05/03/2021

JUMBO WITH DU

UNDERWRITING GUIDELINE

LENDER YOU CAN TRUST

DIVINE MORTGAGE CAPITAL

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1 Introduction

1.1 Underwriting Philosophy

All loans must be prudently underwritten utilizing the program guidelines and industry standard best practices. All loans must be manually underwritten and fully documented. All loans submitted to the DMC for purchase and sale must conform to the Underwriting Guidelines.

For scenarios not specifically addressed in the following Underwriting Guidelines, please utilize the most recent Fannie Mae or Freddie Mac Selling Guide for assistance.

1.2 Fair Lending and Fair Credit Reporting Act (FCRA) Notices

Federal law prohibits discrimination in connection with the origination of 1-4 family mortgage loans. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act.

Also, the Fair Housing Act prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and disability.

It is the responsibility of all buyers and sellers to ensure that they adhere to these laws and their underlying principles in connection with mortgage loans purchased and sold over the DMC.

2 Program Matrix

JDU PROGRAM (FIXED & ARM)				
PRIMARY RESIDENCE				
Purchase & Rate/Term Refinance				
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**
1 unit	$2,000,000	80%/80%/80%	660	45%
2-4 units	$2,000,000	80%/80%/80%	700	45%
Cash-Out Refinance (3)				
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**
1 unit	$2,000,000	80%/80%/80%	680	45%
2-4 units	$2,000,000	75%/75%/75%	700	45%
1. Purchase eligible to 80% LTV, R/T refinance eligible to 80% LTV. 2. No PMI allowed				
SECOND HOMES				
Purchase & Rate/Term Refinance				
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**
1 unit	$2,000,000	80%/80%/80%	660	45%
Cash-Out Refinance (1)				
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**
1 unit	$2,000,000	75%/75%/75%	700	45%
INVESTMENT				
Purchase & Rate/Term Refinance				
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**
1 unit	$2,000,000	80%/80%/80%	680	45%
	$2,000,000	70%/70%/70%	660	45%
2-4 units	$2,000,000	75%/75%/75%	680	45%
	$2,000,000	65%/65%/65%	660	45%
Cash-Out Refinance (1)				
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**
1 unit	$1,000,000	75%/75%/75%	680	45%
	$2,000,000	75%/75%/75%	720	45%
	$2,000,000	70%/70%/70%	680	45%
2-4 units	$1,000,000	70%/70%/70%	680	45%
	$2,000,000	70%/70%/70%	720	45%
	$2,000,000	65%/65%/65%	680	45%

- Minimum Loan Amount: Must be $1 over Fannie Mae's maximum loan amount for High-Cost Areas.

- DU Approve/Ineligible due only to Loan Amount.
- DU Approve/Eligible is not acceptable.
- Max Cash Out for Investment Property is $350K.

3 Eligible Products

- 15 and 30 Year Fully Amortizing Fixed Rate

4 Subordinate Financing

New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted.

- Maximum LTV / CLTV / HLTV for subordinated HELOCS will be based on the fully drawn balance.
- Subordination of an existing loan is permitted up to maximum LTV allowed.
- Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties.
- In cases in which a HELOC is resubordinated to the subject mortgage, a 1% minimum payment of the total line amount will be used regardless of whether the HELOC has a zero balance. If the HELOC balance is greater than zero, the minimum payment under the HELOC terms will be used.

5 Temporary Buy downs

Temporary buy down mortgage loans are not eligible for purchase.

6 Borrower Eligibility

6.1 Eligible Borrowers

- **U.S. Citizen / Permanent Resident Alien**

All US citizens and Permanent Resident Aliens are eligible provided that the borrower must be a natural person.

- **Non-Permanent Resident Aliens**

Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows: See USCIS.gov for more information.

  - E Series (E-1, E-2, E-3)
  - G Series (G-1, G-2, G-3, G-4, G-5)
  - H Series (H-1B, H-1C, H-2, H-3, H-4)
  - L Series (L-1A, L-1B, L-2)
  - NATO Series (NATO 1 – 6)
  - Series (O-1)
  - TN-1, Canadian NAFTA visa
  - TN-2, Mexican NAFTA visa

- Must have a valid Social Security Number.
- Must have a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.

- Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document.
- Must have a two (2) year established U.S based asset history. No funds from outside the U.S are allowed.
- Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.

6.2 Ineligible borrowers

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Community Land Trusts
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Non-occupant co-borrowers.
- Foreign Nationals.
- Borrowers with Diplomatic Immunity.

6.3 Trusts

Revocable Living Trusts are a permitted borrower if the trust complies with Fannie Mae or Freddie Mac criteria. Irrevocable trusts are not eligible.

- Trust must be established by one or more natural persons, individually or jointly.
- The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
- 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.
- At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
- The mortgage and trust documents must meet Agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the loan origination of inter-vivos revocable trusts.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

6.4 Power of Attorney

- A power of attorney is allowed per FNMA guidelines (See FNMA B8-5-06).

7 Occupancy

7.1 Primary Residence

A primary residence is the property the borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any given time.

- 1-4 units detached, attached, PUD, eligible condominiums, and eligible New York cooperatives.

7.2 Second Home

The property must be occupied by the borrower from time-to-time and is suitable for year-round use. Typically, the property is located in either a resort or vacation area or for convenience in a city where the borrower works when the primary residence is in a distant suburb.

- 1 unit detached, attached, PUD, eligible condominiums, and eligible New York cooperatives.
- Property may not be a time share, subject to a rental agreement or other shared ownership arrangements.
- The property must be a reasonable distance from the borrower's primary residence.
- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not be significant.
- Rental income from a second home cannot be used to qualify the borrower.

7.3 Investment Property

- An investment property is owned by the borrower but is not occupied by the borrower.
- For cash-out refinance transactions of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required. See Appendix B for form of Affidavit. Loans delivered without the affidavit will be subject to TILA compliance.
- Cash out loan proceeds used for any personal use are not eligible.

7.4 Multiple Financed Properties

- Follow AUS requirements.

8 Purpose

8.1 Purchase

- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If Seller has taken title to the subject property within ninety (90) days prior to the date of sales contract the following requirements apply;
  - Property seller on the purchase contract is the owner of record.
  - Second full appraisal is required.
  - Increases in value should be documented with commentary from the appraiser.

  Loans that are bank or relocation sales are exempt from the above requirements.
- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property.

8.2 Rate and Term Refinance

- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

- Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.
- For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the HUD-1 Settlement Statement/Closing Disclosure from the subject acquisition transaction.
- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.
- The mortgage amount may include the:
    - Principal balance of the existing first lien.
    - Payoff of a purchase second lien with no draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit. 12 months seasoning is not required.
    - Payoff of a co-owner pursuant to a written agreement.
    - Financing of the payment of prepaid items and closing costs.
    - Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not evidence draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
- Cash back to the borrower is limited to the lesser of $2000 or 1% of the new mortgage loan.

8.3 Cash-Out Refinance

- Borrower must have held title for a minimum of 6 months from closing date. Inherited properties are exempt from this seasoning requirement.
- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- Properties that have been listed for sale within the past 6 months of closing date are not eligible for a cash-out refinance. If the property was listed within the previous 6 – 12 months from closing date, a letter from the borrower explaining the reason for retaining the property is required.
- If the subject property was purchased within the 6-12 month period prior to the closing date for the new loan the LTV will be based on the lesser of the sales price or the current appraised value.
- If the subject property was purchased more than 12 months from the closing date for the new loan LTV will be based off the current appraised value.
- Texas Cash-Out refinances are ineligible.
- Cash out is limited to the maximum amounts stated on the Product Matrix.

8.4 Continuity of Obligation

For a refinance transaction to be eligible for purchase there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction.

Continuity of obligation is met when any one of the following exists:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either

- paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently been legally awarded, the property (divorce, separation or dissolution of a domestic partnership).

Loans with an acceptable continuity of obligation may be underwritten, priced, and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

8.5 Delayed Purchase Refinance Loans

Delayed financing refinances in which the borrowers purchased the subject property for cash within the last ninety days (90) from the date of the application are eligible for purchase. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. Delayed financing refinances are not subject to cash-out refinancing program limitations.

The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property.

8.6 Texas Refinance Loans

Texas refinance loans are not eligible.

8.7 Contract for Deed/Land Contract

The payoff of an installment loan land contract is not eligible.

8.8 Construction to Permanent

- Ineligible

8.9 Non-Arm's Length Transactions

All of the parties to a transaction should be independent of one another. Except as indicated below if a direct relationship exists between or among the parties, the transaction is a non-arm's length transaction and the related loan is not eligible for purchase. The following non-arm's length transactions are eligible provided that such transactions and the related circumstances are properly documented:

- Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent.
- Borrower acting as his or her own real estate agent.
- Borrower is the employee of the originating lender.
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).

9 Employment and Income

The following requirements apply to manually underwritten loans.

9.1 Income Sources and Calculation of Income

All income sources and method of income calculation must meet most recent Agency/Appendix Q Standards for Determining Monthly Debt and Income. The loan file should include an Income Analysis form detailing income calculations.

- The non-taxable portion of fixed income such as Social Security income, VA benefits, Pensions and Annuity income may be grossed-up twenty five percent (25%).
- Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of commission income to total income.

9.2 Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history. Gaps in employment over thirty (30) days during the most recent two (2) year period require a satisfactory letter of explanation from the borrower. All borrowers contributing income for qualification must be employed at present employment for a minimum of six (6) months to qualify if there is a gap in employment during the previous two (2) years.

9.3 Income Documentation Requirements

Appendix Q states that a borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25 percent or more of a corporation, limited liability company, partnership, sole proprietorship or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the "Self-Employed Borrowers" subsection below. This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if the lender only relied upon the borrower's salary or other income to establish eligibility. All required documentation as described here and in the following sections must be obtained prior to closing and submitted in the closed loan file.

9.3.1 Salaried Borrowers:

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- W-2's from all employers for the past two (2) years. All W-2's must be computer generated.
- If the borrower does not have 2 years of employment due to previously being in school a copy of the school transcript is required.
- Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated.
- Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification.
- Unreimbursed business expenses must be deducted from income regardless if the borrower's commission income is less than 25% of total income.
- Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business and personal tax returns.
- Signed IRS Form 4506T. The 4506T transcripts need to be obtained from the IRS prior to closing

and used to validate the income documentation used to underwrite the loan. Any income documentation discrepancy between the IRS transcripts and the supporting income documentation (Paystubs, W-2's, tax returns, etc.) as provided by the borrower must be reconciled and adequately addressed by the lender. The transcripts must be included in the file submission.

9.3.2 Commission/Bonus

- For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a 2-year history of the receipt of the income is required.
- This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, further supported by a year-to-date paystub.
- A year-to-date paystub, W-2's and tax returns alone will not satisfy the documentation requirements for bonus, commission or any other non-base salary compensation.

9.3.3 Self-Employed Borrowers:

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020.
- Signed IRS Form 4506T. The 4506T transcripts must be obtained from the IRS for personal tax return prior to closing and used to validate the income documentation used to underwrite the loan. Business tax transcripts are not required. Any income documentation discrepancy between the IRS transcripts and the supporting income documentation (Paystubs, W-2's, tax returns, etc.) as provided by the borrower must be reconciled and adequately addressed by the lender. The transcripts must be included in the file submission.
- If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.

*** Additional Requirements for P&L, Balance Sheet, and Business Bank Statements:

- Lenders should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.
- The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:
- • (1) An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; or

  • (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent two months represented on the year-to-date P&L and (3) a Balance Sheet.

- An audited year-to-date P&L must be completed by the third-party CPA who has not prepared the borrower’s tax returns.

o For example, the business bank statements should be from April and May 2020 for a year-to-date profit and loss statement dated through May 31, 2020.

o The two most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

• All borrowers owning 25% or more of a business or entity must provide a year-to-date P&L statement and balance sheet for that entity, regardless of whether or not the business income is being used to qualify. This requirement includes all business entities including those organized as pass through entities.

• If the tax return for the previous tax year is not filed a 12 month P&L and balance sheet for this period is required.

• If the most recent year’s tax returns have not been filed by the IRS deadline, an executed copy of the borrower’s extension request for both personal and business tax returns must be provided.

• The P&L and balance sheet is required even if the borrower does not have a business checking account.

• P&L and tax returns must show stable or increasing income from all business entities and income sources for the period relative to previous periods. Income cannot decline by 20% or more from the prior tax period.

*** Small Business Administration (SBA) Loans and Grants Requirements:

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan

or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower’s liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the “Employment and Income” and “Debts and Liabilities” sections of these guidelines.

- Proceeds from the PPP loan must not be included as business income or assets.
- PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.
- Follow all requirements in this section for underwriting self-employed borrowers.
- Verification of Active Business:

The lender must verify the existence of the borrower’s business within five (5) calendar days prior to closing.

9.3.4 Other income

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020

9.3.5 Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.
- Retained earnings.
- Non-occupant income.
- Restricted Stock income (RUS)

10 Asset Documentation and Calculations

For information regarding assets and source of funds not addressed below please refer to the most recent Fannie Mae or Freddie Mac Selling Guide.

10.1 Source of Funds

The borrower must have sufficient liquid assets to meet the requirements for down payment, pre-paid items, closing costs and reserves.

- Funds needed for closing must be verified with copies of the most recent two (2) months bank statements including all pages.
- Large deposits, defined as a single deposit that exceeds 50% of the total monthly qualifying income, must be sourced.
- Acceptable sources of verified funds include:
  - Bank deposits
  - Stocks, stock options, bonds, and mutual funds. Stocks and bonds will be discounted at 70% of value for reserves.
  - Sale of real property.
  - Sale of personal property with supporting documentation.
  - Disbursement from a Trust Fund.
  - Disbursement from an IRA/401K.
  - Disaster relief grants. Borrowers may use lump sum grant for down payment. No minimum contribution is required. Grant may not be used for closing costs or reserve requirements. Document that payment received is an actual grant and not a loan. Subordinate lien against the property is ineligible.
- Business funds can be used for down payment with a letter from an accountant verifying the following:
  - The amount of business assets that can be used must correspond to the borrower's percentage of ownership in the business.

- The funds are not a loan.
- Withdrawal of the funds will not negatively impact the business.
- Business funds may not be counted toward cash reserves.

▪ Gift funds are an acceptable source of funds as follows for primary residences and second homes with LTV/CLTV <= to 80% as follows:
  - Borrower must contribute at least 5% from their own funds.
  - Gift donor must be 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 or domestic partner.
  - Gift letter from donor that incudes name, address, telephone number and relationship to borrower
  - Evidence of funds transfer and receipt prior to closing.
  - Gifts of equity are not allowed to be used as a source of funds.

10.2 Interested Party Contributions and Abatements

Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.

Primary Residence, Second Homes : Max 6% (75% < LTV < 80%). Max 9% (LTV ≤ 75%)

Investment: Max 2%

10.3 Reserve Requirements

All loans require a minimum cash reserve. Reserves must be verified and comprised of liquid assets that borrower can readily access.
Equity lines of credit, gift funds, and cash out from refinance transactions are not acceptable sources to meet the reserve requirement.

Vested funds from individual retirement accounts (IRA/SEP/Keogh/401K accounts) are acceptable sources of funds for reserves. If the retirement assets are in the form of stocks, bonds, or mutual funds, in order to be considered for reserves, the account must be discounted by 30% to account for market volatility.

Follow the greater of the AUS reserve requirements or below requirements. If AUS does not provide minimum reserve requirements follow below requirements;

Reserve requirements	
Loan Amount	**Reserves**
<= $1,000,000	Follow DU requirements
> $1,000,000	3 Months Verified PITIA

11 Credit Reports and Scores

For scenarios not specifically addressed below please refer to the most recent Fannie Mae or Freddie Mac Selling Guide.

11.1 Credit Documents Age

For all transaction types credit documents may not be older than 90 days from the Note date.

11.2 Credit Score

- The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian and TransUnion).
- For multiple borrowers the credit score is the lowest of all representative credit scores.
- If only one credit score or no credit score is reported borrower is not eligible.
- See Product matrix for minimum credit score requirements.

11.3 Minimum Credit Requirements

- Follow AUS credit requirements.

11.4 Mortgage/Rental History

- A minimum of twenty four (24) months verified housing history is required; 0 x 30 lates.
- If primary residence housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 lates in the most recent 24 months since exiting forbearance.

11.5 Credit Inquiries

- All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.
- Borrower must be qualified with any new debt.

11.6 Liens, Judgments, Dispute and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lien position.
- Any disputed account should be resolved with no remaining balance, and credit supplement is acceptable.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $1000.00 or if there are multiple accounts the total balance of all accounts cannot exceed $2,500.00.

11.7 Bankruptcy, Foreclosure, Deed-In-Lieu of Foreclosure and Short Sales

- At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application.
- A satisfactory letter of explanation for the event from the borrower is required.
- Borrower must show reestablished credit and meet the minimum credit requirement.

12 Liabilities and Ratios

For information regarding the treatment of debts and liabilities not addressed below please refer to the most recent Fannie Mae or Freddie Mac Selling Guide.

12.1 Debt-to-Income Ratio

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The seller must ensure that liabilities are included in qualifying. This includes debts paid by another entity such as the borrowers business or debts being paid by a family member. Refer to the Product Matrix for the maximum allowable DTI.

12.2 Installment Debt

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020

12.3 Revolving Debt

- All revolving debt is included for qualifying regardless of number of payments remaining.
- The monthly payment amount of a revolving account shown on the credit report may be used for qualifying.
- If the monthly payment amount of a revolving account is not shown on the credit report a payment of five percent (5%) of the balance may be used for qualifying.
- The payment may only be excluded if the account is documented as paid in full and closed.
- Revolving debt may be paid off to qualify either before or at closing using cash-out proceeds. Documentation that the revolving debt has been paid off and the account is closed is required.
- Gift funds may not be used to pay off debt to qualify.

12.4 Home Equity Line of Credit (HELOC)

For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

12.5 Conversion of Departing Residence to Investment Property

If the current primary residence is being converted to an investment property the following applies:

- The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
  - A current residential appraisal (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
  - An Exterior Only appraisal (2055) (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
  - An automated valuation model (AVM) listing the prior sales price minus outstanding liens as evidenced by a mortgage statement. The AVM may not be used as a current valuation to determine the borrower's equity percentage.
- A 25% expense /vacancy deduction must be applied to all rental income. Copies of the signed lease

are required.

- Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence.

13 Property

13.1 Eligible Property Types

- 1-4 units attached/detached owner-occupied properties.
- unit second homes.
- Low/mid/high-rise new and established Fannie Mae or Freddie Mac warrantable condominiums.
  - Warrantable condominium types S and T.
  - Limited review is not eligible. All attached condominiums require full lender review with or without Condo Project Manager (CPM). The conventional Condo and PUD warranty form must be used to warrant the condo project.
  - The project must be reviewed within the 3 months preceding the date of the note.
  - New condominiums (type R) with PERS approval for Florida condos. New condominiums may not be subject to additional phasing or annexation.
  - All supporting documentation used by the lender to determine eligibility and warranty type criteria must be submitted in the file; including the project acceptance certification generated by CPM, and unexpired PERS approval, as applicable.
  - Minimum square footage 400.
- Planned Unit Development (PUD).
- Fannie Mae or Freddie Mac established warrantable Cooperatives (Co-ops) located in New York 5 boroughs and Nassau, Suffolk, Rockland and Westchester counties only.
  - Owner occupied and second home only.
  - All co-op projects require a full lender review and must consist of 5 or more units.

13.2 Ineligible Property Types

- Manufactured Homes
- Factory built housing
- Properties with income producing attributes
- Condo hotel units
- Log homes
- Unwarrantable condominiums
- Condominiums with HOA in litigation
- Timeshare units
- Geothermal homes
- Unique properties
- Mixed use properties
- Working farms
- Hobby farms
- Commercial properties
- Agriculturally zoned properties (agricultural/residential eligible)
- Properties with more than 10 acres
- Properties held as leasehold
- Properties located in Puerto Rico, Guam, and US Virgin Islands.
- Properties with an oil and gas lease

13.3 Declining Markets

Reduce maximum LTV by 5% for any property located in an area of declining property values as reported by appraiser. Maximum 85% LTV.

13.4 Land-to-Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

13.5 Appraisal Requirements

- All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a new appraisal needs to be performed. For new construction an appraisal update on form 1004D is required.
- Two (2) full appraisals are required for loan amounts > 1.5 million. Appraisals assigned from another lender are not acceptable. LTV will be based on lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.

13.6 Third Party Appraisal Review

- The seller must order an appraisal desk review product for each loan from a vendor listed on the Approved Appraisal Desk Review Vendors.
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, the seller has the option to then ask the DMC to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase.
- All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.

13.7 Properties Located in a Disaster Area

For properties located in a FEMA declared disaster area a re-inspection is required to be performed by the original appraiser. A written certification is required from the appraiser to confirm that the property value has not been impacted by the disaster.

For FEMA declared natural disasters, the inspections must be dated after the disaster end date is declared by FEMA.

14 Additional Requirements

14.1 Subordinate Financing

- New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted.
- Maximum LTV / CLTV / HLTV for subordinated HELOCS will be based on the fully drawn balance.
- Subordination of an existing loan is permitted up to maximum LTV allowed.
- Cash-out transactions are not eligible for subordination of existing liens.
- Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties.
- In cases in which a HELOC is resubordinated to the subject mortgage, monthly amount on credit report will be used. If no monthly payment amount is shown on credit report, 1% minimum payment of the maximum line amount will be used for qualifying. If HELOC has a zero balance and no draws within 24 months of application no payment need be include in DTI. Withdrawal activity must be documented with a transaction history for the line of credit.

14.2 Chain of Title

- All transactions require a minimum twelve (12) month chain of title.
- For purchase transactions seller must have taken title to the subject property a minimum of ninety (90) days prior to the date of sales contract.

14.3 Escrow

It is recommended that escrow account be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.

14.4 Escrow Holdback

Escrow Holdback are not eligible.

14.5 Hazard Insurance

- Properties where the insurance coverage on the declaration page does not cover the loan amount must be have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
- Hazard insurance must have the same inception date as the date of disbursement. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

14.6 HERO/PACE~~/Solar Panels~~

HERO and PACE are not eligible.

14.7 Solar Panels

- Appraisal must evidence the presence of solar.
- UCC filings and easements on title are only acceptable with solar lease or Power Purchase Agreements that follow Section B2-3-04 in FNMA guideline.

- Solar agreement must be provided and payments will be included in DTI ratio.

14.8 Prepayment Penalty

Mortgage loans with prepayment penalties are not eligible for purchase.

14.9 Section 32: High-Cost Loans

High-cost loans (Section 32) as defined by applicable state and/or local regulations are not permitted.

14.10 State Restrictions

- Guam, Puerto Rico and US Virgin Islands not allowed.
- Hawaii (lava zones 3 thru 9 only).
- Texas cash out not allowed.

14.11 Title and Closing Documentation

14.11.1 Forms

All Notes, security instruments, riders, addenda and special purpose documents used in connection with fully amortizing one to two family conventional first mortgages delivered to the DMC must be prepared on approved Agency forms unless this guide specifically requires otherwise. See most recent Fannie Mae or Freddie Mac Selling Guide for reference.

Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument.

14.11.2 Title

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the lender must ensure that those amendments provide the same coverage. The title insurance policy/commitment must be dated within 90 days and insure the exact loan amount.

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, Co-op share loans and ARM loan types.
- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- The title insurance policy must insure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- Construction loan refinance: When closed as a single transaction for both the construction loan and the permanent financing, the policy must be dated concurrently with the date of the mortgage and must include (1) a “pending disbursements” clause and (2) a final endorsement to the title policy that extends the effective date of the coverage to the later of the final

construction advance date or the endorsement date.

- Any existing tax or mechanic's liens must be paid in full through escrow.