



**Primary Residence - Purchase Only > 80% LTV
SFR Detached/Attached, PUD, Condo**

Metropolitan Statistical Area Median Home Price (MSA/MHP)	Loan Amount	Market Class	Maximum LTV	Maximum Ratios (Front & Back Ratios)	Minimum Credit Score	Reserves	Transaction Type	Occupancy					
<= \$300,000	<= \$750,000	1	85%	Fixed Rate 30%/35%	740	12 months PITI	Purchase Only	Owner Occupied Only					
		2	85%										
	> \$750,000 - \$1,000,000	1	85%										
		2	N/A										
> \$300,000 - \$400,000	<= \$1,000,000	1	85%						ARM 30%/32%	740	12 months PITI	Purchase Only	Owner Occupied Only
		2	85%										
	> \$1,000,000 - \$1,250,000	1	85%										
		2	N/A										
> \$400,000	<= \$1,500,000	1	85%	ARM 30%/32%	740	12 months PITI	Purchase Only	Owner Occupied Only					
		2	N/A										

- Non-conforming minimum loan amount is \$484,351
- Mortgage Insurance is not required at any LTV
- Bankruptcy, foreclosure, deed-in-lieu, short sale or modification are subject to the following:
 - Max 70% LTV allowed when major credit event was a result of extenuating circumstances and there is a minimum of 60 months credit re-established since discharge/dismissal/completion date
 - Max 70% LTV allowed when major credit event was a result of financial mismanagement and there is a minimum of 84 months credit re-established since discharge/dismissal/completion date
- Refer to Metropolitan Statistical Area Median Home Price (MSA/MHP) to determine maximum loan amount by county
- 5/1 ARM not available
- Open collection accounts
- Gift funds and/or gift of equity not allowed
- Non occupant co-borrower not allowed
- Maximum number of financed properties is two (including the subject property)
- Condos located in Miami-Dade County, FL not allowed
- Properties with > 10 acres not allowed



Primary Residence - Purchase and Rate & Term

Combined Loan Amounts	Market Class	SFR , PUD & Condo w/ credit score > = 720	Attached condo w/ credit score < 720	2 Unit	3-4 Unit	Minimum Credit Score		
\$484,351 - \$750,000	1	75% LTV / 85% LTV	75%	75%	70%	700 Fixed Rate 720 ARM		
		80%						
	2	80%						
	2 Restricted	80% w/ credit score > = 740					75% w/ credit score > = 740	70% w/ credit score > = 740
		75% w/ credit score < 740					70% w/ credit score < 740	65% w/ credit score < 740
	3	75%					70%	65%
4	70%	65%	60%					
\$750,001 - \$1,000,000	1	80%	75%	75%	70%			
		80%						
	2	80%						
	2 Restricted	80% w/ credit score > = 740					75% w/ credit score > = 740	70% w/ credit score > = 740
		75% w/ credit score < 740					70% w/ credit score < 740	65% w/ credit score < 740
	3	75%				70%	65%	
4	70%	65%	60%					
\$1,000,001 - \$1,500,000	1	80%	75%	75%	70%			
		80%						
	2	80%						
	2 Restricted	80% w/ credit score > = 740				75% w/ credit score > = 740	70% w/ credit score > = 740	
		75% w/ credit score < 740				70% w/ credit score < 740	65% w/ credit score < 740	
	3	75%				70%	65%	
4	70%	65%	60%					
\$1,500,001 - \$2,000,000	1	80%	75%	75%	70%			
		80%						
	2	80%						
	2 Restricted	80% w/ credit score > = 740				75% w/ credit score > = 740	70% w/ credit score > = 740	
		75% w/ credit score < 740				70% w/ credit score < 740	65% w/ credit score < 740	
	3	75%				70%	65%	
4	70%	65%	60%					
\$2,000,001 - \$2,500,000	1	75%	70%					
		75%						
	2	75%						
	2 Restricted	80% w/ credit score > = 740						
		75% w/ credit score < 740						
	3	70%				65%		
4	65%	60%						
\$2,500,001 - \$3,000,000	1	70%	65%					
		70%						
	2	70%						
	2 Restricted	70% w/ credit score > = 740						
		65% w/ credit score < 740						
	3	65%				60%		
4	60%	55%						



Primary Residence - Cash Out

Loan Amount	Market Class	SFR , PUD & Condo	Minimum Credit Score	Max Cash Out
\$484,351 - \$750,000	1	70%	720	<= 65% LTV max cash out is \$500,000 > 65% max cash out is \$400,000
	2	70%		
	2 Restricted	70% w/ credit score > = 760		
		65% w/ credit score < 760		
	3	65%		
4	60%			
\$750,001 - \$1,500,000	1	70%		
	2	70%		
	2 Restricted	70% w/ credit score > = 760		
		65% w/ credit score < 760		
	3	65%		
4	60%			
\$1,500,001 - \$2,000,000	1	65%		
	2	65%		
	2 Restricted	65% w/ credit score > = 760		
		60% w/ credit score < 760		
	3	60%		
4	55%			

- Non-conforming minimum loan amount is \$484,351
- Combined loan amount (total of all loans/lines against the subject property) apply when secondary financing exists
- Texas cash out not allowed

REFER TO CREDIT SECTION FOR ADDITIONAL LTV/CLTV RESTRICTIONS



Primary Residence - Reserve Requirement

Loan Amount / Adjusted Combined Loan Amount*	SFR , PUD & Condo	2 Unit	3- 4 Unit
Up to \$1,000,000	12 months PITI	12 months PITI	36 months PITI
\$1,000,000 - \$2,000,000	12 months PITI	18 months PITI	
\$2,000,001 - \$4,000,000	24 months PITI		

Second Home - Reserve Requirement

Loan Amount / Adjusted Combined Loan Amount*	SFR , PUD & Condo
Up to \$1,000,000	18 months PITI
\$1,000,000 - \$2,000,000	24 months PITI
\$2,000,001 - \$4,000,000	36 months PITI

Investment Property - Reserve Requirement

Loan Amount / Adjusted Combined Loan Amount*	SFR , PUD & Condo
Up to \$1,000,000	24 months PITI
\$1,000,000 - \$2,000,000	30 months PITI
\$2,000,001 - \$4,000,000	

* When the aggregate of the UPB of all properties financed is \$3,000,000 or more, 36 months of PITI reserves are required or LTV is restricted to 50%

* Adjusted combined loan amount (total of all loans/lines against the subject property) apply when secondary financing exists



Second Home- Purchase and Rate & Term

Loan Amount	Market Class	SFR , PUD & Condo w/ credit score > = 720	Attached condo w/ credit score < 720	Minimum Credit Score
\$484,351 - \$650,000	1	80%	75%	700 Fixed Rate 720 ARM
	2	80%		
	2 Restricted	80% w/ credit score > = 740 75% w/ credit score < 740		
	3	75%	70%	
	4	70%	65%	
\$650,001 - \$1,000,000	1	75%	70%	
	2	75%		
	2 Restricted	75% w/ credit score > = 740 70% w/ credit score < 740		
	3	70%	65%	
	4	65%	60%	
\$1,000,001 - \$1,500,000	1	75%	70%	
	2	75%		
	2 Restricted	75% w/ credit score > = 740 70% w/ credit score < 740		
	3	70%	65%	
	4	65%	60%	
\$1,500,001 - \$2,000,000	1	70%	65%	
	2	70%		
	2 Restricted	70% w/ credit score > = 740 65% w/ credit score < 740		
	3	65%	60%	
	4	60%	55%	

REFER TO CREDIT SECTION FOR ADDITIONAL LTV/CLTV RESTRICTIONS



Second Home - Cash Out

Loan Amount	Market Class	SFR , PUD & Condo	Minimum Credit Score	Max Cash Out
\$484,351 - \$650,000	1	70%	720	All LTVs/CLTVs max cash out is \$350,000 Max DTI is 40%
	2	70%		
	2 Restricted	70% w/ credit score > = 760		
		65% w/ credit score < 760		
	3	65%		
4	60%			
\$650,001 - \$1,500,000	1	65%		
	2	65%		
	2 Restricted	65% w/ credit score > = 760		
		60% w/ credit score < 760		
	3	60%		
4	55%			
\$1,000,001 - \$2,000,000	1	60%		
	2	60%		
	2 Restricted	60% w/ credit score > = 760		
		55% w/ credit score < 760		
	3	55%		
4	50%			

• Texas cash out not allowed

REFER TO CREDIT SECTION FOR ADDITIONAL LTV/CLTV RESTRICTIONS



Investment Property - Purchase / Rate & Term / Cash Out

Loan Amount	Market Class	1 - 4 Unit, PUD, Condo Max LTV/CLTV	Max Cash Out	Minimum Credit Score	Max Ratios	Reserve Requirement
\$484,351 - \$2,000,000	1	60%	\$400,000	740	36% / 38%	Loan Amount/Adjusted Loan Amount up to \$1,000,000 - 24 months PITI required
	2					Loan Amount/Adjusted Loan Amount \$1,000,000 - \$2,000,000 - 30 months PITI required
	2 Restricted					

- Cash-out not allowed 2-4 unit
- Condos in Miami-Dade County, FL are not eligible
- When the aggregate of UPBs on all properties financed is \$3,000,000 or greater 36 months PITI reserves is required and the LTV is limited to 50%
- Two years property management experience is required if rental from the subject property is used to qualify
- Borrower may have no more than four financed properties
- Rent loss insurance is required and the insurance must cover an amount equal to a minimum of six months of the rental income
- Texas cash out not allowed

REFER TO CREDIT SECTION FOR ADDITIONAL LTV/CLTV RESTRICTIONS

Product Details and Options					
Available Products	5/1 ARM	7/1 ARM	10/1 ARM	10, 15, 20 & 30 Year Fixed	LTV > 80% allowed on purchase transactions only 5/1 ARM is not allowed on LTV > 80%
Margin	2.25%	2.25%	2.25%		
Caps	2/2/5	2/2/5	2/2/5		
Index	1 Year LIBOR	1 Year LIBOR	1 Year LIBOR		
Floor	Margin	Margin	Margin		
Qualifying Rates	Qualify at the greater of the note rate + 2% or fully indexed rate	Qualify at the greater of the fully indexed rate or initial note rate Not to exceed the start rate + life time cap	Qualify at the greater of the fully indexed rate or initial note rate Not to exceed the start rate + life time cap		
Subject Property					
Eligible Property Types	Single-Family Residence (detached or attached), Condo and PUD Factory built except manufactured (mobile) Maximum 20 acres Permitted ADU <ul style="list-style-type: none"> • Must demonstrate the improvements are typical for the market with at least one comp that has a similar accessory unit Unpermitted/Illegal ADU <ul style="list-style-type: none"> • Must demonstrate the improvements are typical for the market with at least two comps that has a similar accessory unit • Appraisal report must be completed based on the property's current use • Insurance provider confirms that the existence of the illegal unit will not jeopardize any future hazard insurance claim 				
Ineligible Property Types	Timeshares Unimproved land Mobile home type manufactured housing Condotel/resort condo Hotel condo Log, earth or dome home Hobby farm Property flip (within the last 90 days with an increase in value) Mixed use live/work ADU on a 2-4 unit				
Appraisal Requirements	Loan amount <= \$1,000,000 requires one full appraisal Loan amount > \$1,000,000 - \$2,000,000 requires one full appraisal ordered from Clear Capital Loan amount > \$2,000,000 One full appraisal by a certified appraiser and an Interior Residential Valuation Services (RVS) field review (Ordered by Newfi) A second level review or Clear Capital CDA review may be required if collateral and/or valuation risk is identified PIW is not acceptable Clear Capital CDA will be ordered and the LTV/CLTV will be based on the lower of the reviewed value or the sales price				

<p>Condo Requirements</p>	<p>HOA Cert required:</p> <ul style="list-style-type: none"> • 2- 4 unit projects requires Form 24 • Greater than 4 unit requires Form 25 • 70% of the units must be sold as owner occupied and used for primary residence or second home <p>Evidence of HOA insurance policy covering hazard, liability, fidelity and flood (if applicable) CC&Rs and By-Laws HOA Budget Authorization to accept review charges Additional documentation may be required</p>
<p>Seller Contributions</p>	<p>Seller contributions limited to:</p> <ul style="list-style-type: none"> • 6% for owner occupied if CLTV <= 80% • 3% for owner occupied if CLTV > 80% • 6% for second home • 2% for investment property

<p style="text-align: center;">Seasoning Rate & Term and Cash Out</p>	<ul style="list-style-type: none"> • Rate & Term - Six months seasoning from recording date to application date to use current market value • Cash Out - Six months seasoning from recording date to application date to use current market value • If seasoning is less than six months use the value based on the lower of the purchase price or current market value <p>The following are considered rate & term:</p> <ul style="list-style-type: none"> • Payoff of a principal balance of an existing lien • Payoff of a purchase second lien with no draws exceeding \$2,000 within the past 12 months from application date (Must document withdrawal history) • Payoff of a non-purchase second lien seasoned a minimum of 12 months from application date (Draws \$2000 within the past 12 months from application date are not allowed)
<p style="text-align: center;">Eligible Funds for Reserves</p>	<ul style="list-style-type: none"> • Cash equivalents - checking, savings, money markets • 100% vested value of publicly traded stocks, mutual funds and government securities • Cash surrender value of life insurance (less any outstanding loans, if repayment not included in debt ratio calculation) • Equity proceeds from the sale of a residence <p><u>Retirement funds valuation</u></p> <ul style="list-style-type: none"> • Tax deferred gross retirement must be reduced by 30% (less any outstanding loans) • Additional 10% reduction is required if an early withdrawal exists • 100% of Roth IRA (less any outstanding loans) may be used towards the retirement portion of the reserve requirement <p><u>Retirement funds may be used</u></p> <ul style="list-style-type: none"> • If a penalty exists then may use retirement funds to meet up to 50% of the reserve requirement • If no penalty exists then may use retirement funds to meet up to 100% of the reserve requirement <p><u>Tax advantage college saving plans (529) funds</u></p> <ul style="list-style-type: none"> • May be used to meet the retirement portion of the reserve requirement • Borrower must be the custodian of the account • Reduce the balance by 10% <p><u>Stock option grants</u></p> <ul style="list-style-type: none"> • Must be fully vested and not-restricted (either by company or IRS - Rule 144) • Must be from a publicly traded company listed on the NYSE or NASDAQ • May be part of a qualified or non-qualified plan • May not be used as qualifying income <p><u>Stock option grant calculation</u></p> <ul style="list-style-type: none"> • Subtract the strike price/options price from the current stock price and multiple by number of shares • Discount the value by 40%

<p>Eligible Funds for Reserves Continuation</p>	<p><u>Business funds</u></p> <ul style="list-style-type: none"> • Provide a CPA letter to confirm that the use of business funds will not have a negative impact on the business cash flow • Verify that borrower is 100% owner of the business • Business average annual cash flow is greater than the amount that is required for reserves • Cash on company balance sheet for each of the previous years is greater than the amount required for reserves NOTE: Go to Schedule L, Line 1 of the company's 1065, 1120 or 1120S; two years of the Schedule L will show three years of company cash • A full analysis of the business to determine that the withdrawal of business funds will not have a negative impact on the strength and viability of the future operation of the business <p>Additional considerations:</p> <ul style="list-style-type: none"> • What is the pattern of the company cash flows? • Is there declining gross or net income? • Is the business in a market/industry that is experiencing a down turn? • What is the type of business , is it cash intensive?
<p>Ineligible Funds for Reserves</p>	<p>The following are ineligible reserve sources:</p> <ul style="list-style-type: none"> • Gift funds * Borrowed funds • Stock in a closely held business • Proceeds from the sale of assets other than the sale of a residence • Proceeds from a cash-out transaction
<p>Qualifying Ratios</p>	<p>Owner occupied max DTI is 43% for a fixed rate and 40% for an ARM Second home max DTI is 40% Investment property max ratios are 36% / 38% Cash out transactions max DTI is 40% LTV > 85% (see matrix) Front end ratio max is 36% for all occupancy types</p> <p>ARM qualifying calculations:</p> <ul style="list-style-type: none"> • 5/1 qualify at the greater of the note rate + 2% or the fully indexed rate • 7/1 and 10/1 qualify at the greater of the initial rate (not to exceed the start rate + lifetime cap) or the fully indexed rate
<p>Maximum Number of Financed Properties</p>	<p>Owner occupied allows up to four financed properties If aggregate financing for all properties owned by the borrower exceeds \$3,000,000:</p> <ol style="list-style-type: none"> 1. 36 months PITI is required OR 2. Max LTV/CLV is 50%
<p>Non-Occupant Co-Borrower</p>	<p>BLENDED RATIO NOT ALLOWED Occupant borrower must qualify at 43% Non occupant co-borrower must be a family member</p>



<p>Properties Listed for Sale</p>	<ul style="list-style-type: none"> • Refinances on properties currently listed for sale are not eligible for financing • Properties previously listed for sale must be off the market for at least six months prior to the application date , a copy of the canceled listing agreement is required as well as a search of the MLS to confirm that the property has not been listed with another company
<p>Identity of Interest includes both Non-ARM's Length and At-Interest Transactions</p>	<ul style="list-style-type: none"> • Loans on second home and investment property are not allowed • On a newly constructed property, the loan is ineligible if the borrower has a relationship or business affiliation with the builder, developer or seller of the property • Flip transactions are not eligible • Changes in title from an LLC or partnership to an individual is allowed • When a sales contract has been assigned to the borrower it may be considered if there was no increase in the purchase price and the explanation for the assignment is reasonable and if the earnest money is transferred it must be treated as a sales concession and deducted from the sales price • An employer and employee sale is defined as a builder or developer selling a property to one of it's employees who does not hold a principle ownership interest • A family sale is defined as a transaction where one family member is selling to another family member, often there is no real estate agent or the agent may be a family member - Must document that there have been no lates in the last 12 months on the seller's mortgage • Gift of Equity is allowed <ol style="list-style-type: none"> 1. Copy of canceled earnest money check to verify payment 2. Verification that the borrower has not been on title for the previous 24 months 3. Pay history for the existing mortgage on the subject property is required and must have no lates in the past 12 months 4. Letter of explanation from borrower to explain the relationship between buyer and seller and the reason for the purchase • Borrower is allowed to represent himself/herself as the real estate agent, allowed to receive real estate commission - Can not use commission for closing costs, down payment or reserves

<p style="text-align: center;">Credit</p>	<p><u>Acceptable Credit Profile</u> Each borrower must meet the credit profile Three active tradelines One active with at least 24 months history and minimum \$5000 credit limit Two active with at least 12 months history At least two credit scores must report for each borrower</p>	<p><u>Insufficient Credit Profile</u> Fewer than three trade lines No tradeline with activity in the most recent 12 months No tradeline with at least a 24 month history</p>
	<ul style="list-style-type: none"> • Rescoring and Credit Repair - not allowed • Mortgage - 0x30 in the last 12 months, rolling lates are not allowed • Revolving - no more than 2x30 in last 12 months • Installment credit - no more than 1x30 in last 12 months • Chapter 7 or 13 bankruptcy - 7 years from discharge or dismissal • Short sale, foreclosure, deed-in-lieu and pre-foreclosure requires 7 years from date of completion • Individual unpaid charge offs less than \$500 are not required to be paid off • Disputed accounts <ol style="list-style-type: none"> 1. Zero balance and no derogatory information > no action required 2. Zero balance and derogatory information > remove and pull new credit report 3. Positive balance and no derogatory information > remove and pull new credit report 4. Positive balance and derogatory information > remove and pull new credit report <p>NOTE: Credit supplements are not allowed to document disputed accounts</p> <p>Bankruptcy, Short sale, foreclosure, deed-in-lieu, repossession or loan modification must met these requirements</p> <ul style="list-style-type: none"> • LTV/CLTV max 70% • LTV/CLTV less than or equal to is allowed when the credit event was due to extenuating circumstances and a minimum of 60 months history of re-established credit is required since the discharge, dismissal or completion date. If the credit event was due to financial mismanagement than a 84 months history of re-established credit is required since the discharge, dismissal or completion date. 	
<p style="text-align: center;">Debt Pay Off</p>	<ul style="list-style-type: none"> • Installment accounts may NOT be paid down to fewer than 10 payments to allow the borrower to qualify, instead must be paid in full • Revolving debt may NOT be paid off the qualify 	
<p style="text-align: center;">Lease Payments</p>	<p>Lease payments are required to be included in the debt service regardless of the number of months remaining</p>	
<p style="text-align: center;">Installment Loans</p>	<p>If a payment is not provided on the credit report for an installment debt, the following documentation is acceptable:</p> <ul style="list-style-type: none"> • Direct verification from the lender OR • Copy of the installment loan agreement <p>Installment debts with fewer than 10 payments remaining may be excluded from the debt service Installment accounts may NOT be paid down to fewer than 10 payments to allow the borrower to qualify, instead must be paid in full and proof that account is paid in full is required</p>	
<p style="text-align: center;">Loans from Retirement Account</p>	<p>Considered same as an installment loan</p>	
<p style="text-align: center;">Tax Liens</p>	<p>All tax liens must be paid off at closing</p>	



Housing Payment History	
Rental Payment Verification	<p>A minimum of 24 months housing history is required if available</p> <p>If the borrower rents from an individual, even if the individual reports to the credit bureaus the following is required to evidence timely payments for the most recent 12 months</p> <ol style="list-style-type: none"> 1. Canceled checks OR 2. Bank statements showing the rental payment <p>If borrower rents from a property management company than a VOR is acceptable to document 12 months housing history</p> <p>If the borrower is living with family, living rent free or has no rental or mortgage payment history the following documentation may be considered as an exception:</p> <ol style="list-style-type: none"> 1. A borrower letter of explanation AND 2. Credit report to verify that there is an acceptable credit history with evidence that borrower meets minimum credit score and tradeline requirements
Rent Back	When there is an assignment of rent payments or a leaseback for more than 60 days the subject property is considered an investment property
Solar HERO/PACE	All solar documents are required, including the lease and/or Power Purchase Agreement for underwriting HERO/PACE not allowed
Restrictions	<ul style="list-style-type: none"> • Texas cash out not allowed • Temporary buydown not allowed • Leasehold properties not allowed • If the property is located in a Market Classification 3 or 4 or is a condo (attached or detached) in Miami-Dade County, FL a field review is required and must be ordered through Clear Capital
Gift	<ul style="list-style-type: none"> • 100% gift allowed on owner occupied transactions only with 80% max LTV • US funds may be wired to escrow • Gift funds from foreign accounts require six months donors ability and any large deposits must be sourced and paper trailed

Rental Income Analysis	Documentation	<p>The stability of the rental history must be documented to show 24 months of rental management experience or rental income history The most recent two years filed tax returns are required to document the required 24 month history</p>
	Tax Returns aged > nine months or more from the date of the last tax year filed	<ul style="list-style-type: none"> • Current lease agreement(s) and three months cancelled checks to verify current cash flow and rental management experience OR 10% post close liquidity (PCL) based on the aggregate of liens on the subject property unless the property generates rental income that is less than 25% of the total qualifying income OR appraisal indicates that units generating income are tenant-occupied <p><u>Eligible Rental Income</u></p> <ol style="list-style-type: none"> 1. Rents received from investment properties or other units of an owner occupied multi-family property 2. Rents received from a live-in aid, typically when there is a disabled borrower in a 1-unit primary residence property, this rental income may not exceed 30% of the total qualifying income Typically the live-in aid will receive room & board payments through Medicaid Waiver Funds, the live-in aid then makes rental payments to the borrower, this is a non taxable source of income and is not reported on the borrower's tax returns, the following documentation is required: <ul style="list-style-type: none"> • Borrower has received rental payments from the live-in aid for the past 12 months on a regular basis AND * The live-in aid plans to continue to reside with the borrower for the foreseeable future <p><u>Monthly operating income</u></p> <ul style="list-style-type: none"> • Positive net rental income may be considered stable monthly income • Negative net rental must be considered a liability for qualification purposes <p><u>Ineligible Rental Income</u></p> <ol style="list-style-type: none"> 1. Rent from boarders in a single family property that is also the borrower's primary residence 2. Rent from a property that is the borrower's second home <p style="color: red;">All gaps in rental history / income greater than three months requires a borrower letter of explanation</p> <p>For existing primary residence converting to investment property - Go to Departing Residence section</p> <p>If a non-subject property is pending sale the following documents are required to consider offsetting the PITI:</p> <ul style="list-style-type: none"> • Lease to determine duration AND • Three months of canceled checks or bank statements verifying receipt of the rental income <p>NOTE: Any additional income above the PITI offset from the non-subject investment property may NOT be used as qualifying income</p> <p>Documentation</p> <ul style="list-style-type: none"> • The most recent two years filed tax returns to include Schedule E are required to document the required 24 month history • Rental income from commercial properties require two years tax returns, including Schedule E

Rental Income Analysis continuation	Property Owned Less than 12 Months	Required documentation: <ul style="list-style-type: none"> • Verification that borrower has two years property management experience (verified with two years most recent tax returns) AND • Current signed leases • Refinance transaction requires three months of canceled checks or bank statements to verify receipt of rental income • Purchase transaction requires existing tenant lease agreement when transferred as part of the sale contract
	Insurance Requirements Subject Property	<ul style="list-style-type: none"> • Rent loss insurance is required for 1 unit investment property and 2 - 4 unit primary residence when rents are used to qualify • Coverage amount must be equal to a minimum of six months rental income • Documentation is not required when rental income is not used to qualify
	Determining Rental Income	<p>Use the following cash flow calculation only with IRS Form 1040 or other business return, including Schedule E</p> <p style="text-align: center;">Net Income</p> <ul style="list-style-type: none"> + Depreciation, mortgage interest, property taxes, insurance and HOA fees - Unallowed losses + Loss carryover from previous year - <u>Annualize mortgage payment for rental property</u> = Annual Operating Income / 12 months = Monthly Operating Income <p>When monthly housing expense is included in the rental cash flow it should not be added to the long-term debt</p> <p>Monthly operating income</p> <ul style="list-style-type: none"> • Positive net rental income may be considered stable monthly income • Negative net rental must be considered a liability for qualification purposes <p>When using rental income to qualify from a 2 - 4 unit primary residence that is not the subject property</p> <ul style="list-style-type: none"> • The current monthly PITI of the borrower's primary residence is included in the debt service as a liability • The monthly operating income should be included in qualifying income <p><u>Lease Agreements</u></p> <p>Apply a vacancy/maintenance factor of 25% deduction to the rental income</p> <p>When a lease agreement is used to support higher income a review of the prior year's tax return is required to determine the appropriate vacancy/maintenance factor which may be greater than 25%</p>

<p>Departing Residence</p>	<p><u>Offsetting the departing residence PITI</u> The departing residence must have at least a 30% equity position and may use 75% of the rental income to offset the departing residence PITI when:</p> <ul style="list-style-type: none"> • Available reserves are greater than six months PITI for both properties or the standard post close liquidity AND • Rental income is documented with a fully executed lease AND • Verification that the security deposit has been received by the tenant and deposited to the borrower's account AND • Borrower must have two years landlord experience, verified with most recent two years filed tax returns to use rental income from departing residence <p><u>Not offsetting the departing residence PITI</u></p> <ul style="list-style-type: none"> • Available reserves are greater than six months PITI for both properties or the standard post closing /reserve requirement <p><u>Less than 30% equity in departing residence or lack of two years landlord history</u></p> <ul style="list-style-type: none"> • Rental income may not be used to offset the departing residence PITI AND • Both the departing residence and the subject PITI must be used ratio calculations • Available reserves are greater than six months PITI for both properties or the standard post closing /reserve requirement <p>Considerations and requirements to reduce overall risk when there is a negative position</p> <ul style="list-style-type: none"> • Additional reserves to cover the negative equity of the departing residence OR • Pay down the lien on the departing residence to eliminate the negative security <p>IMPORTANT: All departing residences require a full appraisal with a 1007 and must be ordered through one of the following AMCs: Clear Capital</p>
<p>Delayed Financing</p>	<p>If borrowers have purchased a primary, second home or investment property with cash in the preceding 90 days, the borrower may take cash out to replace the cash that was used for the purchase if:</p> <ol style="list-style-type: none"> 1. Settlement Statement (CD or HUD) evidences a cash purchase within the last 90 days prior to the application date of the new loan AND 2. Follow max LTV/CLTV for the program AND 3. Max DTI based on purchase DTI as stated in the program AND 4. Minimum credit score based on program purchase credit scores AND 5. Base the LTV/CLTV on the lesser of the original purchase price or current appraised value AND 6. Borrower has a history of assets to support the cash purchase (supported by Schedule B of the last two years tax returns) or other documentation 7. A paper trail of the funds used to acquire the subject property is acceptable as long as the funds have been on deposit at least 90 days prior to the original date of acquisition 8. Funds used for the original purchase may not have been borrowed except by means of a fully secured loan ie; margin account, other real estate 9. The loan must be registered and closed as a cash out refinance

Income Documentation

Salaried Borrowers

- Paystubs within 30 days, dated within 45 days of the application date and must cover a one month period of employment
- W2s for most recent two years
- Bonus: Two years history of receipt and two years tax returns
- Commission: Two years history of receipt and two years tax returns
- Most recent two years personal tax returns

Self Employed Borrowers

- Most recent two years W2s and/or 1099s
- If business returns are more than four months old, a YTD P&L and Balance Sheet for each business entity is required when the borrower owns 25% or more, P&L and balance sheet must be signed by a third party - CPA, bookkeeper, controller, tax preparer
- Most recent two years personal tax returns
- Most recent two years K1s
- Most recent two years business returns when the borrower owns 25% or more o the company

Restricted Stock

This is stock in a company that is not fully transferable until certain conditions have been met. Once the conditions have been satisfied the stock is transferable to the person holding the grant. Restricted stock are not stock options. Restricted stock must be vested and received on a regular basis.

The following documentation is required:

- Issuance agreement or equivalent AND
- Unit distribution schedule AND
- Evidence that stock is publicly traded AND
- Evidence of payout of the restricted stock (ie. YTD paystub and last two years W2s)

Calculation

- Use the lower of the current stock price OR the two year stock price average
- Qualifying income will be calculated using an average of the restricted stock income for he past two years and YTD
- Apply the average stock price to the number of units vested each year
- Future vesting must support qualifying income

If the stock income is declining refer to decling income policy

Income Documentation

Rental Income (excludes departing residence)

Required documentation

- If property has been owned for at least 12 months, then provide prior year tax return including Schedule E
- If property has been owned for less than 12 months and is not reflected on the borrower's most recent tax return, provide:
 - Copies of current leases may be used only if the borrower has a two year history of property management experience as evidenced by the current two most recent years filed returns AND
 - Three months canceled checks or bank statements verifying receipt of the rental income

<<<<< Borrower must have two years landlord history to use rental income including departing rental income >>>>>

Other Income

If using "finite income" **a minimum of five year continuance is required**

- Alimony or separate maintenance payments (when alimony is being paid it is deducted from income and not treated as a liability)
- Child support
- Note income
- Trust income
- IRA/401K/Keough income (a minimum of two months received prior to application date with distribution agreement is required)
- Certain types of retirement income ie: annuities
- Social security survivor benefits for children
- Foreign income
- Certain types of benefit income ie: worker's compensation
- Public assistance income
- Royalty income

NOTE: The five year continuance requirement may be reduced to three years if the income source is less than 25% of the total qualifying income

Borrowers planning to retire during first three years of the new loan

Must include

- Documented retirement benefits
- Social security payments
- Other payments expected to be received during retirement

The borrower's continued ability to repay the loan must be considered when the income source expires or will be depleted before the maturity of the loan, including:

- Replacement income OR
- Strong equity position in other real estate owned or other assets that may be liquidated to provide an additional income stream

There are two calculations required and the lower of the methods is used for qualification purposes:

1. The investor cash flow method (Cash Flow Method) considers distributions that the borrower is taking from the business
2. The investor baseline method (Baseline Method) considers the net income from the business

Using the Baseline Method allows the underwriter to determine if distributions are less than or greater than the net income from the business. If positive adjustments to cash flow are made then further review and documentation are required to ensure that the adjustments are supported, stable and likely to continue

If the income from the Cash Flow Method, including adjustments, exceeds the Baseline Method, consideration and analysis is required to determine proper documentation, that the income is stable and likely to continue

	Baseline	Cash Flow	
Self Employed Income Calculations	Schedule C Sole Proprietorship Net Profit .+ depletion .+ depreciation	Net Profit .+ expenses for business use of home .+ depletion .+ depreciation .- 2106 expenses and M&E .+ amortization loss	
	Schedule D Capital Gains	Three years tax returns are required to evaluate an effective earning trend If the trend: Results in a gain it may be added as effective income OR Consistently shows a loss, deduct from income Expected income continuation must be documented with verified assets When using income from capital gains it is necessary to analyze the financial strength of the portfolio to ensure that it is sufficient to support future income Review to whether an income generating asset was sold during the year as future income will likely be reduced as a result of the asset sale	

Self Employed Income Calculations				
Self Employed Income Calculations	Entity Type	Baseline	Cash Flow	
		C Corporation Form 1120	Officers comp (W2) .+ borrower's share of taxable income .- tax liability .+ depletion .+ depreciation	Officers comp (W2) .+ dividends/distributions .+ or - loans to shareholders .- capital contributions/additonal paid in capital .- unreimbursed partnershipexpenses (UPE) 2106 expenses and M&E
		S Corporation Form 1120S	Officers comp (W2) income/loss .+ net rental real estate income/loss .+ depreciation .+ depletion .- total obligations payable in < one year	Officers comp (W2 and guaranteed payments to partners) .+ Borrower's share of ordinary income/loss .+ cash distributions .+ or - loans to shareholders .- capital contributions/additonal paid in capital .- unreimbursed partnershipexpenses (UPE) 2106 expenses and M&E
Partnership Form 1065	Partners share of ordinary income/ loss .+ net rental real estate income/loss .+ guaranteed payments .+ depreciation .+ depletion .- total obligations payable in < one year	Officers comp (W2 and guaranteed payments to partners) .- capital contributed during year .+ withdrawals and distributions . + or - loans to partners .- .- unreimbursed partnershipexpenses (UPE) 2106 expenses and M&E		