

City Lending Equity Plus- Loan Eligibility Guidelines

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Section 1.0 Introduction

1.1 Overview and Underwriting Philosophy

This Equity plus eligibility Guideline (hereafter referred to as “Guidelines”) outline the requirements for residential mortgage loans to be sold to investor. This document serves to provide guidance and consistency in the underwriting and review of the loan and its characteristics related to the borrower and property. Investor offers programs to lenders for borrowers who may have limited access to credit. As such, Investor evaluates many elements of the loan but primarily relies on the evaluation of the borrower’s ability to repay the loan. In addition to ability-to-repay (ATR), these programs take into consideration—with the expectation of full verification and examination—the borrower’s income stability and employment history, credit history, asset position, and the property being used for collateral. Each loan is assessed on the basis of its individual merits with a common sense and holistic approach to the borrower’s ability and willingness to repay. To this end, Equity Plus programs consider the benefit to the borrower on each loan.

1.2 Underwriting Criteria

The Guidelines are intended to reference and supplement the Fannie Mae Seller Guide. For specific information concerning qualification requirements that are not referenced in this document, Originators should refer to the Fannie Mae Seller Guide. For specific loan characteristics and eligibility requirements related to LTV, FICO, DTI, etc., refer to the Equity Plus Matrix (hereafter referred to as “Matrix”). Loans sold to investor must meet the criteria of the current published Guidelines and Matrix as of the file submission date.

1.2.1 Ability-To-Repay (ATR)

Investor recommends the [Exhibit B: Ability-To-Repay Borrower Attestation](#) or similar document be included with all loan files delivered for purchase.

1.2.2 Underwriting Documentation

All loans must be manually underwritten. The Underwriting Approval, Income Calculation Worksheet, and the Underwriter’s determination of ATR is required as part of the credit package.

As an option, the lender may utilize an AUS Recommendation for guidance on income documentation in lieu of documentation requirements on matrix.

Section 2.0 CES Program and Requirements

2.1 CES Program Overview

The Equity Plus closed-end second (CES) can be stand-alone and in combination with new first liens (piggy-back). When used in combination with a new first mortgage, the income documentation used for qualifying must be the same for both liens.

See Matrix for details and program specific.

- The CES is designed for primary, second home and investment borrowers. For both QM and Non-QM transactions, with flexibility in mortgage history, credit history, and/or payment and documentation options. This program offers expanded credit parameters for multiple borrower profiles while utilizing standard and alternative document types. On piggy-back transactions, the income documentation type for the CES must match the requirements of the 1st lien approval.
 - Full Doc 1 or 2 Yrs: Standard FNMA Documentation
 - Alt Doc Bank Statements: 12, 24 Bank Statements (not available on Agency Companion)
 - Alt Doc 1099: 1yr 1099 Statement (not available on Agency Companion)
 - Alt Doc WVOE: FNMA Form 1005 (not available on Agency Companion)
 - Alt Doc P&L Only: 12-month P&L Statement (not available on Agency Companion)

2.2 Eligible CES Products

The following loan products are eligible for purchase by Investor. See Matrix for details.

- Fully Amortizing Fixed Rate
 - Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
 - 10, 15, 20, 30-year fixed rate
- Balloon Notes (not available on Agency Companion)
 - 30/15, 40/15
 - See matrix for limitations.

2.3 Ineligible Senior Liens

A copy of the most current 1st mortgage statement is required to determine eligibility. Statement date to be within 60 days of Note date. Additional 1st mortgage documentation may be required to provide sufficient data for underwriting.

- Loans in active forbearance or deferment. Deferred balance due to a documented hardship may remain open. Without documented hardship, deferred amounts must be paid through closing.
- Loans with negative amortization.
- Reverse mortgages.
- Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan.
- Private Party.

2.4 Interest Only Senior Liens

Interest only senior liens are acceptable when qualified at a maximum DTI of 45%. The current I/O payment on the senior lien is used to calculate DTI.

1st lien ARMS with < 3 years fixed period remaining qualified on fully indexed payment.

2.5 Maximum Combined Liens

The maximum combined 1st and 2nd liens is based on the loan amount. See matrix for limits.

2.6 Seasoning: Loan and Document

Investor will typically not purchase loans seasoned more than 90 days from the Note Date at the loan delivery date.

Age of documents from Note Date.

Credit Documents:	120 Days	
Income Documents:	60 Days	
Asset Documents:	60 Days	
New AVM/Appraisal:	120 Days	With Re-Certification of Value: 180 Days
Title Report:	120 Days	

2.7 Seasoning: Property Listing

Properties that have been on the market within six months of the application date are ineligible.

2.8 Seasoning: Ownership

Properties owned less than six (6) months ineligible. Properties owned greater than six (6) months – no restrictions.

2.9 Borrower Contact Consent Form

To assist the loan servicer in contacting the borrower in a timely manner, the seller is required to obtain a valid phone number for the borrower(s). The phone number can be collected on the 1003 loan application or by using the Borrower Contact Consent Form [Exhibit E: Borrower Contact Consent Form](#).

2.10 State and Federal High-Cost Loans

Not eligible for loan purchase.

2.11 Legal Documentation

Available Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan documentation.

2.12 Interest Credit

Loans closed within the first ten (10) days of the month may reflect an interest credit to the borrower.

2.13 Assumability

Equity Solutions products are not assumable.

2.14 Escrows

Closed-end 2nd loans with escrows are not eligible for purchase.

2.15 Property Hazard Insurance

2.15.1 Coverage Requirements

Following Fannie Mae (FNMA) guidance, the property insurance policy must provide the claims to be settled on a replacement cost basis. The coverage amount must be at least equal to the lesser of:

- 100% of the replacement cost of the improvements as of the current property insurance effective date, or
- The unpaid principal balance of all liens, provided it equals no less than the replacement cost value of the improvements

Follow FNMA guidance for additional information.

Lender is to be added as additional loss payee.

2.16 Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.

Flood insurance must be maintained throughout the duration of the loan.

2.16.1 Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). Flood Cert from CoreLogic or ServiceLink is preferred. The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject

property is no longer in an area of Special Flood Hazard

2.16.2 Minimum Flood Insurance Coverage

For reference, the minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or,
- the unpaid principal balance of the mortgage.

The minimum amount of flood insurance required for a PUD or condo project is the lower of:

- 100% of the insurable value of the facilities; or,
- the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA.

Section 3.0 CES Property Eligibility

3.1 Appraisals

Collateral evaluation requirements for the second mortgage program.

3.1.1 Appraisal Options

On purchase transactions, a copy of the appraisal with original pictures and any secondary valuation used on the 1st mortgage is acceptable.

Higher-Priced Mortgage Loan (HPML)

Primary and 2nd Homes:

- Full Appraisal (1004, 1025, 1073)
- Declining markets maximum 75% CLTV

Non-HPML

Primary and 2nd Homes:

- Loan amounts \leq \$400,000 AVM with a 90% Confidence Factor and a Property Condition Inspection from:
 - Clear Capital
 - Collateral Analytics
 - CoreLogic
 - HouseCanary
 - Homegenius
 - Quantarium
 - Veros
- Full appraisal is required when AVM has less than 90% Confidence Factor.

- Loan amounts > \$400,000
 - Full Appraisal (1004, 1025, 1073)
- Declining markets maximum 75% CLTV

Investor

- New 2055 Appraisal and Appraisal Desk Review supporting value within 10% variance. If the review variance is greater than 10%, the lower of the two is to be used to calculate CLTV.
OR
- Previous appraisal within 12 months and an Appraisal Desk Review. The Desk Review value must be equal to or greater than the Appraisal value.
- Declining markets maximum 70% CLTV.

3.2 Minimum Property Standards

Minimum property standards include but may not be limited to:

- 600 square feet.
- Property constructed for year-round use
- Permanently affixed continuous heat source
- Maximum deferred maintenance cannot exceed \$2,000
- No health or safety issues both internal or external

3.2.1 Eligible Property Types

- SFR, PUD, Townhome, Rowhome, Modular
- 2-4 Units
- Condos – Warrantable
- Rural – Primary, Maximum 10 acres. See matrix for CLTV.

For Agency Companion:

- SFR
- PUD
- Condos – Warrantable
- Rural properties are ineligible

3.2.2 Ineligible Property Types

- Rural Investor Properties & Rural 2nd Homes
- Condotel
- Non-warrantable Condos
- Manufactured
- Log Homes
- Working Farms and Hobby Farms
- Unique Properties
- Agricultural or Commercial Zoned Properties
- Co-ops
- Room and Board Facilities
- Adult Assisted Living/Care Facilities
- Mixed-Use

- Land Trust
- Deed-restricted properties

3.2.3 Acreage Limitations

- Maximum 10 acres

3.2.4 Texas Section 50(a)(6)

- Texas Section 50(a)(6) cash-out loans are eligible only with prior approval of the Correspondent/Seller

3.3 State Ineligibility

Loans categorized as NY Subprime.

3.4 Title Vesting and Ownership

Ownership must be fee simple or leasehold

Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity – Investor properties only. With current vesting in:
 - Limited Liability Company (LLC)
 - Limited and General Partnerships
 - Corporations

3.4.1 Inter Vivos Revocable Trust

Inter Vivos Revocable Trusts are allowed when the requirements outlined below are met.

- The trust must be established by one or more natural persons, solely or jointly.
- The primary beneficiary of the trust must be the individual(s) who is establishing the trust.
- Trust must be in the borrower's name.
- Trust must state that the borrower(s) have a right to revoke the Trust during their lifetimes.
- Income and assets of at least one borrower of the individuals establishing the Trust must be used to qualify for the mortgage.
- Trust must comply with all applicable state and local laws and regulations.
- Trustee must have the power to mortgage the property.
- The trust must become effective during the lifetime of the person establishing the trust.

Provide copy of Trust Agreement or Trust Certificate (where allowed by law) reviewed and approved by Title company. Title must not contain any title exceptions and offer full title protection without exception to the trust.

3.4.2 Business Entity

Vesting solely in the name of a business entity (LLC, partnership or corporation) is acceptable on investor properties only on the Equity Solutions program. Sellers must ensure loans that are secured by properties vested in a business are solely business purpose loans for the purchase or refinance of an investment property.

The following standards apply:

- All persons with $\geq 25\%$ interest in the business entity ("Interested Persons") must apply for the loan and meet credit requirements
- Maximum of four (4) individual members/partners/shareholders. No entities as members.
- Persons who sign the note or a personal guaranty must sign an Occupancy Affidavit prior to closing.
- Collateral documents must be signed as follows:

Note Signature	Required Security Instrument Signature	Personal Guaranty Required
Only Interested Persons	Both Business Entity and all Interested Persons	No
Only Business Entity	(a) Only Business Entity; or (b) Both Business Entity and all Interested Persons	Yes, for all Interested Persons
Interested Persons and Business Entity	(a) Only Business Entity; or (b) Both Business Entity and all Interested Persons	No

The following documentation must be provided:

- Formation and Operating documents
 - Articles of Incorporation and bylaws
 - Certificate of Formation and Operating Agreement, or
 - Partnership Agreement
- Tax Identification Number
- Certificate of Good Standing

3.5 Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the Appraisal, 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 any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

Seller must provide documentation and Leaseholds must meet all FNMA eligibility requirements (i.e. term of lease).

3.6 Solar Liens

Solar liens must be paid-off prior to closing.

3.7 Limitations on Financed Properties

Primary and Second Homes

- The maximum number of financed properties to any one borrower is limited to twenty (20) residential properties including subject property.
- Commercial properties and residential > 5-units excluded from calculation.

Investor Properties

- There is no limit on the number of financed properties.

3.8 Disaster Areas

Sellers are responsible for identifying geographic areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected.

Subject properties that have been adversely affected by disaster events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. The following guidelines apply to properties located in FEMA declared disaster areas, as identified on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, hurricanes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest or terrorist attacks, additional due diligence should be used to determine if the disaster guidelines should be followed.

Guidelines for disaster areas should be followed for 90 days from the disaster period end date or the date of the event, whichever is later.

See VPM full Loan Eligibility Guidelines for additional specifics on Disaster Areas or FNMA Guidelines.

3.9 Declining Values

Properties in which the appraiser is reporting a declining trend in values for the subject's market area are limited to a maximum 75% CLTV on primary and 2nd homes, 70% CLTV on non-owner.

3.10 Condominiums

Fannie Mae eligible condominium projects allowed.

The seller may review and approve FNMA warrantable projects. Follow the review process required by Fannie Mae for Limited Review.

The following table from FNMA Seller's Guide section B4-2.2-01 describes attached units in an established condo project that are eligible for a Limited Review.

Limited Review Eligible Transactions Attached Units in Established Condo Projects (For Projects Outside of Florida)	
Occupancy Type	Maximum LTV, CLTV, and HCLTV Ratios
Principal Residence	90%
Second Home	75%
Investment Property	75%

Site Condos meeting the Fannie definition are eligible for single-family dwelling LTV/CLTV.

Section 4.0 Transaction Types

4.1 Eligible Transactions

- Purchase
- Cash-Out

4.1.1 Cash-out Seasoning

Properties owned for 6 months or greater, no restrictions. Properties owned less than 6 months are ineligible.

4.1.2 Stand-Alone Cash-out

Equity Solutions stand-alone loans are available for cash-out on Primary, Second Home or investor property. A letter of explanation regarding the use of loan funds must be provided for cash-out refinance transactions.

4.1.3 Prior Refinance Seasoning

Any previous refinance transaction, either the 1st or a 2nd lien, within the prior six (6) months limits the maximum CLTV to 80%.

4.1.4 Piggy-Back Purchase

Equity Solutions can be combined with a new 1st mortgage for the purchase of a Primary, Second Home or investor property.

When the product is combined with a new 1st mortgage in a purchase transaction, the required income and asset documentation will follow the AUS Recommendations and/or the 1st mortgage loan approval.

The following credit requirements will default to the AUS Recommendation and/or the 1st loan approval:

- Housing history limit of 0x30x12 can be waived if allowed by 1st loan approval.
- FTHB overlays can be waived if allowed by 1st loan approval.
- Minimum tradelines requirements are waived when the 1st lien has an AUS Approve/Eligible or Approve/Ineligible Recommendation.

Guidelines and overlays apply with an AUS “Out of Scope” finding.

A copy of the appraisal and original pictures and any secondary valuation (if applicable) used for the 1st mortgage is required for the file. Appraisal waivers not accepted.

4.2 Non-Arm's Length

Non-arm's length transactions ineligible.

Section 5.0 Borrower Eligibility and Requirements

Refer to Fannie Mae guidelines for all definitions of eligibility status.

5.1 Fraud Report and Background Check

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

5.2 Non-Occupant Co-Borrowers

Non-Occupant co-borrowers are ineligible.

5.3 First Time Homebuyers

Equity Plus defines a First Time Home Buyer as a borrower who has no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the subject property. For Piggyback loans, a First Time Home Buyer's housing history defaults to the 1st lien requirements.

5.4 Residency

5.4.1 U.S. Citizen

Eligible without guideline restrictions.

See VPM full Loan Eligibility Guidelines for specifics on:

- Permanent Resident Alien
- Non-Permanent Resident Aliens

5.4.2 Ineligible Borrowers

The following borrowers are ineligible:

- Irrevocable Trust
- Land Trust
- Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction.
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.

- Foreign Nationals.
- Borrowers without a valid Social Security Number.
- Borrowers who are party to a lawsuit

Section 6.0 Credit

6.1 Credit Report

A credit report is required for every borrower. All applicants must have a valid SSI number. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility for loan purchase.

Borrower explanations are to be provided for any Disputed Tradelines with derogatory information reported in the last two years.

For borrowers who have a security freeze on their credit, the security freeze must be removed and credit repulled.

6.2 Loan Integrity and Fraud Check

Data integrity is critical to quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. FraudGuard, DataVerify, etc.). A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted.

6.3 Credit Inquiries

Lenders must inform borrowers that they are obligated to notify the lender of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

For all inquiries within the most recent 90 days of the credit report date, a signed letter of explanation from the borrower or creditor is required to determine whether additional credit was granted as a result of the borrower's request. If new credit was extended, borrower must provide documentation on the current balance and payment; based on the verification of all new debt/liabilities, the borrower should be qualified with the additional monthly payment. If no credit was extended, borrower must state the purpose of the inquiry.

6.4 Credit Report Update

Seller is to confirm there are no new or higher debt obligations for the borrower by using a gap credit report, soft-pull or undisclosed credit monitoring. This type of report is required if Note date is greater than 30 days after the date of the credit report relied upon for underwriting. The gap credit report, soft-pull or final report for the undisclosed debt monitoring is to be dated within 15 days of the Note date.



When these reports are required, it becomes part of the Mortgage File and all payments/balances and DTI are to be updated.

6.5 Housing History

Borrowers must have satisfactory consecutive 12-month mortgage and/or rent payment history in the three (3) years prior to loan application. Mortgage and rental payments not reflected on the credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM), or with alternative documentation. Alternative documentation must show the most recent 12-month history, and may be in the form of cancelled checks or bank statements, mortgage/rental statements including payment history, etc. Payments to private lenders require support with cancelled checks. Alternative documentation is ineligible for FTHB.

6.6 Consumer Credit

6.6.1 Consumer Credit History

Applicants with current credit delinquencies are ineligible.

6.6.2 Consumer Credit Charge-offs and Collections

Open charge-offs or collections \leq \$1,000 per occurrence are acceptable. Open medical collections \leq \$1,000 per occurrence are acceptable.

6.6.3 Consumer Credit Counseling Services

Borrowers enrolled in credit counseling are ineligible.

6.6.4 Judgment or Liens

All judgements, garnishments and all outstanding liens must be paid off prior to or at loan closing.

6.6.5 Income Tax Liens

All income tax liens (federal, state, local) must be paid off prior to or at loan closing.

6.7 Credit Event Seasoning

No foreclosure actions (NOI, NOD), short-sale, deed in lieu, bankruptcies in last 48 months.
No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

6.8 Credit Score

The Representative Credit Score is to be used for the Credit Decision. A valid score requires one (1) score from at least two (2) of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.

A borrowers' representative credit score is the lower of two (2) scores or the middle of three (3) scores.

For loans with multiple borrowers:

The occupying borrower with the highest income is the primary borrower and their representative credit score is to be used. When borrowers are self-employed and have equal ownership of a business, the lowest representative score of all borrowers is to be used.

Minimum credit score for co-borrowers is 500.

6.9 Standard Tradelines Requirements

The primary wage-earner must meet either of the minimum tradeline requirements listed below:

- At least three (3) tradelines reporting for a minimum of twelve (12) months with activity in the last 12 months; or,
- At least two (2) tradelines reporting for a minimum of twenty-four (24) months with activity in the last 12 months

On Primary residence only, borrowers who do not have the minimum tradelines are acceptable with a current mortgage history on their credit report reporting 0x30x12 (no private party mortgages).

For Agency Companion, the primary wage-earner must meet either of the minimum tradeline requirements listed below:

- At least two (2) active tradelines reporting for a minimum of twenty-four (24) months, and
- Current mortgage/rental history reporting 0x30x12 (institutional mortgages reporting only; no private party mortgages)
OR
- Current mortgage history on credit report reporting 0x30x24 (institutional mortgages reporting only; no private party mortgages)
OR
- AUS findings reflecting Approve/Eligible recommendation

Valid tradelines have the below characteristics:

- The credit line must be reflected on the borrower's credit report
- The account must have activity in the last 12 months but may be open or closed
- Student loans may be counted as tradelines as long as they are in repayment and are not deferred
- An acceptable 12 or 24-month housing history not reporting on credit may also be used as a tradeline (VOR from professional management company).

The following are not acceptable to be counted as valid tradelines:

- Liabilities in deferment status
- Accounts discharged through bankruptcy
- Authorized user accounts
- Charge-offs
- Collection accounts
- Foreclosures
- Deed-in-lieu foreclosures
- Short sales
- Pre-foreclosure sales

On piggy-back loans, minimum tradelines are waived when the 1st lien has an AUS with Approve/Eligible or Approve/Ineligible Recommendation.

6.10 Obligations / Liabilities not appearing on Credit Report

6.10.1 Housing and Mortgage Related Obligations

All properties owned by the borrower must be fully documented. These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract.

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

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues
- Any subordinate financing payments.
- Premiums and similar charges that are required by the creditor (i.e., mortgage insurance)

6.10.2 Current Debt Obligations, Child Support, Alimony or Maintenance Obligations

A lender may use a credit report to verify a borrower's current debt obligations, unless the lender has reason to know that the information on the report is inaccurate or disputed.

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's DTI ratio. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the borrower is ineligible.

Section 7.0 Assets

7.1 Document Options

For purchase files, documentation of sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff are required and follow 1st lien approval when applicable. FNMA guidelines used to verify funds. All documentation to follow AUS requirements when applicable.

Section 8.0 Income Documentation

8.1 Income Analysis

For stand-alone loans, the income documentation and calculation per FNMA guides with 2 years verification unless otherwise noted by the program document requirements.

For Piggy-back loans, the income documentation and calculation follow 1st lien approval.

8.1.1 Income Worksheet

Stand-alone loans using bank statement program must include Seller's income calculations, or income calculation worksheet detailing income calculations.

Income analysis for borrowers with multiple businesses must show income/(loss) details separately, not in aggregate.

8.1.2 Employment and Income Verification

For stand-alone loans, most recent two (2) years employment is required to be documented and verified for all income/documentation types unless otherwise noted by specific program requirements.

If any borrower is no longer employed in the position disclosed on Form 1003 at purchase date, loan will be ineligible for purchase.

A two-year employment history is required for the income to be considered stable and used for qualifying.

When the borrower has less than a two-year history of receiving income, Seller must provide written analysis to justify the stability of the income used to qualify the Borrower.

For piggy-back loans, documentation to follow 1st lien approval.

8.2 Debt to Income Ratio / DTI

Standard Debt-to-Income ("DTI") maximums as per Matrix. See Section 2.4 for limits to DTI on loans with Interest Only First Liens.

DTI is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses.

8.3 Documentation Options

For stand-alone loans, full income documentation for wage earners and self-employed borrowers. Bank statement documentation for self-employed borrowers.

For piggy-back loans, follow 1st lien documentation requirements. Documentation used for the CES must be the same as used for the 1st lien.

8.4 Full Income Documentation

8.4.1 Full Doc for Stand-Alone

Self-employed borrowers:

- 1- or 2-years tax returns (business and personal) including all schedules.
- Current YTD P&L (borrower prepared ok), or 3 months bank statements.
- Qualifying income based on tax returns. P&L or bank statement to support tax return income.
- Tax transcripts.

W-2 borrowers:

- W-2s for most recent 1 or 2-years and 30 day most recent paystubs.
- W-2 transcripts.

Other Requirements:

- A verbal VOE from each employer within 10-days of the note date for wage and salaried employees.
- For self-employed verify existence of business within 30-days of the note date with one of the following:
 - Letter from business tax professional.
 - On-line verification from regulatory agency or licensing bureau.
 - Certification verifying business existence through direct contact or internet search.

Other Miscellaneous Income

- Treatment of miscellaneous income sources follow FNMA guidelines.

8.4.2 Full Doc for Piggy-Back

- Documentation requirements to follow 1st lien requirements.

8.5 Alternative Income Documentation: 12 or 24 months Bank Statements

8.5.1 Alt-Doc: 12 or 24 months Bank Statements

For self-employed borrowers. Bank statements (personal and/or business) may be used as an alternative to tax returns to document a self-employed borrower's income. (not available on Agency Companion)

The Primary Borrower (greater than 50% of income) must be self-employed for at least 2 years (25% or greater ownership) to qualify for this program.

No 4506-C/tax transcripts/Tax Returns (4506-C required for salaried co-borrowers)

8.5.2 Alt-Doc: Bank Statement Restrictions

Excessive NSF's on the bank statements may cause the loan to be ineligible. Business bank statements must be operating account(s) reflecting normal business expenses.

8.5.3 Alt-Doc: Bank Statement Documentation

- Borrower must document two years current continuous self-employment with business license or statement from corporate accountant/CPA confirming the same.
 - Other documentation from third parties may be acceptable on a case by case basis (e.g., letter from an attorney).
 - Acceptable business license must be verified by third party (e.g., government entity, borrower's business attorney). Borrowers whose self-employment cannot be independently verified are not eligible.
 - In instances where a license is not required (e.g., choreographer), a letter from a CPA confirming employment may be accepted in lieu of a license.

1099 Contractor

- A borrower who is a "1099 contractor" may be considered self-employed for this program with confirmation from a CPA that the borrower is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). Borrower cannot have ownership of 1099 Payor's business.

See VPM full Loan Eligibility Guidelines for other income specifics.

8.5.4 Alt-Doc: Bank Statement Income Analysis

Bank statements are used to calculate and show consistency of income for the self-employed borrower.

When using 12 or 24 months of bank statements, no P&L is required.

Personal & Business Bank Statements Combined

- If personal and business bank activity are combined in one bank account, borrower is to provide the most recent 24 or 12 months consecutive bank statements from the same account.
- The bank statements are analyzed per Business Bank Statement Analysis guidance in VPM full Loan Eligibility Guidelines to determine qualifying income.
- **Standard expense factor applies; 50% expense factor.**
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than standard expense factor), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- **The minimum expense factor with CPA letter or P&L is 20%.**
 - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income (subject to the minimum expense factors). Provide either of the following:
 - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation

- ([Exhibit G: Sample of CPA Letter](#)); or,
 - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
 - The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Personal & Business Bank Statements Separated

- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.
- The borrower is to provide the most recent 24 or 12 months consecutive personal bank statements and two (2) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
- The deposits are analyzed and averaged to determine monthly income.
 - No expense factor
 - Deposits to a personal account from sources other than self-employment is not to be included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Business Bank Statements Only

- If only using business bank statements, borrower is to provide the most recent 24 or 12 months consecutive business bank statements.
- The bank statements are analyzed per VPM full Loan Eligibility Guidelines.
- **Standard expense factor applies; 50% expense factor.**
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than 50%), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- **The minimum expense factor with CPA letter or P&L is 20%.**
 - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
 - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation([Exhibit G: Sample of CPA Letter](#)); or,
 - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.

- The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.

The bank statements should show a trend of ending balances that are stable over the 24 or 12 month period.

- Large deposits inconsistent with history must be documented as business income.
- Net deposits must not reflect any other income sources already taken into consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).

See VPM full Loan Eligibility Guidelines for Bank Statement Income Analysis Guidance.

8.6 Alternate Income Documentation: 1099

8.6.1 Alt-Doc: 1099

This program is designed for borrowers who are paid on a 1099 basis and would benefit from alternative loan qualification methods. Most recent 1 year IRS Form 1099 may be used as an alternative to tax returns to document the borrower's income.

8.6.2 Alt-Doc: 1099 Restrictions

- Borrower cannot have any ownership interest in the company(s) providing 1099 income

8.6.3 Alt-Doc: 1099 Requirements and Documentation

The following is required:

- Most recent 1- or 2-year IRS Form 1099(s) from employer(s). Borrower must have 2-year history of 1099 employment.
- Current paystub or bank statement deposit for **each** 1099 source utilized for qualification (e.g. if borrower provided 1099 forms from five (5) separate sources, then a separate paystub/bank statement deposit must be provided from each of the five (5) 1099 sources to support current receipt)
- Third party documentation (CPA/CTEC/EA) supporting a 2-year employment history when 1-year 1099 used.
- Tax transcripts are required for each 1099 provided
- 1099 income minus 10% expense factor / 12 months = Qualifying Income.

Please see below example for qualification of 1099 income, with a borrower obtaining 1099 income from two (2) different sources:

Borrower's 1099 Sources	1099 Income
1099 Form #1	\$25,000
1099 Form #2	\$35,000
Total 1099 Income	\$60,000
Minus 10% Expense Factor	(\$6,000)
1099 Income less Expense Factor	\$54,000

1099 Income less Expense Factor / 12 months	\$54,000 / 12mos
QUALIFYING INCOME	\$4,500 /month

- 1099 Income that is not supported by documentation of current receipt cannot be used for qualification.

8.7 Alternative Income Documentation: WVOE

8.7.1 Alt-Doc: WVOE

This program is designed for wage or salaried borrowers providing a streamlined loan qualification method.

8.7.2 Alt-Doc: WVOE Restrictions

See Equity Solutions matrix for acceptable credit, max CLTV, loan amount, combined lien amount and DTI for the transaction.

This documentation program is not available to borrowers employed by a family-owned/managed business.

8.7.3 Alt-Doc: WVOE Requirements and Documentation

- Acceptable documentation forms
 - FNMA Form 1005
 - Equifax (The Work Number)
 - Finicity (TXVerify)
 - Any other acceptable online income data vendor
- 2 months personal bank statements supporting WVOE employment wages

Form 1005 must be fully completed (current gross pay, YTD earnings, past 2 years earnings) by an authorized company representative (Owner, Officer, HR).

8.8 Alternative Income Documentation: P&L Only

8.8.1 Alt-Doc: P&L Only

This program is designed for borrowers who are self-employed and would benefit from alternative loan qualification methods. A CPA/CTEC/EA completed and signed P&L may be used as an alternative to tax returns to document a self-employed borrower's income. No other income documentation type other than Asset Depletion can be combined with the P&L for the self-employed borrower.

At least one of the borrowers must be self-employed for at least 2 years (25% or greater ownership) to qualify for this program.

No 4506-C/tax transcripts/Tax Returns

8.8.2 Alt-Doc: P&L Only Restrictions

The minimum expense factor with a P&L is 20% for service business, 40% for product business.

Service Business – Offers services such as Accounting, Consulting, Counseling, Financial Planning, Insurance, Therapy.

Product Business – Sells goods such as Contracting or Construction, Food Services, Manufacturing, Restaurant, Retail.

8.8.3 Alt-Doc: P&L Only Requirements and Documentation

All of the following is required:

- Business license for the past 2 years.
- A letter from the CPA, CTEC (CA Tax Education Council) or EA (Enrolled Agent) on their business letterhead showing address, phone number, and license number is required with the following information:
 - CPA/CTEC/EA prepared or reviewed the most recent 2 years of business tax return filing; and,
 - The business name, borrower's name, and percentage of business ownership by the borrower.
- CPA/CTEC/EA signed/prepared Profit and Loss Statement(s) covering the most recent 12 month period.
- A gap P&L covering period between end of 12 month P&L and application required when gap is greater than three (3) months.
- Income from co-borrowers who are W2 wage earners is to be documented with most recent W2 and paystub.

8.9 Asset Depletion

On stand-alone loans, Asset depletion can be used to augment qualifying income on Full Income and Bank Statement Documentation files.(not available on Agency Companion)

Asset Depletion cannot be used as a stand-alone income documentation type.

Allowable and documented assets are divided by 84 months to determine amount added to qualifying income.

- Document each asset with statements covering six (6) months.

On Piggy-back loans, use of asset depletion as qualifying income must follow 1st lien requirements and calculations if applicable. Asset depletion cannot be used if not included in 1st lien qualifying income.

Section 9.0 Senior Lien Documentation Requirements

Stand-Alone CES

- Current (within 60 days) first mortgage statement showing,
 - Current principal balance.
 - Fully amortized.
 - Term.
- HOA statement (if applicable).
- HOI, flood insurance (if applicable), flood cert.

Piggy-Back 2nd:

- Follow 1st lien income requirements.
- 1st mortgage approval reflecting 2nd.
- DU Approve/Eligible or Approve/Ineligible, or LP Accept
- Purchase agreement (if applicable).
- HOA statement (if applicable).
- HOI, flood insurance (if applicable), flood cert.
- Closing instructions reflecting 2nd.
- Full appraisal from 1st mortgage and any additional collateral evaluation

Section 10.0 HELOC Program and Requirements

(Not Available)

10.1 HELOC Program Overview

The Home Equity Line of Credit (HELOC) can be stand-alone and in combination with new first liens (piggy-back). When used in combination with a new first mortgage, the income documentation used for qualifying must be the same for both liens.

Refer to CES Section of guides for topics not covered under this HELOC Section.

10.2 Eligible HELOC Products

- Eligible for both 1st and 2nd lien positions
- 30 year note with 3 year or 5 year Draw Period and Interest Only pay-option period; after Draw Period, remaining principal and interest is paid during the Repayment Period
- 20 year note with 3 year or 5 year Draw Period and Interest Only pay-option period; after Draw Period, remaining principal and interest is paid during the Repayment Period
- Refer to VPM matrix and guidelines for full eligibility and product details

10.3 HELOC Interest Rates and Payments

- Floor Rate (Min Floor) = 4%
- Max Rate = Life Cap = 18%
- The HELOC has a variable rate of interest tied to WSJ Prime rate index plus a margin (refer to rate sheet for margin); the interest rate may change monthly
- Draw Period: Payments of interest only are required during the Draw Period; the payment is the greater of the accrued interest or \$100 per month
 - The borrower's payment during the draw period will vary, as this is based on the current interest rate (index plus margin) and the Daily Principal Balance
- Repayment Period: payments of principal and accrued interest are required during the Repayment Period; the amortized P&I payment is based on the total line amount, the repayment term, and the current interest rate (index plus margin)
- Finance charges are set on the first business day of the month
- There is no annual fee for the line of credit

10.4 HELOC Advances and Draws

- Minimum initial draw amount is 75% of the total line amount
 - VPM's minimum \$50,000 loan amount is the total line amount; in this case, the minimum disbursement is 75% or \$37,500
- 90 day lockout period: no additional draws are allowed during the first 90 days following the closing date
- Minimum subsequent draws are \$5,000, not to exceed the loan amount limit

- Borrower is allowed unlimited draws during the Draw Period

10.5 HELOC Qualifying

- Use 20 or 30 year Fully Amortized payment based on Start Rate + 2% on the Total Credit Limit to qualify.

10.6 HELOC Property Occupancy and Types

- Primary, 2nd Homes and Non-Owner Properties.
- SFR, PUD and Warrantable Condos (see Matrix for LTV)
 - Rural – Primary to 80 CLTV, max 10 acres

10.7 HELOC Ineligible Property Characteristics

- Leaseholds
- Agricultural Zoning
- Deed or Resale Restricted Properties

10 HELOC Income Documentation

- Full Doc 1 or 2 Yrs: Standard FNMA Documentation
- Alt Doc Bank Statements: 12, 24 Bank Statements
 - No more than two (2) NSF's are allowed per 12-month period.

10.9 HELOC Ineligible Senior Liens

- Loans in active forbearance or deferment.
- Interest-Only (I/O) senior liens
- Loans with negative amortization.
- Reverse mortgages.
- Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan.
- Private Party

10.10 HELOC Senior Lien Documentation

- A copy of the most current 1st mortgage statement.
- Statement date to be within 60 days of Note date.
- Additional 1st mortgage documentation may be required to provide sufficient data for underwriting.

10.11 HELOC Maximum Combined Liens

- See matrix for combined lien limits.

10.12 HELOC Seasoning: Property Listing

- Properties that have been on the market within six months of the application date are ineligible.

10.13 HELOC Seasoning: Ownership

- Properties owned less than six (6) months ineligible. Properties owned greater than six (6) months – no restrictions.

10.14 HELOC Escrows

- HELOC's with escrows are not eligible for purchase.

10.15 HELOC Property Insurance Requirements

- Follow Equity Solutions CES requirements for hazard and flood insurance

10.16 HELOC Appraisal Requirements

- Loan amounts \leq \$400,000: AVM with a 90% Confidence Factor from approved vendors
 - Property Condition Inspection
 - AVM report within 60 days of Note Date
- Loan amounts $>$ \$400,000 – Full appraisal (1004, 1073)
- Approved AVM Vendors:
 - Clear Capital
 - Collateral Analytics
 - CoreLogic
 - HouseCanary
 - Homegenius
 - Quantarium
 - Veros
- Appraisal Waivers not accepted

10.17 HELOC Appraisal Valuation Waterfall

- For loan amounts \leq \$400K, AVM with 90% Confidence factor
 - Prior appraisal completed within 6 months of settlement
 - Drive-by appraisal (2055, 1075)
 - Full interior appraisal (1004, 1073)
- For loan amounts $>$ \$400K, Full interior appraisal (1004, 1073)
OR
Prior appraisal completed within 6 months of settlement

10.18 HELOC Minimum Property Standards

- Minimum property standards include but may not be limited to:
 - 600 square feet.
 - Property constructed for year-round use
 - Permanently affixed continuous heat source
 - Maximum deferred maintenance cannot exceed \$2,000
 - No health or safety issues both internal or external

10.19 HELOC State Ineligibility

- HELOC's in the following states are not eligible:
 - Tennessee
 - Texas

10.20 HELOC Title Vesting and Ownership

- Ownership must be fee simple.
- Acceptable forms of vesting are:
 - Individuals
 - Joint tenants
 - Tenants in Common
 - Inter Vivos Revocable Trust

10.21 HELOC Solar Liens

- Anything that will include a UCC filing associated with the property and/or will create an easement on title is ineligible.

10.22 HELOC Declining Values

- Maximum 75% CLTV on Primary and 2nd home
- Maximum 70% CLTV on Non-Owner Occupied

10.23 HELOC Credit Score

- Credit score is the lower of two (2) scores or the middle of three (3) scores for the borrower.
- For multiple borrowers, use the lowest score of all borrowers.

10.24 HELOC Standard Tradeline Requirements

- At least three (3) tradelines reporting for a minimum of twelve (12) months with activity in the last 12 months; or,
- At least two (2) tradelines reporting for a minimum of twenty-four (24) months with activity in the last 12 months
- The following are not valid tradelines:
 - Liabilities in deferment status
 - Accounts discharged through bankruptcy
 - Authorized user accounts
 - Charge-offs

- Collection accounts
- Foreclosures
- Deed-in-lieu foreclosures
- Short sales
- Pre-foreclosure sales