# Non-Agency Guidelines

Non-QHEM Premier

Non-QHEM Plus

Non-QHEM

theNONI+

theNONI

theNearNONI

theNONI58

theBlanket

the2nd+

theLine

theNONI58+

## CONTENTS

# CHAPTER 1 - FIRST LIEN ELIGIBILITY

The HEM Non-Agency programs offer loans with features beyond the criteria established for Qualified Mortgages. Features include alternative income documentation for self-employed borrowers, interest only, and loan qualification for investment properties using the subject property cash flow. Non-Agency loans submitted to HEM must meet the criteria of the current published Eligibility Guide as of the HEM loan lock date for review.

## 1.1 PROGRAM MATRICES

See Loan/LTV Matrices located on the HEM website: www.theLender.com

### 1.1.1 ELIGIBLE PRODUCTS

See Loan/LTV Matrices and rate sheets located on the HEM website: www.theLender.com

### 1.1.2 STATE ELIGIBILITY RESTRICTIONS

See the HEM Loan Eligibility Matrix for state eligibility restrictions for all programs.

### 1.1.3 QUALIFYING PAYMENT

The qualifying payment is based upon the principal and interest payment along with 1/12$^{th}$ of the annual real estate taxes, property insurance, any other insurance, and any association dues.

The qualifying payment is based on the amortization term. For interest-only loans, using standard or Alt documentation, this is the remaining term after expiration of the interest-only period. Single asset DSCR loans secured by 1–4-unit properties can be qualified using the interest only payment (ITIA).

### 1.1.4 INTEREST-ONLY RESTRICTIONS

For all programs, see the product matrix

### 1.1.5 LOAN AMOUNTS

For all programs, see the product matrix

### 1.1.6 MINIMUM CREDIT SCORE

For all programs, see the product matrix

### 1.1.7 PRIVATE MORTGAGE INSURANCE (PMI)

Private Mortgage Insurance (PMI) is not required on any loan eligible for sale to Hometown Equity Mortgage dba theLender.

## 1.2 AGE OF DOCUMENT REQUIREMENTS

### 1.2.1 CREDIT REVIEW DOCUMENTATION

The following documents may not be more than **120 days** old at closing (the date the Note is signed):

- Income verification/paystubs
- Mortgage/rental verification
- Asset documents/bank statements
- Credit Report
- Title Commitment/Preliminary Report/Binder/O&E

Any credit review documents exceeding these timeframes must be updated.

### 1.2.2 APPRAISAL

**Residential Appraisals (1-4 units):** The appraisal must be dated within 365 days of the Note date. Recertification of value required if the report exceeds 120 days of the Note Date. See complete appraisal requirements in Section 1.9.1.1 – Appraisal Requirements 1-4 Unit Residential.

**Commercial Appraisals (5-8 multi-family, 2-8 mixed use):** Appraisals dated fewer than 120 days prior to the note date are acceptable. After 120 days, a new appraisal is required. See complete appraisal requirements in Section 1.9.1.2 – Appraisal Requirements 5-8 Residential and 2-8 Mixed Use.

# 1.3 BORROWER ELIGIBILITY

## 1.3.1 CITIZENSHIP

### 1.3.1.1 US CITIZEN

Eligible without guideline restrictions.

### 1.3.1.2 PERMANENT RESIDENT ALIEN

An individual admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States. The Green Card (Form I-551) is evidence of employment authorization.

- Acceptable evidence of permanent residency includes the following:
  - Alien Registration Receipt Card I-551 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

### 1.3.1.3 NON-PERMANENT RESIDENT ALIEN

An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. The underwriter must validate the borrower has employment authorization. This may be documented with either an EAD or a VISA permitting employment.

- Borrower Eligibility Requirements:
  - Residing in U.S. for at least 2 years; and
  - Must have been employed in the U.S. for at least 2 years as evidenced on the loan application; and
  - Must have valid Social Security Number(s); and
  - Must have established U.S. credit, see Section 1.5 – Credit.
- Employment Status Documentation is required for all borrowers, and may consist of one of the following:
  - Employment Authorization Documents, provide one of the following:
    - Form I-766 Employment Authorization Document (EAD), (work permit/card) is required for US employment if the borrower is not sponsored by a current employer.
      - If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the unexpired EAD. The EAD documentation is acceptable for up to 540 days if an automatic extension has been granted.
    - Form I-765 Application for Employment Authorization, the form:
      - Must reflect approval status in the Action Block (upper right-hand corner of the form)
    - Form I-797, I-797A, I-797B, or I-797C conveying approval status
      - Petitioner to match employer name on application

  - If EAD is not provided, a copy of the Visa permitting employment authorization needs to be included in the credit file.
    - The following VISA types are acceptable: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1A, L-1B, O-1, R-1, TN, NAFTA.
    - Other VISA types permitting employment may be considered, see the U.S. Dept of State Website at Directory of Visa Categories (state.gov).
  - Asylum – Individuals granted asylum are eligible, documentation includes one of the following:
    - Form I-766 Employment Authorization Document (EAD), (work permit/card) referencing code C08, or
    - Form I-94 with a stamp or notation, such as "asylum granted indefinitely" or the appropriate provision of law (8 CFR 274a.12(a)(5) or INA 208) to show their employment authorization. The asylee does not need to present a foreign passport with this Form I-94. An asylee can also present an electronic Form I-94 with an admission class of "AY."
  - Deferred Action for Childhood Arrivals (DACA)
    - Form I-766 Employment Authorization Document (EAD), (work permit/card) referencing code C33, or
    - Form I-797 conveying approval status for Case Type I765-Application for Employment Authorization referencing code C33, or
    - Form I-765 Application for Employment Authorization, the form:
      - Must reflect approval status in the Action Block (upper right-hand corner of the form)
- Guideline restrictions:
  - Standard or Alt Documentation limited to 24-months only.
  - Maximum LTV/CLTV limited to 80%.
  - Non-occupant co-borrowers are not allowed.
  - Gift funds are not allowed.

### 1.3.2 FOREIGN NATIONAL

A Foreign National is a non-resident alien who may not purchase property intended for use as a primary residence or second home. Occupancy is limited to investment.

- Foreign Nationals are eligible under the following matrix:
  - Foreign National (DSCR - Investment properties)
- Foreign Nationals are not eligible under Non-QHEM Premier, Non-QHEM Plus and Non-QHEM matrices

#### 1.3.2.1 PRIMARY RESIDENCE

A foreign national borrower must evidence their primary residence as follows:

- Primary residence in a foreign country:
  - The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.
- Primary residence in the U.S.:
  - The application must include the borrower's address for their primary residence.
  - Provide evidence of ownership (e.g., Property Profile Report, Fraud Report, Settlement Statement, Closing Disclosure)
  - ITIN borrowers who do not own a primary residence in the U.S. are ineligible
  - Housing History: See Section 1.5.5 – Housing History.

### 1.3.2.2 AUTOMATIC PAYMENT AUTHORIZATION (ACH) FORM AND BORROWER CONTACT CONSENT FORM

- Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers. Funds must be from a U.S. Bank. The executed (ACH) enrollment form must be included in the closed loan submission package. The (ACH) enrollment form must include the bank routing number, account number, and account type.
- The Borrower Contact Consent Form is required.

### 1.3.2.3 FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport (including photograph).
  - ITIN borrowers to provide the following:
    - Copy of unexpired government photo ID (e.g., driver's license, passport), and
    - ITIN card or letter from IRS assigning the ITIN number to the borrower
- For DSCR transactions, if a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements do not apply.
- OFAC SDN screening: See Section 1.5.3.2.1 – Individuals for criteria.
- OFAC Sanctioned Countries: See Section 1.5.3.2.2 – Foreign Countries for criteria.
- Florida Purchases: Loans secured by property located in the state of Florida made to foreign principals, persons, and entities are to include one of the following Affidavits published by the Florida Land Title Association:
  - Conveyances to Foreign Entities – By Individual Buyer
  - Conveyances to Foreign Entities – By Entity Buyer
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. 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: https://travel.state.gov/content/travel/en/records-and- authentications/authenticate-your-document/apostille-requirements.html
  - Model Apostille forms can be found on the following link: https://www.hcch.net/en/instruments/specialised-sections/apostille
- Power of Attorney (POA) is not allowed.

### 1.3.2.4 QUALIFYING U.S. CREDIT FOR FOREIGN NATIONAL BORROWERS

- Foreign national borrowers with a valid Social Security number or ITIN, the following apply:
  - Credit report is required, see Section 1.5 - Credit.
    - In all cases, credit report must be included in the file evidencing the borrower's score or score is not available
      - When no US credit score is available, treat as a 680 Fico for qualifying and pricing.
  - FN borrowers with an ITIN who do not own a primary residence in the U.S. are ineligible
- Restrictions when qualifying with U.S. credit:
  - Minimum Credit Score: 680

### 1.3.2.5 HOUSING HISTORY – FOREIGN NATIONAL

Housing history is required for the following:

- Subject property refinance transactions (including cash out), see Section 1.5.5 – Housing History.

Housing history is not required for the following:

- Primary residence in foreign country.

#### 1.3.2.6 FOREIGN NATIONAL INCOME

- DSCR Income Doc Type – See Section 1.8 – Debt Service Coverage (Investment Property) for DSCR calculation methods.
- See Foreign National matrix for eligibility.

#### 1.3.2.7 FOREIGN NATIONAL ASSETS

##### 1.3.2.7.1 RESERVES

- See Foreign National matrix for eligibility.

##### 1.3.2.7.2 ASSETS HELD IN FOREIGN ACCOUNTS

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements.

One of the following options may be utilized when documenting funds to close:

- Transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing unless funds are held in a foreign bank with U.S. branches insured by the FDIC; **or**
- Verified funds for closing to be wired directly to the closing agent. Wire transfer to include bank name, accountholder name, and account number.  Bank used as source of wire transfer must match the bank holding the assets verified in the loan file.

Documentation for assets held in foreign accounts:

- A copy of the most recent statement of that account.
- Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.
- See Section 1.6.2 - Asset Documentation of this guide for eligible sources and types of assets.

Reserves may remain in a foreign bank account or may be documented in a U.S. bank account.

##### 1.3.2.7.3 GIFT FUNDS

Gift funds are not allowed.

### 1.3.3 NON-OCCUPANT CO-BORROWERS

Non-occupant borrowers are credit applicants on a principal residence transaction who do not occupy the subject property.

- The non-occupant borrower is not required to be included on title for the subject property.
- Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower Certification similar to the example of a Non-Occupant Co-Borrower Certification in this guide.
- Overall DTI for all borrowers must adhere to requirements per the program matrix.

Restrictions:

- 5% LTV reduction: (max 75%)
  - Full blended income and assets allowed

  No LTV reduction:
  - Occupying borrower(s) contribute 5% of their own funds to the transaction if a purchase.
  - Occupying borrower(s) must have a DTI ratio of 60% or less. This excludes the income/debts of non-occupant borrower(s).

## 1.3.4 FIRST TIME HOMEBUYERS (FTHB)

An individual is to be considered a first-time homebuyer (FTHB) who is (1) purchasing the security property; and (2) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the application date of the security property. Note: An individual who is a displaced homemaker or single parent also will be considered a first-time homebuyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first time homebuyer transactions:

- Primary residence only.
- DTI may not exceed 45%.
- Minimum six (6) months of reserves.
- 12-month rental history, reflecting 0x30, documented per Section 1.5.5 - Housing History.
- First time homebuyers with less than 12-month rental history:
  - DTI may not exceed 43%.
  - LTV may not exceed 80%.

## 1.3.5 INELIGIBLE BORROWERS

- Employees of Hometown Equity Mortgage
- Irrevocable Trust
- Land Trust
- Blind Trust
- Persons with Diplomatic Immunity, as defined by US Citizenship and Immigration Services
- Persons from OFAC sanctioned countries and persons sanctioned by OFAC
- Not-For-Profit entity
- ITIN borrowers who are not Foreign Nationals (See ITIN guidelines)
- Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.

## 1.3.6 TITLE VESTING AND OWNERSHIP

### 1.3.6.1 VESTING FOR CONSUMER AND BUSINESS PURPOSE LOANS

Ownership may be fee simple or leasehold title. For more information regarding leaseholds, see Section 1.9.7 - Leasehold Properties.

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter vivos revocable trust

Ineligible forms of vesting are:

- Land trusts
- Blind trusts
- Irrevocable trust
- IRAs
- Not-For-Profit entity
- Illinois land trust

### 1.3.6.1.1 INTER VIVOS REVOCABLE TRUST

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae® requirements should be followed to the extent this section is silent.

An inter vivos revocable trust is a trust that:

- an individual creates during their lifetime.
- becomes effective during its creator's lifetime; and
- can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime

Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors/trustees.

#### TRUST AND TRUSTEE REQUIREMENTS:

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) 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 qualify for the mortgage.

The trustee must include either

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

The trustee must 1) have the power to hold the title and 2) mortgage the security property for the purpose of securing a loan to the individual (or individuals) who are the borrower(s) under the mortgage or note. One or more of the trustees establishing the trust must use personal income and/or assets to qualify for the mortgage.

#### DOCUMENTATION REQUIREMENTS:

- Trust documents are to be obtained as follows:
  - Fully executed and notarized Certificate of Trust
    - Or as applicable under state law
  - If the trust was created under the laws of Louisiana:

- Trust Extract
  - If allowed by state law, alternative trust documentation may be acceptable
- Trust documents are to verify the following:
  - Trust is revocable
  - Borrower is the trustee and settler of the trust
  - Borrower is the primary beneficiary of the trust, when disclosed
  - Trustee is:
    - Duly qualified under applicable law to serve as trustee
    - Fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets

### 1.3.6.2 VESTING FOR BUSINESS PURPOSE LOANS (INVESTMENT OCCUPANCY)

A Business Purpose Loan where the borrower is an entity is limited to the following structures: Limited Liability Company (LLC), Partnership, and Corporation.

The following requirements apply to all loans vested in an entity:

- Loans vested in an entity are eligible under the following programs: Non-QHEM Premier, Non-QHEM Plus, Non-QHEM, theNONI, theNearNONI, Closed End Second
- Investment transactions only
- Purpose and activities are limited to ownership and management of real property.
- Multi-level entity structures are allowed subject to entity documentation requirements met for all entities.
- Entity must be domiciled in a U.S. State.
- Entity is limited to a maximum of four (4) member(s) or manager(s).
- Personal guaranties must be provided by member(s)/manager(s) representing at least 25% ownership of the entity. The personal guaranty form is available on the HEM website: www.theLender.com.
- A guarantor must have authority to execute loan documents on behalf of the entity.
- Each Entity member (applicant) providing a Personal Guaranty (full recourse) must complete a FNMA Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guaranty needs to be reflected on the FNMA Form 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

#### 1.3.6.2.1 GUARANTOR(S) DOCUMENTATION

- Loan Application (e.g., FNMA Form 1003 or other application)
  - Completed for each guarantor
  - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the LLC name
    - Signed as an individual
- Credit report from all guarantors completing an application, see Section 1.5.1 - Credit Reports
- Disclosure Documents
  - Business purpose loan disclosures as applicable
  - Any state or federally required settlement statement as applicable
- Legal Documents
  - Note, Deed of Trust/Mortgage, and all applicable Riders must be executed by the guarantor in their capacity as authorized signer for the entity. See exhibit for Entity Signature Examples
  - Personal Guaranty

- The guaranty must be full recourse
- The guaranty must reference the Note and loan amount
- Personal guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge.

## 1.3.6.2.2 ENTITY DOCUMENTATION REQUIREMENTS

### LIMITED LIABILITY COMPANY (LLC)

- Entity articles of organization or partnership (or equivalent)
- Evidence of good standing
    - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
- Entity documents authorizing the guarantor to execute loan documents on behalf of the entity (e.g., Operating Agreement, Certificate of Authorization)
    - If not available, a Borrowing Certificate is required
        - Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)
- Entity documents that include a list of members/managers and ownership percentage (e.g., organization structure)
- EIN/Tax Identification Number
    - Single member LLC may use EIN or the guarantor social security number
    - Multi-member LLCs require an EIN

### CORPORATION

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent)
- By-Laws and all amendments
- Evidence of good standing
    - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
- Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment.

### PARTNERSHIP

- Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
- Partnership Agreement and all amendments
- Evidence of good standing
    - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website)
- EIN/Tax Identification Number
- Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual(s):
    - Loan Application (FNMA Form 1003)
        - Completed for each member of the Entity providing a guaranty.

        - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the Entity name.
        - Signed by Individuals
    - Personal Guaranty
        - Completed for each member of the Entity providing a guarantee.
        - The guaranty should be executed at loan closing and dated the same date as the Note.
        - Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge.
- Signed by the authorized signer for the entity:
    - Disclosures (e.g., GFE, TIL, LE, CD, ECOA)
    - Any state or federally required settlement statement as applicable
    - Note, Deed of Trust/Mortgage, and all Riders

#### 1.3.6.3 POWER OF ATTORNEY

A limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction.
- It is recorded with the Mortgage/Deed of Trust.
- It contains an expiration date.
- It is used to execute only the final loan documents.
- The Borrower who executed the POA signed the initial FNMA Form 1003.
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.
- Not eligible for cash-out transactions or with Foreign National borrowers.

### 1.3.7 OCCUPANCY TYPES

- **Primary Residence** – A primary residence is a property that the borrower occupies as his or her principal residence. May also be referred to as owner-occupied.
- **Second Home** – A second home is a property occupied by the borrower for some portion of the year. The following criteria applies:
    - Restricted to one-unit dwellings.
    - Must be suitable for year-round occupancy.
    - The borrower must have exclusive control over the property. Cannot be subject to any agreements giving control over occupancy to a management firm, rental pools, or timeshare arrangement.
- **Investment Property** – An investment property is owned but not occupied by the borrower.

### 1.3.8 BORROWER STATEMENT OF OCCUPANCY

The borrower must acknowledge the intended occupancy of the subject property ("Primary Residence", "Second Home", or "Investment") by completing and signing the appropriate sections of the "Occupancy Certification" provided with in the final loan documents.

### 1.3.9 BORROWER STATEMENT OF BUSINESS PURPOSE (DSCR - INVESTMENT PROPERTY)

All DSCR transactions require the borrower to acknowledge the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose form in this guide. HEM reserves the right to decline any loan that may indicate the property is not intended exclusively for investment purposes.

Common occupancy red flags include, but are not limited to:

- Subject property value significantly exceeds the value of the borrower's primary residence.
- The borrower is a first-time homebuyer and currently living rent free or renting his/her primary residence.
- Subject property could reasonably function as a second home.
- Borrower documents show subject property as current residence.

# 1.4 TRANSACTION TYPES

## 1.4.1 ELIGIBLE TRANSACTIONS

### 1.4.1.1 PURCHASE

- Proceeds from the transaction are used to finance the acquisition of the subject property.
- LTV/CLTV is based upon the lesser of the sales price or appraised value.
- Assignment of contract or finder's fees reflected on the purchase contract are not eligible to be included in the sales contract price or associated with the LTV/CLTV calculation.
- Arm's Length For-Sale-By-Owner (FSBO) transactions allowed.
  - If Non-Arm's Length, see Section 1.4.3 – Non-Arm's Length Transactions.
- Ensure the transaction is compliant with the Higher Priced Mortgage Loan appraisal rule. See Section 1.9.2.1.1- TILA Higher Priced Mortgage Loans Appraisal Rule (Property Flips) for details.
- The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following:
  - The purchase contract cannot be expired.
  - Borrower as the purchaser of the property.
  - Seller as the vested owner on title.
  - Correct sales price.
  - Amount of down payment.
  - Closing dates.
  - Concessions and seller contributions.

### 1.4.1.2 RATE/TERM REFINANCE

#### PROCEEDS FROM THE TRANSACTION ARE USED TO:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
  - Closed-end loan, at least 12-months of seasoning has occurred.
  - HELOC, at least 12-months of seasoning has occurred, and total draws over the past 12-months are less than $2,000. (For business purpose transactions, any draw over the life of the loan may not have been used for personal use. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).
- Buy out a co-owner pursuant to an agreement.
- Pay off an installment land contract executed more than 12-months from the loan application date.

#### OTHER CONSIDERATIONS:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.
- The appraised value will be used to determine LTV/CLTV.
- Refinance of a previous loan that provided cash out, as measured from the previous note date to the new note date, and is seasoned less than 12-months, will be considered a cash out refinance.
- The transaction must be treated as cash-out when the subject property is encumbered by one of the following:
  - Blanket/Cross-Collateralized loan, or

- Loan that allows for Paid in Kind (PIK) interest

### 1.4.1.3 CASH-OUT

A refinance that does not meet the definition of a rate/term transaction is considered cash-out. See Loan/LTV Matrices for maximum cash-out amounts and restrictions.

- Cash-Out Seasoning is defined as the length of time the subject property has been owned by the borrower, as measured by the property acquisition date to the date of the new note.
  - Minimum borrower seasoning requirement of six (6) months is required.
  - Less than six (6) months seasoning is allowed with one of the following circumstances, must be documented by the Broker:
    - Borrower acquired the subject property through an inheritance, or
    - Subject property was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
- Property Value Determination
  - For properties owned 12-months or longer: LTV/CLTV is based upon the appraised value.
  - For properties owned greater than 6 months but less than 12-months: LTV/CLTV is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
  - For properties owned less than 6 months, see Section 1.4.1.4 – Delayed Financing for eligibility.
- A mortgage secured by a property currently owned free and clear is considered cash-out.
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.
- If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes, including but not limited to the requirements of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm- Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).
- Cash-out eligible to satisfy the reserve requirements.
- Loans not eligible for cash-out:
  - Investment properties listed for sale in the past six (6) months, unless a one (1) year prepay penalty, per requirements in Section 1.4.7 - Prepayment Penalty are met.
  - Payoff of a Land Contract/Contract for Deed.
  - Non-Owner Occupied investment property transactions (Investor DSCR) when proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property.
  - Loans with Power of Attorney.
  - Pay-off of a prior cash-out in the past 6 months

### 1.4.1.4 DELAYED FINANCING

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.
  - The transaction is considered cash out refinance for pricing and eligibility. Cash-in-hand limits do not apply except for Foreign Nationals.
    - Foreign Nationals are subject to max cash-in-hand limits per the Foreign National matrix.
  - The original purchase transaction was an arms-length transaction.

- The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
- The preliminary title search or report must confirm that there are no existing liens on the subject property
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

## 1.4.2 LISTING SEASONING

For cash-out refinances only:

### PRIMARY/SECOND HOME:

- The value will be based on the lesser of the lowest list price or appraised value if listed in the most recent 6 months.

### INVESTMENT PROPERTIES:

- A listing expiration of less than six (6) months is permitted with a minimum prepayment penalty of one (1) years, see Section 1.4.7 - Prepayment Penalty. If a property is listed for sale, the listing must be cancelled prior to the note date.
- The value will be based on the lesser of the lowest list price or appraised value.

## 1.4.3 NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales, and flip transactions.

When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property.

A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required, as well as the payment history pattern (verification of the Seller's mortgage [VOM]).

**Non-Arm's length transactions are not eligible on all business purpose programs**

### 14.3.1 NON-ARM'S LENGTH TRANSACTION RESTRICTIONS

- Renter(s) purchasing from landlord.
    - 12-months of cancelled checks to prove timely payments are required.
    - A verification of rent (VOR) is not acceptable.
- Purchase between family members.
    - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD.
    - Must provide a 12- month mortgage history on the existing mortgage securing the subject property, confirming the Family Sale is not a foreclosure bailout.
    - Borrower to provide verification of earnest money deposit.
    - Maximum LTV/CLTV of 80%.
- Employer to employee sales or transfers are not allowed (e.g., newly constructed properties).

- Property trades between buyer and Seller are not allowed.

**Commission earned by buyer/borrower can be used for down payment and/or reserves.

## 1.4.4 INTERESTED PARTY CONTRIBUTIONS (SELLER CONCESSIONS)

### OWNER OCCUPIED

- Maximum contribution:
  - 6% for LTVs > 75%
  - 9% for LTVs ≤ 75%

### NON-OWNER OCCUPIED

- May not exceed 6%
- New Construction – 6% ≥ 75% LTV. 9% < 75% LTV

All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state, and local law.

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.

A borrower participating in the transaction (i.e., borrower acting as their own agent) may contribute funds (i.e., commission) and are exempt from the interested party contribution limits as they are construed as "borrower's own funds".

Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

## 1.4.5 ESCROWS – IMPOUND ACCOUNTS

### ESCROW WAIVERS

- HPML loans require an escrow account for property taxes and hazard insurance. Escrow waivers are not allowed.
- Escrow accounts for property taxes and hazard insurance may be waived subject to the following requirements:
  - LTV less than or equal to 80%
  - Escrow waiver is subject to an LLPA adjustment, see rate sheet for program specific adjustments
- Flood insurance escrow account:
  - Escrow account for flood insurance premium is required for all loans secured by residential improved real estate located in a flood zone.
    - See Section 1.8.2.9 – Flood Insurance for flood insurance requirements.
  - Flood insurance escrow may be waived for business purpose loans

## 1.4.6 SECONDARY FINANCING

- Private-party secondary financing not allowed
- Secondary financing must be subordinated and included in CLTV
- HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation showing the line of credit is past its draw period

### 1.4.7 PREPAYMENT PENALTY

#### INVESTMENT PROPERTY ONLY

Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note. The following prepayment structures may be used:

- A fixed percentage of no less than 5% - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.
- Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) – The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.

See rate sheet for further detail.

# 1.5 CREDIT

## 1.5.1 CREDIT REPORTS

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

## 1.5.2 UNDISCLOSED DEBT

A gap credit report or Undisclosed Debt Monitoring (UDM) report is required no more than 30- days prior to loan closing or any time after closing.

- Any new tradeline with a balance must be included in determining the DTI ratio.
- Business purpose DSCR transactions are excluded from this requirement.

## 1.5.3 FRAUD REPORT AND OFAC SEARCH

### 1.5.3.1 FRAUD REPORT

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All parties involved in the transaction must be included in the fraud report performed by an automated fraud and data check vendor solution.

#### REQUIREMENTS:

- Transaction participants must be included in the fraud report as follows: Borrowers/Guarantors, Property Sellers, Settlement Agents
- Only member(s)/manager(s) of an entity providing a guaranty are required to be included in the fraud report
- An industry recognized fraud and data vendor must be used (i.e., Fraud Guard, CoreLogic, DataVerify, TransUnion TLOxp, LexisNexis: SmartLinx, Instant ID, or other industry recognized fraud and data vendor)
- A copy of the findings report from the vendor must be provided in the loan file with all “high” alerts, or “red flags” addressed and/or cleared by the underwriter.
- Underwriters may clear “high” alerts or “red flags” directly through the vendor solution or with a signed attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report.
- Fraud Reports for loans secured by multiple properties (TheBlanket) do not need to reference every property, all other requirements apply.

### 1.5.3.2 OFAC SEARCH

The Office of Foreign Assets Control (OFAC) of the US Department of Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against individuals and foreign countries. A clear OFAC search for individuals and foreign countries is required.

#### 1.5.3.2.1 INDIVIDUALS

Individuals identified on OFAC’s SDN list are not eligible. All individuals involved in the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list, regardless of citizenship status.

#### REQUIREMENTS:

- A search of Specially Designated Nationals & Blocked Persons list must be completed via the US Department of Treasury: http://sanctionssearch.ofac.treas.gov.
- Individuals to be included in the OFAC search: Borrowers/Guarantors, Property Sellers, Settlement Agents.
- When the borrower is an entity, Guarantor(s) and all member(s)/manager(s) of the entity must be included in the OFAC search.

### 1.5.3.2.2 FOREIGN COUNTRIES

Borrower(s)/Guarantor(s) from OFAC sanctioned countries are not eligible. The Borrower(s)/Guarantor(s) are defined as individuals signing the loan application.

#### REQUIREMENTS:

- Borrowers/Guarantors who are Foreign Nationals must be screened against the OFAC sanctioned countries list. Search to be completed via the US Department of Treasury Office of Foreign Asset Control: http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.
  - Not applicable for Non-Permanent Resident Aliens and Permanent Resident Aliens.
- If the borrower is an entity, member(s)/manager(s) who are not Guarantors do not have to be screened against the OFAC sanctioned country list.

## 1.5.4 CREDIT INQUIRIES

Credit inquiries listed on the report within 90 days of the report date must be addressed by the borrower with a letter of explanation. If no credit was extended, borrower must state the purpose of the inquiry. If new credit was extended, borrowers must provide documentation on the current balance and payment. New payment terms are to be included in the DTI ratio.

- DSCR is excluded from addressing credit inquiries.

## 1.5.5 HOUSING HISTORY

- Housing payment history is required for all Real Estate Owned (REO) evidencing the payment activity for the most recent 12-months.
- All payment history will be used for program eligibility, see applicable program matrix for housing history requirements.
- Housing payments must be paid current as of 45 days of the loan application date
- Any REO listed on the application owned free & clear requires a Property Profile Report or similar document
  - Property taxes, all insurance, and homeowner's association dues (if applicable) are to be verified and included in DTI
- Borrower(s) who sold a primary residence within the past six (6) months, currently residing rent-free, and purchasing a new primary residence are allowed. 12-month mortgage history is required on previous primary residence.
- Less than 12-month history or residing rent-free allowed with the following restrictions:
  - DTI may not exceed 45%.
  - LTV may not exceed 80%.
  - Any available portion of a 12-month housing history must be paid as agreed.
- Borrowers who are currently renting a residence, a most recent 12-month rental history is required reflecting paid as agreed.

- If income is being used from a non-subject REO, a housing history is required.
  - Applies to properties vested to an individual or entity.
  - Mortgage liability must be factored into the net rental income used for qualification.
- NONI transactions have separate housing history requirements, see Section 1.8.2.3 - Housing History DSCR.
- A Notice of Default is treated as a 1x90x12

## 1.5.5.1 MORTGAGE VERIFICATION

### 1.5.5.1.1 MORTGAGE(S) REPORTING ON CREDIT REPORT

The Underwriter must review the credit report to determine the payment status of all reported mortgage accounts for the previous 12-months. Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

If a complete 12-month mortgage history is not reported on the credit report, the broker must use one of the following to complete the borrower's payment history:

- Credit supplement; or
- Request for Verification of Mortgage Form completed by the creditor; or
- Loan payment history from the servicer; or
- Borrower's proof of payment (e.g., cancelled check, ACH payment, bank transfer, etc.)

For NONI transactions, any mortgage appearing on the credit report will be included in the housing history eligibility.

### 1.5.5.1.2 MORTGAGE(S) NOT REPORTING ON CREDIT REPORT (07/15/2024)

The Underwriter must review the credit report to determine the payment status of all reported mortgage accounts for the previous 12-months.

If a complete 12-month mortgage history is not reported on the credit report, the underwriter must use one of the following to complete the borrower's payment history:

- Credit supplement; or
- Verification of Mortgage form (VOM) completed by the creditor/servicer; or
- Loan payment history from the creditor/servicer; or
- Borrower's proof of payment (e.g., cancelled check, ACH payment, bank transfer, etc.)

For NONI transactions, any mortgage appearing on the credit report will be included in the housing history eligibility.

## 1.5.5.2 BALLOON NOTES WITH MATURITY DEFAULT

- Notes with a balloon feature with an expired maturity date exceeding 30 days require an extension to avoid being counted as delinquent (e.g., delinquent 31 days is 1x30 late, delinquent 61 days is 1x60 late, etc).

## 1.5.5.3 RENTAL VERIFICATION

- If an applicant rents from a professional management company or a private party, a fully completed and signed VOR may be utilized.
- The borrower may provide the most recent 12 months' consecutive cancelled checks (front and back) along with a copy of the lease as an alternative to the VOR.

#### 1.5.5.4 DEPARTURE RESIDENCE

- If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:
  - The executed sales contract for the current residence, and
  - Confirmation that any financing contingencies have been cleared.
- If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be offset using 75% of the lower of actual or market rent. The rental income must be documented with all the following:
  - Market Rent Analysis, Single Family Comparable Rent Schedule (FNMA Form 1007).
  - Copy of a current lease.
  - Evidence of proof of receipt of damage deposit and first month's rent.

### 1.5.6 CONSUMER CREDIT

- Excludes all NONIs.

#### 1.5.6.1 INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installments must be included in the borrower's debt-to-income (DTI) 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 or prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

#### 1.5.6.2 LEASE PAYMENTS

Lease payments must be considered as recurring monthly debt obligations and included in DTI ratio calculation. This is regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

#### 1.5.6.3 STUDENT LOANS

- If a monthly student loan payment is provided on the credit report, the underwriter may use that amount for qualifying purposes.
- If the credit report does not reflect the correct monthly payment, the underwriter may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
- If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the underwriter must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the underwriter may calculate:
  - a payment equal to 1% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or

- a fully amortizing payment using the documented loan repayment terms.

### 1.5.6.4 DEFERRED INSTALLMENT DEBT

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the underwriter must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

### 1.5.6.5 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 DTI ratio calculation. Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a minimum payment amount, the underwriter must use 5% of the outstanding balance to be included in the DTI ratio calculation.

Any non-mortgage account can be no more than 30 days delinquent at time of application, except for DSCR transactions. Any delinquent account must either be brought current or paid off at closing, except for DSCR transactions.

### 1.5.6.6 AUTHORIZED USER ACCOUNTS

Authorized user accounts can be excluded from the debt-to-income ratio.

### 1.5.6.7 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, underwriters must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

### 1.5.6.8 SOLAR PANELS

Installment debt from financed or leased payments associated with solar panels are to be included in the debt-to- income ratio. See Section 1.12 – Solar Panels for additional criteria.

### 1.5.6.9 TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

### 1.5.6.10 BUSINESS DEBT

A business debt is a financial obligation of a business but may also be the responsibility of 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. When a self- employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the underwriter must confirm that it verified that the obligation was actually paid out of company funds to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt:

- Most recent six (6) months of cancelled checks drawn against the business account
- Tax returns reflecting the business expense deduction
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than six (6) months old, the payment must be included in the DTI ratio.

### 1.5.6.11 CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:

- Car loan
- Student loan
- Mortgage
- Any other obligation

If the underwriter obtains proof that the borrower is not the party who is repaying the debt, the underwriter may exclude the debt. In order to exclude debts from the borrower's DTI ratio, the underwriter must obtain the most recent 12-months canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

### 1.5.6.12 COURT-ORDERED ASSIGNMENT OF DEBT

When a borrower has outstanding debt what was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a continent liability. The underwriter is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.

The underwriter is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The underwriter cannot disregard the borrower's payment history for the debt before its assignment.

### 1.5.6.13 LOANS SECURED BY FINANCIAL ASSETS

When a borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.

The underwriter is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the underwriter obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the underwriter must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Payment on any debt secured by virtual currency is an exception to the above policy and must be included when calculating the debt-to-income ratio.

### 1.5.6.14 CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS

Delinquent credit, such as charge-offs of non-mortgage accounts and collections, have the potential to affect loan position or diminish borrower equity.

### COLLECTIONS:

- Individual collection accounts equal to or greater than $250, and accounts that total more than $2,000, must be paid in full prior to or at closing. See below for exceptions:
  - Medical collections may remain open.
  - Collections that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented.
  - For DSCR transactions, charge-offs and collections can be ignored unless they are title impacted.
- Collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of the following:
  - Payments for collections are included in the DTI (subject to program DTI restrictions). If the payment amount is not known, 5% of the balance may be used as the payment.
  - Reserves are sufficient to cover the balance of the collections and meet reserve requirements.

### CHARGE-OFFS:

- Charge-off are debt that have been written off by the creditor and are typically no longer collected. Charge-off accounts are accounted for in the FICO score and are not required to be paid off.

### 1.5.6.15 CONSUMER CREDIT COUNSELING SERVICES

Borrower enrollment in Consumer Credit Counseling Services (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.

A monthly CCCS plan payment must be included in the DTI calculation.

### 1.5.6.16 JUDGMENT OR LIENS

Any outstanding judgments or tax liens may remain open under the following conditions:

- Must be on a repayment agreement,
- Document the most recent 3 months' payments made in a timely manner,
- Include payment in the DTI or debt service, and
- If the judgment or tax lien is recorded against the property, it must be subordinated

If the conditions above are not met, all open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

### 1.5.6.17 INCOME TAX LIENS

All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:

- The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed).
- A minimum of two (2) payments have been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
- The maximum payment required under the plan is included in the DTI calculation.
- The balance of the lien, or repayment plan, must be included when determining the maximum CLTV for the program.

- Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property.

### 1.5.6.18 DISPUTED TRADELINES

Any disputed accounts on an applicant's credit report require additional due diligence. When an account in dispute is a collection account and the balance is less than or equal to $250, the dispute may remain open. Otherwise, the following guidelines must be adhered to:

- Account with zero balance and no derogatory information in the two years preceding the credit report date – no action required
- Account with zero balance and derogatory information in the two years preceding the credit report date including active collections and charge offs not excluded above - remove and pull new credit report
- Account with a positive balance and no derogatory information in the two years preceding the credit report date – no action necessary
- Account with a positive balance and derogatory information in the two years preceding the credit report date including active collections and charge offs not excluded above – remove and pull new credit report

Note: A credit supplement is not allowed to document disputed accounts. A new report must be pulled.

## 1.5.7 BANKRUPTCY HISTORY

Recent bankruptcies are not allowed. All bankruptcies must be settled a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

## 1.5.8 FORECLOSURE SEASONING

Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

## 1.5.9 SHORT SALE/DEED-IN-LIEU SEASONING

Short Sales and Deeds-in-Lieu of Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details.

In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the short sale/deed-in-lieu completion date.

## 1.5.10 FORBEARANCE, MODIFICATION, OR DEFERRALS

Forbearances, modifications, and deferrals are considered under housing payment history as outlined below:

### MORTGAGE TRADELINES IN FOREBEARANCE:

Applicants who had one or more mortgage trade lines placed in forbearance must meet one of the below requirements:

- If all payments made as originally scheduled during the forbearance period with no payments missed, the account(s) in question must be reinstated prior to application but there is no waiting period.

- If one or more payments on one or more accounts missed due to forbearance, then the account in question must be reinstated and three-monthly payments must be made as scheduled after completion of the forbearance period and prior to the application date. An Applicant may have missed more than three payments during the forbearance period and/or have the missed payments be added onto the loan's unpaid principal balance and still be eligible under this guideline, provided the requirements listed here are met.

#### WITHIN 12-MONTHS OF NOTE DATE:

- Forbearance, loan modifications, or deferrals completed or reinstated within 12-months of the Note date of the subject transaction are not eligible under, 5-8 multi/2-8 mixed use, and theBlanket.

#### ALL NONI LOAN PROGRAMS:

All mortgages in forbearance or modification must be completed prior to funding. The borrower may not have any mortgages currently in forbearance or modifications in trial payment periods.

Forbearance or loan modification resulting in any of the attributes below is subject to seasoning of 36 months:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of 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 too unsecured

A letter of explanation from the borrower addressing the situation that made forbearance or modification necessary and that the situation requiring the forbearance or modification has passed.

### 1.5.11 CREDIT SCORE

Loan eligibility is based upon the representative credit score, also referred to as the Decision Credit score. A valid Decision Credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. To determine a borrower(s) credit score, use the lower of two (2) or middle of three (3) credit scores.

For a loan file with one borrower, that borrower's score is the decision credit score. For loan files with multiple borrowers:

- <u>Standard and Alt Documentation</u>: The borrower with the higher monthly income is considered the primary borrower and their credit score can be used as the Decision Credit Score.
  - If the borrower and co-borrower are self-employed and jointly own the business being used for income, the highest score amongst the borrowers is used as the decision credit score.
- <u>DSCR</u>: Determine a decision credit score for each borrower/guarantor (lower of two or middle of three), use highest decision credit score amongst all borrowers/guarantors to determine loan eligibility.

### 1.5.12 TRADELINES

**Non-QHEM Premier, Non-QHEM Plus and Non-QHEM:** If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived. For loans when the primary borrower has less than three credit scores, each borrower must meet the minimum tradeline requirements, unless the co-borrower is the spouse of the borrower. In that case, only one spouse is required to meet the minimum tradeline requirements outlined below.

**DSCR:** For each borrower who has three (3) credit scores, the minimum tradeline requirement is waived (all borrowers must be evaluated individually). Each borrower with less than three (3) credit scores must meet the minimum tradeline requirements outlined below.

**Foreign National DSCR:**

No tradeline requirement specific to FN borrowers

### 1.5.13 OBLIGATIONS NOT APPEARING ON CREDIT REPORT

#### 1.5.13.1 HOUSING AND MORTGAGE-RELATED OBLIGATIONS

Housing and mortgage-related obligations include property taxes, insurance premiums, and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. All properties owned by the borrower must be fully documented in this regard on the Schedule of Real Estate Owned (REO) section of the FNMA Form 1003 loan application. These obligations must be verified (subject to the program criteria) using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, or information obtained from a valid and legally executed contract.

#### 1.5.13.2 2 CURRENT DEBT OBLIGATIONS, ALIMONY, AND CHILD SUPPORT

An underwriter may use a credit report to verify a borrower's current debt obligations, unless the underwriter has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae® guidelines.

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 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. For alimony obligations, the underwriter has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the underwriter exercises this option, 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.

## 1.6 ASSETS

THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE STATED.

### 1.6.1 ASSET REQUIREMENTS

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 120 days of the loan note date.

Large deposits must be sourced as follows:

- If personal accounts are used for assets, large deposits defined as any single deposit that represents greater than 100% of the borrower's qualifying monthly income are to be documented for a purchase transaction.
- If business accounts are used for assets, the following applies:
  - Business account used for income: Large deposits greater than 100% of monthly business revenue must be documented for a purchase transaction.
  - Business account not used for income: Large deposits do not need to be sourced.
- Large deposits do not need to be sourced on theNONI, theNearNONI and theNONI+.

### 1.6.2 ASSET DOCUMENTATION

The following may be used as asset documentation for down payment, closing costs, and reserves. See applicable Loan/LTV matrix for minimum reserve requirement.

- Account statements (e.g., checking, savings, share, or brokerage accounts)
  - Statements must include the following:
    - Name of financial institution
    - Reflect borrower as the account holder (Funds held jointly with another individual are considered 100% of the borrower's funds)
    - Account number
    - Statement date
    - Time period covered by the statement
    - Available balance in U.S. dollar denomination
  - Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either http://www.xe.com or the Wall Street Journal conversion table.
- Assets held in in a Trust require the following:
  - Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
  - Document the conditions under which the borrower has access to the funds
- Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
- Verification of Deposit completed by the verifying financial institution (FNMA Form 1006).
- Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts. When qualifying the borrower, monthly payments on loans secured by non-financial assets must be included in the debt-to- income calculation for non-DSCR transactions. When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt. See Section 1.5.6.13 - Loans Secured by Financial Assets for complete details.
- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets. For downpayment and closing costs, if funds haven't been liquidated, confirm the borrower can access/withdraw funds.
- Business accounts may be considered for assets.
  - Consumer Purpose Loans: The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.
  - DSCR:
    - Assets held in the name of the vested entity: 100% of the assets may be used.
    - Assets not held in the name of the vested entity: The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.
- Cash Value of Life Insurance - 100% of the cash surrender value less any loans may be considered for assets.
- Non-regulated Financial Assets
  - Crypto Currency – 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.

The following are not acceptable as asset documentation:

- Non-vested or restricted stock accounts.
- Cash-on-hand.
- Sweat equity.
- Gift or Grant funds which must be repaid.
- Down payment assistance programs.
- Unsecured loans or cash advances.
- 529 Savings Plan.
- Funds contributed by a non-borrowing spouse unless documented as a gift. See Section 1.6.4 – Gift Funds.

### 1.6.3 RESERVES

- HEM loan program requires minimum reserves as outlined on the HEM Loan\LTV matrices.
- Net proceeds from a cash-out transaction may be used to meet reserve requirements. See matrix for restrictions.
- Reserve requirements are waived for Rate-And-Term Refinance transactions (Applies to loans under Non-QHEM Plus, Non-QHEM and all NONI programs secured by a 1-4 unit property) when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. Waiver not eligible for DTI greater than 50%. For an Interest Only loan, the reduction is based on the amortizing payment used for loan qualification.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.
- Gift funds may not be used to meet reserve requirements.

### 1.6.4 GIFT FUNDS

Unless otherwise specified, Gift Funds are acceptable if one of the following applies:

- 10% reduction in maximum LTV is required unless the borrower has 5% of their own funds verified.
- This restriction applies to purchase transactions only.

Refer to the HEM Matrices for product specific allowances and restrictions

#### 1.6.4.1 ELIGIBLE DONORS AND DOCUMENTATION

A gift can be provided by:

- A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A fiancé, fiancée, or domestic partner.
- For any gift provided by a non-US citizen, the donor must be screened against the OFAC Specially Designated Nationals (SDN) list.

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.

### 1.6.4.1.1 DOCUMENTATION REQUIREMENTS

A signed gift letter is required, and must provide all of the following:

- Dollar amount of gift; and
- Donor's name, address, phone number & relationship to the borrower (Acceptable Donors); and
- Date funds were transferred or, if not transferred prior to closing must state funds will be sent to the closing agent (acceptable forms: certified check, money order, wire transfer or cashier's check); and
- Donor's statement that no repayment is required or expected

### 1.6.4.1.2 VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS (2/26/2024)

Enough 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 forms of documentation:
  - Copy of donor's check along with borrower's deposit slip or copy of donor's withdrawal slip and the borrower's deposit slip
  - Copy of donor's check to the closing agent
  - Evidence of wire transfer from donor to borrower
  - Settlement statement showing receipt of the donor's check
- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Primary Residence. Must meet all other guidelines for Gift Funds.

# 1.7 INCOME

## 1.7.1 INCOME ANALYSIS

THE FOLLOWING APPLY TO ALL INCOME DOCUMENTATION OPTIONS UNLESS OTHERWISE STATED IN THE SPECIFIC SECTION OF THE GUIDELINES.

### 1.7.1.1 EMPLOYMENT/INCOME VERIFICATION

- A minimum of two (2) years of employment history for both wage/salary or self-employment, is required to be documented on the loan application (FNMA Form 1003). When the borrower has less than a two-year history of employment, the underwriter should document positive factors to offset the shorter employment history, such as education or training.
- Any gaps in employment that span one or more months must be explained.
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.
- The following are common business structures:
    - Sole proprietorship
    - Limit Liability Company (LLC)
    - Partnerships
    - S-Corporation
    - Corporation

### 1.7.1.2 EARNINGS TRENDS

When 24-months of income are analyzed for qualification, year over year income amounts must be compared using the borrower's W-2 forms, signed federal income tax returns, or bank statements. The earnings trends are addressed as follows:

- Stable or increasing: Defined as annual income that is equal to, greater than, or less than 20% below the prior year's income. The income amounts will be averaged.
- Declining but stable: If the 24-month earnings trend shows a decline in borrower income of 20% or more on a year over year basis, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used.

## 1.7.2 DEBT-TO-INCOME (DTI) RATIO

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to HEM Program Matrix criteria.

The DTI ratio consists of two components:

- The borrower's monthly debt obligations including the monthly mortgage payment for the subject loan, any simultaneous loans secured by the subject property, monthly mortgage-related obligations (property taxes, hazard/flood/other insurance, HOA fees, etc.), and consumer's current debts, alimony and child support obligations.
- The borrower's current monthly documented income used to qualify for the loan.

The qualifying monthly mortgage payment includes the following:

- Fixed rate: Note rate amortized over the total term
    - Interest Only: Note rate amortized over the remaining term after the expiration of the interest only period
- ARMs: Qualifying rate is the higher of the fully indexed rate or note rate
    - Interest Only: Qualifying rate amortized over the remaining term after the expiration of the interest only period

Monthly mortgage-related obligations include real estate taxes, property insurance, any other insurance, and any association dues.

- Calculating Real Estate Tax Payment for subject property:
    - For purchase and construction-related transactions, the underwriter must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements.
        - The tax rate per the tax cert should be used on existing construction
        - The millage rate provided by title should be used on new construction
        - State of California exception: Use 1.25% of the purchase price to determine the monthly tax payment.
    - For refinance transactions, use the current tax assessment.

### 1.7.3 RESIDUAL INCOME

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations.

Residual Income = Gross Monthly Income minus total monthly debt.

When the DTI is 43.001 or above, the underwriter must document that the residual meets or exceeds $1,500 per month. Additional residual income of $250 is added for the first dependent and $125 for each additional dependent. A dependent is any person other than the borrower or spouse in the household.

### 1.7.4 DOCUMENTATION OPTIONS

Standard and Alt Doc income documentation options are available. In addition to wage/salary income, Standard documentation includes various other types of income. See Section 1.7.5.4 - Other Sources of Income for documentation requirements. Income should be calculated and documented according to HEM guidelines. If a specific source of income is not referenced in the HEM Guide, the Fannie Mae® guidelines for that income source may be used.

#### 1.7.4.1 IRS FORM 4506-C

A signed copy of IRS Form 4506-C is required in every standard documentation credit file. See specific income documentation type if transcripts are required.

If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:

- A copy of the IRS rejection with a code of "Unable to Process" or "Limitation"
- Proof of identification theft, as evidenced by one (1) of the following:
    - Proof that the identification theft was reported to and received by the IRS (IRS Form 14039).
    - A copy of the notification from the IRS alerting the taxpayer to possible identification theft.
- In addition to one (1) of the documents above, if applicable, a Tax Transcript showing fraudulent information.

- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's personal tax return (Form 1040). Validation of prior tax year's income (The income for the current year must be in line with prior years.

#### 1.7.4.2 TAXPAYER FIRST ACT

The Taxpayer First Act includes a provision that persons receiving tax return information must obtain the express permission of taxpayers prior to disclosing that tax return information to any other person. "Tax return information" is defined under the IRS Code, 26 U.S.C. § 6103.

Therefore, if a Broker obtains tax return information during the origination or servicing of a mortgage loan, the Broker must obtain express consent from the taxpayer to be able to share the tax information with another party. Such sharing would extend to actual or potential owners of the loan, such as Hometown Equity Mortgage dba theLender or any other loan participant.

### 1.7.5 STANDARD DOCUMENTATION

The Standard Income Documentation option is available to borrowers who meet the requirements listed below. This documentation option is available to borrowers who have experienced recent credit events and allows for higher LTVs for borrowers with clean payment histories.

#### 1.7.5.1 RESTRICTIONS

- See the HEM Matrices for maximum LTV/CLTV and DTI.
- A minimum credit score of 620.
- A minimum two (2) year history of receipt of wage/salary or self-employment income is required.

#### 1.7.5.2 STANDARD INCOME DOCUMENTATION (12 OR 24 MONTHS

Eligibility and pricing differences exist for the 12- or 24- month documentation options, see Loan/LTV Matrices and rate sheets for details.

##### 1.7.5.2.1 WAGE/SALARY INCOME

- The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or
- Income verification provided by a FNMA approved 3rd party Vendor (e.g., The Work Number®) evidencing income from the most recent 1 or 2 years (as applicable) along with year-to-date earnings.
- FNMA WVOE Form 1005 is not eligible for standard income documentation unless used in conjunction with documents verifying variable income. See Section 1.7.5.4.23 – Overtime/Bonus/Commission.
- When tax returns are required, as in the case of income earned from subject or non-subject investment property REO, the most recent one (1) or two (2) years of tax returns should be provided. The definition of "most recent" is the last return scheduled to have been filed with the IRS. Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected.

##### 1.7.5.2.1 SELF-EMPLOYMENT INCOME

- The most recent one (1) or two (2) years of tax returns (including evidence of filing). If applicable, both personal and business (including all K-1s and schedules), signed and dated by each borrower.
    - Evidence of filing may include one of the following:

        - IRS Form 8879 e-File Signature Authorization for the provider that prepared the return, or
        - E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS.
        - If evidence of filing is not provided, tax transcripts for personal and corporate (IRS Form 1120) returns are required.
    - In lieu of tax returns, tax transcripts for the most recent one (1) or two (2) years may be provided as applicable. In certain cases, tax returns will be required as transcripts will not provide the details required to establish eligible qualifying income for the borrower.
- If the borrower pays themselves wage income, a YTD paystub must be included in the file.
- When analyzing tax returns, the following may be added back to the applicant's income calculation:
    - Depreciation
    - Depletion
    - Business use of home
    - Amortization/casualty loss
    - Ordinary income (loss) from other partnerships
    - Nonrecurring other (income) loss
    - Any expense(s) that can reasonably be documented to be one-time and non-recurring
    - Net operating loss carryforwards from years prior to the tax returns provided
- If the tax return date exceeds 120 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date and two (2) business checking account statements for the two (2) most recent months reflected on the P&L.
- The P&L may be either: prepared by a 3rd party or prepared by the borrower.
    - If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required.
    - The qualifying income is determined from the tax returns; the P&L is used to determine the stability of that income.

### 1.7.5.3 EMPLOYMENT STATUS

In all cases, the borrower's current employment status is required. Employment status can be established as follows:

#### WAGE/SALARY BORROWERS:

- A YTD paystub dated within 30 days of Note date; **or**
- A verbal VOE dated no more than 10 calendar days prior to Note date.
    - The VOE should include the following data:
        - Borrower name
        - Loan ID number
        - Current position
        - Verification that borrower's employment is currently active
        - Employer name/company name
        - Employer contact name and title
        - Name of individual who completed the VOE
        - Business phone number must be independently verified; **or**
    - A verification via e-mail exchange with the borrower's current employer dated no more than 10 calendar days prior to Note date. Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:
        - Work e-mail address of the individual contacted at the employer
        - Borrower name

- Current position
- Current employment status

### SELF-EMPLOYED BORROWERS:

- If the most recent tax return in the file is dated within 90 days of the note date, no additional verification required.
- If the tax return exceeds 90 days of the note date, a YTD Profit & Loss Statement (P&L) dated within 90 days of note date is required, along with the two most recent months of bank statements.

## 1.7.5.4 OTHER SOURCES OF INCOME

### 1.7.5.4.1 ALIMONY OR CHILD SUPPORT

Alimony or child support income is allowed with third-party documentation evidencing receipt of at least six (6) months. Document the support will continue for at least three (3) years by one of the following:

- Alimony:
  - Copy of final divorce decree or final separation agreement describing the payment terms.
  - Any other type of written legal agreement or court decree describing the payment terms.
- Child support:
  - Copy of final divorce decree or final separation agreement describing the payment terms.
  - Any other type of written legal agreement or court decree describing the payment terms.
  - The full amount of qualifying child support income may be treated as nontaxable and grossed up at 25% without supporting documentation verifying the nontaxable status.

### 1.7.5.4.2 AUTO ALLOWANCE

The borrower must have received payments for at least two (2) years. Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations.

### 1.7.5.4.3 CAPITAL GAINS

Capital Gains income must be averaged over two (2) years and documented with the following:

- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D.
- Third-party documentation to evidence that additional assets may be sold to support the qualifying income.
- The third-party documentation must evidence the capital gain income will continue for a minimum of three (3) years.
- Capital losses do not have to be considered.

### 1.7.5.4.4 DISABILITY INCOME – LONG TERM

Generally, long-term disability will not have a defined expiration date and should be expected to continue. Obtain a copy of the borrower's disability policy or benefits statement to verify the following:

- Eligibility for the benefits,
- Amount and frequency of payments, current proof of receipt, and
- If there is a contractually established termination or modification date.

### 1.7.5.4.5 EMPLOYED BY A RELATIVE

Income for borrowers who are employed by a relative must be verified using Standard Documentation for two (2) years, including the following:

- Federal income tax returns for the most recent two (2) years.
- W-2s for the most recent two (2) years.
- Paystub(s) covering the most recent 30-day period.

Clarification of the potential ownership of family-owned businesses by the borrowers may also be required. A borrower may be an officer of a family-operated business, but not an owner. Verification of a borrower's status should be provided by written confirmation obtained from a CPA or legal counsel.

### 1.7.5.4.6 EMPLOYMENT OFFERS OR CONTRACTS

For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date.

- The offer or contract cannot be for employment by a family member or interested party to the transaction.

### 1.7.5.4.7 FOREIGN INCOME

Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) 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 they provide copies of the following:

- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.

### 1.7.5.4.8 FOSTER CARE INCOME

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documentation verifying that the borrower has received foster care income for a minimum one-year period.
- Qualifying income is based upon the current amount received.

### 1.7.5.4.9 HOUSING/PARSONAGE INCOME

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24-months and the allowance is likely to continue for the next three (3) years. The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.
- 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 IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

### 1.7.5.4.10 INTEREST/DIVIDENDS

Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the 1.2 - Age of Document Requirements section.

- Document a two-year history of the income, as verified by copies of the borrower's federal income tax returns.
- Develop an average of the income received for the most recent two (2) years.
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

### 1.7.5.4.11 NON-TAXABLE INCOME

- If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the underwriter may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.
    - Child support income: The full amount of qualifying child support income may be treated as nontaxable and grossed up at 25% without supporting documentation verifying the nontaxable status.
    - Social Security income: Income may be grossed up at 15% without documentation verifying the nontaxable status.

### 1.7.5.4.12 NOTES RECEIVABLE INCOME

Note receivable income may be used for qualifying income subject to the following:

- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12-months using either cancelled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12-months, regardless of the duration, may not be used as stable income.

### 1.7.5.4.13 SOCIAL SECURITY

Social Security income for retirement that the borrower is drawing from their own account/work record will not have a defined expiration date and can be expected to continue.

Social Security income based on another person's account/work record or from the borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided the underwriter documents a 3-year continuance.

Social Security income may be grossed up, see Section 1.7.5.4.11 – Non-Taxable Income.

- Borrower is drawing Social Security benefits from own account/work record, provide one of the following:
    - Most recent SSA Award Letter, or
    - Most recent SSA-1099, or
    - Proof of current receipt, or
    - Most recent signed federal income tax return (or tax transcript) if filed by all borrowers on the loan
- Borrower is drawing Social Security benefits from another person's account/work record or from their own account/work record for the benefit of another, provide all of the following:
    - Most recent SSA Award Letter,
    - Proof of current receipt, and
    - Proof of three-year continuance
- Survivor Benefits, provide all of the following:
    - Most recent SSA Award Letter,

  - Proof of current receipt, and
  - Proof of three-year continuance
- Supplement Social Security Income (SSI), provide all of the following:
  - Most recent SSA Award letter, and
  - Proof of current receipt

### 1.7.5.4.14 PENSION, RETIREMENT, ANNUITY

The following provides verification requirements for pension, retirement, and annuity income. Document regular and continued receipt of the income with one of the following:

- Statement from the organization providing the income, or
- Retirement award letter or benefit statement, or
- One (1) month financial or bank account statement evidencing the source/deposit, or
- Signed federal income tax return, or
- IRS W-2 form, or
- IRS 1099 form

In addition to the above, if retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, the provide all of the following:

- Account Statement(s) reflecting available balance for withdrawals evidencing three (3) year continuance, and
- Borrower must have unrestricted access to the accounts without penalty

### 1.7.5.4.15 RENTAL INCOME

Rental income can be utilized as qualifying income by applicants who own investment properties. The following are the acceptable methods of calculation. Generally, the Applicant does not need a history of managing properties in order to rely on rental income, except as otherwise specified.

**Method One | Tax Returns**

- Utilize the net figure on schedule E page 1 of most recent year's tax return adding back depreciation, amortization and interest claimed. Deduct the principal and interest component of the mortgage payment(s) tied to the property (if any). Current property tax, property insurance and homeowner's association dues expenses do not need to be documented. For purposes of determining PITIA on non-subject rental properties owned, 1/12th of expenses claimed on the 1040's may be used. Receipt of rents either in line with or greater than the "gross rents" listed on the tax returns must be verified within 60 calendar days of the note date.

**Method Two | Lease**

- Use 75% of current lease less documented PITIA (principal, interest, taxes, insurance and homeowner's association dues). If lease is materially greater than income listed on tax return(s), applicant to provide supporting explanation/documentation. An expired lease which has converted to month to month is acceptable for this purpose. In the event the tenancy is at will with no formal lease agreement in place, a letter from the Applicant outlining terms may be accepted. Document current receipt of the lease income within 60 calendar days of the note date with the most recent one month's check in all cases where a lease is utilized.

Any leases provided must be a minimum 12-month term. Rental income received pursuant to short term leases will be subject to scenario review and approval prior to closing. If acceptable, it will be averaged over the most recent 12-month period, and leases must be in place. In the event the subject transaction is a purchase transaction, and an executed lease is not available, monthly rental income can be obtained from Comparable Rent Schedule less 25% for vacancy factor. When relying upon either leases or the appraiser's opinion of market rents, the lower of the two figures must be used (if a lease is provided) and a 25% vacancy factor must be applied to the gross rents.

Application of Rental Income:

- **Primary Residence**
  - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
  - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
    - Border Income: Income from roommates in a single-family property occupied as the applicant's primary residence is not acceptable. Rental income from boarders, however, is acceptable if the boarders are related by blood, marriage or law. The rental income may be considered effective if shown on the applicant's tax return. If not on the tax return, rental income paid by the boarder may not be used in qualifying. Document receipt of rents within 60 calendar days of the note date.
- **Investment Property**
  - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
  - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
  - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
  - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.
- **Exiting Residence**
  - When an applicant vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis.
  - The applicant needs to evidence sufficient equity in the vacated property defined by an LTV ratio of 75% or less. Equity can be evidenced by a residential appraisal no more than 6 months old, an automated valuation tool from a service acceptable to Hometown Equity Mortgage, or by comparing the unpaid principal balance against the original purchase price of the property. 75% of the monthly gross rental income less the property's PITIA is utilized for qualification. A properly executed lease agreement (that is, a lease signed by the applicant and the lessee) of at least one year's duration after the loan is closed is required. Evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner must also be provided.

### 1.7.5.4.16 RESTRICTED STOCK UNITS

Restricted stock units (RSUs) are issued to an employee through a vesting plan and distribution schedule. RSUs give an employee interest in company stock but have no tangible value until vesting is complete. The RSUs are assigned a fair market value when they vest and are considered ordinal income with a portion of the shares withheld to pay income taxes upon vesting. The employee receives the remaining shares and can sell them at their discretion.

Restricted stock options may be used as qualifying income when all the following requirements are met:

- Income has been consistently received for the prior two (2) years and is verified it will continue for three

- (3) years.
- RSU income is calculated using the past two (2) year average.
- If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.
- Borrowers must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement showing continuance of RSU income.
- Evidence of the payouts of RSUs for the past two (2) years. Acceptable verification includes any of the following:
  - Tax returns for the last two (2) years, reflecting RSU income.
  - Year-end paystubs reflecting the RSU payout.
  - An employer-provided statement paired with a brokerage or bank statement, showing the transfer of shares or funds, which includes the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower.

### 1.7.5.4.17 ROYALTY INCOME

- Obtain copies of the following:
  - Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
  - The borrower's most recently signed federal income tax return, including IRS Form 1040 and Schedule E.
- Confirm that the borrower has received royalty payments for at least 12-months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note.

### 1.7.5.4.18 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 unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

### 1.7.5.4.19 TIP INCOME

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e., waitperson, taxi driver, etc.). Tip income should be received for at least two (2) years.

Documentation will be based upon the documentation type selected (12- or 24- months). Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time- period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

### 1.7.5.4.20 TRUST INCOME

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments:

- Trust verification documentation must clearly identify the date the trust was created.

- Trustee statement evidencing borrower is a beneficiary and income will continue for three (3) years.
    - Trust verification documentation to include a letter from an accountant or attorney who has reviewed the trust's documentation when one of the following applies:
        - Trustee's statement or other documents are not available, or
        - Borrower is trustee
- Variable trust income: Use an average over the length of time per the doc type selected.
    - When variable trust income has been received for less than 24 months, but not less than 12 months, it may be considered as stable income with compensating factors
- Fixed trust income: Use the fixed payment as documented.
- If the borrower creates the trust as trustee, the assets within the trust must be verified with 3rd party documentation (i.e., bank statements).
- Unless this income is received monthly, documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return.

#### 1.7.5.4.21 UNEMPLOYMENT BENEFIT INCOME

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 with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

#### 1.7.5.4.22 VA BENEFITS

Document the borrower's receipt of Veteran Administration (VA) benefits with one of the following:

- Award letter, or
- Distribution form from the VA

Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. (Verification is not required for VA retirement or long-term disability benefits.)

Education benefits are not acceptable income because they are offset by education expenses.

#### 1.7.5.4.23 VARIABLE – OVERTIME/BONUS/COMMISSION

Variable income sources are eligible provided the borrower has a minimum 2-year history of receiving such income in the same line of work. Variable income earned for less than one (1) year may not be used for qualifying income.

- Variable earnings must be averaged over the most recent one (1) or two (2) years based upon the documentation type, and include the following:
- Most recent year-to-date pay stub reflecting the variable earnings;
- W-2 forms covering the most recent 1-year or 2-year period;
- A completed Written Verification of Employment – FNMA Form 1005 detailing base, overtime, commission, or bonus earnings.

### 1.7.5.5 INELIGIBLE INCOME SOURCES (08/29/2022)

- Mortgage Credit Certificates
- Educational benefits
- Mortgage Differential Payments

- Gambling winnings
- Refunds of federal, state, or local taxes
- Cannabis (see below)

Guidelines for income derived from cannabis:

- Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing, etc. is not allowed regardless of percentage of company ownership.
- Income from borrowers who are wage earners in the industry are allowed.

### 1.7.5.6 HOUSING ALLOWANCE

In some cases, Applicants may be able to use certain housing allowances (such as military and clergy) as qualifying income provided:

- The housing allowance has a history of being a part of the historical salary,
- The amount of the allowance must be verified in writing by the employer, and
- There is proof of receipt of the income for the most recent 12 months.
- This requirement is only for non-military housing allowance.

In some instances, this income is non-taxable (such as clergy). If documented as non-taxable via most recent two years tax returns, the non-taxable portion may be grossed up by 1.25% for qualification purposes

### 1.7.5.7 GOVERNMENT ASSISTANCE PROGRAMS

Income received from government assistance programs is acceptable as long as the income has been received for the previous 24 months and the paying agency provides documentation indicating that the income is expected to continue for at least three years. Copies of checks, award letters or grant statements are acceptable documentation.

### 1.7.5.8 HOMEOWNERSHIP SUBSIDIES

- A monthly subsidy may be treated as income, if an applicant is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.
- If the applicant is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as nontaxable income and be "grossed up" by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the applicant's income from employment and/or other sources.
- The Underwriter may treat this subsidy as an "offset" to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios). The subsidy payment must not pass through the applicant's hands.
- The assistance payment must be:
  - Paid directly to the servicing creditor, or
  - Placed in an account that only the servicing creditor may access.

Note: Assistance payments made directly to the applicant must be treated as income.

### 1.7.5.9 TEMPORARY LEAVE INCOME

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the applicant's employer. Applicants on temporary leave may or may not be paid during their absence from work. If the underwriter is made aware that an applicant will be on temporary leave at the time of closing of the mortgage loan and that applicant's income is needed to qualify for the loan, the Underwriter must determine allowable income and confirm employment as described below:

- The applicant's employment and income history must meet standard eligibility requirements as described above.
- The applicant must provide written confirmation of his or her intent to return to work.
- Document the applicant’s agreed-upon date of return by obtaining verification either from the applicant or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave). See FNMA’s Selling Guide for examples of acceptable documentation. This documentation does not have to comply with the Allowable Age of Credit Documents policy.
- The Underwriter must receive no evidence or information from the applicant's employer indicating that the applicant does not have the right to return to work after the leave period.
- The Underwriter must obtain a verbal verification of employment. If the employer confirms the applicant is currently on temporary leave, the Underwriter must consider the applicant employed. Furloughed Applicants do not follow this guideline section.
- The Underwriter must verify the applicant's income in accordance with the other provisions of this guide. The Underwriter must obtain the amount and duration of the applicant's “temporary leave income,” which may require multiple documents or sources depending on the type and duration of the leave period and “regular employment income.” The latter may include but is not limited to, the income the applicant receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

Note: Income verification may be provided by the applicant, by the applicant's employer or by a third-party employment verification vendor.

#### 1.7.5.9.1 REQUIREMENTS FOR CALCULATING INCOME USED FOR QUALIFYING

If the applicant will return to work as of the first mortgage payment date, the Underwriter can consider the applicant's regular employment income in qualifying.

If the applicant will not return to work as of the first mortgage payment date, the Underwriter must use the lesser of the applicant's temporary leave income (if any) or regular employment income. If the applicant's temporary leave income is less than his or her regular employment income, the Underwriter may supplement the temporary leave income with available liquid financial reserves. Note that these reserves would be in addition to any other reserves required under this guide. The following are instructions on how to calculate the “supplemental income”:

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

Total qualifying income = supplemental income plus the temporary leave income

Available liquid reserves = subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.

Number of months of supplemental income: the number of months from the first mortgage payment date to the date the applicant will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the Underwriter must calculate the total qualifying income. The total qualifying income that results may not exceed the applicant's regular employment income.

The same assets utilized to meet the liquid reserve requirement for this section may not be used for asset distribution.

## 1.7.6 ALT DOC – BANK STATEMENTS

Personal bank statements or business bank statements may be used to document self-employment income.

Bank statements may be obtained from the borrower, or the underwriter can use a third-party asset vendor participating in the Fannie Mae Day 1 Certainty® process.

The HEM Business Bank Statement calculator is available for download from the www.theLendercom website.

### 1.7.6.1 RESTRICTIONS

#### 1.7.6.1.1 APPLIES TO PERSONAL/BUSINESS BANK STATEMENTS

- See the HEM Matrices for maximum LTV and DTI.
- Borrowers must be self-employed for at least two (2) years. The employment section of the URLA must be completed with a minimum of two (2) years self-employment history.
  - If nature of borrower's business cannot be determined from the URLA, a business narrative may be provided by the borrower.
- The business being used to source income must be in existence for a minimum of two (2) years as evidenced by one of the following:
  - CPA Letter, or
  - Business License, or
  - Bank statement from 24 or more months prior to note date reflecting activity, or
  - Other reasonable evidence of business activity.
- Minimum credit score is 620.
- Nonprofit Entity not eligible.
- Income and expense documentation must be prepared or validated by an acceptable 3rd party source with knowledge of the borrower's business.
- Funds/Deposits in a IOLTA (Trust) ineligible source.
- Tax returns and 4506-C are not required for the bank statement program.
- Alt Doc income may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Alt Doc, a tax return is not required for the standard full income documentation. If the 4506-C form is provided, Box 8 should be checked to obtain a transcript of W-2 earnings.

### 1.7.6.2 BANK STATEMENT OPTIONS/INCOME ANALYSIS

In addition to the factors described in the 1.7.1 – Income Analysis section of this guide, underwriters should consider the following:

- Deposits should be reviewed for consistency.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 50% of the average monthly sales of the business.

- Changes in deposit pattern must be explained.
- Income documented separately, but included as deposits in the statement under review, must be backed out of deposits.

### 1.7.6.2.1 PERSONAL BANK STATEMENT REVIEW

A personal bank account is held in the individual borrower(s) name. The following documentation requirements and analysis methods apply:

#### DOCUMENTATION REQUIREMENTS

- 12- or 24- months of consecutive PERSONAL bank statements, the most recent statement dated within 90- days of the note date.
- Most recent two (2) months of BUSINESS bank statements.
- Verify that the borrower owns 20% of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent, reflecting the borrower's ownership percentage.

#### CALCULATION METHOD

- Qualifying income calculated using total deposits from the personal statements, minus any inconsistent or large deposits not justified. Qualifying income based upon the total eligible deposits from the statements reviewed divided by the number of statements. The most recent bank statement must be consistent with the qualifying income.
- If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded unless sourced.
- ATM deposits may be included if a consistent pattern of such deposits is present.
- Two (2) months of business bank statements, which must:
  - Evidence activity to support business operations.
  - Reflect transfers to the personal account.

### 1.7.6.2.2 BUSINESS AND CO-MINGLED BANK STATEMENT REVIEW

A **business bank statement** used for ongoing operations of the business must reflect the name of the business as completed on the URLA or loan application.

- Verify that the borrower has ownership of at least 25% of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- Net income from the analysis of the bank statements is multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.

A **co-mingled bank statement** is a personal account used by a borrower for both business and personal use. A separate business account is not required.

- Verify that the borrower has 100% ownership of the business by providing one of the following:
  - CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- The borrower must be the sole owner of the business listed on the URLA or loan application.
- Borrower and spouse with combined 100% ownership of the account are eligible.

## STANDARD EXPENSE RATIO

This expense factor category used may contain one or more of the characters listed below – Underwriter to justify why category was used.

****The list is not all inclusive****

15% - Consultant/Service Business

- Home based business
- No inventory or stock
- No brick and mortar
- No employees
- Independent or sub-contractor
- Low overhead industry

30% - Small Business

- ≤ 5 employees
- Little inventory or stock
- Low rent in relation to revenue
- Traveling Independent or sub-contractor work
- Low overhead industry

50% - Medium to Large Business

- ≥ 5 employees
- Expensive or significant inventory or stock
- Medium to large brick and mortar
- High overhead industry

The underwriter may require an expense factor letter if the expense factor used does not seem reasonable for the borrower line of work or is unable to ascertain an appropriate expense factor.

The underwriter can opt to use the maximum 50% expense factor without any additional documentation.

## 3RD PARTY PREPARED BUSINESS EXPENSE STATEMENT LETTER

### DOCUMENTATION REQUIREMENTS

- 12- or 24- months of consecutive business bank statements, the most recent statement dated within 90-days of the note date and;
- Business expense statement letter to include:
- Name of the business
  - Business expenses as a percentage of the gross annual sales/revenue
  - Prepared or reviewed by a 3rd party with knowledge of the business (e.g., CPA/accountant, IRS Enrolled Agent, or tax preparer)
  - Signed by the 3rd party preparer/reviewer.

### INCOME CALCULATION METHOD

- Total expenses are calculated by multiplying the total deposits by the expense factor provided (subject to a minimum total expense percentage of 10%), multiplied by ownership percentage, divided by the number of bank statements.
- Deposits x (expense ratio) x (ownership %) / 24 or 12 = qualifying income.
  - Example: $360,000 x .75 = $270,000 x .50 = $135,000 / 12 = $11,250

## 3RD PARTY PREPARED P&L STATEMENT

**DOCUMENTATION REQUIREMENTS**

- 12- or 24- months of consecutive business bank statements, the most recent statement dated within 90-days of the note date and;
- P&L covering 12- or 24- months (determined by the months of bank statements provided)
- Prepared or reviewed and acknowledged by a CPA/accountant, IRS Enrolled Agent, or tax preparer. Documentation is required to evidence the preparer's business.

- Signed by the 3rd party preparer/reviewer.

**INCOME CALCULATION METHOD**

- P&L Sales/Revenue must be supported by the provided bank statements. Total deposits reflected on the bank statements, minus any inconsistent deposits, must be greater than or no more than 20% below the sales/revenue reflected on the P&L. The bank statements and P&L must cover the same time period. If the deposits support the sales, qualifying income is the lower of:
  - The Net Income indicated on the P&L divided by the number of statements (24 or 12), or
  - Total deposits reported on the bank statements, minus any inconsistent deposits, divided by the number of statements (12 or 24).
- When analyzing the P&L Statement, the following may be added back to the applicant's income calculation:
  - Depreciation
  - Depletion
  - Amortization/casualty loss

## 1.7.6.3 NON-SUFFICIENT FUNDS

Non-sufficient funds (NSF) reflected on the bank statement must be considered. Overdraft protection fees associated with a pre-arranged link to a savings account or line of credit must also be considered unless one of the following conditions exist:

- Overdraft protection from a depository account: Occurrences may be excluded if statements for the linked account confirm that:
  - the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer.
  - the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and
  - 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:
  - the line's credit limit was not exceeded during the statement period of the transfer, and
  - 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.

- Occurrences included in the analysis are subject to the following tolerances:
  - An occurrence is defined as one or more checks returned the same day.
  - If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period.
  - If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable.
- Exception requests for tolerance deviations must include:
  - a 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, and
  - additional compensating factors outlined by the underwriter supporting the viability of income.
- The underwriter must consider the financial strength of a self-employed borrower's business.

### 1.7.7 ALT DOC – RENTAL INCOME

Rental income may be included in loan qualification for Alt Doc income types, to be considered the following documentation must be provided:

- Long Term Rental:
  - A copy of the lease(s) for the rental property.
  - Must provide one (1) month of proof of the receipt of rental income. The deposits must be to a separate bank account. Any deposits in the business bank statements used in the business income analysis are not eligible.
    - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
    - If the deposits cannot be validated in a separate account, the full PITIA of the rental unit must be included in the qualifying DTI ratio.
  - If the transaction type is a purchase of an investment property, and income from the subject property is considered in the underwriting, proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease.
- Short Term Rental:
  - Property leased on a short-term basis utilizing an on-line service such as Airbnb gross monthly rents can be determined by using a 12-month look back period to account for seasonality.
  - Rents for the look back period must be documented with either 12-monthly statements or an annual statement provided by the on-line service. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more rental properties owned, statements from an online service must be provided to associate rents received with the specific property.
    - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.
  - A screen shot of the online listing must show the property(s) activity marketed as a short-term rental

- Application of Rental Income:
  - Primary Residence
    - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
    - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
  - Investment Property

      - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
      - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
      - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
      - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

## 1.7.8 ALT DOC – PROFIT & LOSS STATEMENT ONLY

Profit & Loss statement prepared by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), or a Tax Attorney. The credit file must contain documentation showing the CPA is currently licensed in their state, the EA is currently active (Screen shot of the IRS web site), the CTEC is active (Screen shot from CTEC web site) or the Tax Attorney is licensed. The following criteria apply:

### REQUIREMENTS:

- 12- or 24-month Profit & Loss statement prepared by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), a CTEC registered tax preparer or Tax Attorney.
  - The credit file must contain documentation showing:
    - State CPA license number as verified by license or screenshot from state licensing authority
    - IRS Enrolled Agent (EA) certification from IRS (e.g., screenshot of IRS web site)
    - CTEC certification from California (e.g., screenshot of CTEC web site)
    - State Attorney license number as verified by license or screenshot from state licensing authority
    - PTIN is not allowed
  - Minimum 25% business ownership required
  - Dated within 30-days of the loan application, representing total business sales and expenses for the time period covered, and
  - The preparer must attest they have reviewed or prepared all of the borrower's financials, including the tax returns, for the period of the P&L and provide the borrower's ownership percentage
  - Qualifying income is the net income from the P&L divided by the period covered (24 or 12-months) multiped by the borrower's ownership percentage.
  - Expenses on the P&L must be reasonable for the industry, HEM reserves the right to require additional information
- Available on the Non-QHEM+ and Non-QHEM products.

### THE P&L PLUS PROGRAM

The P&L Plus program requires all of the same documentation of the P&L Statement program with the addition of bank statements to support the income.

**Requirements**

- All documentation requirements of the P&L Program
- All restrictions of the P&L Program
- 3 months bank statements supporting the income reflected on the P&L
  - The 3 month average of the bank statements can be no less than 10% below the P&L income
  - There is no restriction if the bank statement average is higher than the P&L income.

### 1.7.9 ALT DOC – GIG QUALIFIER

Permitted for individual(s) earning 100% commission or for independent contractors.

- 1-year or 2-years of 1099s or 1099 transcript(s) permitted
    - One of the following Business expense analysis methods:
        - 90% Net Margin (10% Expense Factor), or
        - 3rd Party prepared P&L (CPA, EA, accountant, tax preparer).
- A minimum 2-year self-employment history is required (e.g., 1099 income) as documented from the Employment section of the loan application.
- Qualifying income is the 12- or 24- monthly average from the total number of 1099's minus the expense factor from the method chosen above
- YTD earnings must be documented when the 1099 reporting period is greater than 90 days from the note date. YTD earnings must support the ongoing receipt of income shown on the 1099s by:
    - Checks or a single check stub(s) with YTD totals if available, or
    - Bank statements (YTD).
        - The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% or greater than earnings used for qualification.
- The Non-QHEM Plus & Non-QHEM matrices should be utilized.

#### 1.7.9.1 CO-APPLICANT INCOME

- Full documentation from a Co-Applicant who is does not rely on 1099s may be used to supplement the 1099 income. See full documentation guidelines for additional information on acceptable sources and requirements. Taxable income is counted on a "gross" amount. Non-Taxable income may be grossed up by 25%.

#### 1.7.9.2 OTHER INCOME SOURCES

Applicants relying on 1099s less applicable expense ratio to calculate DTI may supplement their income with the following sources:

- Social Security
- Pension
- Asset Utilization/Distribution
- Alimony
- Child Support
- Second Job income.

Utilize the full documentation guidelines for eligibility, documentation requirements and calculation methods. Provide W-2's and 1099's as applicable, but do not provide tax returns.

- The Applicant must verify these alternative income sources without providing tax documents other than W-2's/1099's, and they must derive their primary income source from self-employed activity calculated based on the 1099(s) less the applicable expense ratio.

### 1.7.10 ALT DOC- WVOE ONLY

A written Verification of Employment may be utilized when documenting wages/salary income. The following criteria applies:

REQUIREMENTS:

- Two-year history with same employer is required.
- Income/Employment verified by Human Resource, Payroll Department, Officer of the Company or through a 3rd party – Equifax, CoreLogic, DataVerify, etc…
- Minimum credit score: 680
- Primary Residence Only
- 24-month 0x30 housing history required.
- Paystubs, Tax Returns, 4506-C, or W-2's not required.
- Two (2) Months Personal Bank Statements required to support the WVOE. The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE.
- FTHB maximum LTV 70%, no gift funds allowed.
- Borrower(s) employed by family members or related individuals are not eligible.
- Other sources of income are eligible and can be used to qualify
- Supplemental income sources such as rental income will be documented via standard documentation channel.
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business.

## 1.7.11 ALT DOC – ASSET QUALIFIER

Asset Utilization may be used as the sole source of income for loan qualification or to supplement other income sources. When used to supplement other income sources, the minimum asset requirements under the qualification method are waived.

### 1.7.11.1 RESTRICTIONS

Non-retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from non-retirement assets must be set up and one month's distribution received prior to closing. The following requirements must be met:

- Minimum 660 credit score
- Non-occupant co-borrowers not allowed
- Gift funds not eligible

### 1.7.11.2 ASSET UTILIZATION QUALIFYING METHOD

Debt Ratio Calculation:

- Option 1 – 60-month calculation
  - Minimum Eligible Assets required to use asset depletion is the lower of $1,000,000 or 150% of the loan amount.
  - Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 60.
  - Maximum DTI 43%.
- Option 2 – 84-month calculation
  - There is no Minimum Eligible Assets amount required to use asset depletion.

- Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84.
- Maximum DTI 43%.

### 1.7.11.3 ASSET UTILIZATION INCOME DOCUMENTATION

Required documentation consists of the following:

- All individuals listed on the asset account(s) must be on the Note and Mortgage.
- Assets considered for this program must be verified with most recent three (3) monthly account statements, quarterly statement, or a VOD.
- Assets must be seasoned 90 days.

### 1.7.11.4 ASSETS ELIGIBLE FOR DEPLETION

Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin of the funds:

- 100% of Checking, Savings, Money Market Accounts, and US Treasuries with maturity < 1-year.
- 100% of the cash surrender value of life insurance less any loans may be considered for assets.
- 70% of Stocks, Bonds, and Mutual Funds.
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½).
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.

Eligible trust assets include:

- Assets held in a revocable trust where the trustee to the trust is the borrower.
- Assets in an irrevocable trust where the borrower is the beneficiary, and the borrower has immediate access to the assets of the trust.
- Based upon the assets held in the trust, the above asset percentages apply.

### 1.7.11.5 ASSETS INELIGIBLE FOR DEPLETION

- Equity in Real Estate
- Privately traded or restricted/non-vested stocks
- Any asset which produces income already included in the income calculation:
- Any assets held in the name of a business
- Assets held in an irrevocable trust where the beneficiary of the trust is not the borrower
- Assets held in a charitable giving trust, donor advised fund, or similar entity where the intended beneficiary is not the borrower.

# 1.8 NONI

Debt Service Coverage Ratio transactions are available to experienced investors purchasing or refinancing investment properties for business purposes. The typical borrower is expected to have a history of managing income-producing rental properties or has a significant equity down payment in a purchase transaction. The borrower is required to execute a Borrower Certification of Business Purpose and an Occupancy Certification.

## 1.8.1 BORROWER/GUARANTOR EXPERIENCE

### 1.8.1.1 EXPERIENCED INVESTOR

- An experienced residential investor is a borrower/guarantor having a history of owning and managing non-owner occupied residential real estate for at least one (1) year in the last three (3) years. Ownership of commercial income producing property may also be used as evidence of investor experience.
  - For files with more than one borrower/guarantor, only one borrower/guarantor must meet the definition.
- Ownership history can be documented for other REO with one of the following:
  - Mortgage history on credit report
  - Property profile report
  - Other 3rd party documentation (e.g., Fraud Report, Settlement Statement, Closing Disclosure)

### 1.8.1.2 FIRST TIME INVESTOR

A First-Time investor is defined as a borrower who has not owned at least one investment property for a minimum of twelve months anytime during the most recent 36 months.

- Ownership history can be documented with one of the following:
  - Mortgage history on credit report
  - Property profile report
  - Other 3rd party documentation (e.g., Fraud Report, Settlement Statement, Closing Disclosure)

First Time Investors are eligible subject to the following restrictions:

- DCSR > 1.0
- 640 minimum FICO

### 1.8.1.3 FIRST TIME HOMEBUYER

- **First time homebuyers** are not eligible, see Section 1.8.2.3 – Housing History - DSCR for borrower living with a spouse.

## 1.8.2 (1-4) FAMILY RESIDENTIAL PROPERTY

### 1.8.2.1 PROPERTY INCOME ANALYSIS

Gross monthly rents are used to determine the DSCR. See the appropriate Long Term or Short-Term requirements below for rental income documentation and DSCR calculation.

#### 1.8.2.1.1 LONG TERM RENTAL DOCUMENTATION AND DSCR CALCULATION

- Purchase Transactions

  - Monthly Gross Rents are the monthly rents established on FNMA Form 1007 or 1025 reflecting long term market rents.
  - If the subject property is currently tenant occupied, the 1007 or 1025 must reflect the current monthly rent.
  - A vacant or unleased property is allowed without LTV restriction.
- Refinance Transactions
  - Required documentation:
    - FNMA Form 1007 or 1025 reflecting long term market rents, and lease agreement.
    - Unleased LTV/CLTV limits: 70%.
  - Monthly Gross Rents are determined by using the actual lease amount or estimated market rent from 1007/1025 as follows:
    - If using the lower of the actual lease amount or estimated market rent, nothing further is required.
    - If using a higher actual lease amount, evidence of 2-months of receipt is required.
    - If using a higher estimated market rent from 1007/1025, it must be within 120% of the lease amount. If the estimated market rent exceeds the lease amount by more than 120%, the estimated market rent is capped at 120%.
  - A vacant or unleased property is allowed subject to the following:
    - LTV/CLTV limits: Lesser of 70%, or the LTV/CLTV based upon the DSCR/FICO/Loan balance matrix.
- DSCR Calculation
  - Debt Service Coverage Ratio is the Monthly Gross Rents divided by the PITIA of the subject property. See the HEM Eligibility Matrix for required Debt Service Coverage Ratios.
  - Gross rents divided by PITIA = DSCR

<u>NOTE:</u>

- Leases obtained after application must have evidence of the security deposit
- Lease agreements made to entities are acceptable
  - The borrower cannot be part of the entity

#### 1.8.2.1.2 SHORT TERM RENTAL (E.G., AIRBNB, VRBO, FLIPKEY) DOCUMENTATION AND DSCR CALCULATION

Short term rentals are properties which are leased on a nightly, weekly, monthly, or seasonal basis.

Short-Term Rental Income – Purchase and Refinance Transactions:

- DSCR Calculation:
  - Monthly gross rents based upon a 12-month average to account for seasonality required.
  - Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
    - (Gross Rents * .80) divided by PITIA or ITIA for I/O = DSCR.
- Any of the following methods may be used to determine gross monthly rental income:
  - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents.
  - An alternative market rent analysis similar to FNMA Form 1007/1025 is allowed, subject to the following:
    - Analysis must be completed pursuant to the lender's appraisal management process.
    - Must be completed by a licensed appraiser.
    - Must include daily rental rate and occupancy percentage
  - An AirDNA report as detailed in 1.8.2.1.2 SHORT TERM RENTAL
  - The most recent 12-month rental history statement from the 3rd party rental/management service.

- The statement must identify the subject property/unit, rents collected for the previous 12 months, and all vendor management fees. The rental income will exclude all vendor or management fees.
- The most recent 12-month bank statements from the borrower evidencing short-term rental deposits. The borrower must provide rental records for the subject property to support monthly deposits.

AirDNA Report Requirements

- AIRDNA (www.Airdna.co) Rentalizer and Overview reports, accessed using the Explore Short-Term Rental Data, must meet the following requirements:
  - Rentalizer (Property Earning Potential)
    - Only allowed for purchase transaction.
    - Gross Rents equal the revenue projection from the Rentalizer Report.
      - The gross rents are subject to the application of the 20% extraordinary expense factor.
      - Revenue projection equals the average daily rental rate times the occupancy rate.
    - Forecast Period must cover 12-months from the Note date.
    - Must have three (3) comparable properties
    - Must be similar in size, room count, amenities, availability, and occupancy.
    - Maximum occupancy limited to 2 individuals per bedroom.
    - Market score or Sub-Market score must be 60 or greater.

Qualification:

### 1.8.2.2 DEBT SERVICE COVERAGE RATIO (DSCR)

Debt Service Coverage Ratio is the Monthly Gross Income divided by the PITIA (or ITIA for interest-only loans) of the subject property. See the HEM Eligibility matrix for required Debt Service Coverage Ratios. See Section 1.1.3- Qualifying Payment for further guidance regarding Qualifying Payments.

- Calculating Real Estate Tax Payment for subject property:
  - For purchase and construction-related transactions, the underwriter must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements.
    - State of California exception: Use 1.25% of the purchase price to determine the monthly tax payment.
  - For refinance transactions, use the current tax assessment.
- For full amortization, use the note rate to calculate the PITIA for use in the DSCR calculation.
- For Interest Only loans, use the note rate to calculate the ITIA for use in the DSCR calculation.

### EXAMPLE: SAMPLE DEBT SERVICE COVERAGE RATIO CALCULATION

Single Family Purchase Money Transaction Monthly

PITIA = $650

Estimated Monthly Market Rent (FNMA Form 1007) = $850

Existing Lease Monthly Rent = Not Available

Use Market Rent of $850 *(Estimated Monthly Market Rent when a lease is not available for a purchase transaction)*.

Gross Rents **($850)** ÷ PITIA **($650)** = **DSCR (1.30)**

### 1.8.2.3 HOUSING HISTORY - DSCR

- Housing history for the DSCR Doc type is required for the borrower's primary residence and the subject property if a refinance transaction. Any mortgage tradeline reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility.
- The documentation requirements under Section 1.5.5 – Housing History should be followed for verification.
    - An updated mortgage history, defined as paid current as of 45 days of the loan application date, is only needed for the primary residence and subject property.
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required.
- For refinance transactions of the subject property, when the existing financing is a Paid In Kind (PIK) loan, a copy of the note must be provided in the credit file to determine required payments. Notes allowing interest to accumulate during the term of the loan are eligible, however, all refinance transactions are treated as cashout.
- First time homebuyers (FTHB) living with a spouse are eligible with the following:
    - Spouse owns the primary residence
        - Evidence spouse is on title, and
        - Proof of 12- month payment history, or evidence the primary residence is owned free & clear

### 18.2.3.1 NONI & NEARNONI

No Primary housing history is acceptable if:

- The borrower lives in a marital home that is owned or leased by the spouse, the mortgage or rent on the martial home must be current as evidence by a minimum of a 12-month rating
- It is acceptable to live rent free for experienced investor who currently owns rental property

### 1.8.2.4 RESTRICTIONS

- See the HEM Matrices for the maximum LTV/CLTV.
- Minimum credit score of 640.
- Maximum acreage
    - NONI & NearNONI 10-acres.
    - NONI+ - 20 acres – NONI+
- Gift funds permitted after a 10% LTV reduction or minimum 5% borrower contribution, documented per 1.6.2 – Asset Documentation.
- Neither the Borrower(s) nor the borrower's immediate family shall at any time occupy the property.
- If the borrower occupied the subject property at anytime in the 6 month preceding the loan application, a copy of the current lease and 3 months proof of rents will be required.
- Cash-out on an investment property where loan proceeds are used for consumer purposes.
- When the subject property is encumbered by a blanket/cross collateralized loan, the transaction is considered cashout. Copy of the note will be required to verify the payoff/release terms.

### 1.8.2.5 BORROWER APPLICATION

- The "Applicant Information Section" of the commercial loan application should be completed.
- No proof of borrower income is required.

## 1.8.3 (5-8) RESIDENTIAL AND (2-8) MIXED USE PROPERTY

### 1.8.3.1 PROPERTY INCOME ANALYSIS

- Minimum DSCR ≥ 1.00.
- DSCR = Eligible monthly rents/PITIA (Loans with an interest only feature may use the ITIA payment).
- Loan amounts ≥ $2,000,000 require DSCR ≥ 1.00 and Debt Yield of 9% or greater (Net operating income/Loan amount = 9% or greater).
- Leased – Use lower of Estimated market rent or lease agreement.
- Vacant Unit(s) – Use 75% of market rents. Max: 1 vacancy on 2-3 Unit properties, 2 vacancies on 4+ Units.
- Reduce qualifying rents by any management fee reflected on appraisal report.
- Copies of any existing leases must be provided (Purchase and Refinance transactions).
- Income from commercial space must not exceed 49% of the total property income.
- If the lease has been converted to month-to-month, then provide the most recent two (2) months proof of receipt to evidence continuance of lease.
- Short-term rental use/income not eligible.
- Neither the Borrower(s) nor the borrower's immediate family shall at any time occupy the property.

### 1.8.3.2 BORROWER EXPERIENCE

- Experienced Investors only, borrower must have a history of owning and managing commercial or non- owner occupied residential real estate for at least 1 year in the last 3 years.
- First time investors are not eligible.

### 1.8.3.3 ELIGIBLE PROPERTY

- Residential 5 – 8 Unit Buildings
  - Residential unit(s) not permitted to be occupied by the borrower or the borrower's immediate family.
  - Residential Unleased Units
    - Maximum 1-unit on 2–3-unit property
    - Maximum 2-units on 4+ unit property
  - Maximum 2-acres
- Mixed use 2 – 8 Units
  - Mixed use property consists of residential and commercial units. The number of commercial units is limited by the total number of units in the building, as follows:
    - 2-3 Total Units: Max 1 commercial Unit
    - 4-5 Total Units: Max 2 commercial Units
    - 6-8 Total Units: Max 3 commercial Units
  - Vacant commercial space not allowed
  - Commercial space must not exceed 49.99% of the total building area
  - Commercial unit(s) may be occupied by the borrower's business
  - Commercial usage limited to Retail/Office/Restaurant
  - Residential Unleased Units in a Mixed-Use Building
    - 2-3 Total Units: Maximum 1 unleased residential unit
    - 4+ Total Units: Maximum 2 unleased residential units
  - Residential unit(s) not permitted to be occupied by the borrower or the borrower's immediate family
  - Maximum 2-acres

### 1.8.3.4 PROPERTY CONDITION

- No Fair or poor ratings.
- No environmental issues (Storage or use of hazardous material i.e., dry cleaner, laundromat, chemical storage, fuel station, auto body repair)
- No health or safety issues (As noted by appraiser, i.e., broken windows, stairs)
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance, (i.e., Foundation, roof, electrical, plumbing)

### 1.8.3.5 PREPAYMENT PENALTY

Eligible prepayment penalties limited to either a fixed percentage or declining percentage style. See Rate Sheet for more details

### 1.8.3.6 ELIGIBILITY REQUIREMENTS

The maximum loan term cannot exceed 30 years.

### 1.8.3.7 ASSETS

For asset documentation requirements, follow NONI DSCR 1-4 Family Residential guidelines. Gift funds are not allowed for 5-8 Residential and 2-8 Mixed Use properties.

## 1.8.4 THEBLANKET

The term theBlanket loan refers to a single mortgage that covers three (3) or more properties. The properties are held together as collateral on the mortgage, but the individual pieces of real estate may be sold without extinguishing the entire mortgage. Traditional mortgages typically have a "due-on-sale clause," which stipulates that if property secured by the mortgage is sold, the entire outstanding mortgage debt must be paid in full immediately. With a theBlanket mortgage, a partial release clause allows the sale of portions of the secured property and corresponding partial repayment of the loan. This is done to facilitate purchases and sales of multiple units of property with the convenience of a single mortgage.

### 1.8.4.1 ELIGIBILITY REQUIREMENTS

- Only experienced investors are eligible for theBlanket loans.
- 1-4 residential units are eligible. 5-8 Residential and 2-8 Mixed use property are not eligible.
- Broker to complete theBlanket workbook and upload to HEM portal at time of submission.
- Mixed transactions (i.e., Purchase, Cash-out) permitted, however, eligibility/pricing is based upon most conservative transaction type.
- Escrows cannot be waived
- DSCR: A Loan DSCR and Property DSCR is required to be calculated.
- The maximum loan term cannot exceed 30 years.
- Loan DSCR:
    - Minimum loan DSCR is 1.20.
    - Loan DSCR is calculated as follows:
        - Total of gross rental income for all properties/loan PITIA.
- Property DSCR:
    - Minimum DSCR requirements for each property:
        - Amortizing payment – 1.00
        - Interest Only – 1.20
    - Property DSCR is calculated as follows:
        - Rental income per property/Allocated loan amount PITIA
        - Rental income documentation/determination – see Section 1.8.2 - 1-4 Family Residential Property
- Property Count: Minimum – 3; Maximum – 25
- Partial Release: 120% of the allocated balance required to be paid to obtain a partial release.
- Prepayment Penalties: Required subject to State eligibility restrictions.
    - The prepayment penalty is assessed when:
        - The loan prepays in full during the prepay period; or
        - A partial release payment is made during the prepay period. The prepay penalty amount is based upon the release price.
    - Acceptable structures include the following:
        - 5% fixed up to 5-years
        - Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%)
- Cash Out Seasoning – Property value based upon the lower of acquisition cost plus documented improvements or current appraised value for any property acquired within 6-months of the note date.
    - Eligible Borrower Types – Vesting permitted as follows:
    - Individual(s): U.S. Citizen or Permanent Resident (See 1.3.1 Citizenship)

- Entities: Limited Liability Company, Partnership, or Corporation (See Section 1.3.6.2 Vesting For Business Purpose Loans)
- Foreign Nationals: See Section 1.3.2 – Foreign National

- TheBlanket loans cannot be originated or assigned to MERS.

### 1.8.4.2 APPRAISAL REQUIREMENTS

- 1-4 Units
  - See Appraisal Requirements for 1-4 Unit Residential in Section 1.9.1.1 - Appraisal Requirements 1-4 Unit Residential for complete criteria.
  - Review product required: SSR with a score of 2.5 or less, CDA, ARA, or ARR

### 1.8.4.3 GROSS RENT DOCUMENTATION REQUIREMENTS

- Purchase
  - FNMA Form 1007, if applicable.
  - Existing lease agreement(s), if applicable.
    - If the existing lease is being transferred to the borrower, the underwriter must verify that it does not contain any provisions that could affect the first lien position of the subject property.
- Refinance
  - FNMA Form 1007, if applicable.
  - Existing lease agreement(s), if applicable.
  - If subject property leased on a short-term basis is utilizing an on-line service such as Airbnb; gross monthly rents can be determined by using a 12-month look back period; and either 12-monthly statements, or an annual statement provided by the on-line service to document receipt of rental income. In addition, a screen shot of the online listing must show the property is actively marketed as a short-term rental.
    - A 5% LTV reduction is required when using short term rental income to qualify.

### 1.8.4.4 DEBT SERVICE COVERAGE RATIO (DSCR) - CALCULATION REQUIREMENTS

- Leased property: DSCR is based upon the contracted monthly rent amount from the lease:
  - A property is considered Leased" when there is an executed long term (Min. 12-months) lease agreement between the lessor and lessee.
  - Most recent two months of rent payment per lease agreement is required.
- Unleased and vacant property: DSCR is based upon the estimate of the monthly rent of the subject. The final reconciliation of Market Rent must be based on a 12-month rent schedule.
  - A property is considered unleased and vacant when no long term executed lease is in place. The Borrower should provide the cause of vacancy (Letter of Explanation) for refinance transactions, such as recently completed renovation, tenant turnover, etc.
- Vacancies
  - 1-4 Units – Vacant unit qualify at 75% of market rent (Maximum 1 vacancy).

#### 1.8.4.4.1 ELIGIBLE TENANT:

- Neither the Borrower(s) nor the borrower's immediate family shall at any time occupy the properties.
- Borrower affiliated tenants are defined as any borrower or guarantor, any affiliate of the borrower/guarantor, any holder of a direct or indirect interest in Borrower or such affiliate, any officer, director, executive employee, or

manager of the borrowing entity, and any family member (including spouse, siblings, ancestors, and lineal descendants) of any person or entity described in the preceding.

- Borrower(s) must attest that all tenants are non-borrower affiliated.

### 1.8.4.4.2 LEASE AND OCCUPANCY REQUIREMENT

- Copies of any existing leases must be provided (Purchase and Refinance transactions).
- All units must be residential units that are currently occupied and leased to tenants, except that up to 10% of the units for a loan may be comprised of units which are currently vacant, but in lease-ready condition. Notwithstanding the foregoing, for portfolios of less than 10 units, up to one (1) unit may be vacant in the normal course of lease turnover.
- All properties must be either leased to an eligible tenant or in lease ready condition meaning the properties have been cleaned, no renovations or repairs to the properties are needed and the properties are immediately available to be leased to an eligible tenant.
- Corporate lease agreements are acceptable with lease terms consistent with typical market standards and will be subject to standard market rent verification.
- Lease Agreements that allow Single Room Occupancy (SRO), or boarder leases are not permitted.
- Third-party sale-and-leaseback agreements and contract for deed transactions will not be permitted.
- Leases must be in U.S. dollars.

### 1.8.4.5 ASSETS

- For asset documentation requirements, follow NONI 1-4 Family Residential guidelines.
- Gift funds are not allowed.

# 1.9 PROPERTY ELIGIBILITY

## 1.9.1 APPRAISALS

### 1.9.1.1 APPRAISAL REQUIREMENTS 1-4 UNIT RESIDENTIAL

HEM reserves the right to review all valuation reports and determine if the subject property value is supported.

Appraisers must meet all industry standards and be State Certified. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae® guidelines, including Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value. HEM reserves the right to restrict the use of any specific appraiser and/or appraisal management company at its discretion.

Underwriters are responsible for reviewing the appraisal report for accuracy, completeness, and its assessment of the marketability of the subject property. The underwriter needs to determine that the subject property provides acceptable collateral for the loan. For guidance in the manual review of an appraisal report, see the Appraisal Review Guide.

The age and price of the subject property should fall within the age and price range of properties in the subject neighborhood. Comparable properties should be selected from the same neighborhood when possible. Selection of a comparable outside the subject neighborhood should be addressed within the report. For condominiums, at least one comparable should be from outside the subject project. Ideally, comparable sales should be within six months of the report date. Older comparable sales that are the best indicator of value should be addressed in comments by the appraiser.

A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report – Fannie Mae®/Freddie Mac Forms 1025/72
- Individual Condominium Unit Appraisal Report – Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report – Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule – Fannie Mae®/Freddie Mac Forms 1007/1000

Brokers must order appraisals using one of two processes. The appraisal must be ordered through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR).

#### 1.9.1.1.1 APPRAISER LICENSE AND CERTIFICATION

The appraisal report forms identify the appraiser as the individual who:

- Performed the analysis, and
- Prepared and signed the original report as the appraiser.

Prohibited License Statuses

- Revoked
- Restricted

- Suspended
- Conditional Suspended
- Expired
- Cancelled

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee.

#### SUPERVISORY APPRAISER

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that they:

- Directly supervised the appraiser that prepared the appraisal report, and
- Reviewed the appraisal report, and
- Agree with the statements and conclusions of the appraiser, and
- Agreed to be bound by the certifications as set form in the appraisal report forms, and
- Take full responsibility for the appraisal report.

When an appraisal is completed by a trainee, a supervisory appraiser with a certified level license is required to sign the report.

#### APPRAISAL TRAINEE

A trainee may perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so) and must sign the left side of the appraisal certification as the Appraiser if:

- They are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor, and
- The right side of the appraiser certification is signed by that supervisory appraiser, and
- It is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term Trainee should be entered in the "Other" field in the Appraiser Certification section.

### 1.9.1.1.2 APPRAISAL AGE

The appraisal should be dated no more than 365 days prior to the Note date.

When an appraisal report will be more than 120 days old on the date of the Note, 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 the results of the analysis must be reported on the Appraisal Update and/or Completion Report (FNMA Form 1004D).

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

### INELLIGIBLE CONDITION OR QUALITY:

Properties for which the appraisal indicates condition ratings of C5 or C6, or a quality rating of Q6, as determined under the Uniform Appraisal Dataset (UAD) guidelines. HEM will consider if the issue has been corrected prior to loan funding and with proper documentation.

## 1.9.1.1.3 SECOND APPRAISAL

A second appraisal is required when any of the following conditions exist:

- The loan balance exceeds $2,000,000 for either a single property loan or the allocated loan balance of a property within a cross-collateral loan.
    - (2nd appraisal not required when Form 71A Multifamily or a commercial narrative report utilized).
- The transaction is a flip as defined in the Property Flips section of this guide.
- As required under the Appraisal Review Products section of this guide.

When a second appraisal is provided, the transaction's "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different company and appraiser than the first appraisal.

## 1.9.1.1.4 APPRAISAL EVALUATION

The sales comparison approach must be used as the final appraised value.

### NEIGHBORHOOD ANALYSIS

- Neighborhood boundaries should be described using the four (4) cardinal directions, streets, waterways, other geographic features, and natural boundaries that define the separation of one neighborhood from another.
- Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.
- Factors that affect value and marketability should be mentioned in as much detail as possible – e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

### EXISTING CONSTRUCTION

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is." These items must be reflected in the appraiser's opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the underwriter must obtain a certificate of completion from the appraiser before the mortgage is delivered to HEM.
- Permanent and Functioning Heat Source – A permanent heat source is required except for properties located in geographic areas where it is typical not to have heat source and has no adverse effect on marketability.

### SUBJECT SECTION

The appraiser is required to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12-months prior to the effective date of the appraisal. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- Offering price(s).
- Offering date(s).
- Data source(s) used. For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

## ACTUAL AND EFFECTIVE AGES

There is no restriction on the actual age of the dwelling. Older dwellings that meet general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood. The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or might have a specific physical problem. In such cases, the underwriter should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser adjusts for the "Year Built," he or she must explain those adjustments.

## ACCESSORY DWELLING UNITS (ADU)

HEM will allow a an ADU on 1–3-UNIT properties. An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom.

Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented.

The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is defined as a 1–3-unit property.
- No more than 2 accessory units on 1- & 2-unit properties, 3-unit properties are limited to 1 ADU.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at
- least one comparable property with the same use.
- 75% of the ADU income may be used for qualifying
- For properties located in California, if zoning (current or grandfathered) permits an accessory unit, the rental income may be included, subject to the following:
    - Appraisal reflects the accessory is legal and the appraisal 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 (2) months proof of current receipt.
    - The ADUs must comply with all local zoning requirements
    - Not allowed on legal non-conforming zoned properties

Manufactured Homes are not eligible ADUs and cannot be anywhere on the subject property.

## OUTBUILDINGS

The underwriter must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

| TYPE OF OUTBUILDING | SUITABILITY |
|---|---|
| Minimal outbuildings, such as small barns or stables, that have relatively insignificant value in relation to the total appraised value of the subject property | The appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists. |
| An atypical minimal building | The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it. |
| Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals | The presence of the outbuildings may indicate that the property is agricultural in nature. The Underwriter must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings. |

### SOLAR PANELS

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See Section 1.12 – Solar Panels for additional criteria.

### TRANSFER OF APPRAISAL

A transferred appraisal report is acceptable provided the report meets the HEM's appraisal requirements for independence.

### SUBJECT ANALYSIS

- Loans Vesting in an Entity: Borrower name disclosed on the appraisal report may reflect the individual member(s) of the entity or the entity name.

### 1.9.1.2 APPRAISAL REQUIREMENTS (5-8) RESIDENTIAL AND (2-8) MIXED USE

### 1.9.1.2.1 APPRAISAL AGE

Appraisals dated fewer than 120 days prior to the Note date are acceptable. After 120 days, a new appraisal is required.

### 1.9.1.2.2 (5-8) UNIT RESIDENTIAL PROPERTIES (07/10/2023)

A full interior inspection with photos is required for all units. The sales comparison approach should be used as the appraised value.

One of the following appraisal forms are acceptable:

- FHLMC Form 71A,
- FHLMC 71B

- FNMA Form 1050
- A narrative /MAI report

### 1.9.1.2.3 (2-8) MIXED USE PROPERTIES

Commercial use is limited to retail, office space, or restaurants. Residential or commercial zoning acceptable.

One of the following appraisal reports are acceptable:

- General Purpose Commercial Forms (i.e., GP Commercial Summary Form available from CoreLogic a la mode); **or**
- A narrative /MAI report
    - Must include the sales approach with repeat sales analysis in value determination.

Regardless of the report type, the following are required:

- A full interior inspection with photos is required for all units.
- Commercial space must not exceed 49% of the total building area.
- The sales comparison approach should be used as the appraised value.

#### APPRAISAL ATTACHMENTS REQUIRED

- Rent Roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Appraiser qualifications

### 1.9.1.2.4 PROPERTY CONDITION

- No fair or poor ratings
- No environmental issues (Storage or use of hazardous material i.e., Dry Cleaners, Laundromat)
- No health or safety issues (As noted by appraiser, i.e., broken windows, stairs)
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance, (i.e., Foundation, roof, electrical, plumbing)

## 1.9.1.3 APPRAISAL REVIEW REQUIREMENTS

### 1.9.1.3.1 APPRAISAL REVIEW PRODUCTS 1-4 RESIDENTIAL PROPERTY

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an “as is” value for the subject property (the “Appraisal Review Value”) as of the date of the subject loan transaction.

The following options are eligible review products:

- The Underwriter may submit the appraisal report to Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR).

(Only one score required, if both scores (CU & LCA) provided, both required to be 2.5 or less). If the score exceeds 2.5, the file must include either an enhanced desk review, AVM, field review, or second appraisal.

- An enhanced desk review product from one of the following choices:
  - ARR from Stewart Valuation Intelligence FKA Pro Teck
  - CDA from Clear Capital
  - ARA from Computershare
  - CCA from Consolidated Analytics
  - VRR from Homegenius Real Estate
  - Valreview Appraisal Review Value from Valligent (Veros Software Company)
- If the enhanced desk review product reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal. A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.
- AVM from an approved vendor dated within 90-days of the Note date, with the following:
  - Acceptable FSD score range
  - AVM value must be within 10% of the appraised value
- If the AVM reflects a value more than 10% below the appraised value or cannot provide a value, the file must include an enhanced desk review product, field review, or a second appraisal. These may not be from the same appraiser or appraisal company as the original report.

### AVM VENDORS (07/15/2024)

| THE FOLLOWING AVM VENDORS ARE ACCEPTABLE: | |
|---|---|
| **AVM Vendor** | **Acceptable FSD Score Range** |
| Clear Capital | 0.00 to 0.13 |
| Collateral Analytics | 0.00 to 0.10 |
| House Canary | 0.00 to 0.10 |
| Red Bell Real Estate (Homegenius) | 0.00 to 0.10 |

### 1.9.1.3.2 APPRAISAL REVIEW PRODUCT 5-8 RESIDENTIAL AND 2-8 MIXED USE

- A commercial sales and income Broker Price Opinion (BPO) is required. The appraised value is considered valid if the BPO is greater than or not more than 10% below the value of the appraisal. If the BPO is more than 10% below the appraised value, then the BPO value is used to determine the loan LTV.
- In Pennsylvania and North Carolina, a commercial evaluation product is used instead of the BPO product.

#### 1.9.1.4 MINIMUM PROPERTY REQUIREMENTS

| MINIMUM SQUARE FOOTAGE | | |
|---|---|---|
| Single Family 700 sq. ft. | Condominium 500 sq. ft. | 2-8 Units<br><br>400 sq. ft per individual unit |

All properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

#### 1.9.1.5 PERSONAL PROPERTY

Any personal property transferred with a real property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV.

#### 1.9.1.6 ESCROW HOLDBACKS

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase. HEM will not acquire any loan with an escrow holdback.

#### 1.9.1.7 DECLINING MARKETS

The loan transaction is subject to an LTV/CLTV cap, program specific, if the property is in a declining market. Declining markets are determined by the appraisal report reflects a declining market under housing trends.

See the Loan LTV Matrices for program specific adjustments.

### 1.9.2 PROPERTY TYPES

#### 1.9.2.1 ELIGIBLE PROPERTIES

- Single Family Detached
- Single Family Attached
- Planned Unit Development (PUD)
- Single Family Detached homes with PUD riders
- De minimus Planned Unit Development (dPUD)
- PUD with "de minimus" monthly HOA dues
- 2-4 Unit residential properties
- 5-8 Unit residential properties (DSCR only)
- 2-8 Mixed Use (DSCR only)

  - 2-3 Units: Max 1 commercial Unit
  - 4-5 Units: Max 2 commercial Units
  - 6-8 Units: Max 3 commercial Units
- Condominium (See Section 1.9.10 - Condominiums Projects for complete condominium eligibility criteria)
- Condo hotels (See Section 1.9.10.3 - Condominium Hotels for complete condominium eligibility criteria)
- Modular homes
- Properties of 20 acres or less
- Leaseholds (in areas where leaseholds are common)

### 1.9.2.1.1 TILA HIGHER PRICED MORTGAGE LOANS (HPML) APPRAISAL RULE 1026.35(A)(1) (PROPERTY FLIPS)

- Applies to covered HPML transactions.
  - Qualified Mortgages (QM) are excluded.
- A property is considered a "flip" if either of the following are true:
  - The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement. The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower's purchase agreement.
    - The acquisition date is the day the seller became the legal owner. The purchase date is the day the borrower and the seller sign the home purchase agreement. Start with the day after the acquisition date and count up to and including the purchase date.
- If the property is a "flip" as defined above, the following additional requirements apply:
  - A second appraisal must be obtained.
  - If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the borrower in compliance with the federal HPML requirements.
  - The second appraisal must be dated prior to the loan consummation/note date.
  - The property Seller on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate the actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable.

### 1.9.2.2 INELIGIBLE PROPERTIES

- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Properties with agricultural features (e.g., vineyards, farms, ranches, orchards, equestrian facilities)
- Manufactured or Mobile homes
- Units subject to timeshare arrangements
- Properties with fractional ownership
- Units in a Co-op development
- Properties used as boarding houses, bed/breakfast, or single room occupancy
- Properties used as healthcare facilities (e.g., assisted living, elder care, recovery/treatment)

- Properties with nonresidential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop)
- Properties with zoning violations or illegal use
- Dome or geodesic properties
- Properties on Native American Land (Reservations)
- Log homes that are not common to the area
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana.
- Rural property (See the program matrix for program specific eligibility):
  - A property is classified as rural if:
    - The appraiser indicates in the neighborhood section of the report a rural location; or
    - The following two (2) conditions exist:
    - The property is located on an unpaved road, and
    - Two of the three comparable properties are more than five (5) miles from the subject property.

### 1.9.3 ACREAGE LIMITATIONS

- A maximum of 20 acres (DSCR transactions limited to 10 acres)
- No truncating allowed

### 1.9.4 STATE ELIGIBILITY

See the program matrices for state eligibility

### 1.9.5 TEXAS HOME EQUITY LOANS 50(A)(6)

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. All loans must comply with the requirements listed in the Texas Constitution. Brokers should not rely on Hometown Equity Mortgage dba theLender categorization of refinance loans for purposes of determining whether compliance with the provisions of Texas Constitution Section 50(a)(6) is required. Brokers should consult with their counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a specific transaction.

### 1.9.6 NEW YORK - CEMA

Consolidation, Extension, and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the State of New York. Attorney's experienced in reviewing and preparing CEMA documentation should be utilized.

### 1.9.7 LEASEHOLD PROPERTIES

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the Seller's title policy.

The Broker must provide documentation and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease).

### 1.9.8 HEM EXPOSURE – BORROWER LIMITATIONS

HEM' aggregate exposure to a single borrower and/or household shall not exceed $4,000,000 in current unpaid principal balance (UPB) or four (4) loans.

- Exposure in excess of the limit is allowed by exception

### 1.9.9 DISASTER AREAS

The following guidelines apply to properties located in FEMA declared disaster areas for Individual Assistance, as identified by reviewing the FEMA website at www.fema.gov/disasters. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed.

The guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

#### 1.9.9.1 APPRAISAL COMLETED PRIOR TO DISASTER

An exterior inspection of the subject property, performed by the original appraiser, if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition as the previous inspection, and the marketability and value remain the same.
- Inspection Report must include new photographs of the subject property and street view, through one of the following:
    - FNMA Form 1004D, or

  - Post Disaster Inspection (PDI) Report, see Section 1.9.9.4 – Post Disaster Inspection Report.
- Any damage must be repaired and re-inspected prior to purchase.

### 1.9.9.2 APPRAISAL COMPLETED AFTER DISASTER EVENT

- The appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage noted in the original report must be repaired and re-inspected prior to purchase.

### 1.9.9.3 DISASTER EVENT OCCURS AFTER CLOSING BUT PRIOR TO LOAN PURCAHSE

A loan is ineligible for purchase until an inspection is obtained based on the following:

- A Post Disaster Inspection (PDI) Report from a third-party vendor (i.e., Clear Capital, Stewart/Pro Teck) may be used.
- If subject property is free of damage, nothing further is required.
- Any indication of damage reflected in the report will require a re-inspection by the appraiser.
  - If a re-inspection is required, the appraiser may utilize FNMA Form 1004D and comment on the event and certify that there has been no change to the value.

### 1.9.9.4 POST DISASTER INSPECITION REPORT (PDI) REQUIREMENTS

- Inspection must be from a third-party vendor (e.g., Clear Capital, Stewart/Pro Teck)
- Exterior color photos of the subject property and street scene
- Address verification to be included
- Details of the damage, if any, including cost to cure
- Color photos of damage incurred as a result of the disaster
- If repairs are required, re-inspection of the subject property to evidence repairs were completed in a workmanlike manner
- Any indication of damage reflected in the report will require the damage to be remediated prior to purchase.

## 1.9.10 CONDOMINIUM PROJECTS

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 Loans secured by condominium projects require a completed Homeowners Association (HOA) questionnaire and condominium review except for:
  - Site Condominium
  - 2-4 Unit project provided the following are met:
    - Project is not ineligible. See Section 1.9.10.4 - Ineligible Projects.
    - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.

    - Homeowner's association dues to be included in DTI/DSCR if applicable
- Special assessment information is to be provided to determine if there is a critical repair. Provide purpose, amount, term, balance, status, and cost per unit.
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. 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
    - Are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; **or**
    - Has improvements in need of 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; **or**
    - Has critical repairs with one of the following characteristics:
      - Mold, water intrusions or potentially damaging leaks to the project's building(s); or
      - Unfunded repairs costing more than $10,000 per unit undertaken within the next 12-months (does not include repairs made by the unit owner or repairs funded through special assessment).
- Florida Condominiums:
  - 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 5 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
- See the current Loan/LTV matrix for maximum LTV/CLTVs and loan amounts.
- HEM project exposure maximum shall be $5,000,000 or 20% of the total units in a project greater than 4 units, whichever is lower.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV. Completion of the Homeowners Association (HOA) questionnaire is not required for site condominiums.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen, minimum of one (1) bedroom.
- Commercial space allowed up to 50% of the project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- For condominium projects consisting of five or more units, single entity ownership is limited to 20% of the project.
- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.
- 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.

- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Underwriter must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

### 1.9.10.1 ESTABLISHED PROJECTS

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% 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.

### 1.9.10.2 NEW OR NEWLY CONVERTED PROJECTS

- 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied.
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- 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.

### 1.9.10.3 CONDOMINIUM HOTELS

- Condominium Hotel – (a.k.a. Condo Hotel, Condotel)
    - Projects where the units are individually owned, and the project offers hotel amenities.
        - Hotel amenities may include on-site registration, housekeeping services, and other hospitality services
        - A project that offers rentals of units on a daily, weekly, or monthly basis.
    - Occupancy Type: Primary, Second Home, or Investment.
    - Maximum LTV/CLTV (may vary by product – see Loan/LTV matrix)
    - Maximum Loan Amount:
        - Non-QHEM Plus/Non-QHEM: $2.5 million
        - NONI: $1.5 million
    - Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
    - Gross rents (for all income doc types) reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
    - Minimum square footage: 500
    - Fully functioning kitchen – appliances to include a refrigerator and cooktop/stove/oven
    - Separate bedroom required

- Florida Condominiums:
  - 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 5 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

### 1.9.10.4 INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the 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 with one of the following characteristics:
  - Mold, water intrusions or potentially damaging leaks to the project's building(s); or
  - Unfunded repairs costing more than $10,000 per unit undertaken within the next 12-months (does not include repairs made by the unit owner or repairs funded through special assessment).
- Any project with significant deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.

### 1.9.10.5 CONDOMINIUM INSURANCE REQUIREMENTS

Project to meet all Fannie Mae® insurance requirements for property, liability, and fidelity coverage.

#### 1.9.10.5.1 MASTER INSURANCE

Master property insurance policies are required for the common elements and residential structures unless the condo project requires individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in Section 1.10.1 - Hazard Insurance Requirements.

Master insurance policy 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. Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than a replacement cost basis are also unacceptable.

Master liability of at least $1,000,000 is required per occurrence. Maximum deductible is 5%.

Master insurance policy must include the project name and project address for the location of the condo project. Borrower name, unit number, and mortgagee clause are not required to be included in master insurance policy.

#### FIDELITY OR EMPLOYEE DISHONESTY INSURANCE

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least the sum of three months of assessments on all units in the project is required.

#### 1.9.10.5.2 HO-6

Borrowers must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an

HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

#### 1.9.10.5.3 DEDUCTIBLE

The maximum deductible amount must be no greater than 5% of the face amount of the policy.

#### FLOOD INSURANCE

- The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
    - Building Coverage must equal the lesser of:
        - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
        - The total number of units in the condominium building times $250,000
- Contents Coverage must equal the lesser of:
    - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
    - The maximum amount of contents coverage sold by the NFIP for a condominium building.

## 1.10 PROPERTY INSURANCE

A Property (Hazard) insurance policy is required for all loans.

### 1.10.1 HAZARD INSURANCE REQUIREMENTS

Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. 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. Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than replacement cost basis are also unacceptable.

Extended coverage must include, at a minimum: wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle, or explosion.

Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, or any other perils that normally are included under an extended coverage endorsement are not acceptable. Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitations or exclusions.

The hazard insurance coverage should be equal to the lesser of:

- Replacement Cost Estimator
- Provided from the property insurer, or
- Provided from a 3rd party source (i.e., CoreLogic)
- Estimated cost to replace the dwelling from a recent appraisal, if provided
- The unpaid principal balance of the mortgage(s)

The maximum deductible amount must be no greater than 5% of the face amount of the policy. For condominiums, see Section 2.10.10.5 – Condominium Insurance Requirements.

### 1.10.2 COMMERCIAL GENERAL LIABILITY INSURANCE: 2-8 MIXED-USE PROPERTIES

Commercial General Liability Insurance for 2-8 Mixed Use Properties is required in addition to Hazard Insurance.

Commercial General Liability Insurance blanket policy against claims for personal injury, bodily injury, death, or property damage occurring upon, in or about any property, such insurance to be:

- Per Occurrence Minimum Coverage: $1,000,000.
- Aggregate Coverage: $2,000,000.
- At least as broad as Insurance Services Office's (ISO) policy form CG 00 01.

### 1.10.3 FLOOD INSURANCE

The Underwriter must ensure that the property securing the mortgage loan is adequately protected by flood insurance when required. Flood insurance coverage is required when a mortgage loan is secured by a property located in:

- A Special Flood Hazard Area (SFHA), or
- A Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA). See below for additional information.

The Underwriter must determine whether or not the property is located in an SFHA by using the Standard Flood Hazard Determination form endorsed by FEMA. All flood zones beginning with the letter "A" or "V" are considered SFHAs.

The following table describes how to evaluate a property to determine if flood insurance is required. For the purpose of these requirements, the "principal structure" is the primary residential structure on the property securing the mortgage loan.

| IF… | THEN FLOOD INSURANCE IS… |
|---|---|
| any part of the principal structure is located in an SFHA, | required. |
| the principal structure is not located in an SFHA, but a residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA | required for the residential detached structure. |
| the principal structure is not located in an SFHA, but a non-residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA | not required on either structure. |
| the principal structure is not located in an SFHA, but a detached structure attached to the land that does not serve as part of the security for the mortgage loan is located within the SFHA | not required on either structure. |

The minimum amount of flood insurance required for first-lien mortgages is the lowest of:

- 100% of the replacement cost of the insurable value of the improvements,
- The maximum insurance available through the NFIP, or
- The unpaid principal balance (UPB) of the loan (or loan amount at the time of origination).

Minimum coverage must be equal to the dwelling coverage for hazard insurance, subject to the following:

- **1-4 Unit Properties**: If dwelling coverage for hazard insurance is greater than $250,000 then flood coverage must be $250,000 as this is the maximum allowed per FEMA.
- **5+ Units Properties**: If dwelling coverage for hazard insurance is greater than $500,000 then flood coverage must be $500,000 as this is the maximum allowed per FEMA.

### 1.10.3.1 ACCEPTABLE FLODD INSURANCE POLICIES

The flood insurance policy must be one of the following:

- A standard policy issued under the 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 an NFIP policy based on a review of the full policy issued by a private insurer.

#### 1.10.3.2 FLOOD INSURANCE ESCROW REQUIREMENTS

- Escrow accounts for flood insurance premiums are required for all loans secured by residential improved real estate.

## 1.11 TITLE POLICY REQUIREMENTS

The title insurer and final title policy must conform to Fannie Mae® requirements as published in the most recent Fannie Mae Selling Guide. Access to the Fannie Mae Selling Guide is available at Title Insurance | Fannie Mae.

Each loan purchased by Hometown Equity Mortgage (HEM) Mortgage Capital must include a preliminary title report or a final policy if available at the time of purchase. If the file contains a preliminary title report, it must indicate a final policy will be issued upon payment of the premium.

By delivering a preliminary title report to Hometown Equity Mortgage (HEM), the Broker represents and warrants that the loan will be covered by the required final policy as of the Note date.

### 1.11.1 TERMS OF COVERAGE

The title insurance policy must ensure the title is acceptable and that the mortgage represents a first lien on a fee simple estate in the property. The title policy must also list all other liens and reflect they are subordinate. The title insurance policy must be updated with Its Successors and/or Assigns ISAOA language. When the borrower is an Entity, the title insurance policy must provide protection regarding whether the signatories had the authority to validly execute the mortgage document. The policy should be written on one of the following forms:

- The 2021 American Land Title Association (ALTA) standard form.
- An ALTA short form if it provides coverage equivalent to the 2021 ALTA standard form.
- In states in which standard ALTA forms of coverage are, by law or regulation, not used, the state- promulgated standard or short form which provides the same coverage as the equivalent ALTA form.

### 1.11.2 EFFECTIVE DATE OF COVERAGE

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2021 ALTA policies may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

Because the 2021 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing.

### 1.11.3 AMOUNT OF COVERAGE

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

### 1.11.4 CHAIN OF TITLE

All files must contain a 24-month title history. Transfer date, price, and buyer and Seller names should be provided for any transfers that occurred within the past 24-months.

### 1.11.5 CONDOMINIUM OR PLANNED UNIT DEVELOPMENTS (PUD)

The title insurance policy for a condominium or PUD unit mortgage must describe all components of the unit estate.

For condominium unit mortgages, an ALTA 4-06 or 4.1-06 endorsement or its equivalent is required. For PUD unit mortgages, an ALTA 5-06 or 5.1-06 endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated into the text of the policy.

If the unit owners own the common areas of the project as tenants in common, the policy for each unit's mortgage must reflect that ownership.

If the homeowners' association (HOA) owns the common elements, areas, or facilities of the project separately, the title insurance on those areas must insure that ownership.

This title policy must show that title to the common elements, areas, or facilities is free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

The title policy must insure:

- That the mortgage is superior to any lien for unpaid common expense assessments. (In jurisdictions that give these assessments a limited priority over a first mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy.)
- Against any impairment or loss of title of the first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. (It must specifically insure against any loss that results from a violation that existed as of the date of the policy.)
- That the unit does not encroach on another unit or on any of the common elements, areas, or facilities. (The policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.)
- That the mortgage loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes.
- That real estate taxes are assessable and constitute a lien only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole.
- That the owner of a PUD unit is a member of the homeowners' association, and that the membership is transferable if the unit is sold.

### 1.11.6 TITLE EXCEPTIONS

Hometown Equity Mortgage (HEM) will not close a mortgage loan secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

If surveys are not commonly required in particular jurisdictions, Title must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

### 1.11.7 MINOR IMPEDIMENTS TO TITLE

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Hometown Equity Mortgage (HEM) considers minor impediments:

- Customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements.
- Above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself.

### 1.11.8 SECOND LIENS

Owner and Encumbrance Report is allowed for loan amounts less than $250,000 for the following:

- Closed End Second Lien, see Section 2.17.4 – Title Requirements
- Home Equity Line of Credit (HELOC), see Section 3.19.5 – Title Requirements

## 1.12 SOLAR PANELS

### 1.12.1 PROPERTIES WITH SOLAR PANELS

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,
- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements

Property with solar panels are eligible for purchase. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Underwriters are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, Underwriters may be able to make this determination by evaluating the borrower's credit report for solar- related debt and by asking the borrower for a copy of all related documentation for the loan. The Underwriters must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the Underwriter obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Underwriters are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must be noted in the Improvements Section of the Appraisal Report.

## 1.12.2 REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE OWNED

Solar panels purchased through financing may or may not include the real estate as collateral.

### 1.12.2.1 FINANCED AND COLLATERALIZED (UCC ON TITLE)

The solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records (on title report).

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing*.

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan
    - Include the debt obligation in the debt-to-income ratio
- Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements)
- Include the solar panels financing balance in the LTV/CLTV ratio calculation (if unable to obtain, utilize original balance). The UCC fixture filing* must be subordinated with one of the following.
    - Subordination Agreement
    - UCC Termination
        - Debt obligation is to be included in debt-to-income ratio and LTV/CLTV unless proof is provided verifying the debt has been paid down to zero (UCC termination does not automatically verify the debt is paid off).
- CLTA Endorsement 150-06 is not eligible to be used in lieu of a Subordination agreement or UCC Termination.

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

### 1.12.2.2 FINANCED AND COLLATERALIZED (UCC NOT ON TITLE)

The solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing.

- Obtain and review the credit report, title report, appraisal, related promissory note and related security agreement that reflect the terms of the secured loan
    - Include the debt obligation in the debt-to-income ratio
- Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt
- 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 was paid in full otherwise the financed balance must be included in LTV/CLTV

#### 1.12.2.3 PACE (PROPERTY ASSESSED CLEAN ENERGY)

PACE allows homeowners to finance energy improvements through an assessment in their annual property tax bills.

- 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.
  - PACE loans, in some cases, are also referred to as HERO loans.
  - Any property tax statement that reflects PACE, HERO, or equivalent will require proof of payoff.
    - If loan proceeds are used to pay off the PACE loan, transaction will be considered cash out.

### 1.12.3 REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE LEASED OR COVERED BY A POWER PURCHASE AGREEMENT

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

- Underwriters must obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the 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 value of the solar panels cannot be included in the appraised value of the property.
- The value of the solar panels must not be included in the LTV/CLTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
  - A "precautionary" UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
  - When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
- The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.
- The property must maintain access to an alternate source of electric power that meets community standards.
- 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 underwriter 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 HEM or assignee has the discretion to:
  - Terminate the lease/agreement and require the 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.

# CHAPTER 2 - CLOSED END SECOND ELIGIBILITY

Closed End Second loans submitted to HEM must meet the eligibility criteria of the current published Non-Agency Guide. Non-Agency loans submitted to HEM must meet the criteria of the current published Eligibility Guide as of the HEM loan lock date for review.

## 2.1 PROGRAM MATRICES

See website for full details [www.theLender.com](http://www.theLender.com)

## 2.2 ELIGIBLE PRODUCTS

See website for full details [www.theLender.com](http://www.theLender.com)

## 2.3 LOAN AMOUNTS

- Minimum: $75,000
- Maximum: $500,000

## 2.4 COMBINED LOAN BALANCE

- The CLTV of the combined loan balances are restricted as follows:
    - Combined loan balance > $2,000,000 – maximum 80% CLTV
    - Combined loan balance > $3,000,000 – maximum 75% CLTV
- Maximum combined loan balance for all liens not to exceed $4,000,000

## 2.5 MINIMUM CREDIT SCORE

- Minimum: 680

## 2.6 STATE ELIGIBILITY RESTRICTIONS

The maximum CLTV is limited to 80% if either or both of the following apply:

- Appraisal report identifies the property as a declining market
- Subject property is in a state identified on the Loan LTV Matrix

## 2.7 QUALIFYING PAYMENT

Qualifying DTI includes the Principal and Interest payment of the subject loan and any existing or new first lien payment. Qualifying payment to be determined with the following:

- First lien Principal and Interest payment
    - Transaction Type:
        - **Stand-alone:** Utilize mortgage payment from credit report
        - **Simultaneous:** Utilize the 1st lien qualifying method as follows
            - Fixed rate: Note rate amortized over the total term
        - Interest Only: Note rate amortized over the remaining term after the expiration of the interest only period
            - ARMs: Qualifying rate is the higher of the fully indexed rate or note rate

    - Interest Only: Qualifying rate amortized over the remaining term after the expiration of the interest only period
- Subject loan Principal and Interest Payment based upon the note rate
- Hazard Insurance Premium
- Flood and Other Insurance Premiums, as applicable
- Real Estate Taxes
- Association Dues

## 2.8 FIRST LIEN DOCUMENTATION REQUIREMENTS

Verify the 1st lien P&I payment with all the following:

- Copy of 1st lien Note
    - Default interest rate on Note cannot exceed Note rate
    - If Interest Only and/or ARM, terms of the Note to be reviewed (See DTI Requirements)
- Copy of most recent monthly mortgage payment statement
    - Utilized to determine if payment includes escrows (See DTI Requirements)

## 2.9 INELIGIBLE FIRST LIENS

First liens with the following high-risk features are not eligible:

- Loans in active forbearance or deferment
- Forbearance, modifications, or deferrals (including COVID-19 related events) completed or reinstated within 12-months of the Note date
- Negative amortization payment including loans with Paid-In-Kind (PIK) features
- Balloon term, if the balloon payment becomes due during the amortization period of the new 2nd lien
- Reverse Mortgages
- First liens for the subject property not reporting on credit report are ineligible
- e.g., Private party mortgages including any loan not reporting on the credit report
- Loans secured by more than one underlying property, including cross collateralized loans or blanket mortgages
- Home Equity Line of Credit
- Note terms that include a default interest rate greater than the Note rate

## 2.10 AGE OF DOCUMENT REQUIREMENTS

### 2.10.1 CREDIT REVIEW DOCUMENTATION

The following documents may not be more than 120 days old at closing (the date the Note is signed):

- Income verification/pay stubs
- Mortgage/rental verification
- Asset documents/bank statements
- Credit Report
- Title Commitment/Preliminary Report/Binder
- Owner & Encumbrance Report (O&E)

Any credit review documents exceeding these timeframes must be updated.

### 2.10.2 APPRAISAL

- Full Appraisal (FNMA Form 1004/1025/1073) and Exterior Drive-By Appraisal (Hybrid/2055/1073) must be dated within 365 days of the Note date.
- Recertification of value required if the report exceeds 120 days of the Note Date. See complete appraisal requirements in Section 1.9.1.1 – Appraisal Requirements 1-4 Unit Residential.
- AVMs must be dated within 90-days of the Note date.

## 2.11 BORROWER ELIGIBILITY

### 2.11.1 ELIGIBLE BORROWERS

- U.S. Citizens, see First Lien criteria Section 1.3.1.1 – US Citizens
- Permanent Resident Aliens, see First Lien criteria Section 1.3.1.2 – Permanent Resident Alien
- Non-Permanent Resident Aliens, see First Lien criteria Section 1.3.1.3 – Non-Permanent Resident Alien
- Max CLTV 80%

### 2.11.2 INELIGIBLE BORROWERS

- Foreign Nationals
- Non-occupant co-borrowers
- First time homebuyers
- Borrowers with diplomatic immunity, as defined by US Citizenship and Immigration Services
- Persons sanctioned by OFAC
- Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.
- Not-For-Profit entity

### 2.11.3 TITLE VESTING AND OWNERSHIP

Subject property must be owned a minimum of 6 months to be eligible, as measured from acquisition date to the date of the new note.

#### 2.11.3.1 VESTING FOR CONSUMER AND BUSINESS PURPOSE LOANS

Ownership must be fee simple. Leaseholds are not eligible.

**Eligible forms of vesting are:**

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust

**Ineligible forms of vesting are:**

- Land Trust
- Blind Trust
- Irrevocable Trust
- IRAs
- Not-For-Profit entity

#### 2.11.3.1.1 INTER VIVOS REVOCABLE TRUST

See First Lien criteria, Section 1.3.6.1.1 – Inter Vivos Revocable Trust

#### 2.11.3.2 VESTING FOR BUSINESS PURPOSE LOANS (INVESTMENT OCCUPANCY)

A Business Purpose Loan where the borrower is an entity is limited to the following structures: Limited Liability Company (LLC), Partnership, and Corporation.

See First Lien criteria, Section 1.3.6.2 – Vesting For Business Purpose Loans.

#### 2.11.3.2.1 ENTITY DOCUMENTATION REQUIREMENTS

See First Lien criteria, Section 1.3.6.2.2 – Entity Documentation Requirements.

#### 2.11.3.3 POWER OF ATTORNEY

Power of Attorney is not eligible.

### 2.11.4 OCCUPANCY TYPES

See First Lien criteria, Section 1.3.7 – Occupancy Types.

### 2.11.5 BORROWER STATEMENT OF OCCUPANCY

The borrower must acknowledge the intended occupancy of the subject property ("Primary Residence", "Second Home", or "Investment") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Occupancy Certification of this guide.

## 2.12 TRANSACTION TYPES

### 2.12.1 ELIGIBLE TRANSACTIONS

See First Lien criteria, Section 1.4.1.1 – Purchase.

### 2.12.1.2 STAND ALONE CASH OUT

Any transaction not used to purchase the subject property is considered cashout.

- Subject property must be owned a minimum of 6 months to be eligible, as measured from acquisition date to the date of the new note.
- Loans not eligible for cash-out:
  - Primary Residence, Second Home, or Non-Owner Occupied properties listed for sale in the past six (6) months.

- There has been a prior cash-out transaction within the past six (6) months
- Lien Free Properties – If the subject property is lien free, including delayed financing, ineligible
- Frequent Refinances – Two (2) or more cash out refinances in the past twelve (12) months
- All existing subordinate liens must be satisfied. No resubordinating permitted.
- Payoff of a Land Contract/Contract for Deed.
- If the cash-out seasoning is less than 12-months, but greater than 6 months, the transaction property value is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.

### 2.12.2 NON -ARM'S LENGTH TRANSACTIONS

See First Lien criteria, Section 1.4.3 – Non-Arm's Length Transactions.

### 2.12.3 INTERESTED PARTY CONTRIBUTIONS

See First Lien criteria, Section 1.4.4 – Interested Party Contributions.

### 2.12.4 ESCROWS – IMPOUND ACCOUNTS

- Escrow accounts are not required on second lien products.
- If the property is located in a flood zone, evidence of flood insurance is required.

### 2.12.5 SUBORDINATE FINANCING

All existing subordinate liens must be satisfied except for solar panel liens/UCCs (restrictions apply, see Section 1.12 – Solar Panels).

### 2.12.6 PREPAYMENT PENALTY

Prepayment penalty is not required.

## 2.13 CREDIT

### 2.13.1 CREDIT REPORTS

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a tri-merged credit report, or a Residential Mortgage Credit Report is required.

The credit report used to evaluate a loan may not reflect a security freeze. Any frozen credit must be unlocked, and a new credit report (tri-merge or Residential Mortgage Credit Report) must be obtained to reflect current and updated information from all repositories.

### 2.13.2 GAP CREDIT REPORTING

Gap Credit Reporting is required. See First Lien criteria, Section 1.5.2 – Gap Credit Reporting.

### 2.13.3 FRAUD REPORT AND OFAC SEARCH

- Fraud Report: See First Lien criteria, Section 1.5.3.1 – Fraud Report for additional requirements.

- OFAC SDN search - Individuals: See First Lien criteria, Section 1.5.3.2.1 – OFAC Search for Individuals for additional requirements.

## 2.13.4 CREDIT INQUIRIES

Credit inquiries are to be addressed. See First Lien criteria, Section 1.5.4 – Credit Inquiries.

## 2.13.5 HOUSING HISTORY

First liens for the subject property not reporting on credit report are ineligible.

### 2.13.5.1 MORTGAGE(S) ON CREDIT REPORT

The underwriter must review the credit report to determine the payment status of all reported mortgage accounts for all real estate owned for the previous 12-months. Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

If a complete 12- month mortgage history is not reported on the credit report, the underwriter must use one of the following to complete the borrower's payment history for all real estate owned:

- Credit supplement; or
- Request for Verification of Mortgage Form completed by the creditor; or
- Loan payment history from the servicer; or
- Borrower's proof of payment (e.g., cancelled check, ACH payment, bank transfer, etc.)

### 2.13.5.2 MORTGAGE(S) NOT REPORTING ON CREDIT REPORT

- First liens for the subject property not reporting on credit report are ineligible.
- Other real estate owned, see Section 2.5.5 – Housing History.

## 2.13.6 CONSUMER CREDIT

See First Lien criteria, Section 2.5.6 – Consumer Credit.

## 2.13.7 BANKRUPTCY HISTORY

Recent bankruptcies are not allowed. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

- Bankruptcy must be completed a minimum of 48 months.

## 2.13.8 FORECLOSURE SEASONING

Recent foreclosures are not allowed. The length of time is measured from the settlement date to the Note date.

- Foreclosures must be completed a minimum of 48 months.
- In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

## 2.13.9 SHORT SALE/DEED-IN-LIEU SEASONING

Recent short sales/deed-in-lieu of foreclosures are not allowed. The length of time is measured from the deed date to the Note date.

- Short sales/deed-in-lieu of foreclosures must be completed a minimum of 48 months.
- In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the short sale/deed-in-lieu completion date.

### 2.13.10 FORBEARANCE, MODIFICATION, OR DEFERRAL

Forbearances, modifications, and deferrals are considered under housing payment history as outlined below:

#### GREATER THAN 12-MONTHS FROM NOTE DATE:

- Forbearance, loan modifications, or deferrals completed or reinstated greater than 12-months from the Note date of the subject transaction and having a 0x30x12 Housing History are allowed.

#### WITHIN 12-MONTHS OF NOTE DATE:

- Forbearance, loan modifications, or deferrals completed or reinstated within 12-months of the Note date of the subject transaction are not eligible.

### 2.13.11 CREDIT SCORE AND TRADELINES

See First Lien criteria, Section 1.5.11 – Credit Score and Section 1.5.12 – Tradelines.

### 2.13.12 OBLIGATIONS NOT APPEARING ON CREDIT REPORT

See First Lien criteria, Section 2.5.13 – Obligations Not Appearing on Credit Report.

## 2.14 ASSETS

**THE FOLLOWING APPLY TO SIMULTANEOUS PURCHASE TRANSACTIONS.**

### 2.14.1 ASSET REQUIREMENTS

Acceptable asset documentation is required to be included in each loan file for simultaneous seconds. The borrower must meet the minimum contribution amount per program requirements for the first lien. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 120 days of the loan note date.

### 2.14.2 ASSET DOCUMENTATION

See First Lien criteria, Section 1.6.2 – Asset Documentation.

### 2.14.3 RESERVES

- Simultaneous Transactions: Follow First lien requirements
- Stand-Alone Transactions: Reserves are not required.

## 2.15 INCOME

### 2.15.1 INCOME ANALYSIS

See First Lien criteria, Section 1.7.1 – Income Analysis.

### 2.15.2 DEBT-TO-INCOME (DTI) RATIO

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to HEM guidelines and the inclusion of all income and liability expenses. See the most recent program matrix for applicable details.

- Maximum DTI ratio:
  - 50% DTI for CLTV less than or equal to 80%
  - 45% DTI for CLTV greater than 80%

### 2.15.3 DOCUMENTATION OPTIONS

See First Lien criteria, Section 1.7.4 – Documentation Options.

### 2.15.4 STANDARD DOCUMENTATION

See First Lien criteria, Section 1.7.5 – Standard Documentation.

### 2.15.5 ALT DOC BANK STATEMENTS

See First Lien criteria, Section 1.7.6 – Alt Doc Bank Statements.

### 2.15.6 ALT DOC-RENTAL INCOME

See First Lien criteria, Section 1.7.7 – Alt Doc Rental Income.

### 2.15.7 ALT DOC-IRS FORM 1099

See First Lien criteria, Section 1.7.9 – Alt Doc IRS Form 1099.

### 2.15.8 DESKTOP UNDERWRITER (DU) AND LOAN PROSPECTOR (LP)

- Simultaneous purchase transactions only
- Findings permitted to be used for income, asset, and liability documentation
  - Appraisal must follow the requirements of this Closed End Second program
    - Appraisal waiver option from DU or LP findings not eligible
  - Max DTI based upon CLTV restrictions for this Closed End Second program

## 2.16 PROPERTY ELIGIBILITY

### 2.16.1 APPRAISALS

When a full appraisal is utilized for the value determination, see First Lien criteria, Section 1.9.1.1 – Appraisal Requirements 1-4 Unit Residential for questions or requirements.

#### 2.16.1.1 APPRAISAL REQUIREMENTS

Primary and secondary valuation products are required. Primary valuation products are referenced below. See Section 2.16.1.3 Appraisal Review Products 1-4 Residential Property for eligible valuation products.

**HPML loans that are not Qualified Mortgages require a full appraisal with an interior inspection, regardless of the loan balance.**

**Loan Amount <=$250,000** (One of the following required)

- AVM from approved vendor, dated within 90-days of the Note date, and a new Property Condition Report with acceptable findings, or
- Exterior Drive-By appraisal (Hybrid or 2055 or 1075), or
  - One (1) unit property, with or without an accessory dwelling unit
- New Appraisal (FNMA Form 1004/1025/1073), or
- Prior 1st lien appraisal dated within 12-months of subject loan Note date allowed subject to the following:
  - The lender on the prior appraisal must be the same as the subject loan, and
  - A new Property Condition Report with acceptable findings, and
  - Recertification of value by the original appraiser.
- Broker Price Opinion (BPO) from one of the following:
  - Clear Capital, or
  - Consolidated Analytics, or
  - Computershare, or
  - Stewart Valuation Intelligence

**Loan Amount >$250,000** (One of the following required)

- New Appraisal (FNMA Form 1004/1025/1073), or
- Prior 1st lien appraisal dated within 12-months of subject loan Note Date allowed subject to the following:
  - The lender on the prior appraisal must be the same as the subject loan, and
  - A new Property Condition Report with acceptable findings, and
  - Recertification of value by original appraiser, and
  - AVM within 90-days of the Note date from approved vendor.
    - The lower of the Prior Appraisal value or the current AVM will be used to determine CLTV.

### 2.16.1.1.1 AVEM VENDORS

| THE FOLLOWING AVM VENDORS ARE ACCEPTABLE: | |
|---|---|
| **AVM Vendor** | **Acceptable FSD Score Range** |
| Clear Capital | 0.00 to 0.13 |
| Collateral Analytics | 0.00 to 0.10 |
| House Canary | 0.00 to 0.10 |
| Red Bell Real Estate (Homegenius) | 0.00 to 0.10 |

#### 2.16.1.1.2 PROPERTY CONDITION REPORTS

When required, a Property Condition Report (i.e., Clear Capital Property Condition Inspection) should be obtained to include an exterior photo of the subject property along with a rating of the property's physical condition and characteristics.

### 2.16.1.2 TRANSFER OF APPRAISAL

A transferred appraisal report is acceptable provided the report meets the HEM's appraisal requirements for independence.

### 2.16.1.3 APPRAISAL REVIEW PRODUCTS 1-4 RESIDENTIAL PROPERTY

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an "as is" value for the subject property (the "Appraisal Review Value") as of the date of the subject loan transaction.

- The Underwriter may submit the appraisal report to Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR). (Only one score required, if both scores (CU & LCA) provided, both required to be 2.5 or less). If the score exceeds 2.5, the file must include either an enhanced desk review, field review, or second appraisal; or
- An enhanced desk review product from one of the following choices:
  - ARR from Stewart Valuation Intelligence FKA Pro Teck
  - CDA from Clear Capital
  - ARA from Computershare
  - CCA from Consolidated Analytics
  - VRR from Homegenius Real Estate
  - Valreview Appraisal Review Value from Valligent (Veros Software Company)
- If the enhanced desk review or BPO product reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal. A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.
- AVM within 90-days of Note date (If primary valuation based on an AVM, review must be a different vendor)
  - If two AVMs are ordered, the following apply:
    - The second AVM will be treated as the secondary valuation product and must support the primary AVM within 10%.
    - If both AVMs have the same FSD, the lower of the two property values must be utilized for determining the CLTV.
- Broker Price Opinion (BPO)
  - If two BPOs are ordered, the BPO with the lowest value will be treated as the primary valuation product.
  - If two BPOs are ordered, they must be completed by different brokers

## 2.16.2 MINIMUM PROPERTY REQUIREMENTS

| MINIMUM SQUARE FOOTAGE | | |
|---|---|---|
| Single Family 700 sq. ft. | Condominium 500 sq. ft. | 2-4 Units<br><br>400 sq. ft per individual unit |

All properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

### 2.16.3 PERSONAL PROPERTY

See First Lien criteria, Section 2.9.1.5 – Personal Property.

### 2.16.4 ESCROW HOLDBACKS

Escrow holdbacks are not allowed.

### 2.16.5 DECLINING MARKETS

The loan transaction is subject to a CLTV cap if the property is in a declining market. Declining markets are determined by a) property location in a State identified by HEM, or b) the appraisal report reflects a declining market under housing trends. State eligibility is referenced on the Loan LTV Matrix. The program specific CLTV cap is as follows:

- 80% CLTV Purchase and Refinance

## 2.17 PROPERTY TYPES

### 2.17.1 ELIGIBLE PROPERTIES

- Single Family Detached
- Single Family Attached
- Planned Unit Development (PUD)
    - Single Family Detached homes with PUD riders
- De minimus Planned Unit Development (dPUD)
    - PUD with "de minimus" monthly HOA dues
- 2-4 Unit residential properties
- Condominium (See Section 1.9.10 - Condominium Projects for complete condominium eligibility criteria)

#### 2.17.1.1 TILA HIGHER PRICED MORTGAGE LOANS (HPML) APPRAISAL RULE

See First Lien criteria, Section 1.9.2.1.1 – TILA Higher Priced Mortgage Loans.

#### 2.17.1.2 INELIGIBLE PROPERTIES

- Properties listed for sale in the last 6 months

See First Lien criteria, Section 1.9.2.2 – Ineligible Properties.

### 2.17.2 ACREAGE LIMITATIONS

See First Lien criteria, Section 1.9.3 – Acreage Limitations.

### 2.17.3 STATE ELIGIBILITY

- Not Eligible:
  - Texas
  - Territories: Puerto Rico, Guam, & the US Virgin Islands
- Restricted:
  - CT, IL, NJ, NY (Max CLTV 80%, Min FICO 720)

### 2.17.3.1 NEW YORK- CEMA

Consolidation, Extension, and Modification Agreement (CEMA) not eligible.

### 2.17.4 TITLE REQUIREMENTS

- For loan balances less than or equal to $250,000, provide one of the following:
  - Owner and Encumbrance Report (O&E), to include:
    - Current Grantee/Owner
    - How property was conveyed to current owner
    - Liens (e.g., mortgage, UCC, other financing)
    - Involuntary liens and judgements
    - Property Tax Information with break-down of all taxes including special assessments
    - Legal Description
  - ALTA Full Title Policy
  - ALTA Short Form Residential Limited Coverage Junior Loan Policy
- For loan balances greater than $250,000, provide one of the following:
  - ALTA Full Title Policy
  - ALTA Short Form Residential Limited Coverage Junior Loan Policy

### 2.17.5 SOLAR PANEL REQUIREMENTS

Solar panels are allowed unless they are financed through PACE, HERO, or equivalent. See criteria in Section 1.8.2.11 – Solar Panel Requirements.

### 2.17.6 LEASEHOLD PROPERTIES

Leasehold properties are not eligible.

### 2.17.7 HEM EXPOSURE-BORROWER LIMITATIONS

See First Lien criteria, Section 1.9.8 – Borrower Limitations.

### 2.17.8 PROPERTY INSURANCE

- Hazard insurance coverage must provide for claims to be settled on a replacement cost basis
  - See First Lien Section 1.8.2.7 – Property Insurance for additional clarification
- Loss payee clause must reflect HEM as additional insured

### 2.17.9 FLOOD INSURANCE

- Flood determination required for every loan file
- Properties within a flood zone require evidence of insurance coverage in accordance with the HFIAA
    - See First Lien Section 1.8.2.9 – Flood Insurance for additional clarification
- Loss payee clause must reflect HEM as additional insured

## 2.17.10 DISASTER AREAS

- If a full appraisal is utilized (e.g., form 1004, 1073, 1025), see First Lien criteria Section 1.9.9 – Disaster Areas.
- If other appraisal products (e.g., exterior-only form 2055/2075, AVM, BPO) are completed before the disaster, provide a Post Disaster Inspection Report (PDI), see First Lien criteria Section 1.9.9.4 – Post Disaster Inspection Report.
    - Any indication of damage reflected in the report will require a re-inspection.
        - The re-inspection report must be in the form of a Property Condition Report by the same vendor that provided the Post Disaster Inspection Report (PDI).
        - Property Condition Report must include an exterior photo of the subject property along with comments verifying the damage has been repaired.

## 2.17.11 CONDOMINIUM PROJECTS

See First Lien criteria, Section 2.9.10 – Condominium Projects, Section 1.9.10.1 – Established Projects, and Section 1.9.10.2 – New or Newly Converted Projects.

### 2.17.11.1 INELIGIBLE PROJECTS

- Condominium Hotel – (a.k.a. Condo Hotel, Condotel)
- See First Lien criteria, Section 1.9.10.4 – Ineligible Projects for additional ineligible projects

### 2.17.11.2 CONDOMINIUM INSURANCE REQUIREMENTS

See First Lien criteria, Section 1.9.10.5 – Condominium Insurance Requirements.

# CHAPTER 3 - THELINE ELIGIBILITY

Home Equity Line of Credit (HELOC) loans submitted to HEM must meet the eligibility criteria of the current published HEM Non-Agency Guidelines.

HPML requirements do not apply to Home Equity Lines of Credit.

## 3.1 PROGRAM MATRIX

Please see the product matrix

## 3.2 ELIGIBLE PRODUCTS

Please refer to the program matrix

## 3.3 GENERAL REQUIREMENTS

- Variable Rate:
  - Index: Prime as published in the Wall Street Journal (WSJ)
  - Margin: See Rate Sheet
  - Floor Rate: 4.0
  - Maximum Rate: 18%
  - Daily Periodic Interest Rate: Index plus Margin
  - Finance Charges: Interest accrues on the day of an advance and continues until the outstanding balance is paid in full. Interest is calculated daily based upon the Daily Periodic Rate and the daily balance.
- Draw Period: 2 year, 3 year, or 5 year
- Advances:
  - Initial Advance: Minimum 75% of total line amount
  - Minimum Advance: $1,000.00
  - Maximum Advance: Line Amount
  - Lock-out Period: Advances not available for a period of 90-days after closing to allow for servicing transfer.
  - Access to advances: Checks or phone request
- Minimum Payment:
  - Draw Period: Interest only calculation, greater of accrued interest or $100.
  - Repayment Period: Amortizing principal and interest payment based upon the total line amount, repayment term, current rate (Index plus Margin).
- Maturity Date: 1st of the Month/Year based on total loan term.
- HELOC Agreement Fees
  - Return Check $25.00
  - Stop Payment $50.00
  - Annual Fee $25.00
- Late Charge applied as follows:
  - 5% or the maximum allowed under state law, and
  - Any payment received after the 10th calendar day, or the minimum allowed under state law

- Interest Accrual – 365/365

## 3.4 LOAN AMOUNTS

- Minimum: $75,000
- Maximum: $500,000

## 3.5 COMBINED LOAN BALANCE

- Maximum combined loan balance for all liens not to exceed $2,000,000

## 3.6 MINIMUM CREDIT SCORE

- Minimum: 680

## 3.7 STATE ELIGIBILITY RESTRICTIONS

The maximum HCLTV is limited to 80% if either or both of the following apply:

- Appraisal report identifies the property as a declining market
- Subject property is in a state located in the Loan LTV Matrix

## 3.8 QUALIFYING PAYMENT

Qualifying payment for the subject loan is calculated as follows:

- Amortizing principal and interest payment based upon the total line amount, repayment term, current rate (Index plus Margin)
- Index: Prime rate as published in the Wall Street Journal (daily)
- Margin: Published in the HEM rate sheet

Qualifying DTI includes the qualifying payment for the subject loan, existing first lien payment, and other monthly recurring housing expenses as follows:

- First lien Principal and Interest payment
    - Fixed rate: Note rate amortized over the total term
        - Interest Only: Note rate amortized over the remaining term after the expiration of the interest only period
    - ARMs: Qualifying rate is the higher of the fully indexed rate or note rate
        - Interest Only: Qualifying rate amortized over the remaining term after the expiration of the interest only period
- Subject loan qualifying payment
- Hazard Insurance Premium
- Flood and Other Insurance Premiums, as applicable
- Real Estate Taxes
- Association Dues

## 3.9 FIRST LIEN DOCUMENTATION REQUIREMENTS

Verify the 1st lien P&I payment with all the following:

- Copy of 1st lien Note
  - Default interest rate on Note cannot exceed Note rate
  - If Interest Only and/or ARM, terms of the Note to be reviewed (See DTI Requirements)
- Copy of most recent monthly mortgage payment statement
  - Utilized to determine if payment includes escrows (See DTI Requirements)

## 3.10 INELIGIBLE FIRST LIENS

First liens with the following high-risk features are not eligible:

- Loans in active forbearance or deferment
- Forbearance, modifications, or deferrals (including COVID-19 related events) completed or reinstated within 12-months of the Note date
- Negative amortization payment including loans with Paid-In-Kind (PIK) features
- Balloon term, if the balloon payment becomes due during the amortization period of the new 2nd lien
- Reverse Mortgages
- First liens for the subject property not reporting on credit report are ineligible
  - e.g., Private party mortgages including any loan not reporting on the credit report
- Loans secured by more than one underlying property, including theBlanketized loans or blanket mortgages
- Home Equity Line of Credit
- Note terms that include a default interest rate greater than the Note rate

## 3.11 AGE OF DOCUMENT REQUIREMENTS

### 3.11.1 CREDIT REVIEW DOCUMENTATION

The following documents may not be more than 120 days old at closing (the date the Note is signed):

- Income verification/pay stubs
- Mortgage/rental verification
- Asset documents/bank statements
- Credit Report

The following documents may not be more than 60 days old at closing (the date the Note is signed):

- Title Commitment/Preliminary Report/Binder
- Owner & Encumbrance Report (O&E)

Any credit review documents exceeding these timeframes must be updated.

### 3.11.2 APPRAISAL

- Full Appraisal (FNMA Form 1004/1025/1073) and Exterior Drive-By Appraisal (2055/1073) must be dated within 120-days of the Note date.
  - New appraisal is required after 120 days. Appraisal Update 1004D (aka Recertification of Value) is not allowed.
- AVMs must be dated within 90-days of the Note date.

## 3.12 UNDERWRITING REQUIREMENTS

- FNMA Form 1003 – Current version of the Uniform Residential Loan Application.
- All loans must be manually underwritten. Automated underwriting is not allowed.

## 3.13 BORROWER ELIGIBILITY

- Maximum of four (4) borrowers per loan.

### 3.13.1 ELIGIBLE BORROWERS

- U.S. Citizens, see First Lien criteria Section 1.3.1.1 – US Citizens
- Permanent Resident Aliens, see First Lien criteria Section 1.3.1.2 – Permanent Resident Alien

### 3.13.2 INELIGIBLE BORROWERS

- Non-Permanent Resident Aliens
- Foreign Nationals
- Non-occupant co-borrowers
- Borrowers with diplomatic immunity, as defined by US Citizenship and Immigration Services
- Persons sanctioned by OFAC
- Any borrowers listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list

### 3.13.3 TITLE VESTING AND OWNERSHIP

Subject property must be owned a minimum of 12 months to be eligible, as measured from acquisition date to the date of the new note.

#### 3.13.3.1 VESTING FOR CONSUMER PURPOSE LOANS

Ownership must be fee simple. Leaseholds are not eligible.

**Eligible forms of vesting are:**

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust

**Ineligible forms of vesting are:**

- Vesting in an entity
- Blind Trust
- Irrevocable Trust
- IRAs
- Land Trust

##### 3.13.3.1.1 INTER VIVOS REVOCABLE TRUST

See First Lien criteria, Section 1.3.6.1.1 – Inter Vivos Revocable Trust

#### 3.13.3.2 POWER OF ATTORNEY

Power of Attorney is not eligible.

### 3.13.4 OCCUPANCY TYPES

See First Lien criteria, Section 1.3.7 – Occupancy Types.

### 3.13.5 BORROWER STATEMENT OF OCCUPANCY

The borrower must acknowledge the intended occupancy of the subject property (“Primary Residence”, “Second Home”, or “Investment”) by completing and signing the appropriate sections of the “Occupancy Certification” sent with final loan documents.

## 3.14 TRANSACTION TYPES

### 3.14.1 ELIGIBLE TRANSACTIONS

#### 3.14.1.1 STAND ALONE CASHOUT

Any transaction not used to purchase the subject property is considered cashout.

- Subject property must be owned a minimum of 12-months to be eligible, as measured from acquisition date to the date of the new note.
- Loans not eligible for cash-out:
  - Primary Residence, Second Home, or Non-Owner Occupied properties listed for sale in the past six (6) months.
  - There has been a prior cash-out transaction within the past six (6) months
  - Lien Free Properties – If the subject property is lien free, including delayed financing, ineligible
  - Frequent Refinances – Two (2) or more cash out refinances in the past twelve (12) months
  - All existing subordinate liens must be satisfied. No resubordinating permitted.
  - Payoff of a Land Contract/Contract for Deed.

### 3.14.2 ESCROW-IMPOUND ACCOUNTS

- Escrow accounts are not required on second lien products.
- If the property is located in a flood zone, evidence of flood insurance is required.

### 3.14.3 SUBORDINATE FINANCING

All existing subordinate liens must be satisfied. Subordinate financing is not allowed.

### 3.14.4 PREPAYMENT PENALTY

Prepayment penalty is not permitted.

## 3.15 CREDIT

### 3.15.1 CREDIT REPORTS

A credit report is required for each individual borrower. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a tri-merged credit report, or a Residential Mortgage Credit Report is required. Rapid rescoring is not allowed.

The credit report used to evaluate a loan may not reflect a security freeze. Any frozen credit must be unlocked, and a new credit report (tri-merge or Residential Mortgage Credit Report) must be obtained to reflect current and updated information from all repositories.

HAWK Alert messages:

- All HAWK Alert messages must be addressed and resolved. Documentation to evidence resolution must be included in the loan file.

### 3.15.2 GAP CREDIT REPORTING

A gap credit report or Undisclosed Debt Monitoring report is required no more than 10 days prior to loan closing or any time after closing. Any new debt must be included in determining the DTI ratio.

### 3.15.3 FRAUD REPORT AND OFAC SEARCH

- Fraud Report: See First Lien criteria, Section 1.5.3.1 – Fraud Report for additional requirements.

- OFAC SDN search - Individuals: See First Lien criteria, Section 1.5.3.2.1 – OFAC Search for Individuals for additional requirements.

### 3.15.4 CREDIT INQUIRIES

Credit inquiries are to be addressed. See First Lien criteria, Section 1.5.4 – Credit Inquiries.

### 3.15.5 HOUSING HISTORY

First liens for the subject property not reporting on credit report are ineligible.

#### 3.15.5.1 MORTGAGE(S) REPORTING ON CREDIT REPORT

The underwriter must review the credit report to determine the payment status of all reported mortgage accounts for all real estate owned for the previous 12-months. Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

If a complete 12- month mortgage history is not reported on the credit report, the underwriter must use one of the following to complete the borrower's payment history for all real estate owned:

- Credit supplement; or
- Request for Verification of Mortgage Form completed by the creditor; or
- Loan payment history from the servicer; or
- Borrower's proof of payment (e.g., cancelled check, ACH payment, bank transfer, etc.)

#### 3.15.5.2 MORTGAGE(S) NOT REPORTING ON CREDIT REPORT

- First liens for the subject property not reporting on credit report are ineligible.
- Other real estate owned, see Section 1.5.5 – Housing History.

### 3.15.6 CONSUMER CREDIT

See First Lien criteria, Section 1.5.6 – Consumer Credit.

### 3.15.7 BANKRUPTCY HISTORY

Recent bankruptcies are not allowed. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

- Bankruptcy must be completed a minimum of 84 months.

### 3.15.8 FORECLOSURE SEASONING

Recent foreclosures are not allowed. The length of time is measured from the settlement date to the Note date.

- Foreclosures must be completed a minimum of 84 months.
- In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

### 3.15.9 SHORT SALE/DEED-IN-LIEU SEASONING

Recent short sales/deed-in-lieu of foreclosures are not allowed. The length of time is measured from the deed date to the Note date.

- Short sales/deed-in-lieu of foreclosures must be completed a minimum of 84 months.
- In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and short sale/deed-in-lieu completion date.

### 3.15.10 FORBEARANCE, MODIFICATION, OR DEFERRAL

Forbearances, modifications, and deferrals are considered under the housing payment history as outlined below:

#### GREATER THAN 12-MONTHS FROM NOTE DATE:

- Forbearance, loan modifications, or deferrals completed or reinstated greater than 12-months from the Note date of the subject transaction and having a 0x30x12 Housing History are allowed.

#### WITHIN 12-MONTHS OF NOTE DATE:

- Forbearance, loan modifications, or deferrals completed or reinstated within 12-months of the Note date of the subject transaction are not eligible.

### 3.15.11 MULTIPLE DEROGATORY CREDIT EVENTS

Multiple derogatory credit events require seasoning of 84 months from the most recent event.

### 3.15.12 LAWSUITS

If the application, title, or credit documents indicate the borrower is involved in a lawsuit or litigation, the borrower is not eligible.

### 3.15.13 CREDIT SCORE

Loan eligibility is based upon the representative credit score, also referred to as the Decision Credit score. A valid Decision Credit score requires each borrower to have a minimum of two (2) credit scores.

- Determine a representative credit score for each borrower by using the middle of three (3) credit scores or lower of the two (2) scores.
- When the loan includes more than one borrower, use the lowest representative score amongst all borrowers.
- Rapid rescoring is not allowed.

### 3.15.14 TRADELINES

All borrowers whose income is used to qualify for the loan must have an established credit history. An established credit history is defined as a minimum of three (3) tradelines, one currently open and active for at least 24-months based upon the credit report pull date. The other two (2) must have been reported for a minimum of 12-months but can be open or closed.

### 3.15.15 OBLIGATIONS NOT APPEARING ON CREDIT REPORT

See First Lien criteria, Section 1.5.13 – Obligations Not Appearing on Credit Report.

## 3.16 RESERVES

Reserves are not required.

## 3.17 INCOME

### 3.17.1 INCOME ANALYSIS

See First Lien criteria, Section 1.7.1 – Income Analysis.

### 3.17.2 DEBT-TO-INCOME (DTI) RATIO

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to HEM guidelines and the inclusion of all income and liability expenses.

- Maximum DTI ratio:
    - 50% DTI for HCLTV less than or equal to 80%
    - 45% DTI for HCLTV greater than 80%

### 3.17.3 STANDARD DOCUMENTATION

See First Lien criteria, Section 1.7.5 – Standard Documentation.

### 3.17.4 ALT DOC BANK STATEMENTS

See First Lien criteria, Section 1.7.6 – Alt Doc Bank Statements.

### 3.17.5 ALT DOC RENTAL INCOME

See First Lien criteria, Section 1.7.7 – Alt Doc Rental Income.

### 3.17.6 PRE-CLOSE VERIFICATION OF EMPLOYMENT

See First Lien criteria, Section 2.7.5.3 – Employment Status.

## 3.18 PROPERTY ELIGIBILITY

### 3.18.1 APPRAISALS

When a full appraisal is utilized for the value determination, see First Lien criteria, Section 1.9.1.1 – Appraisal Requirements 1-4 Unit Residential.

#### 3.18.1.1 APPRAISAL REQUIREMENTS

**Loan Amount <=$250,000** (One of the following required)

- AVM from approved vendor, dated within 90-days of the Note date, and a new Property Condition Report with acceptable findings, or
- Exterior Drive-By appraisal (2055 or 1075), or
    - One (1) unit property, with or without an accessory dwelling unit
- New Appraisal (FNMA Form 1004/1025/1073)

- Prior 1st lien appraisal dated within 6- months of subject loan Note date allowed subject to the following:
    - The lender on the prior appraisal must be the same as the subject loan, and
    - A new Property Condition Report with acceptable findings, and
    - Recertification of value by the original appraiser.

**Loan Amount >$250,000** (One of the following required)

- New Appraisal (FNMA Form 1004/1025/1073), or
- Prior 1st lien appraisal dated within 6- months of subject loan Note date allowed subject to the following:
    - The lender on the prior appraisal must be the same as the subject loan, and
    - A new Property Condition Report with acceptable findings, and
    - Recertification of value by original appraiser, and
    - AVM within 90-days of the Note date from approved vendor.
        - The lower of the Prior Appraisal value or the current AVM will be used to determine HCLTV.

### 3.18.1.1.1 AVM VENDORS

| THE FOLLOWING AVM VENDORS ARE ACCEPTABLE: | |
|---|---|
| **AVM Vendor** | **Acceptable FSD Score Range** |
| Clear Capital | 0.00 to 0.13 |
| Collateral Analytics | 0.00 to 0.10 |
| House Canary | 0.00 to 0.10 |
| Red Bell Real Estate (Homegenius) | 0.00 to 0.10 |

### 3.18.1.1.2 PROPERTY CONDITION REEPORTS

When required, a Property Condition Report (i.e., Clear Capital Property Condition Inspection) should be obtained.

#### REQUIREMENTS:

- Exterior photo(s) of the subject property
- Rating of the property's physical condition and characteristics
- Physical inspection of the property

### 3.18.1.2 TRANSFER OF APPRAISAL

A transferred appraisal report is not acceptable.

### 3.18.1.3 APPRAISAL REVIEW PRODUCTS

An appraisal review product is not required.

### 3.18.2 MINIMUM PROPERTY REQUIREMENTS

| MINIMUM SQUARE FOOTAGE | | |
|---|---|---|
| Single Family 700 sq. ft. | Condominium 500 sq. ft. | 2-4 Units<br><br>400 sq. ft per individual unit |

All properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

### 3.18.3 ESCROW HOLDBACKS

Escrow holdbacks are not allowed.

### 3.18.4 DECLINING MARKETS

The loan transaction is subject to an HCLTV cap if the property is in a declining market. Declining markets are determined by a) property location in a State identified by HEM, or b) the appraisal report reflects a declining market under housing trends. State eligibility is referenced on the Loan LTV Matrix. The program specific HCLTV cap is as follows:

- 80% HCLTV

## 3.19 PROPERTY TYPES

### 3.19.1 ELIGIBLE PROPERTIES

- Single Family Detached, PUD
- Single Family Attached, PUD
- 2-4 Unit residential properties
- FNMA Warrantable Condominium (See Section 1.9.10 – Condominium Projects for complete condominium eligibility criteria)

#### 3.19.1.1 ACCESSORY DWELLING UNITS (ADU)

See First Lien criteria, Section 1.9.1.1.4 – Accessory Dwelling Units.

#### 3.19.1.2 PRIVATE ROADS

- Require a permanent easement for ingress and egress with provisions for road maintenance

### 3.19.2 INELIGIBLE PROPERTIES

- Leasehold
- Non-Warrantable condo
- Condition rating of C5/C6 on the appraisal
- Property with more than 20 acres
- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Properties with zoning violations, illegal use, or unpermitted additions/alterations
- Properties zoned agricultural, commercial, or industrial
- Properties with agricultural features (e.g., vineyards, farms, hobby farms, ranches, orchards, equestrian facilities)
- Mixed-Use properties
- Unique Properties
- Manufactured or Mobile homes
- Modular homes
- Units subject to timeshare arrangements
- Properties with fractional ownership
- Units in a Co-op development
- Properties used as boarding houses, bed/breakfast, or single room occupancy
- Properties used as healthcare facilities (e.g., assisted living, elder care, recovery/treatment)
- Properties with nonresidential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop)
- Dome or geodesic properties
- Properties on Native American Land (Reservations)
- Log homes
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Any project in litigation, arbitration, mediation, or other dispute regarding safety, soundness, or habitability.
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana
- Rural property
  - A property is classified as rural if:
    - The appraiser indicates in the neighborhood section of the report a rural location; or
    - Any of the following two (2) conditions exist:
      - The property is located on an unpaved road, and
      - Two of the three comparable properties are more than five (5) miles from the subject property.
      - Less than 25% of the surrounding area is undeveloped

### 3.19.3 ACREAGE LIMITATIONS

- A maximum of 20 acres
- No truncating allowed

### 3.19.4 STATE ELIGIBILITY

- Not Eligible:

    - Texas
    - Territories: Puerto Rico, Guam, & the US Virgin Islands
- Restricted:
    - CT, IL, NJ, NY (Max HCLTV 80%, Min FICO 720)

#### 3.19.4.1 NEW YORK-CEMA

Consolidation, Extension, and Modification Agreement (CEMA) not eligible.

### 3.19.5 TITLE REQUIREMENTS

- For loan balances less than or equal to $250,000, provide one of the following:
    - Owner and Encumbrance Report (O&E), dated within 60- days of the Note date, to include:
        - Current Grantee/Owner
        - How property was conveyed to current owner
        - Liens (e.g., mortgage, UCC, other financing)
        - Involuntary liens and judgements
        - Property Tax Information with break-down of all taxes including special assessments
        - Legal Description
    - ALTA Full Title Policy
    - ALTA Short Form Residential Limited Coverage Junior Loan Policy
- For loan balances greater than $250,000, provide one of the following:
    - ALTA Full Title Policy
    - ALTA Short Form Residential Limited Coverage Junior Loan Policy

### 3.19.6 SOLAR PANEL REQUIREMENTS

Regarding solar panels, anything that will include a UCC filing associated with the property and/or will create an easement on title is ineligible.

### 3.19.7 LEASEHOLD PROPERTIES

Leasehold properties are not eligible.

### 3.19.8 HEM EXPOSURE-BORROWER LIMITATIONS

See First Lien criteria, Section 1.9.8 – Borrower Limitations.

### 3.19.9 PROPERTY INSURANCE

- Hazard insurance coverage must provide for claims to be settled on a replacement cost basis
    - See First Lien Section 1.10 – Property Insurance for additional clarification
- Loss payee clause must reflect HEM as additional insured

### 3.19.10 FLOOD INSURANCE

- Flood determination required for every loan file
- Properties within a flood zone require evidence of insurance coverage in accordance with the HFIAA
    - See First Lien Section 1.10.3 – Flood Insurance for additional clarification
- Loss payee clause must reflect HEM as additional insured

### 3.19.11 DISASTER AREAS

- If a full appraisal is utilized (e.g., form 1004, 1073, 1025), see First Lien criteria Section 1.9.9 – Disaster Areas.
- If other appraisal products (e.g., exterior-only form 2055/2075, AVM) are completed before the disaster, provide a Post Disaster Inspection Report (PDI), see First Lien criteria Section 1.9.9.4 – Post Disaster Inspection Report.
  - Any indication of damage reflected in the report will require a re-inspection.
    - The re-inspection report must be in the form of a Property Condition Report by the same vendor that provided the Post Disaster Inspection Report (PDI).
    - Property Condition Report must include an exterior photo of the subject property along with comments verifying the damage has been repaired.

### 3.19.12 CONDOMINIUM PROJECTS

Fannie Mae® warrantable projects are eligible, subject to the following:

- The Underwriter may review and approve Fannie warrantable projects. A certification must be provided with the loan package along with the Condo Questionnaire and any other documents used in the eligibility determination.
- The Fannie Mae® Limited or Full Project Review Process/Criteria may be used to determine project eligibility.
- All Loan secured by condominium projects require a completed Homeowners Association (HOA) questionnaire.
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. 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.
- Hometown Equity Mortgage dba theLender will not consumate loans secured by units in any condo project identified by FNMA as "Unavailable" by Condo Project Manager (CPM).
- Non-warrantable projects are not eligible.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/HCLTV.
- Two-to-four-unit condominium projects will not require a project review provided the following are met:
  - The project is not a condo hotel, houseboat, or timeshare or segmented-ownership project.
  - The priority of common expense assessments applies.
  - The standard insurance requirements apply.

Restrictions:

- The maximum HCLTV is the lower of 80% or the current matrix.
- HEM project exposure maximum shall be $5,000,000 or 15% of the project total, whichever is lower.
- The borrower project/unit concentration limit: two (2) units.

#### 3.19.12.1 GENERAL PROJECT CRITERIA

- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Project meets all Fannie Mae® insurance requirements for property, liability, and fidelity coverage.
- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- The underwriter must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.
- Projects that are Fannie Mae® Warrantable may be reviewed and approved by HEM Underwriter. A Representation and Warranty certification from the HEM Underwriter stating that the project meets the requirements of a Fannie Mae® Warrantable Project must be provided with the loan package.

#### 3.19.12.2 INELIGIBLE PROJECTS

- Non-Warrantable projects
- Condominium Hotel – (a.k.a. Condo Hotel, Condotel)
- Resort type of project
- New condo conversion completed less than 2 years ago
- Any project in which a single entity owns more than 25% of the total number of units. In projects that have 5-19 units, one owner can own a maximum of two units.
- Any project in which more than 50% of the total square footage in the project, or in the building in which the project is located, is used for non-residential purposes.
- Project units sold with excessive Seller contributions that may affect the value of the subject property.
- Any project in litigation, arbitration, mediation, or other dispute regarding safety, soundness, or habitability.
- For additional ineligible projects, See First Lien criteria, Section 1.9.10.4 – Ineligible Projects.

### 3.19.13 LOAN EXCEPTIONS

Exceptions to published eligibility criteria will not be considered.

# 4.0 NONI58+ 5-10 UNITS AND MIXED-USE PROPERTIES 2-8 UNITS

## 4.1 INELIGIBLE STATES

- LTVs must be reduced by 5% in MS.
- Effective 7/1/2023, Foreign Nationals and Non-Permanent Resident Aliens from the Republic of China are ineligible in the State of Florida.

## 4.2 DEBT SERVICE COVERAGE RATIO

- Minimum DSCR >= 1.00
- DSCR = Eligible monthly rents / PITIA

## 4.3 PROPERTY RENTAL INCOME

- For a leased property the DSCR is based upon the lesser of the estimated market rents or the leases. On purchase transactions, copies of the leases are not required.
  - Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of two months or the time period after the lease expired.
- Vacant Unit(s) – Use 75% of the market rents to qualify.
  - Max 1 vacancy on a refinance of a 2-3 Unit property.
  - Max 2 vacancies on a refinance of a 4+ Unit property.
  - On a purchase, and/or a refinance situation where a property was recently rehabbed, with evidence the property is currently listed for rent, it is not considered unleased, and it is permissible for all units to be vacant at the time of purchase or refinance, provided all units are in lease-ready condition.
- Reduce Qualifying Rents by any management fee reflected on appraisal report.
- 2-8 Units Mixed Use: income from commercial space cannot exceed 49% of the total property income.

## 4.4 LEASE AND OCCUPANCY REQUIREMENTS

- For Purchase, Rate/Term Refinance and Cash-Out transactions, all units must be either leased or in lease ready condition meaning the properties have been cleaned, no renovations or repairs to the properties are needed and the properties are immediately available to be leased to an eligible tenant.
- Short-term rental use/short-term rental income is not permitted.
- Corporate lease agreements are acceptable with lease terms consistent with typical market standards and will be subject to standard market rent verification.
- Lease agreements that allow single room occupancy or boarder leases are not permitted.
- Third party sale and leaseback agreements or contract for deed transactions will not be permitted.
- All leases must be in US Dollars.

## 4.5 ELIGIBLE TENANTS

- Neither the borrower(s) nor the borrower's immediate family shall at any time occupy the residential units.

- Borrower affiliated tenants are defined as any borrower or guarantor, any affiliate of the borrower/guarantor, any holder of a direct or indirect interest in Borrower or such affiliate, any officer, director, executive employer, or manager of the borrowing entity, and any family member (including spouse, siblings, ancestors, and lineal descendants) of any person or entity described previously.
- Borrowers must attest that all residential tenants are non-borrower affiliated.
- Commercial units may be occupied by the borrower's business, however in that instance the lesser of market rents or the amount of rent from the lease will be used when calculating the DSCR for the borrower occupied units.

## 4.6 INVESTOR EXPERIENCE

- First time investors:
  - Permitted for 5-10 Unit Residential properties only with a 0x30x24 primary housing history or if their primary is owned free and clear.
  - Not permitted for 2-8 Units Mixed Used. Purchasers of mixed use properties must have a history of owning and managing commercial or residential real estate for at least 1 of the last 3 years.

## 4.7 HOUSING HISTORY

- Mortgage payments are required on the subject property and primary residence only. Mortgage and rental payments on the subject and primary residence not reflected on the original credit report must be documented via an institutional third-party (Verification of Rent or Verification of Mortgage - VOR/VOM). Any mortgage tradeline reporting on the credit report for properties owned by the borrower must be included when reviewing the housing history eligibility.
- 0x30x24 housing history is required.

## 4.8 RESERVES

- Loan Amt <= $1.5M: 6 Months PITIA
- Loan Amt > $1.5M - $2.0M: 9 months PITIA
- Loan Amt > $2.0M - $2.5M: 12 Months PITIA
- Loan Amt > $2.5M - $3.0M: 12 Months PITIA
- Cash out may be used to meet reserve requirements.

## 4.9 APPRAISAL REQUIREMENTS

### RESIDENTIAL 5-10 UNITS:

- FHLMC 71A
- FHLMC 71B for loan amounts < $750K (Correspondent only)
- Narrative report may be used but is not required.

### MIXED USE 2-8 UNITS:

- FHLMC 71A

- FHLMC 71B for loan amounts < $750 (Correspondent only)
- General Purpose Commercial Forms (ex. GP Commercial Summary Form) or Narrative report

For loan amounts > $2M, a second appraisal is not required if the 71A or Commercial Narrative report is provided.

### REPORT DOCUMENTATION REQUIREMENTS

The following are required with each report:

- Full Interior Inspection of each unit
- Rent roll.
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Appraiser qualifications

## 4.10 APPRAISAL REVIEW

- Commercial Broker Price Opinion (BPO) required based upon sales approach is required unless two full appraisals are provided.
- In Pennsylvania and North Carolina, a commercial evaluation product is used instead of a BPO.
- If the value from the BPO is more than 10% below the appraised value, then the value of the BPO is used for LTV purposes.

## 4.11 SECOND APPRAISAL

- Required for loan amounts > $2.0m
    - 2nd appraisal not required when Form 71A Multifamily or Commercial Narrative report is provided.

## 4.12 PROPERTY REQUIREMENTS

- Residential 5-10 units
- Mixed Use 2-8 Units
    - For properties with less than 5 units, at least one must be commercial.
    - 2-3 Units: Max 1 commercial unit
    - 4-5 Units: Max 2 commercial units
    - 6-8 Units: Max 3 commercial units

## 4.13 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.

## CUSTOMER IDENTIFICATION PROGRAM (CIP)

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

## 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 underwriter.

If the underwriter cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification 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 underwriting staff or operations management personnel.

## U.S. CITIZENS

U.S. citizens are eligible for financing.

## PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date.
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired.
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions.
- Un-expired Foreign Passport with an unexpired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

## NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. Citizen authorized to live and work in the U.S. on a temporary basis. If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Any Borrower not meeting the below criteria is not eligible.

Non-Permanent Resident Alien borrowers are eligible for the following programs:

- Investor DSCR (U.S. Credit).
- Not permitted on No Ratio cash out loans.

Borrower Eligibility Requirements:

- Borrowers must have resided in the US for at least the most recent 2 years; and
- Must have been employed in the US for at least two years; and
- Must have a valid Social Security Number.

The borrower's Employment Authorization must be documented by one of the following:

- Form I-766 Employment Authorization Document (EAD)
  - If the Borrower's Employment Authorization expires within six months of the loan application, provide one of the following:
    - A letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship. The employer on the loan application must be the same as on the unexpired visa.
    - Evidence of at least one prior EAD renewal must be provided, along with evidence the borrower has timely filed Form I-765.
    - Note that the EAD documentation is acceptable for up to 540 days if an automatic extension has been granted.
- EAD Category C33 must be underwritten to the ITIN guidelines.
    - Form I-765 Application for Employment Authorization:
- Must reflect approval status in the Action Block in the upper right corner of the form
    - Form I-797, I-797A, I-797B, or I-797C conveying approval status
- Petitioner must match name on the application
    - If an EAD is not provided, a copy of the Visa permitting employment authorization is to be provided.
- Visa types allowed for all programs except No Ratio and Flex Supreme : A-1, A-2, E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, H1-B, NATO, O-1, R-1, TN NAFTA.
- It is important to note that individuals with diplomatic immunity are prohibited.
- No Ratio loans only allow for the following Visa types: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, TN (NAFTA), R-1
- If the visa will expire within six (6) months following the closing date, additional documentation is required: evidence that the proper extension steps have been followed per the USCIS along with proof of payment receipt and proof that the extension was done in the timeframe required by USCIS (ex. I-797 with a valid extension date along with an I-94 Form).
- Acceptable Documentation to Support the Borrower's Legal Status for borrowers granted Asylum:
  - Form I-765 Employment Authorization referencing C08.

- After being granted asylum in the U.S., DHS issues Form I-94, an Arrival/Departure Record to asylees. Form I-94 will contain a stamp or notation, such as "asylum granted indefinitely" or the appropriate provision of the law (8CFR 274a.12(a)(5) or INA 208) to show their employment authorization. The asylee does not need to present a foreign passport with Form I-94. An Asylee can also present an electronic Form I-94 with an admission class of "AY."

- Visa Waiver:
    - Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver- program.html.

## NON-PERMANENT RESIDENT ALIEN – CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan using a valid Social Security number. The credit report should provide merged credit information from the 3 major national credit repositories. A 12-month housing history is required.

### QUALIFYING U.S. CREDIT

- The Qualifying U.S. Credit designation refers to a Non-Permanent Resident Alien or ITIN borrower who meets Standard Tradelines in Tradeline Requirements. A Qualifying U.S. Credit borrower is eligible for all products and programs available on the applicable HEM Matrix. If limited tradelines, then follow the HEM Limited Tradeline guidelines.

### QUALIFYING FOREIGN CREDIT

- The Qualifying Foreign Credit designation refers to Non-Permanent Resident Alien or ITIN borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or an invalid credit score (insufficient tradelines to have 3 scores). In this case, the maximum LTV is 75% for an owner-occupied property, 75% for a second home, and 70% for an investment property.
- Qualifying Foreign Credit borrowers must establish an acceptable credit history subject to the following requirements:
- Three open accounts with a 2-year history must be documented for each borrower reflecting no late payments.
    - A 2-year housing history can be used as tradeline.
    - U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish the 3 open accounts and an acceptable credit reputation or an international credit report. If letters of reference are obtained, they must:
        - State the type and length of the relationship, how the accounts are held, and status of the account.
        - Contact information must be provided for person signing the letter; and
        - Translations must be signed and dated by a certified translator.
- Note that when using Foreign Credit to qualify, the loan must be priced as a Foreign National Loan.

## NON-PERMANENT RESIDENT ALIEN – ASSET REQUIREMENTS

All funds required for down payment, closing costs, and reserves on Non-Permanent Resident Alien transactions with a valid Social Security Number (SSN) must be seasoned for 30 days. If the borrower does not have a valid SSN (i.e., ITIN or Foreign National using foreign assets), then, 60-days of assets seasoning is required. See Asset Documentation. Foreign assets deposited into a U.S. institution within 60 days of application is acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Assets required for closing (down payment and closing costs) must also be seasoned in a U.S. depository institution for 10 days prior to closing or wired directly to the closing agent. (a foreign bank that is in the US IE: RBC is considered in a US Depository).

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator.

## FOREIGN NATIONALS (FN)

A Foreign National is a non-U.S. citizen authorized to live in the U.S. on a temporary basis but does not meet the definition of a Non-Permanent Resident Alien. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. They may not purchase property intended for use as a primary residence. See the Foreign National Matrix for complete details.

- See State Restrictions for applicable exclusions.

## FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS

- The following are required as evidence the borrower is legally present in the US:
  - Copy of the borrower's valid and unexpired passport and:
    - Copy of the borrower's unexpired visa OR an I-797 form (Notice of Action) with valid extension dates and I-94 Form (Arrival/Departure Record), or
    - Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Participating countries can be found at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html.
    - Citizens of Canada traveling to the United States do not require a nonimmigrant visa.
  - Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
- A list of nonimmigrant Visa types is located on the US Department of State website https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-categories.html
- If a non-US Citizen is borrowing with a US Citizen, foreign national documentation requirements still apply.
- All parties (Borrower's and Seller's) involved on the transaction must be screened through exclusionary lists and must be cleared through OFAC's SND list. A search of Specially Designated Nationals & Blocked Persons list may be completed via US Department of Treasury: http://sdnsearch.ofac.treas.gov/ .

- Borrowers from OFAC sanctioned countries are ineligible: http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm
- Power of Attorney (POA) is not permitted.
- 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: https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-yourdocument/apostille-requirements.htm Model Apostille forms can be found on the following link: https://www.hcch.net/en/instruments/specialised-sections/apostille

## FOREIGN NATIONAL – AUTOMATIC PAYMENT AUTHORIZATION (ACH)

Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers. Funds must be from a U.S. Bank. The executed ACH enrollment for payment of Principal, Interest, Taxes and Insurance must be included in the closed loan submission package. The ACH enrollment form must include the bank routing number, account number, and account type. Borrowers may select a date within the grace period stated on the Note.

Note: In order to set up the Automatic Payment Authorization (ACH), a copy of the borrower's cancelled check to validate the bank's routing and account number and the executed ACH form are required prior to or no later than closing.

## FOREIGN NATIONAL - CREDIT REQUIREMENTS

A U.S. credit report should be obtained for each Foreign National borrower with a valid Social Security Number. The credit report should provide merged credit information from the 3 major national credit repositories.

For borrowers without a valid Social Security Number, an Individual Taxpayer Identification Number (ITIN) is also allowed. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. A traditional U.S. credit report is not required for borrowers without a valid SSN.

Foreign National borrowers who do not have an SSN or ITIN may still proceed under the Foreign National Program. The URLA should be updated with 999-99-9999 in the SSN field. All other program requirements still apply.

### QUALIFYING U.S. CREDIT (FN)

The Qualifying U.S. Credit designation refers to non-U.S. citizen borrowers who meet Standard Tradelines in Tradeline Requirements.

### QUALIFYING FOREIGN CREDIT (FN)

The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines.

Qualifying Foreign Credit borrowers must establish an acceptable credit history demonstrating either 2 open tradelines reporting for 2 years with activity in the most recent 12 months displaying or three open trades with a 12+ month rating. In either example trades must experience no derogatory payments. This can be accomplished through a combination of ANY of the following:

- Tradelines evidenced on a US Credit Report; and/or
- Tradelines evidenced on an international credit report if a US credit report cannot be produced or does not reflect sufficient trades; and/or
- Alternative tradelines consisting of two of the following:
  - A 2-year housing history can be used as a tradeline (if a primary residence is owned free and clear but taxes and insurance is paid for 12 months or more this can be used for one of the 3 trade lines.
  - Credit reference letter(s) from the borrower's country of origin with the following info:
    - State the type and length of the relationship, how the accounts are held, and status of the account.
    - Contact information must be provided for the person signing the letter; and
    - Any translation must be signed and dated by a certified translator.

## MORTGAGE AND RENTAL PAYMENT VERIFICATION

A 12-month housing history is required for Foreign National transactions. Mortgages and rental payments combined may not exceed 0x30 in the past 12 months. Borrowers who own their primary residence as free and clear are considered to have an acceptable mortgage history. The Foreign National – CPA Letter – Free and Clear Property Form or some other evidence may be used to verify. Taxes and insurance must be included in the DTI, unless evidence is provided to support taxes and/or insurance does not exist.

## DEBT-SERVICE COVERAGE RATIO (FN)

A Debt-Service Coverage Ratio (DSCR) may be calculated for the subject property in lieu of documenting borrower income. Market rent must be documented with FNMA Form 1007 or Form 1025, as applicable.

The DSCR calculation is as follows:

Debt-Service Coverage Ratio = Gross Income / Proposed [P]ITIA*

To calculate Gross Income, use the lower of the (a) executed lease agreement or (b) market rent from FNMA Form 1007 or Form 1025, as applicable. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 2 most recent, consecutive months is provided.

*For Foreign National (FN) Interest Only loans, the DSCR calculation for the 30-Year Fixed IO Product allows for the use of the interest-only payment to qualify, including escrows.

## FOREIGN NATIONAL ASSETS

Verification of 12 months of PITIA reserves for the subject property is required.

All funds required for down payment and closing costs 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.

Gift funds are allowed if the borrower has a minimum of 10% of their own funds towards down payment and closing costs, plus reserves for purchases with a maximum loan amount of $1,000,000.

Funds used for reserves may be held in a foreign account. The value of the asset must be converted to US dollars using the current exchange rate.

## ADJUSTABLE RATE AND INTEREST ONLY QUALIFYING

DSCR loans can be qualified using the Interest Only Payment, based on the greater of the note rate or the fully indexed rate to determine the qualifying I/O payment.

## EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved in each transaction must be screened through any exclusionary list used by HEM. The underwriter should apply its exclusionary list policy to any loans originated under these guidelines.

Borrowers and Guarantors from OFAC sanctioned countries are ineligible for the Foreign National Program. The search is to be completed through the US Department of Treasury Office of Foreign Asset Control: https://ofac.treasury.gov/sanctions-programs-and-country-information

- This does not apply to Permanent or Non-Permanent Resident Aliens

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at: http://www.state.gov/s/cpr/rls/.

Refer to the State Restrictions section of the guide for State excluded countries.

## BROKERS AND EMPLOYEES OF HEM

Loans to brokers or employees of HEM are not allowed.

## 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, Foreign National, or when title is vested in a trust or an entity.

## 4.14 VESTING AND OWNERSHIP

### FEE SIMPLE OWNERSHIP

Acceptable forms of vesting with Fee Simple ownership are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity
    - 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

### 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 : https://selling-guide.fanniemae.com/sel/e-2-04/signature-requirements-mortgages-inter-vivos-revocable-trusts

## 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 are by exception only.
    - 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
    - Steve Smith
    - 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
    - Steve Smith
    - By: Steve Smith
    - Title: [ _____ ]

      And
    - SS Properties, LLC a [ _____ ] limited liability company
    - Mary Smith
    - By: Mary Smith
    - Title: [ _____ ]

## 4.15 CREDIT ANALYSIS

### 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.

HEM expects brokers originating loans for HEM to adhere to the letter and spirit of federal and state fair lending laws.

## 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.

## 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.

## 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.

## 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.

## 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.

## CREDIT RESCORE

Credit Rescoring:

- HEM will allow credit rescoring on Business Purpose loans only.

## 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. Business purpose DSCR loans are excluded from this requirement.

## CREDIT SCORE REQUIREMENTS

The lowest middle credit score of all borrowers will be used as the Representative Credit Score for each loan. A minimum of two scores is required for each borrower.

**TRADELINE REQUIREMENTS MINIMUM TRADELINES**

| | **TRADELINE HISTORY** | **MINIMUM STANDARDS** |
|---|---|---|
| **STANDARD TRADELINE** | 3 tradelines reporting for 12+ months with activity in last 12 months<br>or<br>2 tradelines reporting for 24+ months with activity in last 12 months<br>Or<br>24-month mortgage history reporting on credit report | 0x30 for most recent 12 months |
| **LIMITED TRADELINE** | Does not meet minimum tradeline requirements | N/A |

# CHAPTER 5 - FORMS

## HEM APPRAISAL REVIEW GUIDE

### SUBJECT PROPERTY

1) Does the subject property address match the documentation in the file (loan application, purchase contract, etc.)? If yes, validate the address via the USPS address validator.
2) Is the owner of record consistent with the loan file documentation? If it's a refinance, the borrower should reflect as the owner. If it's a purchase, does the owner match the purchase contract?

### CONTRACT

1) Did the appraiser review the sales contract? The appraiser must review the sales contract on all purchase transactions.
2) Does the information in this section agree with the information in the sales contract?

### NEIGHBORHOOD AND SITE

1) Pay attention to situations which could adversely affect the subject values, such as rural properties, property values declining, over-supply, marketing time greater than six (6) months. The appraiser may need to comment on the reason(s) and its effect on the subject's value.
2) Is the subject's value within the neighborhood's price range? If no, the appraiser must comment on its effect on the marketability of the subject.
3) Is the present land use predominately residential and similar to the subject's use? Is the present land use stable? If no, the appraiser must comment on these conditions.
4) Is the subject zoned legal non-conforming, or illegal? If legal non-conforming, ensure the property can be rebuilt if destroyed.
5) Are there any negative comments regarding the site? If so, verify that the noted condition will not affect marketability.
6) Is the subject located on a private road? If so, obtain a maintenance agreement.
7) Be aware of acreage and any possible guideline restrictions.

### IMPROVEMENTS

1) Is there evidence of infestation, dampness, settlement in the foundation? If so, the appraiser must comment.
2) Are there any negative comments in the improvements section if the appraisal is not subject to repairs? If yes, the appraiser may need to comment further.
3) Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? If so, is the situation addressed?
4) Pay attention to any improvements/remodeling done in the past 1 - 5 years mentioned by the appraiser. What is their impact on the final value and/or any recent increase to value?

### SALES COMPARISON APPROACH

1) Did the appraiser indicate a number of comparable properties currently listed and sold in the neighborhood? If no, request that from the appraiser.
2) Are comparable sales located within the subject's neighborhood based on location (urban, suburban, rural)? If no, ask the appraiser to comment.
3) Are comparable sales dated within six (6) months? If no, the appraiser must address this.
4) Are comparable sales similar to the subject in location, design, gross living area, room counts, age, condition, etc.? If not, the appraiser must explain why the comps chosen were used.
5) For condominiums, at least one comparable sale should be outside of the subject's complex.
6) Be aware of total adjustments exceeding 15% for net and 25% for gross adjustments as referenced in the Hometown Equity Mortgage dba theLender loan eligibility criteria.
7) Make sure that add-ons (garage/barn/pool/etc.) are addressed and any adjustments are not excessive.
8) Watch for ineligible condition(s) such as C5, C6 or Q6.

### COMPLETE AN INDEPENDENT ANALYSIS OF THE INFORMATION AND DOCUMENTATION PROVIDED ON THE APPRAISAL FOCUSING ON THE FOUR (4) ITEMS BELOW.

1) Review photos of the subject. Does the subject appear to need repairs? If so, and the appraiser did not require repairs, the appraiser must comment on the observed issue and possibly provide the cost to cure.
2) Complete research via online tools such as Zillow, Google, etc., on comparable sales. Compare exterior and interior photos of the comparable sales to the subject to ensure they are not superior.
3) Review the sales history and listings in the subject's immediate neighborhood with online tools such as Zillow, MLS, etc., to ensure the best sale comparable(s) were used by the appraiser.
4) Review the street map that identifies the subject location and location(s) of the sale comparable(s). Verify that the comps are not clustered together in a superior neighborhood, separated from the subject by man-made barriers such as major roads/highways, etc.

### RECONCILIATION

1) Is the appraisal made "subject to completion, repair, or inspection? If yes, check the condition for the completion/repair/inspection.

### COST APPROACH

1) Is the land-to-value ratio typical for the area? If the site value has been provided, ensure the land-to-value ratio is not too high for the subject's neighborhood.
2) Is the indicated value by cost approach in-line with the sales comparison approach? If no, the appraiser must address this.

### ADDENDA

1) Are all required addenda attached to the appraisal, including a map, sketch, and photographs?
2) Watch for adverse comments on any of the addenda.

## AUTOMATIC PAYMENT AUTHORIZATION FORM

See theLender website for the current form

[ACH-Form.pdf (theLender.com)]

## BORROWER CERTIFICATION OF BUSINESS PURPOSE

This BORROWER CERTIFICATION OF BUSINESS PURPOSE LOAN is being executed and made effective as of

____________________. The undersigned borrower(s) and, if applicable, guarantor (collectively the "Borrower") certifies and represents to ____________________________________ ("Lender") all of the following:

1. Borrower has requested that Lender make a loan in the original principal amount of ____________________________ ("Loan"), which is evidenced by that certain Promissory Note of even date herewith made in favor and payable to the order of Lender, which is secured by that certain Mortgage, Deed of Trust or Security Deed ("Security Instrument") of even date herewith encumbering all that certain real property referenced in the Security Instrument and commonly known as _____________________________________________ ("Property").
2. Borrower has previously represented to Lender that the purpose of the Loan is solely for business or commercial purposes and not for any personal, family, or household purposes.
3. As previously represented, all proceeds from the Loan are to be used solely for business or commercial purposes and not for any personal, family, or household purposes.
4. The Property is not the principal or secondary residence of (i) the Borrower (including, for avoidance of doubt, any guarantors), or (ii) if the Borrower is not a natural person, any person who has a direct or indirect ownership interest in the Borrower.
5. Certain consumer protection laws, including the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), do not apply to the origination of the Loan.
6. The Borrower has read and understands the contents of this Borrower Certification of Business Purpose.

IN WITNESS WHEREOF, this Certification has been duly executed by the Borrower as of the date first above written.

Borrower(s):

| | | | |
|---|---|---|---|
| Signature | Date | Signature | Date |
| Type/Print Name | | Type/Print Name | |
| Signature | Date | Signature | Date |
| Type/Print Name | | Type/Print Name | |

## BORROWER CONTACT CONSENT FORM

To ensure we have the correct contact information for servicing your loan, please provide the following information.

By signing, I authorize my mortgage servicer, its transfers and/or assigns, to contact me regarding the servicing of my loan using the following contact information.

Mailing address for your mortgage statements and other correspondence:

______Same as the subject property.

______Please use this mailing address instead:

Address Line 1 ________________________

Address Line 2 ________________________

City/State/Zip ________________________ Country

Cell phone number:

I understand that by providing a cell phone number and by signing this form, I am giving the holder of my mortgage Note and its designated servicer permission to use the cell phone number to contact me regarding my loan.

| | Within the United States | If you reside outside the United States |
|---|---|---|
| Borrower | (________)________-________________ | (________)________________________________ |
| Co-Borrower | (________)________-________________ | (________)________________________________ |
| | (Area code) phone number | (Country code) phone number |

Email address:

I understand that by providing an email address, I am giving the holder of my mortgage Note and its designated servicer permission to use this email to contact me regarding my loan.

Borrower ________________________________________________

________________________________________________

**Signature(s):**

Borrower ______________________________ Date

Co-Borrower ______________________________ Date

# BUSINESS NARRATIVE FORM

A Business Narrative is a way for you to share your business story without the complexity of a business plan. It helps our Underwriter understand how your business operates and secures new business. The better you tell your story, the easier it is for our Underwriter to make a lending decision. Business Narrative Components

1. Business Name: ____________________________________________________________

2. Business Address: __________________________________________________________

3. Business Type/Industry/Description: ____________________________________________

4. Business Property Type (i.e. home-based, office lease, warehouse, etc.): ____________________

5. Date Organized: ___________________________________________________________

6. Owner Name(s): ___________________________________________________________

7. Percent of Ownership: _______________________________________________________

8. Number of Employees: _______________________________________________________

9. Business Product(s)/Service(s): _________________________________________________

10. How do you generate business?: ________________________________________________
____________________________________________________________________________

11. Is the business seasonal?: ____________________________________________________

12. Any additional information that will help us understand your business:

## ENTITY SIGNATURE EXAMPLES

The following are examples of signature lines for Limited Liability Companies (LLCs):

Authorized Signatory may be replaced by a different title as specified in the Member Consent (e.g., Managing Member, Member, etc.).

Sample 1:

Borrower: JJ Investors, LLC by James Johnson, Single Member of LLC

Note, Security Instrument, and all Riders:

Signature Block

JJ INVESTORS, LLC a [______] limited liability company

*James Johnson*

By: James Johnson

Title: [Authorized Signatory]

Sample 2:

Borrower: JJ Investors, LLC, by James Johnson and Jane Nelson, two Members of

LLC. Both Members are Authorized Signatories of LLC.

Note, Security Instrument, and all Riders:

Signature Block

JJ INVESTORS, LLC a [______] limited liability company

*James Johnson,*

By: James Johnson

Title: [Authorized Signatory]

and

JJ INVESTORS, LLC a [______] limited liability company

*Jane Nelson*

By: Jane Nelson

Title: [Authorized Signatory]

# Affidavit

[Part III, Ch. 692 F.S. - Conveyances to Foreign Entities - By Entity Buyer]

**BEFORE ME**, the undersigned authority, duly authorized to take acknowledgments and administer oaths, personally appeared ______________________________________________(“Affiant”) who deposes and says under penalties of perjury that:

(When used “Affiant” and “Buyer” include singular or plural as context so requires or admits.)

1. Affiant is the [state official capacity] of [state name/type/venue of entity], which is hereinafter referred to as “Buyer.”
2. Buyer is purchasing or acquiring an interest in the following described real property:

   [Insert Legal Description]

3. Affiant has read the attached Notice and has been given the opportunity to consult with an attorney.
4. Buyer is (Initial which is applicable):

   _____Not a Foreign Principal as defined in §692.201, F.S. and as such is in compliance with the requirements set out in §692.202-205, F.S.

   OR

   _____A Foreign Principal as defined in sec §692.201, F.S. and is in compliance with the requirements set out in §692.202-205, F.S.

5. Affiant acknowledges the foregoing representations will be relied upon to establish compliance with the law.

_____________________________________________
(Affiant)

Print Name: ____________________________________

Official Capacity: ______________________________

Name of Buyer: ________________________________

Address: _______________________________________

STATE OF ______________________

COUNTY OF ______________________

Sworn to (or affirmed) and subscribed before me by means of [ ] physical presence or [ ] online notarization this ___________ day of ______, 20____, by_________________________who [ ] is personally known or [ ] has produced _______________as identification.

[Notary Seal]

______________________________
Notary Public

Printed Name: ___________________

My Commission Expires: ___________

The attached affidavits and notice were drafted as suggestions to the Florida Real Estate Commission to be adopted by Rule pursuant to Laws of Florida Chapter 2023-33. That process will likely not be finalized prior to the July 1, 2023 effective date of the law.

Publication of this form is not legal advice, guidance, or an endorsement of its use, however the Florida Land Title Association is providing it as a possible form of the Buyer’s affidavit required under Chapter 2023-33 for use until the Florida Real Estate Commission adopts official forms for use under this law.

After the official form(s) is finalized by the Florida Real Estate Commission, only that form(s) should be used.

# Affidavit

[Part III, Ch. 692 F.S. - Conveyances to Foreign Entities - By Individual Buyer]

**BEFORE ME**, the undersigned authority, duly authorized to take acknowledgments and administer oaths, personally appeared ______________________________________ ("Affiant"), who deposes and says under penalties of perjury that:

(When used "Affiant" includes singular or plural as context so requires or admits.)

1. Affiant is purchasing or acquiring an interest in the following described real property:

[Insert Legal Description]

2. Affiant has read the attached Notice and has been given the opportunity to consult with an attorney.
3. Affiant is (Initial which is applicable):

_____Not a Foreign Principal as defined in §692.201, F.S. and as such is in compliance with the requirements set out in §692.202-205, F.S.

OR

_____A Foreign Principal as defined in §692.201, F.S. and is in compliance with the requirements set out in §692.202-205, F.S.

4. Affiant acknowledges the foregoing representations will be relied upon to establish compliance with the law.

_____________________________________________
(Affiant)

Print Name: ___________________________________

Address: ______________________________________

STATE OF _____________________

COUNTY OF _____________________

Sworn to (or affirmed) and subscribed before me by means of [ ] physical presence or [ ] online notarization this _______ day of ______, 20____, by _________________________ who [ ] is personally known or [ ] has produced _____________________ as identification.

_______________________________
Notary Public

[Notary Seal]

Printed Name: __________________

My Commission Expires: _________

The attached affidavits and notice were drafted as suggestions to the Florida Real Estate Commission to be adopted by Rule pursuant to Laws of Florida Chapter 2023-33. That process will likely not be finalized prior to the July 1, 2023 effective date of the law.

Publication of this form is not legal advice, guidance, or an endorsement of its use, however the Florida Land Title Association is providing it as a possible form of the Buyer's affidavit required under Chapter 2023-33 for use until the Florida Real Estate Commission adopts official forms for use under this law.

After the official form(s) is finalized by the Florida Real Estate Commission, only that form(s) should be used.

## LLC BORROWING CERTIFICATION-MULTIPLE MEMBER

### LIMITED LIABILITY COMPANY BORROWING CERTIFICATE

**TO:** ______________________________

The undersigned, being all of the members ______________________________, a limited liability company ("Borrower"), do hereby certify that they are, respectively, all of the managers and members of Borrower and, under the Borrower's [Operating Agreement][Limited Liability Company Agreement] and by these presents, the undersigned are each authorized and empowered for and on behalf of and in the name of Borrower and without any requirement for consent or approval by any other person or party, as Borrower's act and deed:

1. To borrow money from Hometown Equity Mortgage ("Lender") and to assume any liabilities of any other person or entity to Lender, in such form and on such terms and conditions as shall be agreed upon by those authorized above and Lender, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as Lender shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any member, manager, employee or agent of Borrower so long as the advances are deposited into any deposit account of Borrower with Lender; Borrower shall be bound to Lender by and Lender may rely upon any communication or act, including telephone communications, purporting to be done by any member, manager, employee or agent of Borrower, provided that Lender believes, in good faith, that the same is done by such person.
2. To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of Borrower's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments and other evidences of indebtedness authorized hereby, and to execute and deliver to Lender such deeds of trust, mortgages, pledge agreements and/or other security agreements as Lender shall require.
3. To perform all acts and execute and deliver all documents described above and all other contracts and instruments which Lender deems necessary or convenient to accomplish the purposes of this certificate and/or to perfect or continue the rights, remedies and security interests to be given to Lender, including, without limitation, any modifications, renewals and/or extensions of any of Borrower's obligations to Lender, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this certificate shall not at any time exceed the sum of [$_____] outstanding and unpaid.

The authority hereby conferred shall be deemed retroactive, and any and all acts authorized herein which were performed prior to the execution of this certificate are hereby approved and ratified. The authority hereby conferred is in addition to that conferred by any other certificate heretofore or hereafter delivered to Lender and shall continue in full force and effect until Lender shall have received notice in writing from Borrower of the revocation hereof, and such revocation shall be effective only as to credit which was not extended or committed to Borrower by Lender prior to Lender 's receipt of such notice.

We further certify that the activities covered by the foregoing certifications constitute duly authorized activities of Borrower; that said certifications are now in full force and effect; and that there is no provision in any document pursuant to which Borrower is organized and/or which governs Borrower's continued existence limiting the power of the undersigned to make the certifications set forth herein, and that the same are in conformity with the provisions of all such documents.

IN WITNESS WHEREOF, the undersigned has hereunto executed this Certificate as of [_________, 20_____ ].

| | |
|---|---|
| Signature | Signature |
| Printed Name | Printed Name |
| Title | Title |
| Signature | Signature |
| Printed Name | Printed Name |
| Title | Title |

## LLC BORROWING CERTIFICATION-SINGLE MEMBER

### LIMITED LIABILITY COMPANY BORROWING CERTIFICATE

TO: Hometown Equity Mortgage

The undersigned, being the sole member of [__________, a__limited liability company] (“Borrower”), does hereby certify that they are the sole and only member of Borrower and, under the Borrower’s [Operating Agreement] [Limited Liability Company Agreement] and by these presents, the undersigned is authorized and empowered for and on behalf of and in the name of Borrower and without any requirement for consent or approval by any other person or party, as Borrower's act and deed:

1. To borrow money from Hometown Equity Mortgage (“the Lender”) and to assume any liabilities of any other person or entity to the Lender, in such form and on such terms and conditions as shall be agreed upon by those authorized above and the Lender, and to sign and deliver such promissory notes and other evidences of indebtedness for money borrowed or advanced and/or for indebtedness assumed as the Lender shall require; such promissory notes or other evidences of indebtedness may provide that advances be requested by telephone communication and by any member, manager, employee or agent of Borrower so long as the advances are deposited into any deposit account of Borrower with the Lender; Borrower shall be bound to the Lender by and the Lender may rely upon any communication or act, including telephone communications, purporting to be done by any member, manager, employee or agent of Borrower provided that the Lender believes, in good faith, that the same is done by such person.
2. To mortgage, encumber, pledge, convey, grant, assign or otherwise transfer all or any part of Borrower's real or personal property for the purpose of securing the payment of any of the promissory notes, contracts, instruments, and other evidence of indebtedness authorized hereby, and to execute and deliver to the Lender such deeds of trust, mortgages, pledge agreements and/or other security agreements as the Lender shall require.
3. To perform all acts and execute and deliver all documents described above and all other contracts and instruments which the Lender deems necessary or convenient to accomplish the purposes of this certificate and/or to perfect or continue the rights, remedies and security interests to be given to the Lender, including, without limitation, any modifications, renewals and/or extensions of any of Borrower's obligations to the Lender, however evidenced; provided that the aggregate principal amount of all sums borrowed and credits established pursuant to this certificate shall not at any time exceed the sum of [$ ________________________________________________________________] outstanding and unpaid.

The authority hereby conferred shall be deemed retroactive, and any and all acts authorized herein which were performed prior to the execution of this certificate are hereby approved and ratified. The authority hereby conferred is in addition to that conferred by any other certificate heretofore or hereafter delivered to the Lender and shall continue in full force and effect until the Lender shall have received notice in writing from Borrower of the revocation hereof, and such revocation shall be effective only as to credit which was not extended or committed to Borrower by the Lender prior to the Lender 's receipt of such notice.

The undersigned further certifies that the activities covered by the foregoing certifications constitute duly authorized activities of Borrower; that said certifications are now in full force and effect; and that there is no provision in any document pursuant to which Borrower is organized and/or which governs Borrower's continued existence limiting the power of the undersigned to make the certifications set forth herein, and that the same are in conformity with the provisions of all such documents.

IN WITNESS WHEREOF, the undersigned has hereunto executed this Certificate as of [__________, 20____].

______________________________________

By (Signature)

______________________________________

Name (Printed)

______________________________________

Title

.

# NON-OCCUPANT CO-BORROWER CERTIFICATION

## NON-OCCUPANT CO-BORROWER CERTIFICATION

Borrower ________________________________________

Co-Borrower(s) ________________________________________

Property Address ________________________________________

I/We the undersigned certify that:

________ I am/We are the co-borrower(s) of the Promissory Note associated with the first mortgage loan that is being made to the above Borrower(s).

________ I/We attest that my/our income is/are being taken into account for qualifying purposes only.

________ I/We attest that we do not currently, nor will ever occupy the above-mentioned Subject property.

________ I/We attest that we will sign the mortgage or deed of trust note at closing.

________ I/We understand that upon consummation of this transaction I/we will have joint liability for the note with the Borrower(s).

________ I/We do not have an interest in the property sales transaction, such as the property seller(s), the builder(s), or the real estate broker(s).

**I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to $1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.**

**I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle HEM to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.**

| | | | |
|---|---|---|---|
| Borrower | Date | Co-Borrower | Date |
| Co-Borrower | Date | Co-Borrower | Date |

# OCCUPANCY CERTIFICATION

## OCCUPANCY CERTIFICATION

Borrower ______________________________________________

Co-Borrower(s) ______________________________________________

Property Address ______________________________________________

I/We the undersigned certify that:

______ Primary Residence – I/we will occupy the Property as my/our principal residence within Sixty (60) days after the date of closing as stated in the Mortgage or Deed of Trust I/we executed. I/we will continue to occupy the Property as my/our principal residence for at least one year after the date of occupancy, unless HEM otherwise agrees in writing.

______ Second Home – I/we will occupy the Property as a second home (vacation, etc.) while maintaining a principal residence elsewhere.

______ Investment Property – I/we will not occupy the Property as a principal resident or second home. I/we will not occupy the Property for more than 14 days in any calendar year. The Property is an investment to be held or rented rather than for household or personal use.

**REFINANCE ONLY** (the following **must** be completed on a refinance transaction)

______ I/We the undersigned, certify that the property referenced above is **NOT** currently listed for sale or under contract to be listed for sale.

**I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to $1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.**

**I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle Hometown Equity Mortgage to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.**

| | | | |
|---|---|---|---|
| Borrower | Date | Co-Borrower | Date |
| Co-Borrower | Date | Co-Borrower | Date |

## CONSENT OF SPOUSE

I, **[Name of Spouse]**, spouse of **[Name of Guarantor]**, acknowledge that I have read the **[Guaranty]**, dated as of **[Closing Date]**, by **[Name of Guarantor]** (the "Guaranty"), and that I know the contents of the Guaranty. I am aware that the Guaranty contains provisions guaranteeing amounts for the benefit of **[Name of Borrower]** ("Borrower") and in support of that certain promissory note incurred by Borrower and payable to the order of **Hometown Equity Mortgage** ("HEM"), as well as other obligations under the Guaranty:

I hereby expressly approve of the Guaranty in its entirety, including, but not limited to, that my spouse guarantees to HEM the full and prompt payment when due, whether at the Maturity Date or earlier, the entire amount due under the promissory note (as defined in the Guaranty).

I am aware that the legal and related matters contained in the Guaranty are complex and that I have been advised to seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or counsel or determined after reviewing the Guaranty carefully that I will, and hereby do, waive such right.

Signed ______________________________

Name of Spouse ______________________________

Spouse Address ______________________________

State of ______________________________

County of ____________________________

The foregoing instrument was acknowledged before me on this _________________, 20_____ by

____________________________________________ (spouse).

(Notary Seal) ______________________________________________

Signature of Notary Public