Impac Jumbo

This matrix is intended as an aid to help determine whether a property/loan qualifies for certain financing.
NOTE: This matrix is specific to Impac's investor requirements. A thorough reading of this matrix is recommended.

Program Qualifications
This jumbo mortgage loan program offers fixed rate loans on jumbo loan balances starting at $417,001.

Eligibility Matrix Loan Amount & LTV Limitations

Super Prime (Minimum Loan Amount = $417,001)
Primary Residence: Purchase 1-4 Units[1,2,3,4]

Maximum LTV/CLTV/HCLTV[5]	Maximum Loan Amount[6,7]	Minimum Credit Score	Maximum DTI	Months Reserves[8]
85% (No MI)	$2,000,000	760	40	36
85% (No MI)	$1,500,000	740	40	24
85% (No MI)	$1,000,000	740	40	18
80%	$2,000,000	740	43	12
80%	$1,500,000	720	43	9
75%	$2,000,000	720	43	12
75%	$1,000,000	700	43	12
70%	$2,500,000	720	43	18
65%	$3,000,000	720	43	24

Primary Residence: Rate/Term Refinance 1-4 Units[4]

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[6,7]	Minimum Credit Score	Maximum DTI	Months Reserves[8]
80%	$1,500,000	740	43	9
80%	$1,000,000	720	43	9
75%	$1,500,000	720	43	12
75%	$1,000,000	700	43	12
70%	$2,000,000	720	43	12
60%	$2,500,000	720	43	18
	$3,000,000[9]			

Primary Residence: Cash-out Refinance 1-4 Units

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[6,7]	Maximum Cash-out	Minimum Credit Score	Maximum DTI	Months Reserves[8]
75%	$1,000,000	$250,000	740	43	9
65%	$1,500,000	$350,000	720	43	12
60%	$2,000,000	$400,000	720	43	12
55%	$2,000,000	$500,000	720	43	18
50%	$2,500,000	$1,000,000	720	43	18
	$3,000,000[9]				

Second Home: Purchase and Rate/Term Refinance 1 Unit [1,2,3]

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[6,7]	Minimum Credit Score	Maximum DTI	Months Reserves[8]
80%	$1,000,000	740	43	12
75%	$1,500,000	720	43	9
65%	$2,000,000	720	43	18
50%	$2,500,000	720	43	18
	$3,000,000[9]			

Second Home: Cash-out Refinance 1 Unit

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	Maximum Cash-out	Minimum Credit Score	Maximum DTI	Months Reserves[8]
70%	$1,000,000	$250,000	740	40	12

Footnotes to Super Prime:

1 First Time Home Buyer – Primary and Second Home - max 80% LTV/CLTV/HCLTV to $1m w/740 FICO with minimum reserves of 12 months and max payment shock of 200% (no gift funds / no IPC allowed)

2 First Time Home Buyer – Primary and Second Home - max 75% LTV/CLTV/HCLTV to $1.5m w/720 FICO with minimum reserves of 12 months and max payment shock of 200% (gift funds allowed)
3 First Time Home Buyer
– Primary Home - max 70% LTV/CLTV/HCLTV to $2m w/760 FICO with minimum reserves of 18 months and maximum payment shock of 200% (gift funds allowed)
- Second Home - max 65% LTV/CLTV/HCLTV to $2m w/760 FICO with minimum reserves of 18 months and maximum payment shock of 200% (gift funds allowed)
4 Non-Occupant Co-Borrower (Purchase or Rate/Term only) – Occupying borrower must qualify with a maximum DTI of 50% and the maximum combined DTI cannot exceed 40% (occupying borrower must independently meet tradeline requirements). Maximum LTV/CLTV/HCLTV is 80%. Occupying borrower must contribute a minimum of 10% own funds. FTHB is not eligible.
5 LTV/CLTV/HCLTV > 80% - no gift funds allowed and no adverse credit in last 36 months
6 Maximum loan amount for 15 year fixed is $2,000,000
7 Loan amounts > $1,500,000 require two appraisals
8 All financed properties, other than the subject property, require an additional six (6) months PITI in reserves for each property
9 See High Reserve product

High Reserve (Minimum Loan Amount = $417,001; Minimum Reserves = 36 months[5,6])

Primary Residence: Purchase 1-4 Units[1]

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[3,4]	Minimum Credit Score[7]	Maximum DTI
80%	$2,000,000	700	43
80%	$1,500,000	680	43
70%	$2,500,000	700	43
70%	$1,500,000	660	40
65%	$3,000,000	700	43

Primary Residence: Rate/Term Refinance 1-4 Units

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[3,4]	Minimum Credit Score[7]	Maximum DTI
80%	$1,500,000	700	43
80%	$1,000,000	680	43
75%	$2,000,000	700	43
70%	$2,500,000	700	43
70%	$1,000,000	660	40
65%	$3,000,000	700	43

Primary Residence: Cash-out Refinance 1-4 Units

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[3,4]	Maximum Cash-out	Minimum Credit Score	Maximum DTI
50%	$2,500,000	$500,000	700	43
45%	$3,000,000	$750,000	700	43

Second Home: Purchase and Rate/Term Refinance 1 Unit

Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[3,4]	Minimum Credit Score	Maximum DTI
50%	$2,500,000	700	43
45%	$3,000,000	700	43

Footnotes to High Reserve:
1 First Time Home Buyer – Requires investor approval
2 Non-occupant co-borrowers and non-permanent resident aliens are ineligible
3 Maximum loan amount for 15 year fixed is $2,000,000
4 Loan amounts > $1,500,000 require two appraisals
5 All financed properties, other than the subject property, require an additional six (6) months PITI in reserves for each property
6 See *Assets* for specific reserve requirements and limitations
7 See *Credit* for specific requirements for FICO < 680

Product Description

- Fixed Rate 15 and 30 years, fully amortizing

Product Codes

Product Code
JF30 - Impac Jumbo Fixed 30 year
JF15 - Impac Jumbo Fixed 15 year

Locking

- **Forward locks are allowed**
- **Locking is through the Impac Lock Desk ONLY**

Eligibility Requirements

Appraisal	Mortgaged properties must be originated with an appraisal in conformity in form and in substance with the Uniform Standards of Professional Appraisal Practice and that complies with (i) the appraisal requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and (ii) the Interagency Appraisal and Evaluation Guidelines (75 Federal Register 77450).
	
	<u>Age of Appraisal:</u>
	No more than 120 days before the date the Note is signed. After the 120 day period a new appraisal will be required. Re-certification of value is not acceptable.
	
	<u>Purchases</u>
	• Appraiser must review purchase contract
	• Must be an arm's length transaction
	• For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, additional requirements apply:
	  ○ Second appraisal is required
	  ○ Property seller on the purchase contract is the owner of record
	  ○ Increases in value should be documented with both commentary from the appraiser and recent paired sales.
	
	<u>Construction to Perm</u>
	Property must be fully completed. The Appraisal and/or Final Inspection (442) must reflect the property value 'As-Is'. Impac will not hold funds in Escrow for the completion of any property improvements.
	
	Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset (UAD) guidelines are ineligible.
	
	In addition to the following, refer to Fannie Mae guidelines for appraisal requirements:
	• Property condition rating must be: C1, C2, C3 or C4
	• Quality of construction rating: must be: Q1, Q2, Q3, Q4 or Q5
	• Appraisals should not include comparable greater than six (6) months old at the time of underwriting review.
	• Properties with values significantly in excess of the predominant value of the subject property's market area may be ineligible.
	• Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465 or 2090 must be used.
	• Appraisals must be dated within 120 days of the Note date. After a 120 day period, a new appraisal is required (re-certification of value is not acceptable).
	• Escrow holdbacks are not eligible unless the holdback has been dispersed and a certification of completion has been issued prior to purchase by Impac/Investor.
	
	Impac/Investor will not accept transferred appraisals
	
	<u>When two appraisals are required, the following apply:</u>
	• Appraisals must be completed by two independent companies.
	• The LTV will be determined by the lower of the two appraised values as long as the lower appraisal supports the value conclusion. The final inspection and/or recertification of value must be for the appraisal with the lower value.
	• The underwriter must review both reports and address any inconsistencies between the two reports and all discrepancies must be reconciled.
	
	<u>Properties Affected By Disasters</u>
	The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual and/or Public Assistance due to a federal government disaster declaration.
	
	<u>Effective Date of Disaster Policy</u>
	The disaster-area policy becomes effective as of the incident period end date for the disaster/event.
	FEMA publishes the incident period along with the declaration date once the area is presidentially declared. For example, refer to the following dates to understand when property re-inspection requirements apply:
	
	• Disaster Incident Period:

- Begin Date: January 15
- End Date: January 17
- Disaster Declaration Date: February 2
- Effective Date for Disaster Procedures: January 17

Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.

<u>Appraisal and Re-Inspection Requirements</u>
To ensure the property value has not been impacted by the disaster, post disaster property re-inspections are required.

<u>Appraisal performed on or before disaster incident end date</u>
Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. The appraiser must provide the following commentary/evidence:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post disaster inspection report, with photos of interior, exterior, and neighborhood.

<u>Standard Appraisal Performed After Incident Period End Date for Disaster</u>
Appraisal must include written certification by the appraiser that:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed.
- Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.
- The appraisal must include a minimum of three comparable sales, post-disaster.

<u>Appraisal Reviews</u>
A Collateral Desktop Analysis (CDA) from Clear Capital is required on every loan. Sellers have the option of establishing a relationship with Clear Capital and obtaining the CDA prior to closing the loan so that they are assured that the appraised value will be considered acceptable and supported. Should the seller choose not to order the CDA prior to closing and submitting the loan to us for purchase, Investor will order the CDA at the time of Due Diligence review. *The risk being that the CDA may not return with a review value that is within Investor variance tolerance.*
Note: In the case where 2 appraisals are required, the CDA should be ordered on the lower of the two values.

Investor variance tolerances are:
I. If the subject is a purchase transaction with an LTV <= 70%, a 10% variance will be allowed.
II. If the subject is a purchase transaction with an LTV > 70%, a 5% variance will be allowed.
III. For all refinance transactions, a 5% variance will be allowed.

If the review value variance exceeds tolerance or is found to be Indeterminate, see below for the escalation process waterfall:

This process applies to **<u>all property types</u>** when using CDA (Collateral Desktop Analysis from Clear Capital)

CDA Recommends Additional Review	Loan Purpose	Variance	≤ 70.00% LTV	>70.00% LTV
Investor **<u>does not require a Field Review</u>**. The grid should be followed at all times.	Any	0%	Approve	Approve
	Any	≤ 5%	Approve	Approve
	Purchase	> 5% ≤ 10%	Approve	Subsequent Exterior BPO Reconciled to the OA & CDA Required
	Refinance	> 5% ≤ 10%	Subsequent Exterior BPO Reconciled to the OA & CDA Required	Subsequent Exterior BPO Reconciled to the OA & CDA Required
	Any	Variance > 10%	Subsequent Exterior BPO Reconciled to the OA & CDA Required	Subsequent Exterior BPO Reconciled to the OA & CDA Required
	Any	Indeterminate Value	Subsequent Exterior BPO Reconciled to the OA & CDA Required	Subsequent Exterior BPO Reconciled to the OA & CDA Required
Reconciled BPO Variance Threshold			**Same as CDA**	**Same as CDA**

* Clear Capital requires that the <u>Exterior BPO</u> and <u>Reconciliation</u> be submitted as separate orders
**OA = Origination Appraisal

	*****PLEASE NOTE: Final closing LTV/CLTV/HCLTV cannot be based on a review value. All LTVs must use an appraised value that is supported by a review document as described above.** <u>Solar Panels</u> FNMA guidelines are to be followed with the addition of the below: • Any lien must be subordinated to the subject loan and included in CLTV/HCLTV (if applicable) • Property must be comp-ed to like properties and appraiser must address any effect on marketability due to the service being transferred to the new owner <u>Seller Concessions</u> All seller concessions must be addressed in the sales contract, appraisal and HUD-1 and be compliant with applicable federal and local state law. A seller concession is defined as any interested party contribution beyond the stated limits, see *Assets*, or any amounts not being used for closing costs or prepaid expenses (i.e. funds for repairs not completed prior to closing is a seller concession). If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV/CLTV/HCLTV. <u>Personal Property</u> Any personal property transferred with a 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/HCLTV. Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier. Investor will require evidence that the applicant was provided a disclosure advising them of their right to receive a copy of the appraisals. Satisfactory evidence that this disclosure was delivered within three (3) business days of application will be required. Upon request seller must also provide evidence that appraisals and other written valuations were provided to the applicant in a timely manner.
Assets	All asset documentation must be within 90 days of the date the Note is signed. Full income and asset verification is required. In an effort to fully document the borrower's ability to meet their obligations, borrowers should disclose and verify all liquid assets in addition to minimum assets, as well as liabilities and recurring obligations required by the specific program and in accordance with Appendix Q to Part 1026 of Regulation Z—Standards for Determining Monthly Debt and Income. **Loans secured by the borrower's assets** – The payment amount and terms of the loan must be factored into the DTI ratio; unless the remaining balance is sufficient to cover the balance of the loan. Note: The assets being applied to cover the loan balance must be deducted from the total asset balance being applied to reserves <u>30 Day Accounts</u> Must verify additional liquid assets to cover the entire balance. Note: The liquid assets being applied to cover the 30-day account balance must be deducted from the total liquid assets balance being applied to reserves. <u>Checking and Savings Accounts</u> • The two (2) most recent, consecutive months' statements for each account are required. • Large deposits inconsistent with monthly income or other deposits must be verified. <u>Marketable Securities</u> • Two (2) most recent, consecutive months stock/securities account statements are required. • 70% of stock accounts can be considered in the calculation of assets for closing and reserves. • Non-vested or restricted stock accounts are not eligible for use as down payment or reserves. <u>Earnest Money Deposit (EMD)</u> Earnest money deposit (EMD) must be sourced and verified on all loans <u>Retirement Accounts</u> • Most recent retirement account statement covering a minimum two (2) month period. • Evidence of liquidation is required when funds are used for down payment or closing costs. • 60% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves. • Excluding 401k's & IRA's, verification of the terms of liquidation if funds are used for reserves • Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves. <u>Business Funds</u> • The borrower's withdrawal of cash from a business may not have a severe negative impact on the

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business' ability to continue operating. If a borrower is trying to use business funds for closing/down payment or reserves (where allowable – Note: Not eligible for Super Prime Jumbo product), an analysis must be completed by the Seller's underwriter to ensure the cash withdraw will not impact the business.

Borrower(s) must be 100% owner and the following is required:

Cash flow analysis required using 3 months business bank statements to determine no negative impact to business based on withdrawal of funds
A letter from the borrower(s) accountant must include the following statements or comments:

The borrower has access to the funds.
The funds are not a loan.
The accountant may not be related to the borrower or be an interested party to the transaction.

<u>Gift Funds</u>

Allowed for purchase transactions after minimum contribution of 5% from borrower's own funds
Gift funds must not be used to meet reserve requirements.
Donor must be an immediate family member, spouse, or domestic partner living with borrower.
An executed gift letter with the gift amount, donor's name, address, and telephone number and relationship is required.
Proof of donor's ability to cover the gift funds
Transfer of funds or evidence of receipt must be documented In an effort to fully document the borrower's ability to meet their obligations, borrowers should disclose and verify all other liquid assets.

<u>Ineligible Assets:</u>

Gift of Equity
Grant Funds
Pooled Funds
Builder Profits
Cash on Hand
Unsecured loans
No Employer Assistance Assets
Sale of an asset other than real property or publicly traded securities

<u>Reserves</u>
All financed properties, other than the subject property, require an additional six (6) months PITI in reserves for each property. See Eligibility matrices for subject property reserve requirements.

<u>Interested Party Contributions</u>
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. Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements.

Interested party contributions are limited according to the CLTV/HCLTV:
<table>
<tr><th>CLTV / HCLTV</th><th>Limit</th></tr>
<tr><td>> 80%</td><td>Not eligible</td></tr>
<tr><td>75.01% - 80%</td><td>3%</td></tr>
<tr><td>≤ 75%</td><td>6%</td></tr>
<tr><td>NOO Property</td><td>Not eligible</td></tr>
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Based on Investor's analysis of the current prime jumbo market, we have provided these standards which conform to Investor's credit view and proprietary analysis of currently offered market standards. Based upon future market movements, please note that these standards are subject to change at any time without notice.

<u>Seller Concessions </u>- See Appraisal section

<u>Financing Concessions</u>
Financing concessions are not permitted. Financing concessions include any reduction in the mortgage payment, financing costs or closing costs, including any prepaid amounts.
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<tr><td>ATR/QM Requirements (Ability to Repay / Qualified Mortgage)</td><td>
Loans must adhere to the "Ability-to-Repay" underwriting standards set forth in 12 CFR 1026.43(c), using the criteria outlined in Appendix Q to Part 1026 of Regulation Z—Standards for Determining Monthly Debt and Income and be "Safe Harbor Qualified Mortgages" as defined in 12 CFR 1026.43(e)(1). A "Safe Harbor Qualified Mortgage" is a Qualified Mortgage as defined in a comparable mortgage loan as of the date the interest rate is set by less than 1.5 percentage points for a first lien loan or by less than 3.5 percentage points for a subordinate lien loan.

In particular, the Seller must ensure that prior to the origination of the loan, the originator made a reasonable
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	and good faith determination that the borrower had a reasonable ability to repay the loan according to its terms, in accordance with, at a minimum, the eight underwriting factors set forth in 12 CFR 1026.43(c)(2). And, each mortgage loan must be a "Safe Harbor Qualified Mortgage" as defined in 12 CFR 1026.43(e). Loans that do not have a documented "ability-to-repay" as described in 12 CFR 1026.43 (c) or are not "Safe Harbor Qualified Mortgages" under 12 CFR 1026.43 (e)(1). A "Safe Harbor Qualified Mortgage" is a Qualified Mortgage as defined in 12 CFR 1026.43(e) with an annual percentage rate that does not exceed the average prime offer rate for a comparable mortgage loan as of the date the interest rate is set by less than 1.5 or more percentage points for a first lien loan or less than 3.5 percentage points for a subordinate lien loan, unless otherwise noted. Higher-Priced Covered Transactions within the meaning of 12 CFR 1026.43 (a)(4) are ineligible.

Borrower Eligibility	<u>Eligible Borrowers</u>
	• U.S. Citizens
	• Illinois Land Trusts:
	    o Parties to the Trust:
	        ▪ Beneficiary: The beneficiary is the person(s) who benefit(s) from the trust, and must be an individual and the mortgage applicant. The beneficiary must be the recipient of the trust's benefits, is considered to have beneficial title (ownership of the property). The land trust beneficiaries must execute the Note and guarantee payment of the Mortgage.
	        ▪ Trustee: The trustee has the authority to mortgage the property and to administer the trust. The trustee can only be an institutional trustee that customarily performs trust functions and which is authorized under state law to act as trustee.
	        ▪ Trustor/Settlor/Grantor: Typically called the "grantor", this is the party or parties who created the trust and contributed the property to the trust.
	• Inter-Vivos Revocable Trusts
	    o The *inter vivos* revocable trust must be established by one or more natural persons, solely or jointly.
	    o The primary beneficiary of the trust must be the individual(s) establishing the trust.
	    o 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.
	    o The trustee(s) must include:
	        ▪ The individual establishing the trust (or at least one of the individuals, if there are two or more).
	        ▪ **Investor does not allow an institutional trustee.**
	        ▪ The trustee must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are borrower(s) under the mortgage or deed of trust note.
	        ▪ The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a coborrower, if there are additional individuals whose income or assets will be used to qualify for the mortgage).
	• Permanent Resident Aliens/Non-Permanent Resident Aliens assuming they meet the following minimum requirements:
	    o Can provide acceptable documentation to verify that a non-U.S. citizen borrower is legally present in this U.S
	    o Must be employed in the United States for the past 24 months
	• First Time Home Buyer is subject to eligibility limitations. See product matrices.
	• All borrowers must have a social security number
	
	<u>Ineligible Borrowers</u>
	• Permanent and Non-Permanent Resident Aliens (Foreign Nationals) who do not meet the eligibility requirements set forth above
	• Foreign Nationals
	• Borrower(s) with more than five (5) financed properties, including the Borrower's primary residence and subject property
	• Diplomats
	• Irrevocable Trusts
	• Land Trusts
	• Limited partnerships, general partners, corporations, and limited liability companies
	• Borrowers without credit score
	• Borrowers with only an ITIN (individual taxpayer identification number)
	• Non-Arm's length transactions are not eligible <u>with the exception of the following</u> provided that the requirements of Appendix Q to Part 1026 are fully satisfied:

	◦ Family sales or transfers ◦ Property Sellers are representing themselves as agent in real estate transaction ◦ Buyers/Borrowers are representing themselves as agent in real estate transaction ◦ The borrower is the employee of the originating lender and the lender has an established employee loan program ◦ Renter buying from landlord (24 months cancelled checks required to verify satisfactory pay history). • Loans with title or interest held in various forms/legal entities such as life estates, nonrevocable trust, guardianships, conservatorships, LLC's, corporations or partnerships. • Loans with co-signors or guarantors, which are individuals applying for a loan that will not take title. Investor requires that all borrowers be listed on the title. • Loans with > 4 borrowers
Co-borrowers	Non-occupant co-borrowers are not allowed
Credit	**Age of Documentation** Credit documents include credit reports, employment, and income documentation. For existing construction, the credit documents must be no more than 90 days old on the date the note is signed. If the credit documents are older than allowed, the document must be updated. Borrowers without a credit score are ineligible. Unless otherwise addressed below, Fannie Mae underwriting guidelines should be followed for evaluating a borrower's credit history. <u>Credit Standards</u> Age of Credit Report May not be more than 90 days old at the time of closing of the loan <u>Representative FICO Score</u> An individual borrower's representative credit score is determined by the following: • If 2 credit bureau scores are reported, the representative credit score will be the lower score • If 3 credit bureau scores are reported, the representative credit score will be the middle of the 3 When there is more than 1 borrower, the lowest of all borrowers' representative credit scores will be used. Minimum two (2) FICO scores are required <u>Trade Lines</u> • Minimum three (3) open trade lines: ◦ One (1) must be open and active for two (2) years; ◦ At least one (1) of the required three (3) trade lines must be an installment or mortgage account; <u>and</u> ◦ Remaining trade lines must be rated for twelve (12) months. • Two (2) open trade lines are acceptable for purchase transactions in which the borrower(s) have a two (2) year mortgage history within the past five (5) years. • An exception to the minimum trade line requirement will not be required if the borrower's credit history meets the following: ◦ No fewer than ten (10) trade lines are reporting, one (1) of which must be a mortgage; ◦ At least one (1) trade line has been open and reporting for a minimum twelve (12) months; <u>**and**</u> ◦ The borrower has established a credit history of at least ten (10 years. Note: Borrowers not contributing income for qualifying purposes are not subject to the minimum trade line requirement. <u>Mortgage/Rent</u> • 24 months housing history required on <u>**all**</u> loans • 0x30 in the past 24 months mortgage/rental (No Exceptions) – applies to all borrowers on the loan • If 24 months housing history is not available due to borrowers owning their current residence Free and Clear, proof of Taxes and Insurance (and HOA – if applicable) can be provided in lieu of mortgage history. Note: If the source of verification for a borrower's rental housing payments is a party other than a professional management company, 24 months of cancelled checks and a copy of the lease is required. Private mortgages require cancelled checks and VOM. <u>Authorized User Accounts</u> Will not be considered as acceptable trade lines <u>Non-Traditional Credit</u> Will not be considered as acceptable trade lines

	<u>Credit Inquiries</u> Written explanation for **<u>all</u>** inquiries within 120 days is required The seller must review the section of the borrower's credit report that indicates the presence of creditor inquiries to determine the number and recency of the inquiries. When the credit report indicates that recent inquiries took place within 120 days of the credit report date, the borrower must explain the reason for the credit inquiry. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment. Confirmation that there is no new debt may be in the form, but is not inclusive of, a new credit report, pre-close credit or gap credit report. <u>Bankruptcy Chapters 7 & 11 & 13</u> None allowed <u>Foreclosure</u> None allowed <u>Loan Modification</u> None allowed, unless the modification was lender initiated and documented proof that it was not a distressed situation is provided. <u>Short Sale / Deed-in-Lieu</u> None allowed <u>Consumer Credit Counseling</u> None allowed <u>Past Due Accounts</u> Must be brought current prior to closing <u>Major Adverse Credit</u> A maximum of one 30-day (1x30) late payment allowed on revolving or installment (Non-mortgage related) accounts in the last 24 months. Borrower must provide a satisfactory letter of explanation for late payment on any revolving or installment account within the past 24 months <u>Judgments, Liens, Garnishments, Collections/Charge off</u> Must be paid off at or prior to closing <u>Disputed Accounts</u> • Disputed accounts must relect resolved and $0 balance prior to closing • Disputed accounts with any adverse payment history may not have been in active dispute within the last 24 months • Disputed mortgages are not acceptable (no history of dispute during the life of any mortgage loan) • Loan file must include an LOE for dispute. Note: Seller is responsible for determining whether the borrower's explanation is reasonable and/or whether additional documentation is necessary to disprove the adverse information <u>30 Day Accounts</u> Must verify additional liquid assets to cover the entire balance. Note: The liquid assets being applied to cover the 30-day account balance must be deducted from the total liquid assets balance being applied to reserves.
Documentation	<u>E-Signatures</u> E-Signatures are allowed solely with respect to the initial disclosures and the initial 1003. Investor will not purchase loans that are: • Mortgage loans subject to 12 CFR Part 1026.32 ("Section 32" loans) of Regulation Z, the regulation implementing the Home Ownership and Equity Protection Act of 1994, as amended. • Classified and/or defined as a "high cost," "threshold," "higher-priced mortgage loan," "predatory high risk home loan" or "covered" loan (or a similarly classified loan using different terminology under a law imposing additional legal liability for mortgage loans having high interest rates, points, and/or fees) under any applicable federal, state or local law. Investor will not purchase "Rebuttable Presumption Mortgages". "Rebuttable Presumption Qualified Mortgage" (AKA "Higher-Priced Covered Transaction") is a Qualified Mortgage as defined in 12 CFR 1026.43 (e) with an annual percentage rate that exceeds the average prime offer rate for a comparable mortgage loan as of the date the interest rate is set by 1.5 or more percentage points for a first lien or 3.5 or more percentage points for a

	subordinate lien loan. See also 12 CFR 1026(a)(4).
	
	Maximum interest credit is seven (7) calendar days posted on the HUD-1 Settlement Statement.
	
	Ownership Interests
	Title must be in the Borrower's name at time of application for refinance transactions and at time of closing for all transactions. Borrower(s) may hold title as follows:
	• Fee Simple with Title Vesting as:
	    ○ Individual: vesting is an individual Borrower taking sole ownership to a property
	    ○ Joint Tenants: Joint tenancy is a form of co-ownership giving each tenant equal interest and equal rights in a property, including the right of survivorship
	    ○ Tenants in Common: Tenants in common is a form of individual ownership interest by two or more persons that provides for no right of survivorship. The interest need not be of equal percentage.
	
	Leasehold Properties
	In areas where leasehold estates are commonly accepted, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender's title policy.
	• Seller must provide Ground Lease Analysis and copy of the lease with recordation
	• Leasehold estates must meet all FNMA eligibility requirements (i.e. term or lease);
	• Term of the leasehold estate must run for at least five (5) years beyond the maturity date of the Mortgage.
	
	Principal Curtailments
	Investor does not allow for principal curtailments at closing due to excessive loan balance.
	Note: Borrower can make principal curtailments with monthly payments; however Investor does not allow for recast.

Employment	Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the Borrower, the Seller must determine that both the source and the amount of the income are stable. A two-year history of receiving income is required in order for the income to be considered stable and used for qualifying. When the Borrower has less than a two year history of receiving income, the Seller must provide a written analysis to justify the determination that the income that is used to qualify the Borrower is stable. While the sources of income may vary, the Borrower should have a consistent level of income despite changes in the sources of income. A minimum of two (2) years employment and income history • Gaps in employment in excess of 30 days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to qualify. • For a Borrower who has less than a two-year employment and income history, the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history. School transcripts must be provided to document. **Self-Employed Income** Self-employed borrowers are defined as those individuals who have 25% or greater ownership interest or receive a 1099 statement to document income. Borrowers who are employed by a family member are considered self-employed, regardless of the percentage of ownership, and self-employed documentation is required. Potential ownership by the borrower must be addressed. Verification of Employment (VOE), Verbal VOE (VVOE) or Self-Employed Confirmation A written Verification of Employment (VOE) may be required for a borrower's income sourced from commissions, bonus, overtime, or other income when the income detail is not clearly documented on W-2 Forms or paystubs. A verbal verification of employment confirming the borrower's employment status is required for all borrowers whose income is used for qualification purposes. The VVOE should be completed within ten (10) business days before the Note date (or funding date for escrow states) for wage income. Verification of self-employed businesses by a third-party source should be obtained within thirty (30) calendar days from the Note or funding date. However, the post-close verification is discouraged as Investor will not purchase the loan if the borrower is no longer employed in the position shown on the loan application. The following standards apply: • Written VOE should include: ○ Borrower's date of employment

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Borrower’s employment status and job title
Name, phone number and title of person completing the VOE
Name of employer
Base pay amount and frequency
Additional salary information, which itemizes bonus, commission, overtime, or other variable income, if applicable
VOE must be sent directly to the employer, attention of the personnel department. The VOE must be returned to the directly to the lender.

VVOE should contain the following information

Date of contact
Borrower’s date of employment
Borrower’s employment status and job title
Name, phone number, and title of contact person at employer
Name of employer
Name and title of person contacting the employer
Method and source used to obtain the phone number

Self-Employed Confirmation must include

Verification of the existence of the borrower’s business from a third party, such as a CPA, regulatory agency, or applicable licensing bureau. A borrower’s website is not acceptable as third party verification.
Listing and address of the borrower’s business using a telephone book, internet, or directory assistance.
Name and title of the person completing the verification

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<tr><td>Escrow Holdbacks</td><td>Not eligible, unless the holdback has been dispersed and a certification of completion has been issues prior to purchase by investor.</td></tr>
<tr><td>Escrow Waivers</td><td>Escrows may be established for funds collected by the originator or servicer that are required to be paid under the Security Instrument. These funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, special assessments, ground rents, water, sewer, and other governmental impositions. Loans without escrows established are subject to a price adjustment. At a minimum, taxes must be escrowed in order to avoid the loan level price adjustment.</td></tr>
<tr><td>Financing Types</td><td>
<u>Purchases</u>

Appraiser must review purchase contract
Must be an arm’s lengths transaction
For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, additional requirements apply:

Second appraisal required
Property seller on the purchase contract is the owner of record
Increases in value should be documented with commentary from the appraiser and recent paired sales.

Non-Arm’s length transactions are not eligible. Refer to Non-Arm’s length transactions

<u>Rate & Term Refinance with the following limits:</u>

If property was purchased within 12 months of the application date, Property Value is equal to the lower of sales price or appraised value. If property was purchased more than 12 months prior to the application date, property value is equal to appraised value.
The new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non- first lien mortgage, related closing costs and prepays.

A seasoned non-first mortgage is a purchase money mortgage or a mortgage that has been in place for 12 months. A seasoned equity line is defined as not having any draws greater than $2000 in the past 12 months (the total draws cannot exceed a total of $2,000 in the last 12 months). Withdrawal activity must be documented with a transaction history for the Line of Credit.
Any first lien mortgage that is being refinanced may not have provided cash out to borrower within 12 months of the application.

Cash to borrower is limited to 1% of the principal amount of the new mortgage
A third refinance in less than 12 months is not eligible
Must meet Continuity of Obligation requirements per FNMA Seller Guide
If Listed for sale, must be off the market at least (6) months prior to application :

LOE from borrower on why he/she is retaining the property is required

Inherited properties may not be refinanced prior to 12 months ownership.

<u>Cash Out Refinance with the following limits:</u>

Max Cash-Out: See LTV Matrix

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- Borrower (s) must have owned the property for at least six (6) months prior to the application date
- Seasoning of at least six (6) months since prior financing or date of purchase is required
- The LTV ratio for refinances on free and clear properties is based on:
  - Six (6) to twelve (12) months ownership:
    - LTV is based on the lesser of acquisition price or current appraised value; or
    - Greater than (12) month's ownership: LTV is based on the current appraised value.
- A third refinance in less than twelve (12) months is not eligible.
- Must meet Continuity of Obligation requirements per FNMA Seller Guide
- Properties that have been listed for sale within the past twelve (12) months of loan application are not eligible for cash out refinance transaction. A letter of explanation from borrower on why he/she is retaining the property is required
- Inherited properties may not be refinanced prior to twelve (12) months ownership.
- Texas Home Equity Loans (cash-out) are ineligible

Delayed Purchase Refinance:
Defined as the refinance of a property purchased by the borrower for cash within six (6) months (as measured by the date the property was purchased to the application date of the new mortgage loan), and requires the following:

- Underwritten as a rate & term refinance.
- The original purchase transaction is an arm's-length transaction
- Owner occupancy primary residence and 2nd homes
- The preliminary title search confirms that there are no existing liens on the subject property
- HUD-1 from the original purchase. Documentation must show the down payment and closing costs for the purchase were the borrower's own funds (no borrowed, gift or shared funds).
- The new loan amount is no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/LTV//HCLTV) ratios for the transaction).
- Funds secured by a pledged asset or retirement account are not considered borrower's own funds for Delayed Purchase Refinance program (see cash out section for additional guidance).

Construction to Perm: Eligible with the following conditions

- If the lot was acquired a minimum of 12 months prior to application for the construction financing, the LTV/CLTV/HCLTV is based on the current appraised value of the property.
- If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV/HCLTV must be based on the lesser of
  - the current appraised value of the property and
  - the total acquisition costs (total construction costs plus the lower of the purchase price of the land or current appraised value).
- A certificate of occupancy from the applicable government authority is provided. If the applicable government authority does not require a certificate of occupancy, then proof of the absence of this requirement must be provided.
- The cash-out amount is limited to the amount as specified on the attached *Eligibility* matrices plus any documented costs paid for from the borrower's own funds.
- The borrower must hold legal title to the lot and be named as the borrower for the construction loan.
- Property must be fully completed. The Appraisal and/or Final Inspection (442) must reflect the property value is 'As-Is'. Investor will not hold funds in Escrow for the completion for any property improvements.

LTV/CLTV Calculations
Purchases
The LTV/CLTV for a purchase transaction is calculated based on the lesser of the purchase price or appraised value of the subject property.

Refinances Rate & Term and Cash Out

- If the property was purchased within 12 months of the application date, Property Value is equal to the lower of sales price or appraised value. If the property was purchased more than 12 months prior to the application date, property value is equal to appraised value.
- For homes where capital improvements have been made to the property after purchase, LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or original purchase price plus the documented improvements. Receipts are required to document cost of improvements.
- If the borrower has owned the property for twelve (12) months, the LTV/CLTV/HCLTV is based on the appraised value.
- Released subordinate liens must be paid off and closed to exclude from CLTV/HCLTV calculation.
- Construction-to-Permanent refinances – If not defined above (see "Construction to Perm"), default to Fannie Mae calculation)

Delayed Purchase

	The LTV/CLTV/HLCTV is calculated based on the lesser of the purchase price or appraised value of the subject property Non-Arm's Length Transactions Subject to the exceptions noted elsewhere, Non-Arm's length transactions are not eligible for purchase by Investor. A non-arm's length transaction is any transaction where there is a relationship or business affiliation between the borrower(s) and/or any parties in the transaction. If a direct relationship exists between any of the parties to a transaction, including the borrower/buyer, seller (if applicable), employer, lender, broker or appraiser, then the transaction will be considered non-arm's length. Examples of non-arm's length transactions include, but are not limited to: • Family sales or transfers • Renters buying from landlord (see *Borrower Eligibility* for exception) • Property trades between buyer and seller • Employer to employee sales or transfers • Property trades between buyer and seller • Employer to employee sales or transfers • Borrowers or co-borrowers employed in the real estate or construction trades who are involved in the construction, financing or sale (i.e. listing agent) of the subject property (see *Borrower Eligibility* for exception) • Borrower(s) purchasing a property from a builder who, in turn, is purchasing the borrower's existing property Flip Policy For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, additional requirements apply: • Second appraisal required. • Property seller on the purchase contract is the owner of record • Increases in value should be documented with commentary from the appraiser and recent paired sales.
Geographic Locations/Restrictions, as applicable	Eligible states are as follows: • **Correspondent:** All states allowed Additional restrictions as follows: Texas Cash-out 50(a)(6) is ineligible State specific regulatory requirements supersede all underwriting guidelines set forth by Impac. Loans classified and/or defined as a "high cost", "threshold", "higher-priced mortgage loan", "predatory high risk home loan" or "covered" loan (or a similarly classified loan using different terminology under a law imposing additional legal liability for mortgage loans having high interest rates, points, and/or fees) under any applicable federal, state or local law. All mortgage loans must also be compliant with all State and Local regulations, including but not limited to: • State high cost loan limits • State usury laws • Local regulations • State and local "ability-to-repay," "borrower interests" or "net tangible benefit requirements"
High-Cost Mortgage Loans	Impac does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)
Higher-Priced Mortgage Loans	Higher-priced mortgage loans (12 CFR 1026.35) are prohibited on this program. (APR < APOR + 1.5%)
Income	Loans must adhere to the "Ability-to-Repay" underwriting standards set forth in 12 CFR 1026.43(c), using the criteria outlined in Appendix Q to Part 1026 of Regulation Z—Standards for Determining Monthly Debt and Income and be "Safe Harbor Qualified Mortgages" as defined in 12 CFR 1026.43(e)(1). A "Safe Harbor Qualified Mortgage" is a Qualified Mortgage as defined in a comparable mortgage loan as of the date the interest rate is set by less than 1.5 percentage points for a first lien loan or by less than 3.5 percentage points for a subordinate lien loan. Note: borrowers not contributing income for qualifying purposes are not subject to the minimum trade line requirement. See *Credit*.

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<u>Debt to Income</u>

The Debt-to-Income ("DTI") ratio is based on the total of existing monthly liabilities plus any planned future liabilities based on credit inquiries or otherwise disclosed by the borrower, and then divided by the calculated gross monthly income. Refer to the *Eligibility* matrices for the maximum allowable DTI.

Liabilities include all housing expenses, revolving debt, installment debts, real estate loans, rent, stock pledges, alimony, child support, andother consistent and recurring expenses.

<u>Loans secured by the borrower's assets</u> – the payment amount and terms of the loan must be factored into the DTI ratio; unless the remaining balance is sufficient to cover the balance of the loan. Note: The assets being applied to cover the loan balance must be deducted from the total asset balance being applied to reserves

<u>Home Equity Line of Credit</u>

HELOC Securing the Subject Property - HELOC must be subordinate to the subject loan.
When a HELOC secures the subject property, regardless of occupancy type, whether the HELOC has a zero outstanding balance, or whether or not the HELOC is frozen, the payment will be calculated as follows:

- 1% of the maximum line amount or
- The payment based on the terms of the HELOC agreement using the fully indexed rate on the maximum line amount

For HELOCs with written evidence of the line modification, the modified limit will be used to calculate the fully-drawn line amount

HELOC Not Encumbering Subject Property:
When a HELOC secures a property other than the subject property the payment reflected on the credit report will be counted in the DTI.

<u>Payment Shock:</u> - Underwriter should use prudent judgment in evaluating any payment shock implications and the ability of the Borrower to repay the new mortgage loan.

Payment shock that exceed 250% requires significant compensating factors.

- Payment Shock Calculation: Payment shock is a function of the percentage of the payment increase of a new payment when compared to a prior payment.
- Example:
  Prior payment = $2,000 & the new payment = $3,000 = payment shock of 50% ($3,000/$2,000 -1)

All income documentation must be dated no more than 90 days before the date Note is signed.

The following is required to establish stability of employment and income for the Borrower (s) whose income is used to qualify **in accordance with Appendix Q to Part 1026 of Regulation Z—Standards for Determining Monthly Debt and Income:**

- A minimum of two (2) years employment and income history
  - Gaps in employment in excess of 30 days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to qualify.
  - For a Borrower who has less than a two-year employment and income history, the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history. School transcripts must be provided to document.

<u>Income Trending</u>: YTD income amount must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns

- If the trend in the amount of income is stable or increasing, the income amount should be averaged
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- If the trend is declining, the income is not eligible.

For borrowers of retirement age using asset distributions for income, see "Retirement Income" below for further requirements.

Income may not be used for qualification purposes if it comes from any source that cannot be verified, is not stable, or will not continue.

Income Worksheet is required on all loans regardless of income type

<u>Documentation Standards</u>

<u>IRS Form 4506-T / Tax Transcripts</u>

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	• A completed, signed, and dated IRS form 4506-T must be completed for all borrowers at closing whose income is used to qualify for the mortgage. The 4506-T must be processed and tax transcripts obtained (for each year requested) to validate against all tax returns used for qualifying and/or W-2 forms. For self-employed borrowers, this applies to both personal and business returns (for businesses where borrower(s) has 25% or more ownership) regardless of whether or not income is used to qualify, a separate form must be filled out for each business entity.
	• Tax transcripts must match documentation in the file.
	• In the case where taxes have been filed and the tax transcripts are not available from the IRS, please refer to the chart below:
	
	<u>Tax Transcripts Policy</u>
	This section also applies to Salaried Borrowers whose total income consists of 25% or more from commission or bonus sources. It also applies to those Borrowers who have income from rental properties, interest and dividend, and other various sources.
	
	<u>Example: 2014 Tax Transcript Not Available</u>
	If the borrower has filed 2014 tax returns and income is needed to qualify but 2014 transcripts are not yet available, AND, underwriting date is on or after January 1 but before December 31, then:
	• Provide 2012 and 2013 tax returns and transcripts
	• Provide 2014 tax transcript indicating “No Record Found”, and
	• 2014 dilfed tax return verified in two of the following ways:
	    o Officially stamped by the IRS as received, or
	    o Evidence that the return was electronically received,
	    o **<u>AND</u>**
	    o Evidence of a refund check or tax liability payment made
	Underwriter must apply appropriate due diligence to determine if borrower’s income is acceptable for the transaction.
	• Analyze the 2012 and 2013 transcripts and 2014 tax returns
	• If loan file is an otherwise strong file with no other risk factors, and
	• Earning trends are stable or increasing with consistency when compared to prior years, then
	• Underwriter may use the income from the 2014 tax return in qualification
	
	<u>Pay Stubs</u>
	The pay stub must meet the following requirements:
	• Clearly identify the borrower as the employee.
	• Show the borrower’s most recent (30) days Paystubs with **YTD earnings**
	• If the borrower is paid hourly, the number of hours must be shown on the pay stub.
	• Pay stubs must be computer generated.
	• Pay stubs issued electronically via email or downloaded from the Internet must show the URL address, date and time printed, and identifying information on place of origin and/or author of the documentation.
	
	<u>W-2 Forms</u>
	W-2 Forms must be complete and be provided by the employer.
	
	<u>Tax Returns</u>
	The following standards apply when using Income Tax Returns to verify income:
	• Personal Income Tax Returns
	    o Must be complete with all schedules (W-2 forms, 1099 Forms, K-1 schedules, etc.)
	    o Signed and dated
	
	• Business Income Tax Returns
	    o Must be complete with all schedules (K-1 schedules, Form 1065, etc.)
	    o Signed and dated
	
	• <u>For Unfiled Tax Returns for the prior year’s tax return</u>
	    o Between Jan 1 and the tax filing date (typically April 15), borrowers must provide:
	        ▪ IRS form 1099 and W-2 forms from the previous year
	        ▪ Loans closing in January prior to receipt of W-2s may use the prior year year-end paystub. For borrowers using 1099s, evidence of receipt of 1099 income must be provided.
	    o Between the tax filing date and the extension expiration date (typically October 15), borrowers must provide (as applicable):
	        ▪ Copy of the filed extension
	        ▪ W-2 forms for corporations
	        ▪ Form 1099 for commission income
	        ▪ Current year profit & loss (signed by the borrower)

	▪ Year-end profit and loss for prior year (signed by the borrower) ▪ Balance sheet for prior calendar year if business is a sole proprietorship o If the borrower filed an extension Investor will require the 4506-T processed again to show "no record found" no more than 5 days before funding. ▪ After the extension expiration date, loan is not eligible without prior year tax returns. <u>Income Analysis Forms</u> The loan file must include an Income Analysis form detailing income calculations. The Fannie Mae Form 1084 other equivalent lender form consistently utilized by the lender is acceptable. Income analysis for borrowers with multiple businesses must show income/ (loss) details separately, not in aggregate. <u>Income Documentation Requirements</u> Various forms of documentation are required depending on the type of income used to qualify. Income amounts should be averaged for the time period covered. In accordance with Appendix Q to Part 1026 of Regulation Z—Standards for Determining Monthly Debt and Income. Unless otherwise stated, when ***declining income*** has occurred, the most recent twelve (12) months should be used; in some cases, average income for a longer period may be used when the decline is related to a one-time capital expenditure. Documentation for the capital expenditure must be provided. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and borrower's ability to repay. <u>Minimum documentation requirements:</u> • Pay Stub - 1 full month with YTD earnings • W-2's and/or 1099's - prior two (2) years for all borrowers • 1040's - prior two years, including all pages, schedules, statements o Year to date Profit and Loss Statements and Balance Sheets are required for all self-employed borrowers (in addition to two years of tax returns) • K-1's on all corporations and Schedule E business entities prior two years • Business returns on all Corporations and Schedule E business entities prior two years if ownership is > 25%, including all pages, schedules, statements • 1120S, 1120 and 1065's – prior two (2) years if General Partner and/or percentage of ownership is > 25%, including all pages, schedules, statements The following income documentation must be provided for each borrower whose income is used to qualify: **<u>Salaried</u>** An earnings trend must be established an documented. Large increases in salary over the previous two years must be explained and documented. • W-2 forms for prior two (2) years • Personal tax returns, , all schedules, prior two years • Year-to-date pay stub up through and including the most current pay period at the time of application and not earlier than 90 days prior to the Note date • If borrower is claiming overtime pay, it must be shown on the YTD pay stub – 24 months average from the same employer is required. **<u>Hourly & Variable Income</u>** An earnings trend must be established an documented. Stable to increasing income should be averaged over a minimum two year period. Declining income must be explained by the employer/borrower and a written determination by the underwriter must be provided if declining income is used for qualifying. • W-2 forms and personal tax returns, including all schedules, for prior two (2) years • Year-to-date pay stub up through and including the most current pay period at the time of application **<u>Part Time Income</u>** Borrower must have worked the part-time job iuninterrupted for the past two years, and plans to continue. If the part-time income shows a continual decline, written sound rationalization for using the income to qualify must be provided, or income should not be used. • W-2 forms for prior two (2) years • Year-to-date pay stub up through and including the most current pay period at the time of application **<u>Commission</u>** • W-2 forms and personal tax returns, including all schedules, for prior two (2) years • Personal tax returns, all schedules, for prior two (2) years • YTD pay stub up through and including the most current pay period at the time of application and not earlier than ninety (90) days prior to the Note date – 24 months average from same employer is required. • Unreimbursed business expenses (Form 2106) must be subtracted from income

	<u>Bonus and Overtime</u>
	An earnings trend for bonus and overtime must be established and documented. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year. If either type of income shows a continual decline, written sound rationalization for using the income to qualify must be provided, or income should not be used.
	• W-2 forms for prior (2) years
	• Personal tax returns, all schedules, for prior (2) years
	• YTD pay stub up through and including the most current pay period at the time of application and not earlier than 90 days prior to the Note date – 24 months average from same employer is required.
	
	<u>Self-Employed Income</u>
	Self-employed borrowers are defined as those individuals who have 25% or greater ownership interest or receive a 1099 statement to document income. Borrowers who are employed by a family member are considered self-employed, <u>regardless of the percentage of ownership</u>, and self-employed documentation is required. Potential ownership by the borrower must be addressed.
	
	<u>Rental Income – General</u>
	• Current Leases are required on all properties (residential & commercial) where rental income is being utilized in the income calculation
	• Current Leases must be a minimum of 1-year in term
	
	<u>Rental Income – All Properties</u>
	• Personal tax returns, including all schedules (e.g., Schedule E), for prior (2) two years.
	• For properties listed on Schedule E of the borrower's tax returns, net rental income should be calculated as the total of (net income + depreciation + interest) + (taxes + insurance) divided by the applicable months minus the current PITI.
	• Rental income must be averaged for 24 months free of unexplained gaps greater than three months)
	• Net rental income must be added to the borrower's total monthly income. Net rental losses must be added to the borrower's total monthly obligations.
	• If rental income is not available on the borrower's tax returns, a copy of the current lease agreement(s) may be used (only if the property is not listed on Schedule E because it was acquired subsequent to filing tax returns). Net rental income should be calculated as follows:
	  ○ Reduce the gross rental amount by 25%
	  ○ Subtract PITI and any homeowners association dues; and
	  ○ Apply the resulting amount to income, if positive, or recurring debts, if negative
	• Owner Occupied 2-4 unit subject property rent loss insurance sufficient to cover (6) six months is required
	
	<u>Rental Income – Converting Primary Residence to Rental</u>
	For a borrower departing a primary residence for occupancy in another primary residence:
	  ○ Equity of 30% needs be validated
	  ○ Validation of equity to be determined by either (i) a full appraisal *(FNMA 1004/FHLMC 70) dated with the last 6 months or (ii) a current exterior only appraisal *(FNMA/FHLMC 2055)
	  ○ AND
	  ○ Evidence of the security deposit and/or evidence of the first month's rent was paid to the homeowner
	
	<u>Rental Income – Borrower Relocation</u>
	For a being relocated with a new employer or transferred by current employer to an area not within reasonable and locally recognized commuting distance:
	  ○ Equity of 30% needs be validated
	  ○ Validation of equity to be determined by either (i) a full appraisal *(FNMA 1004/FHLMC 70) dated with the last 6 months or (ii) a current exterior only appraisal *(FNMA/FHLMC 2055)
	  ○ AND
	  ○ Evidence of the security deposit and/or evidence of the first month's rent was paid to the homeowner
	
	<u>Retirement Income (pension, annuity, and IRA distributions)</u>
	• Fixed income payments such as social security or pension income can be used at full value/distribution and may not be considered in any annuitization calculation.
	• Existing distribution of assets from an IRA, 401K or similar retirement asset account must be sufficient to sustain income continuance for a minimum of five (5) years.
	  ○ Verification of the assets of the plan and verification of receipt of the distribution of at least six (6) months is required,
	  ○ Note: Distributions from asset accounts cannot be set up, or changed, solely for loan qualification purposes
	
	<u>Assets Depletion</u>
	May not be used as qualifying income

	Social Security Income
	• Benefits (for children or surviving spouse) with a defined expiration date must have a remaining term of at least three (3) years.
	• Social Security income must be verified by a Social Security Administration benefit verification letter (sometimes called a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter"). If any benefits expire within the first full (3) years of the loan, the income source may not be used in qualifying.
	• Non-taxable social security income may be grossed up by 125%.
	
	Alimony, Separate Maintenance & Child Support Income
	• Will be considered with a divorce decree, court ordered separation agreement, court decree, or other legal agreement providing the payment terms confirming that income will continue for at least three (3) years of the mortgage term. If the income is the borrower's primary income source and there is a defined expiration date (even if beyond 3 years), the income may be acceptable for qualifying purposes on a case by case basis.
	• Documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past 12 months.
	
	Capital Gains
	Capital gains for like assets may be considered as effective income. The earnings trend or loss must be considered in the overall analysis of this income type. If the trend results in a gain, it may be added as effective income. If the trend consistently shows a loss, it must be deducted from the total income.
	• Tax returns for the prior three (3) years, including Sch D.
	• Gains must be consistent amounts from consistent sources.
	• Verified assets to support continuance must be documented.
	
	Dividend/Interest
	Interest and Dividend income may be used as long as documentation supports a two-year history of receipt.
	• Tax returns for the prior two years
	• Proof of assets to support the continuation of interest and dividend income (assets used for transaction must be deducted)
	• 24 months average
	
	Stock Options & Restricted Stock Grants
	May not be used as qualifying income
	
	Note Income
	A copy of the Note must document the amount, frequency and duration of payments
	• Regular receipt of note income for the past 12 months must be documented, and evidence of note income must be reflected on tax returns.
	• Verification that income is expected to continue for a minimum of five (5) years
	
	Trust Income
	Income from trusts may be used if guaranteed and regular payments will continue for at least the first 3 years of the mortgage term as evidenced by trust income documentation
	• Regular receipt of trust income for the past 24 months documented with last 2 years tax returns
	• Copy of the Trust Agreement/Trustee Statement showing:
	    o Total amount of borrower-designated trust funds
	    o Terms of payment
	    o Portion of income that is not taxable
	    o Non-taxable trust income must include proof of distribution.
	
	Foreign Income
	By exception only
	
	Non-Taxable Income including child support, disability, foster care, military, retirement, etc.
	• Documentation must be provided to support continuation of income for a minimum of three (3) years.
	• Income may be grossed up by 125% for income qualification purposes. Tax returns must be provided to confirm income is non-taxable.
	
	Trailing Co-borrowers
	Trailing co-borrower income will not be considered.
	
	Unacceptable income sources include, but are not limited to, the following:
	• Any unverified source
	• Income that is temporary or a one-time occurrence
	• Rental income from the borrower's single family primary residence or second home

	• Retained earnings • Education benefits • Allowance income • Stock Options • Income that is not expected to continue
Limitations on Other Real Estate Owned	The maximum is five (5) financed properties per loan (including the Borrower's primary residence and the subject property). Borrower(s) with more than five (5) financed properties, including the Borrower's primary residence and subject property, are **ineligible**. Properties INCLUDED in the property count: • Properties held in the borrower's own name • Properties held in a LLC, Trust or Partnership • Properties held in a Corp or S Corp • Total or Partial ownership of a property that is held in the name of a LLC or Partnership (regardless of the % of ownership) • All Property types including commercial, vacant lots, > 4 units Note: financed properties held in the name of a Limited Liability Company ("LLC") or other Corporations can be excluded from the calculation of number of properties financed only in cases where the borrower is not personally obligated for the mortgage. Properties EXCLUDED from the property count: • Timeshares • Free and clear properties All financed properties, other than the subject property, **require an additional six (6) months PITI reserves for each property. See *Eligibility* matrices for subject property reserve requirements**.
Loan Amount	Minimum: $417,001 Maximum: See *Eligibility Matrix*
Mortgage Insurance	Not required
Occupancy	Occupancy Types Owner Occupied**:** A Single Family Residence that the borrower(s) will occupy as a primary residence. Commute (if applicable) must be reasonable. Seller rent back is allowed up to 60 days. Second Home: A SFR that the borrower occupies in addition to their primary residence • Must be available for the borrower's exclusive use, no rental or time sharing arrangements • Rental income cannot be used to qualify the borrower • Only 1 unit property allowed for Second Homes. Must be suitable for year-round occupancy • If the property is tenant occupied, the property must be vacant at close. No seller rent back • Must be located a reasonable distance away from the borrower's principal residence • Borrower may not own any other second home properties in the same geographic market Eligible occupancy types include: • Primary residences for 1-4 unit properties • Second home residences for 1 unit properties
Prepayment Penalty	None

Property Types	**Eligible Property Types (refer also to *Eligibility* product matrices)**
	• 1 Unit Properties
	• 2-4 Unit Owner Occupied Properties where they are common to the area and where adequate comparables exist
	• 1 Unit Second Homes
	• Low/Mid/High-Rise Condominiums , Fannie Mae Warrantable
	    ○ Warrantable Types S, T or U
	    ○ New condominium projects (Type R) *with* Condo Project Manager ("CPM") or PERS approval
	    ○ Site (detached) Condos
	    ○ Limited Review is not eligible
	For additional clarity refer to the Fannie Mae Guidelines B4-2 ("Project Standards") and all subsections.
	• Planned Unit Development (PUDs)
	• Leasehold Properties – See *Documentation*
	
	Ineligible Property Types

	• Investment properties (n/o/o properties) • Cooperatives (Co-ops) • 2-4 Unit Second Homes • Unwarrantable or Limited Review Condominiums • Manufactured/Mobile homes • Modular homes • Condo-hotel units • Unique properties • Log, earth or dome homes • Working farms, ranches or orchards • Mixed Use Properties • Properties subject to existing oil or gas leases • Properties located in Hawaii Lava Zones 1 & 2 • Properties with > 20 acres • Properties < 600 square feet of living area • Hobby farms • Agriculture zoned • Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset (UAD) guidelines
Qualifying Rate and Ratios	**Refer to *Eligibility* Matrix for DTI requirements** Qualifying Rate 15, 30-year fixed – Note Rate Maximum back-end debt-to-income (DTI) ratio limit is 43% Debt-to-Income (DTI) The debt-to-income ratios must be determined in accordance with the ATR/QM Final Rule and its Appendix Q. Per those requirements, debt includes: • the monthly payment on the subject loan • the monthly payment for Mortgage-Related obligations • the monthly payment for any simultaneous loan that the lender knows or has reason to know will be made • the current debt obligations including alimony and child support • any existing monthly liabilities • any future liabilities based on credit inquiries or otherwise disclosed by the borrower Income includes verified gross monthly income, meaning the sum of the Borrower's current or reasonably expected income, including any income from verified assets.

Secondary Financing	Secondary or Subordinate Financing
	• Institutional financing ONLY up to the maximum LTV/CLTV.
	• Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
	• Full disclosure must be made on the existence of subordinate financing and payment terms.
	• Acceptable Subordinate Financing Types
	  ○ Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
	  ○ Mortgage terms that require interest at a market rate
	  ○ Subordinate financing that does not fully amortize under a level monthly payment plan the maturity or balloon payment date must > 5 years after the note date of the new lien
	  ○ Seller subordinate financing not allowed

Temporary Buydown	Not allowed
Underwriting	Manual Underwriting **Unless otherwise stated herein, Fannie Mae underwriting guidelines should be followed.** All loans must be manually underwritten and fully documented and submitted through Fannie Mae Desktop Underwriter (DU) and have received an *Approved/Ineligible Non-Conforming Loan Amount. DU Findings must be included in the loan file. No documentation waivers based on Agency AUS recommendations are permitted. Exceptions to program guidelines (pre-approved by Investor) or product eligibility may be acceptable when compensating factors exist to directly address the issue and offset the risk and are substantiated in writing. *Approved/Eligible is acceptable for loans that would also be eligible for the FNMA High Balance Program Applying the Re-underwriting Criteria

	The following steps are required if additional debt(s) or reduced income is discovered or disclosed after the underwriting decision was made up to and concurrent with loan closing: • The seller must document the additional debt(s) and reduced income and apply those changes to the loan to confirm loan eligibility. • If there is new subordinate debt on the subject property, the mortgage loan must be re-underwritten. • The final loan application signed by the borrower must include all income and debts verified, disclosed, or identified during the mortgage process.

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