS**

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

#### **10.17.13.2 COMPARABLE REQUIREMENTS FOR LEASEHOLD INTERESTS**

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised.

#### **10.17.13.3 COMPARABLE REQUIREMENTS FOR DETERMINING FEE SIMPLE VALUE**

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which the appraisal of the subject property must be based.



#### 10.17.13.4 DETERMINING THE CAPITALIZATION RATE

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

#### 10.17.13.5 DETERMINING THE LEASEHOLD VALUE

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by dividing the income by the market-derived capitalization rate.

The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at his or her opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust’s ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- $\$300 \text{ annual rent} / 5.75\% \text{ capitalization rate} = \$5,217.39$  (rounded to \$5,200)
- $\$100,000 \text{ fee simple value} - \$5,200 \text{ leased fee value} = \$94,800$  (leasehold value).

#### 10.17.13.6 ADDENDUM TO THE APPRAISAL REPORT

Because appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

The addendum must also include the following statement: “This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider.”

### 10.17.14 COMMUNITY LAND TRUST APPRAISAL REQUIREMENTS

#### 10.17.14.1 APPRAISER QUALIFICATION FOR PROPERTIES IN A COMMUNITY LAND TRUST

The appraiser must be knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust.

Policies and procedures should be established to ensure that qualified individuals are being selected in accordance with the Appraiser Independence Requirements.





## 10.17.14.2 APPRAISAL REQUIREMENTS FOR PROPERTIES IN A COMMUNITY LAND TRUST

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property.
- The lender and the borrower must execute the Community Land Trust Ground Lease Rider (FNMA Form 2100) to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when a property is disposed of through foreclosure.
- The appraiser must use a three-step process to develop an opinion of value (Note: When this appraisal technique is used, there is no need to document the actual land value of the security property).
  - The appraiser must determine:
    - **Step 1:** the fee simple value of the property by using the sales comparison analysis approach to value,
    - **Step 2:** the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
    - **Step 3:** the leasehold value by reducing the fee simple value by the lease fee value.
  - On the actual appraisal report form, the appraiser must:
    - indicate "leasehold" as the property rights appraised,
    - provide the applicable ground rent paid to the community land trust,
    - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
    - report the "leasehold value" as the indicated value conclusion, and
    - check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

## 10.17.15 MODULAR HOMES

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 85% for all products. Modular homes must meet all of the following requirements:

- Must assume the characteristics of site-built housing; and
- Must be legally classified as real property; and
- Must conform to all local building codes in the jurisdiction in which they are permanently located.

## 10.17.16 MULTIPLE DWELLINGS ON ONE LOT

Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing. 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's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value



for additional dwellings should be supported by comparable sales. See also Accessory Units.

### 10.17.17 MULTIPLE PARCELS

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

### 10.17.18 NEW CONSTRUCTION

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable. Proposed improvements are not allowed.
- Taxes must be based on the improved value. Unless otherwise documented from the title company, use 1.5% for qualifying.

### 10.17.19 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.

### 10.17.20 PLUMBING

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.

### 10.17.21 PRIVATE ROADS

Properties on private roads are acceptable subject to the following:

- The title company must insure access to the subject property from a public street; and
- A legally enforceable agreement or covenant for maintenance of the street is required.
  - The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners.
  - 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. Any maintenance costs are to be included in the borrower's housing payment (PITIA).



## 10.17.22 PUD (PLANNED UNIT DEVELOPMENT)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. In order for a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the owners' association must be automatic and non-severable.
- The payment of assessments related to the unit must be mandatory.
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.
- The subject unit must not be part of a condominium or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

## 10.17.23 REPAIRS

The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability, or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also Deferred Maintenance.

## 10.17.24 RURAL PROPERTIES

A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:

- Neighborhood is less than 25% built-up.
- Area around the subject is zoned agricultural.
- Photographs of the subject show a dirt road.
- Comparable are more than 5 miles away from the subject.
- Subject is located in a community with a population of less than 25,000.
- Distance to schools and/or amenities are greater than 25 miles.
- Subject property and or comparable have lot sizes greater than 10 acres.
- Subject property and or comparable have outbuilding or large storage sheds.

**Rural properties must comply with all of the following criteria:**

- Primary residence and residential use only to a maximum LTV of 80%
- Second homes and investment properties can be considered when the property has no more than 2 acres up to a maximum LTV of 75%
- Maximum acreage on owner occupied properties is 20, which includes road frontage and subject property.
- Property must not be agricultural or provide a source of income to the borrower.
- Lot size and acreage must be typical for the area and similar to surrounding properties.
- Property cannot be subject to idle acreage tax benefit, tax abatements or other tax incentive program.
- Present use as per the appraisal must be the "highest and best use" for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

## 10.17.25 SEPTIC 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:

- Sewage disposal system complies with applicable local and/or state health standards, is in



- proper working order, and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property.

For systems one-year-old or less, the certification may be no more than one-year-old on the date of closing. For systems more than one-year old, the certification should be no more than 120 days old on the date of closing.

## 10.17.26 SOLAR PANELS

Properties with solar panels are eligible for financing.

**When solar panels are owned and financed and collateralized with a UCC lien on title, the following applies:**

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement for the solar panel loan. Include any monthly obligation in the DTI.
- The value of the solar panel may be included in the appraised value, provided the panels cannot be repossessed for default on the financing terms.
- Include the balance of the solar panel lien in the LTV/CLTV ratio. If unable to obtain the current balance of the lien, include the original loan amount in the LTV/CLTV ratio. The UCC fixture filing must be subordinated with one of the following:
  - Subordination Agreement
  - UCC Termination. Debt obligation and LTV/CLTV must still consider the solar loan unless evidence is provided to verify the debt has been paid down to zero.

**When solar panels are owned and financed without a UCC lien on title, the following applies:**

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement for the solar panel loan. Include any monthly obligation in the DTI.
- Ensure the appraiser did not provide a contributory value for the solar panels.
- Do not include the panels in the LTV/CLTV ratio calculation.
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC lien was paid in full, otherwise the financed balance must be included in the LTV/CLTV.

A **PACE (Property Assessed Clean Energy)** loan allows for repayment of the solar debt through the homeowner's real estate tax bill. PACE loans may also be referred to as a HERO loan.

**The following applies when a PACE loan exists:**

- Properties with solar panels and other energy efficient items financed with a PACE loan **are not eligible if the PACE loan is not paid in full prior to or at closing.**
- Any property tax statements that reflect PACE, HERO, or equivalent will require proof of payoff. If loan proceeds are used to pay off the lien, the loan is considered a cash out.

**When solar panels are leased or covered by a power purchase agreement, the following applies:**

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- A copy of the lease or power purchase agreement must be obtained.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
  - provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
  - Payments under power purchase agreements where the payment is calculated solely



based on the energy produced may be excluded from the DTI ratio.

- **The lease or power purchase agreement must indicate that:**
  - any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home).
  - the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
  - in the event of foreclosure, the lender or assignee has the discretion to:
    - terminate the agreement and require third-party owner to remove the equipment.
    - become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
    - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

### 10.17.27 UNCONVENTIONAL FLOOR PLANS

Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

### 10.17.28 WATER SUPPLY

Water certification must be obtained if required by the appraiser or purchase contract. 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 can be no more than 120 days old on the date of closing. If new construction, the report may be one- year old as of the date of closing.

### 10.17.29 ZONING AND LAND-USE REGULATIONS

Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, the appraisal analysis must reflect any adverse effect that the non-conforming has on the value and marketability of the property; this requirement applies to all property types.

The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser must indicate where the subject property presents:

- A legal conforming use;
- A legal non-conforming (grandfathered) use;
- An illegal use under zoning regulations; or
- That there is no local zoning.



Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

## 10.18 CONDOMINIUMS

### 10.18.1 GENERAL CONDOMINIUM REQUIREMENTS

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

- All Loan secured by condominium projects require a completed Homeowners Association (HOA) questionnaire.
- See the current Loan/LTV matrix for maximum LTV/CLTVs and loan amounts. Note that if the matrix indicates the project must be warrantable, see the Warrantable Condominium Requirements section.
- Lead Plus Wholesale and Correspondent Lending's project exposure in non-warrantable projects shall be \$5,000,000 or 20% of the total units in the project, whichever is lower.
- A minimum unit square footage is not required; however, units must contain a full-size kitchen and kitchen appliances to be eligible for financing. In addition, similarly sized comparables from competing projects must be provided to demonstrate market acceptance for units with < 400 square feet.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV.
- Two- to four-unit condominium projects will not require a project review provided the following are met:
  - The project is not a condominium hotel, houseboat, or timeshare or segmented-ownership project. The priority of common expense assessments applies.
  - The standard condominium project insurance requirements apply.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Any Structural or Mechanical Inspections completed within the past three years must be provided.
- Projects must be reviewed for significant deferred maintenance and/or unsafe conditions. Must meet all applicable Project Insurance requirements.
- Fidelity Bond is required on new projects as well as any warrantable project requiring a full review. When required, it needs to meet the published requirements.
- Lender must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.
- Must not have "ineligible" characteristics, as defined below.
  - **California Condominiums — Condominium Inspection Requirement:**
    - Pursuant to California SB-326, starting January 1, 2025, an inspection is required for condominium projects with a wood deck, balcony, stairway, walkway, or railing elevated more than 6 feet above the ground. Completion of an inspection for the project is to be referenced on the condo questionnaire or elsewhere in the credit file. If the inspection identifies safety /soundness items to be repaired,





proof of repairs must be provided by the HOA. Loans with a Note date on or after January 1, 2025, are to comply with this requirement.

- Projects with an unacceptable or no inspection are ineligible
- **Florida Condominiums — Condominium Inspection Requirement:**
  - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 years if within 3 miles of the coast), a structural inspection is required for projects greater than 3 stories. The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899.
    - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements
  - Projects with an unacceptable or no inspection are ineligible

### 10.18.2 PROJECT REVIEW WAIVER

The following projects do not require a project review but still require acceptable insurance coverage:

- Detached Condominium Units; a unit in a project consisting entirely of detached (site) units; or when the subject unit is detached and the project is a mix of detached and attached units. In this instance, single family dwelling LTV/CLTVs apply.
- Two- to four-unit condominium projects provided the following are met:
  - The project is not a condominium hotel, houseboat, timeshare, or segmented ownership project.
  - The priority of common expense assessment applies.
  - The standard condominium insurance requirements apply.

### 10.18.3 WARRANTABLE CONDOMINIUM REQUIREMENTS

Certain programs and/or LTVs require that the condominium project be FNMA warrantable to be eligible. When a program indicates the condominium must be warrantable or if condominium project is eligible for warrantable review, FNMA condo guidelines must be followed to ensure warrantability.

- Investor concentration, waived for limited review. On full review, for investment occupancy transactions investor concentration must be ≤50%, and is waived for primary and secondary occupancy transactions
- Commercial space allowed up to 35% of project.
- Delinquency count of full review: no more than 15% of the total units in the project may be 60 days or more past due on the condominium/HOA fees, including special assessments. Limited review must demonstrate that no more than 15% of units are not delinquent on special assessments only.
- Single entity ownership allowed up to 20% for projects with 21 or more units or a max of 2 units for projects with 5 to 20 units.
- Insurance deductibles to a max of 5%; Flood insurance max deductible must match NFIP max deductible program.
- Florida Established Condominiums must meet the following LTV/CLTV limits:
  - Owner Occupied – 75%/90%
  - Second Home – 70%/75%
  - Investor – 70%/75%
- FL New Projects must be FNMA approved

**The following documentation must be provided to determine warrantability:**

- Budgeted Reserves





- Budget must demonstrate a minimum 10% reserve requirement. Reserve studies may be provided for consideration when the 10% is not satisfied.
- Required Documents
  - Lead Plus Wholesale and Correspondent Lending Condominium Project Questionnaire Budget, current fiscal year
  - Balance Sheet dated within the past 90 days.
  - Master Insurance Policy including property, fidelity/crime, liability and wind, along with HO- 6 policy if master is not walls in.
  - Flood insurance with replacement cost valuation if the subject is located in a flood zone.

#### 10.18.4 NON-WARRANTABLE CONDOMINIUM REQUIREMENTS

Lead Plus Wholesale and Correspondent Lending will permit non-warrantable condominiums with the following attributes:

- Commercial space allowed up to 50% of project.
- No more than 25% of the total units in the project may be 60 days or more past due on the condominium/HOA fees, including special assessments.
- Investor concentration allowed up to 70%. A higher percentage may be considered when the subject transaction is an investment property.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.
- Single entity ownership allowed up to 49% of the project.
  - Exceptions may be considered for Single Entity that owns 50% or more of the units. For exception consideration, provide the following information:
    - Is the Single Entity the developer? REIT? Private Investor? Sponsor?
    - Is the Single Entity current on all HOA dues payments? If not, provide the delinquency info.
    - Does the Single Entity intend to sell some or all of the single entity owned units? If yes, provide the marketing strategy.
    - Is the subject unit one of the single entity owned units?
    - What is the current occupancy type of the subject unit?
- Subject Units on areas such as golf courses, with pool clubs, or other amenities that are subject to a mandatory membership fee are acceptable. The fees must be included in the borrower's debt to income ratio.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Deductibles above 5% and up to 10% are permitted when the HOA budget is sufficient to cover the deductible.

#### 10.18.5 INELIGIBLE PROJECTS

- Condominiums listed with a status of "unavailable" in Condominium Project Manager (CPM), unless the "unavailable" reason is for a characteristic explicitly deemed acceptable in the condominium program guides.
- A project subject to the rules and regulations of the US Securities and Exchange Commission. Leasehold condominiums.
- Timeshare or condominium projects with restrictions on owner's ability to occupy the unit. Houseboat project.
- Manufactured home projects.



- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
  - A common-interest apartment
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
  - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
  - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in need of Critical Repairs
- Any project currently under an evacuation order due to unsafe conditions Any project with unfunded repairs totaling more than \$10,000 per unit.

**In addition, the following applies to projects of five or more units:**

- Projects with significant deferred maintenance are not eligible, such as:
  - Projects with a full or partial evacuation of the building to complete repairs for more than 7 days or an unknown period of time;
  - Projects with deficiencies, defects or substantial damage, or deferred maintenance that:
    - Is severe enough to affect the safety, soundness, structural integrity or habitability of the improvements;
    - The improvements need substantial repairs and rehabilitation, including major components; or
    - Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical systems, HVAC or plumbing.
  - Projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-inspections.
- Special assessments, even if paid in full for the subject unit, must be reviewed to determine acceptability and the following must be documented:
  - The reason for the special assessment;
  - The total amount assessed and repayment terms;
  - Documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project;
  - The association has sufficient funds for any repairs; and
  - Borrower must qualify with the outstanding special assessment payment.
    - Note that if unable to determine no negative impact and/or that the assessments deem the project to be unsafe or unsound, the project is ineligible.
- When any of these issues are identified, for project consideration, a full review (warrantable) must be obtained and all required documents listed under the Warrantable Condominium section of the guide must be obtained and a third party review completed.



## 10.18.6 PROJECTS IN NEED OF CRITICAL REPAIRS

Loans secured by units in condominium project with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible.

These projects are ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time.
- The project has deficiencies, defects, substantial damage, or deferred maintenance that:
  - Is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
  - The improvements need substantial repairs and rehabilitation, including many major components; or
  - Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property.

Also, if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

## 10.18.7 SPECIAL ASSESSMENTS

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.

The loan file must be documented with the following:

- the reason for the special assessment.
- the total amount assessed and repayment terms.
- documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
- borrower qualification with any outstanding special assessment payment.

The financial documents of the HOA are required for review to confirm the association has the ability to fund any repairs.

If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed, or the project is not eligible. Additionally, If the client or appraiser is unable to determine that there is no adverse impact, the project is ineligible.



### 10.18.8 INSPECTION REPORTS

If a structural and/or mechanical inspection was completed within 3 years of the project review, a copy of the report must be provided. The report cannot indicate any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates ongoing repairs, a letter from the engineer indicating the project is safe for occupancy while the repairs are going on should be provided when it is not evident through the inspection that the repairs are not critical in nature.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. A review of the engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project is required.

### 10.18.9 ESTABLISHED PROJECTS

Established projects are determined based on a review of sold and conveyed units as follows:

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- If less than 90% of the units are sold and conveyed, but the deficit is the result of the developer holding back units, the project may be considered established if:
  - The developers share of the units held back for rental is no more than 20% of the project's total units;
  - HOA fees are paid current in developer held units; and
  - There are no active or pending special assessments in the project.

The following are required in both instances:

- Non-warrantable projects, 30% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
- All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

### 10.18.10 NEW PROJECTS

- 40% of the total units in the project or subject's phase must be sold and conveyed or be under contract for sale to the unit owners AND at least 40% of the units must be owner occupied or second homes.
- Project or subject's legal phase along with other development phases must:
  - Have a Certificate of Occupancy or other similar document issued by the applicable governmental agency for the project or subject phase; AND
  - All units and buildings in the legal phase in which the subject property is located are complete, subject to the installation of buyer select items, such as appliances.
- All common elements in the project or legal phase must be 100% complete or provide documentation to ensure acceptable completion assurances arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements.

Evidence of assurance arrangements may include:

- An attorney opinion letter, or
- A current balance sheet along with details on the remaining work to be done to render all amenities/facilities complete and the estimated cost to complete, or
- Evidence escrow funds deposited for recreational amenities.



- Project may be subject to additional phasing.

### 10.18.11 CONDOMINIUM CONVERSIONS

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past year must meet new condo presale requirements.

### 10.18.12 SITE CONDOMINIUMS

- Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Condominium Project Questionnaire is not required.
- Appraisals for site condos may be documented on FNMA Form 1073 or 1004. When documented on the 1004, the appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.
- Standard Condominium insurance requirements apply when detached unit is covered by a master insurance policy.

## DISASTER AREAS POLICY

Appropriate steps must be taken to identify areas impacted by disasters to ensure the subject property has not been adversely affected. The Disaster Policy applies to properties located in FEMA declared disaster areas in which individual assistance has been granted, which can be found on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed. Damage to the subject property must meet requirements in Deferred Maintenance.

### 11.1 PROPERTY APPRAISED PRIOR TO DISASTER INCIDENT

If the appraisal effective date is prior to the disaster incident, the following documentation is required:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- An exterior inspection completed by licensed third-party professional:
  - Exterior Inspection must certify the condition of the subject property and identify any impact to habitability or marketability related to the named disaster.
  - Inspection report must include photographs (the front, street view, and any damage to subject property.
  - Inspection report and evidence of inspector licensing must be retained in loan file.

If the appraisal was complete at the time of the disaster but 'subject to completion' or 'subject to repairs', an Appraisal Update and/or Completion Report (FNMA Form 1004D) is required in addition to the inspections listed above. Note that both inspections may be done on the same 1004D form provided the appraiser specifies the 1004D covers both the required repair work and the post-disaster inspection.

### 11.2 PROPERTY APPRAISED AFTER DISASTER INCIDENT

When the appraisal effective date is after the disaster incident, no additional documentation is required.

### 11.3 DISASTER INCIDENT OCCURS AFTER CLOSING, PRIOR TO FUNDING OR PURCHASE

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of



the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent) that names the disaster that required the inspection; or
- Appraisal Update and/or Completion Report (FNMA Form 1004D) that names the disaster that required the report

## 11.4 DISASTER EFFECTIVE TIME PERIOD

Guidelines for disaster areas should be followed for 60 days from the incident period ending date or the date the adverse event occurred, whichever is later.

# PROPERTY INSURANCE

## 12.1 HAZARD INSURANCE

### 12.1.1 MINIMUM HAZARD INSURANCE COVERAGE

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Required perils include:

- Fire or lightning
- Explosion
- Windstorm (including named storms)
- Hail
- Smoke
- Aircraft
- Vehicles
- Riot or civil commotion

The coverage must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.

### 12.1.2 DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE

Hazard insurance coverage should be in the amount of the lesser of:

- The unpaid principal balance of the mortgage or
- 100% Replacement Cost Coverage as stated on the policy declaration page.

If the above requirements are not met, it will be acceptable to provide coverage equal to at least 100% of the insurable value of improvements, as established by the property insurer through a Replacement Cost Estimator of equivalent.

**Note:** If the policy does not cover the unpaid principal balance, have guaranteed replacement cost or a replacement cost estimate is not provided, a processor's certification from Lead Plus Wholesale and Correspondent Lending verifying the insurer's coverage is equal to 100% of the insurable value of improvements as indicated by the insurance agent or representative. The certification must include the insurance company's complete information, subject property address, confirm the replacement cost amount determined by the insurer, and be signed and dated by the processor.

### 12.1.3 DEDUCTIBLE AMOUNT

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.



### 12.1.4 EVIDENCE OF HAZARD INSURANCE

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible.
- Loss payee clause as applicable
- Signed and dated by agent.

### 12.1.5 OPTIONAL COVERAGE

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 any part of the coverage that exceeds the required coverage is not obligated for renewal.

## 12.2 CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS

### 12.2.1 CONDOMINIUM PROJECTS

The master property or flood insurance policy must designate the HOA as the named insured. If the condominium’s legal documents permit it, the master property or flood insurance policy can specify an authorized representative of the HOA, including trustee, as the named insured.

### 12.2.2 PUD PROJECTS

The master property or flood insurance policy must designate the HOA as the named insured.

### 12.2.3 COVERAGE REQUIREMENTS

The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, a policy that includes the “broad form” covered causes of loss is acceptable. If the master policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable

stand-alone policy which provides adequate coverage for the limited or excluded peril. Required perils include:

- Fire or lightning
- Explosion
- Windstorm (including named storms)
- Hail
- Smoke





- Aircraft
- Riot or civil commotion
- Vandalism
- Sprinkler leakage
- Sinkhole
- Collapse
- Volcanic action
- Falling objects
- Weight of snow, ice or sleet
- Water damage

The policy must be provided for claims to be settled on a replacement cost basis. Policies written on an actual cash value basis are not acceptable.

## 12.2.4 SPECIAL COVERAGE REQUIREMENTS

The following special coverage requirements apply to both warrantable condominiums and PUD Master Insurance Policies.

- **Inflation Guard Coverage** – the coverage is not required if it's not obtainable in the insurance market available to the association. In addition, inflation guard coverage is not required when the policy has guaranteed replacement cost or extended replacement cost.
- **Building Ordinance or Law Coverage** – the coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. Coverage is not required if it is not obtainable in the insurance market to the association. When required, the coverage must include:
  - Coverage A: loss to the undamaged portion of a building,
  - Coverage B: demolition costs, and
  - Coverage C: increased cost of construction.
- **Boiler and Machinery/Equipment Breakdown Coverage** – this coverage is required if the project development has central heating or cooling. The coverage may be included in the property coverage form, obtained as an endorsement to the master policy, or the HOA may purchase a stand-alone policy. This coverage is not required when each unit is metered individually, or with evidence that coverage is not obtainable to the HOA in the insurance market.
  - When required, the amount must equal the lesser of \$2m or the replacement cost value of the building(s) housing the boiler or machinery.

## 12.2.5 REQUIRED COVERAGE AMOUNT

Insurance must cover 100% of the replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- **Guaranteed Replacement Cost** – the insurer agrees to replace the insurable property regardless of the cost,
- **Extended Replacement Cost** – the insurer agrees to pay more than the property's insurable replacement cost, or
- **Replacement Cost** – the insurer agrees to pay up to 100% of the property's insurable replacement cost.

To the extent the master property insurance policy does not cover the interior or improvements of a unit in a project development, the borrower must maintain individual property insurance policy. The coverage must be sufficient to restore the unit to its condition prior to a loss event. Sufficient coverage should be based on the best information known or available, which may include information obtained from the borrower, in collaboration with the insurer, the HOA, or other appropriate resources to make such a determination.



### 12.2.6 POLICIES COVERING MULTIPLE PROJECTS

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects.

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets the defined requirements.

If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to the defined coverage amounts. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy.

Additionally, all other master property insurance requirements for project developments must be met.

### 12.2.7 DEDUCTIBLE AMOUNT

The maximum deductible for the following policies is 5%; however, a deductible of up to 10% is permitted on non-warrantable projects when the HOA budget is sufficient to cover the deductible.

- Policies covering the common elements in a PUD or Condominium Project,
- Losses related to individual PUD units covered by a blanket policy for the project,
- Separate wind-loss policies,
- Blanket policies that cover both the individual unit and the common elements.

### 12.2.8 GENERAL LIABILITY COVERAGE

Project liability insurance requirements of \$1,000,000 per occurrence is required.

### 12.2.9 FIDELITY BOND COVERAGE

Fidelity bond coverage is required for condominium projects over 20 units:

- Warrantable Project
- New Projects

When required, the coverage must be at least equal to the greater of 3 months HOA dues or the minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

## 12.3 FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA 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.

Lead Plus Wholesale and Correspondent Lending aligns with Fannie Mae on Flood Insurance, and it is only required when a mortgage loan is secured by a property located in:

- A Special Flood Hazard Area (SFHA), or
- A Coastal Barrier System (CBRS) or Otherwise Protected Area (OPA)

### 12.3.1 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). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:



- 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 Flood Certificate, Section B4 “Flood Zone” field is marked as “None” and Section B5 “No NFIP Map” is checked (true); and the “No” box in Section D “Determination” is checked validating the property is not in a FEMA flood zone containing the letters A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

### 12.3.2 MINIMUM FLOOD INSURANCE COVERAGE

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

### 12.3.3 ACCEPTABLE FLOOD INSURANCE POLICIES

The flood insurance policy must be one of the following:

- A standard policy issued under NFIP; or
- A policy issued by a private insurer as long as the terms and amount of coverage are at least equal to that provided under a NFIP policy based on a review of the full policy issued by the private insurer.

### 12.3.4 PROJECT FLOOD INSURANCE REQUIREMENTS

The flood policy for a PUD or condominium project must cover at minimum the subject unit’s building and any common element buildings and any other common elements and property, including machinery and equipment that are part of the building. The amount of flood insurance coverage for a PUD or condominium project should be at least equal to the lesser of 80% of the replacement cost value or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP) per unit.

### 12.3.5 DEDUCTIBLE AMOUNT

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condominium project is \$25,000.

### 12.3.6 EVIDENCE OF FLOOD INSURANCE

Flood insurance must be maintained throughout the duration of the loan. If final evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower’s premium check, the insurance agent’s paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower.
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information



- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent.

# MORTGAGEE / LOSS PAYEE CLAUSE

## 13.1 MORTGAGEE CLAUSE REQUIREMENTS BY PROPERTY TYPE

### 13.1.1 1- 4 Unit Properties

The applicable insurance policy must include (or have attached) a "standard" or "union" mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A loss payable clause in lieu of a mortgagee clause is not acceptable.

### 13.1.2 Unit in a project development

If a unit owner or shareholder maintains an individual property insurance policy (as indicated by the project's legal documents) or if an individual property insurance policy is required in accordance with Determining if a Master Property Insurance Policy is required (B7-3-03, Master Property Insurance Requirements for Project Developments) for interior coverage, it must include the standard mortgagee clause as defined above.

If an individual flood insurance policy is required in accordance with Requirements for Project Developments (B7-3-06, Flood Insurance Requirements for All Property Types), it must include the standard mortgagee clause as defined above.

## 13.2 NAMED INSURED FOR PROPERTY AND FLOOD INSURANCE

### 13.1.3 1-4 Unit Properties or Individual Units in a Project Development

The individual property or flood insurance policy last name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and the ability to receive benefits is not impaired.

### 13.1.4 Condominium Projects

The master property or flood insurance policy must designate the HOA as the named insured. If the condominiums legal documents permitted the master property or flood insurance policy can specify an authorized representative of the HOA, including its insured trustee, as the name insured.

### 13.1.5 PUD Projects

The master property or flood insurance policy must designate the HOA as the named insured.

## 13.3 NOTICE OF CANCELLATION FOR PROPERTY INSURANCE

The policy must require the insurer to notify in writing the named insured and mortgagee(s) before it cancels the policy.



# TITLE INSURANCE

## 14.1 TITLE POLICY REQUIREMENTS

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding. The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

### 14.1.1 BORROWER INFORMATION

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than on 1003, the discrepancy must be addressed. The property seller's name must be cross-referenced to the purchase agreement and valuation chain of title.

### 14.1.2 COVERAGE AMOUNT

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

### 14.1.3 INSURED NAME

Title policy must ensure the Lender as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

### 14.1.4 AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 90 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

### 14.1.5 VESTING

Final title policy vesting should reflect the name(s) of the individual borrower(s). See Vesting and Ownership.

### 14.1.6 GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

### 14.1.7 TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted,



provided those amendments are acceptable to Fannie Mae/Freddie Mac.

### 14.1.8 TITLE POLICY UNDERWRITER

A title insurer must be:

- duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as
  - an acceptable rating from a rating agency, financial strength of the title insurer,
  - adequate reserves, or
  - record related to satisfactory title claim resolution.

Note: Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa.

### 14.1.9 TITLE COMMITMENT REVIEW

#### 14.1.9.1 CHAIN OF TITLE

All files are to contain a 24-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided. The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

#### 14.1.9.2 TITLE EXCEPTIONS

The following items are allowable title exceptions:

- Customary public utility subsurface easements: the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided 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; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 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 these encroachments extend one 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.
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.



### 14.1.9.3 SURVEY REQUIREMENTS

If surveys are not commonly required in a particular jurisdiction, an ALTA 9 endorsement can be obtained. If neither a survey nor the ALTA 9 endorsement are customary in a particular location, title must not have a survey exception.

If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, taking into account the location of the dwelling on the property.

## SERVICING

All loans are to be serviced by a third-party servicer approved by Lead Plus Wholesale and Correspondent Lending Mortgage.

## FORMS AND TOOLS

The most up-to-date versions of all LEAD PLUS WHOLESALE AND CORRESPONDENT LENDING forms, matrices, and guidelines can be accessed through the LEAD PLUS WHOLESALE AND CORRESPONDENT LENDING Client Portal under Guidelines and Matrices.

The following forms can be found under Documents via the Lead Plus Wholesale and Correspondent Lending Client Portal

- Anti-Steering Disclosure
- Automatic Payment Authorization Form
- Borrower Certificate of Business Purpose
- Borrower Contact Consent
- Business Narrative
- Condominium Project Questionnaire
- Exception Request Form
- Gift Letter
- ICD Request Forms
- LLC Borrowing Certificate
- NY Approved Attorney List
- Occupancy Certificate
- Request for Verification of Earnings
- Spousal Consent Form
- Taxpayer Consent Form

