FSB MORTGAGE
NMLS # 411341

Key Jumbo Product Matrix/Guidelines

As of 07/14/2022

NOTE: Subject to change without advance notice

Occupancy	# of Units	Loan Purpose	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score
Primary	**1 Unit SFR/PUD**	Purchase and Rate/Term Refinance	$1,500,000	85%	740+
				80%	700-739
				70%	680-699
			$2,000,000	80%	740+
				75%	700-739
				65%	680-699
Primary	**Condo**	Purchase and Rate/Term Refinance	$1,500,000	80%	740+
				75%	700-739
				70%	680-699
			$2,000,000	80%	740+
				70%	700-739
				60%	680-699
Primary	**1 Unit SFR/PUD**	Cash-Out Refinance	$1,500,000	75%	740+
				70%	680-739
			$2,000,000	55%	740+
Primary	**Condo**	Cash-Out Refinance	$1,500,000	70%	680-740+
2nd Home	**1 Unit SFR/PUD**	Purchase and Rate/Term Refinance	$1,000,000	80%	740+
				75%	700-739
				70%	680-699
			$1,500,000	75%	740+
				70%	680-739
			$2,000,000	65%	740+
				60%	720-739
2nd Home	**Condo**	Purchase and Rate/Term Refinance	$1,000,000	75%	740+
				70%	680-739
			$1,500,000	70%	680-740+

GUIDELINES

<table>
<tr><td>Loan Terms</td><td>Fully Amortizing Fixed Rate – 15 or 30 Year Term</td></tr>
<tr><td>Maximum Loan Amount</td><td>$2,000,000. Loan amounts above $1,000,000 may need to be underwritten by investor.</td></tr>
<tr><td>Minimum Loan Amount</td><td>The minimum loan amount is always one ($1) dollar above the conforming loan limit.</td></tr>
<tr><td>Occupancy:</td><td>Primary residence and Second Home. Cashout refis on Second Homes is not eligible). Investment properties are not eligible. If the subject property is a second home, the loan must be underwritten by the investor.</td></tr>
<tr><td>Refinances</td><td></td></tr>
<tr><td>Continuity of Obligation</td><td>
The objective of the continuity of obligation requirement is to address refinance transactions that include a borrower that is on title, but not obligated on the original mortgage note being satisfied.
The continuity of obligation guidelines do NOT apply for properties recently inherited, spousal/partner buyouts, installment land contract transactions, or properties owned free and clear.
An acceptable continuity of obligation (assuming that there is an outstanding lien against the property) exists when:

there is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced, OR
the borrower has been on title for at least 12 months (but not obligated on the existing loan being refinanced) AND residing in the property for at least 12 months AND has either:

paid the mortgage for the last 12 months (including the payments for any secondary financing), OR
can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
Note: The existing loan being refinanced, and the title must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the LLC prior to transfer). In addition, a six (6) month history of ownership between the LLC and the natural person must be

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	documented. Transfer of ownership from a corporation to an individual does not meet this requirement.
	• Loans with an acceptable continuity of obligation may be underwritten and priced as either a limited cash-out (rate/term) or a cash-out refinance based on standard definitions.
	
	Reference: See the Cash-Out Refinance and Rate/Term Refinance subtopics subsequently presented for additional information.
	
	• If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, the following applies:
	  • the loan must be underwritten and priced as a cash-out refinance transaction,
	  • the borrower must be on title for a minimum of six (6) months prior to loan application, and
	  • the maximum LTV/TLTV/HTLTV ratio will be limited to 50% based on the current appraised value.
	• If the borrower is currently on title, but there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance.

Cash-out Refinance	• The LTV is based on one of the following:
	  • If the borrower has owned the property for less than twelve (12) months from the date of the application, the LTV/TLTV/HTLTV is based on the lesser of the acquisition cost or the current appraised value.
	  • If the borrower has owned the property for at least twelve (12) months from the date of application, the LTV/TLTV/HTLTV is based on the current appraised value.
	  • Gifted property within the most recent twelve (12) month period is limited to a maximum of 60% LTV/TLTV based on current appraised value.
	• Cash-out refinance transactions must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
	• There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation or dissolution of a domestic partnership).
	• Cash-out transactions are permitted to pay off a construction single-closing loan where six (6) permanent mortgage payments have been made.
	• Cash-out refinance transactions are not eligible if the existing loan is a "restructured mortgage."
	• For cash-out refinance transactions, six (6) months' minimum seasoning is required, with 0 x 30 day late payments.
	
	Notes:
	  • The six (6) months minimum seasoning is based on the date the borrower took title and the current loan application date.
	  • The title must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the LLC prior to transfer). In addition, a six (6) month history of ownership between the LLC and the natural person must be documented. Transfer of ownership from a corporation to an individual does not meet this requirement.
	  • Seasoning requirements do not apply to borrowers meeting the requirements found in the Delayed Financing Cash-Out Refinance section subsequently presented.
	  • Recommended documentation to assist in evidencing that the seasoning requirement is met includes, but is not limited to, a copy of the Closing Disclosure from the previous transaction and a copy of the borrower's current credit report.
	
	• In the case of a family transfer that occurred in the previous twelve (12) months, verify the property was not in default at the time of transfer.
	
	• See the table below for maximum cash-out guidelines:

Property Type	LTV/TLTV	Max Cash-Out
SFR, PUD, Condo	>50%	$350,000, including paid debts, unseasoned subordinate financing and cash-in-hand.
SFR, PUD, Condo	≤50%	Unlimited to the maximum loan amount, including paid debts, unseasoned subordinate financing and cash-in-hand.

Cash-out Refinance, (continued)	**Ineligible Cash-out Transactions** The following list includes examples of transaction types that are not eligible as cash-out refinances. This list is not comprehensive. • Cash-out transactions are not permitted to pay off another lender's interim construction loan. • For transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for cash-out refinance transactions. • The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable laws or regulation.
Delayed Financing Cash-Out Refinance	If the property was purchased (or acquired) by the borrower within the prior six (6)months of the disbursement date of the new mortgage, the following applies: • The original purchase transaction was an arms-length transaction. • The original purchase transaction is documented by a Closing Disclosure, which confirms that no mortgage financing was used to obtain the subject property. • The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property). • Borrower(s) must be able to exhibit a historic level of assets to support the cash purchase (supported by Schedule B of the last two (2) year's tax returns) or other supportive documentation to verify receipt of such funds. Funds must have been on deposit at least 90 days prior to the date of the original transaction. • If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the closing disclosure for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. **Note:** Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan. • The new loan amount can be 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/TLTV/HTLTV ratios for the cash-out transaction). **Note:** Maximum cash-out limitations do not apply. • The title must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the LLC prior to transfer). In addition, a six (6) month history of homeownership between the LLC and the natural person must be documented. Transfer of ownership from a corporation to an individual does not meet this requirement. All other cash-out refinance eligibility requirements are met with the exception of continuity of obligation, which need not be applied.
Home Improvements	• Loan proceeds must be used to reimburse the borrower for cash spent on or lien(s) incurred for home improvements. • The loan must be considered a cash-out refinance transaction.

Limited Cash-Out (Rate/Term) Refinance	**General**
	• The LTV is based on the current appraised value, regardless of the length of ownership.
	• The transaction must meet all continuity of obligation requirements.
	• For rate/term refinance transactions, there is no minimum seasoning requirement.
	• Proceeds from a rate/term refinance may be used to pay off the following:
	    • principal balance of an existing first mortgage lien, regardless of age,
	    • related closing costs, discount points, prepaids, and/or
	    • subordinate mortgage liens that have been seasoned for at least one (1) year. For a junior lien that is an equity line of credit, the seasoning requirement shall be applied to the date of the most recent draw against the equity line unless the draws were less than $2000 (the total draws cannot exceed a total of $2000 in the last 12 months).

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Proceeds from a limited cash-out transaction may not be used to pay off the unpaid principal balance of a Property Assessed Clean Energy (PACE) loan.
If a subordinate lien (including equity lines) is to be paid off in the refinance transaction, it must be seasoned for at least one (1) year; otherwise, the transaction will be considered a “cash-out” refinance and not eligible as a rate term refinance. This includes, but is not limited to, home improvement liens evidenced by a Materialmens’ or Mechanics’ lien on the title binder.
If secondary financing is not seasoned, it may be included in the refinance if the second lien was incurred at the original purchase of the property (evidenced by a copy of Closing disclosure from the original purchase) or the second was used for documented home improvements.
If the second was used for home improvements and is not seasoned, the borrower must provide copies of the cancelled checks and receipts and/or a copy of the contract specifying the total of the improvements (if the borrower contracted the work). The appraisal should support the value of the improvements.
The borrower cannot receive more than the following in cash at closing:

loan amounts </= $1,000,000 will be limited to two thousand dollars $2,000), OR
loan amounts > $1,000,000 will be limited to five thousand dollars ($5,000).

Spousal/Partner Buy-Out and Inherited Properties

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the following guidelines are met:

All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction.

A copy of the divorce decree, closing disclosure, will or probate court approval must be provided as verification of the terms of the buyout.

Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing.
The party buying out the other party’s interest must be able to qualify for the mortgage pursuant to program underwriting guidelines.
Payoff to the spouse/partner must be reflected on the Closing disclosure.
The property must be the borrower’s primary residence.

Parties who inherit an interest in the property do not have to satisfy this requirement.

Purchase money seconds as well as non-purchase money seconds may be paid off through this transaction and remain a limited cash-out (rate/term) refinance.

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<td>Secondary Financing</td>
<td>
General

The terms of the secondary financing must be fully disclosed in writing for each transaction and must comply with standard Portfolio underwriting secondary financing guidelines presented in this section.
TLTV is the “total loan-to-value” of the first AND second mortgage to the sales price/value of the property (if second is HELOC, the total available credit line is used to calculate TLTV/HTLTV).
If secondary financing is subordinated, a copy of the note, and if the second is a HELOC, a copy of the financing agreement terms on the HELOC is required for the loan file.

Note: In lieu of the second mortgage note (or financing agreement) a letter from the lender, on their letterhead, may be obtained only if the subordinate lien is reported on the credit report. The letter must disclose the terms of the secondary financing and confirm if the second lien is subject to a prepayment penalty and if so, outline the terms (i.e., prepayment period).
Acceptable title evidence must be obtained showing all secondary financing recorded and clearly subordinate to the first lien.

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<td>Secondary Financing
(continued)</td>
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Secondary financing must have regular monthly payments of principal or interest only and payments must be included in the debt-to-income ratio.
The interest rate must be at a market rate.
Only second mortgages from banks and credit unions are allowed.

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	• Seller held and privately held second mortgages are not allowed.
	• Secondary financing cannot be subject to wraparound terms.
	• Secondary financing (new or existing) which could impose a penalty for prepayment is not acceptable unless:
	  • the subordinate loan is a home equity line of credit (HELOC), and the amount of the prepayment penalty, prepayment fee, account closure fee, account termination fee, etc. does not exceed $500.00, or
	  • The subordinate loan is a home equity line of credit (HELOC), or closed-end second mortgage where the lender paid for some or all of the borrower's closing costs and allows the lender to recoup the closing costs if the borrower pays the HELOC or closed-end second mortgage off early, or
	  • The prepayment penalty clause has lapsed.
	
	  Notes:
	    • The HELOC must be in compliance with all federal, state and local laws.
	    • Recouped fees may be deemed a prepayment penalty under state laws, in which case the second loan/line would not be eligible for subordination.
	• Monthly payment must, at a minimum, meet the interest due. If the rate is variable, payments must be constant every 12 months.
	• Secondary financing cannot have negative amortization.
	• Variable payments are acceptable if one (1) or more of the following applies:
	  • The first mortgage is an ARM (regardless of the initial fixed rate period), or
	  • The second mortgage is a HELOC.
	
	Reference: See the "HELOC" subtopic in the "Liabilities and Qualifying Ratios" topic for additional information regarding qualifying payment requirements for existing HELOCs.
	
	New Secondary Financing
	• New secondary financing is not eligible on either purchase or rate/term refinance transactions when the LTV/TLTV is 80% or greater, and the loan amount exceeds $1,000,000.
	
	Reference: See the "Maximum Loan-to-Value (LTV) subtopic in the "Loan Terms" topic for additional information.
	
	• Secondary financing with a balloon payment in less than five years after the note date of the first lien. The following guidelines apply:
	  • We do not require actual payoff of the account, but the client does need sufficient assets available to pay off the outstanding balance in addition to the required funds to complete the transaction.
	  • An underwriting manager must review these loan transactions.
	  • Use the account information from the credit report to determine eligibility unless other documentation in the loan file reflects information that is more current.
	
	Existing Secondary Financing
	• Secondary financing with a balloon payment in less than five years after the note date of the first lien. The following guidelines apply:
	  • We do not require actual payoff of the account, but the client does need sufficient assets available to pay off the outstanding balance in addition to the required funds to complete the transaction.
	  • Use the account information from the credit report to determine eligibility unless other documentation in the loan file reflects information that is more current.
	The existing lender on secondary financing cannot have the ability to call the loan due within the first five (5) years after closing on this loan.
	
	Home Equity Line of Credit (HELOC)
	• TLTV is the "total loan-to-value" of the first AND second mortgage to the sales price/value of the property (if second is HELOC, the total available credit line is used to calculate TLTV).
	• The repayment terms for secondary financing may provide for variable payments.

	• The terms of the HELOC may also provide a balloon or call option within the first five years after the note date of the first mortgage. • On a simultaneous purchase with a concurrent HELOC, any unutilized portion of the HELOC requires a rescission period. • The borrower MAY NOT access any non-disbursed funds until the rescission period has expired. **Documenting a Modified HELOC** • Lenders in some cases must reduce the available line of credit on a HELOC to meet the new first mortgage's TLTV and the HTLTV requirements. Obtain one of the following forms of documentation to show a modified line amount for a HELOC: 1. A complete and recorded Modification Agreement (fully executed by the HELOC lender and all borrowers under the HELOC). 2. In the event the recorded modification agreement is not back from recordation, an unrecorded modification agreement fully executed reflecting the instrument number or other evidence of submission for recordation stamped by the recorders' office (certified by the clerk of court). 3. A written agreement between the HELOC lender and the borrower agreeing to the reduction in the credit line amount to a specific amount as of a particular date. All borrowers must sign the written agreement. 4. A cover letter from the HELOC lender on company letterhead reflecting a signature from the appropriate company representative that includes confirmation of the reduced credit line to a specific amount as of a specific date, along with evidence of the borrower's request/consent to the reduction (preferably in writing). **Note**: Obtain items 1 or 2 for the best evidence of documenting this change whenever possible. Items 3 and 4 are acceptable when the first two are not available. In this case, it is mandatory to maintain appropriately signed documentation. • If you cannot obtain one of the above forms of documentation, use the original line amount of the HELOC to calculate the TLTV/HTLTV for the new first mortgage.

State Restrictions	Alaska and Hawaii, or any U.S. territories properties in are not allowed.
	Georgia Power leasehold properties are not eligible.
	Not able to purchase mortgage loan transactions for participants in the Minnesota "Safe at Home Act"
	Texas –
	• Cash-out refinances on primary residences in Texas are not eligible.
	• Rate/Term refinances are allowed and must meet all Key Loan Program guidelines. If prepaids and taxes are included in the loan amount the following conditions must be met:
	  ◦ The prepaids and taxes are limited to 5% of the loan amount
	  ◦ The following language must be included in Schedule B of the Title Insurance: "Possible defect in lien of the insured mortgage because of the insured's inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage."
	  ◦ The following P-39 Standard Language must be included in the Title Insurance Policy: "Company insures the Insured against loss, if any, sustained by the Insured under the terms of this Policy by reason of a final, non-appeasable judgment of a court of competent jurisdiction that divests the Insured of its interest as Insured because of this right, claim, or interest. Company agrees to provide the defense to the Insured in accordance with the terms of this Policy if suit is brought against the Insured to divest the Insured of its interest as Insured because of this right, claim or interest."

Eligible Property Types	• 1-Unit Single Family, attached or detached properties, PUD (Attached properties a PUD warranty/certification is required, Condo (Fannie Mae approved or warrantable)
Ineligible Properties	The following is a list of ineligible properties: • 2-4 unit properties, • apartment buildings, • bed and breakfast properties, • boarding houses, • commercial buildings, • condominium hotels or condotels,

	• cooperatives,
	• earth/earth-sheltered and geodesic/dome homes,
	Notes:
	  • Homes that have a geothermal heat pump as the main heating and cooling system are eligible.
	  • The Underwriter must determine that the appraisal supports the market for this type of property.
	
	• Georgia Power leasehold properties,
	• houseboat projects/properties,
	• Indian lands that are leasehold estates,
	• investment properties,
	• leaseholds that do not extend beyond the loan term and are not typical in the market area,
	• log homes,
	• mixed-use properties,
	• mobile/manufactured homes,
	• model homes not eligible for occupancy within 60 days of loan closing, modular (i.e. factory built, pre-cut/panelized) housing properties less than 2500 square feet in size,
	• non-warrantable condominium/PUD projects,
	• properties listed for sale within the last six (6) months (if cash-out refinance), unless Delayed Financing Cash-Out refinance requirements are met,
	• properties on acreage exceeding 15 acres,
	• projects with legal non-conforming use,
	• residential properties zoned commercial or industrial,
	• studio condominiums,
	• Texas homestead properties secured by a 50(a)(6) mortgage,
	• timeshare units,
	• unimproved land,
	• unique properties, other than those listed above, in which the marketability cannot be established, and
	• working farms, ranches, and orchards.

Leasehold	Allowed in those areas where there is a market acceptance, and the mortgage covers the mortgagor's leasehold interest in the land. The following are ineligible – mixed used leasehold estates, manufactured home on leasehold estates, properties located within Indian lands that are on leasehold estates, or Georgia Power Leasehold Estates.
Occupancy:	• Primary residence and second home. Investment properties are ineligible. If the subject property is a second home, the loan must be underwritten by the investor.
Maximum Acreage	• 15 acres.
Borrowers	• Must be US citizen or Permanent Resident Alien. ***Permanent resident aliens maximum LTV/TLTV is 80% with a maximum loan amount of $1,000,000.***
Non-Occupant Co-borrowers	• DTI calculations are to be performed separately for the borrower and the non- occupant co-borrower. • The maximum LTV/TLTV is 70%. • The non-occupant borrower must be an immediate family member. • The Note and Security Instrument must be signed by both occupant borrower and non-occupant co-borrower. • The non-occupant co-borrower cannot have any interest in the sales transaction, such as seller, builder, real estate agent, etc. • The occupant borrower on the loan transaction must qualify separately withratios not to exceed 35%/40%.
Ineligibility Borrowers:	• Corporations, Foreign Nationals, General Partnerships, Limited Liability Corporations, Limited Partnerships, Land Trusts (including Illinois Land Trusts), and Non-Permanent Resident Aliens.

Income and Employment Documentation Requirements	• A verbal, written, or faxed verification of employment (VVOE) must be completed by the correspondent lender or third part vendor within:
	  • ten(10) business days (salaried) / thirty (30) calendar days (self-employed) prior to closing (i.e., Note date) for non-escrow closing states, and
	  • ten (10) business days (salaried) / thirty (30) calendar days (self-employed) prior to funding for escrow closing states.
	  • Alternatively, lenders may obtain the verbal VOE after closing, up to the time of loan delivery. If the verbal VOE cannot be obtained prior to delivery, the loan is ineligible.
	Notes:

	• Escrow states are as follows: Arizona, California, Idaho, Nevada, New Mexico, Oregon, Utah, Washington (New York and Rhode Island in some cases).
	• Business days do not include Saturdays, Sundays, or Federal Holidays when obtaining the VVOE.
	
	Retirement Income
	• The borrower must have unrestricted access without penalty to accounts.
	• The borrower must document regular and continued receipt of the income and must provide one (1) of the following:
	  • letter from organization providing the income,
	  • copies of retirement awards letter(s),
	  • copies of signed Federal tax returns filed with the IRS,
	  • IRS W-2s or 1099 forms, or
	  • most recent two (2) months or 60 days bank statements reflecting regular deposits.
	• If retirement income is paid in the form of a monthly distribution from a 401(k), IRA, or Keogh retirement account, a 10-year continuance has been verified.
	• If the borrower has recently retired and set up an account for income draws, income from the principal balance may only be used if a payment schedule has been set up.
	• If the assets are in the form of stocks, bonds, or mutual funds, 70% of the balance of the asset (less any funds used for down payment, closing costs, prepaids/escrows, and/or financing costs) must be used to determine the number of distributions remaining, to account for the volatile nature of these assets.
	
	Rental Income
	• When using rental income to qualify the borrower and the borrower has provided fully completed and filed 2021 Individual Tax Returns. See information below.
	• If the borrower has not provided fully completed and filed 2021 Individual Tax Returns, the following restriction continues to apply:
	  • In addition to standard Portfolio guidance for rental income, two months of the current receipts for rental income is required.
	  • Loans closing after the 15 of the month require verification of rental income for the current month.
	  • Documentation needs to include one of the following:
	    ○ A bank statement showing deposit of rental income amount as stated in the rental agreement.
	    ○ Copy of cancelled check for rental amount as stated in the rental agreement (front and back).
	    ○ Other documentation that can establish borrower's receipt of rental income amount as stated in the rental agreement. (e.g., Venmo, PayPal).
	• Rental income is acceptable stable income, as long as the likelihood of the continuance of the income can be established.
	  • Rental income from the borrower's primary residence (a one-unit primary residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower.
	• To demonstrate stability and continuance, documentation requirements when rental income is used as part of the borrower(s) qualifying income is as follows:
	  • Borrower(s) must demonstrate at least a 24 month history of managing rental properties with no gaps greater than three (3) months. A copy of borrower(s) most recent two years signed and dated individual Federal tax returns including all schedules is required.
	  • If the property is owned at least 6 months, but less than 24 months, rental income may be qualified utilizing:
	    • a copy of the current lease, and
	    • 6 months bank statements proving the rental income has been consistently received.
	
	  Notes:
	  • A copy of the lease agreement may be used to determine rental income only if the property is not on the Schedule E because it was acquired subsequent to filing the tax return, along with the following documentation:
	    • Copy of the security deposit from tenant, and
	    • Proof of rent received by the borrower(s) since inception of lease.

	• When a current lease agreement is used, the net rental income will be 75% of the rent from the lease agreements, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses. • If property is owned more than 24 months, rental income may be qualified utilizing: • 24 month rental history filed on Schedule E of the borrower's personal tax returns, or business tax returns when the rental property is owned through a business. **For Self-Employed Income** – see below and COVID Related Guidance • All required documentation is included in the loan file. • Minimum self-employed documentation requirements are met: 2 years personal and business tax returns including all schedules and signed YTD P&L and balance sheets are mandatory for all business types. • Verbal Verification of Employment required on ALL loans, for all borrowers and applies to ALL jobs where income is being used to qualify, including seasonal jobs, second jobs, and borrowers currently on temporary leave, short term disability, or during a seasonal layoff period. A verbal VOE is not acceptable when completed during the rescission period on a refinance. The verbal VOE MUST be completed PRIOR to the loan closing (Note date). There are NO exceptions to this policy.
Qualifying Rate	• Fully Amortizing Fixed Rate: fully amortizing payment (PITI) at the note rate.
DTI	• The standard maximum DTI ratio is 43%, regardless of the TLTV.

Credit Requirements	• Minimum credit score requirements have been met (see above matrix)
	• The borrower's payment history reflects 0x30 on ALL housing debts for the last 24 months (including ALL mortgage and rental payments)
	• If there is no payment on an open-ended or revolving account with or without a balance on the credit report, the minimum payment was calculated as the greater of $10 or 5% of the outstanding balance.
	• All HELOC payments are based on the greater of 1% of the full line amount or the payment as reflected on the credit report or the borrower's monthly HELOC statements (applies to all properties owned by the borrower).
	• A letter of explanation has been provided for all derogatory credit.
	
	Credit Score Requirements
	• When credit scores are required, the qualifying score is identified as follows:
	  • if there are three (3) scores, the middle score is used, or
	  • if there are two (2) scores, the lowest score is used.
	• At least two of the three credit bureaus must provide a credit score.
	• The use of a credit score from a foreign country is not permitted.
	• When there are multiple borrowers involved, the lowest applicable credit score among the borrowers is the minimum representative score.
	
	Credit History – General Information
	• There cannot be any major adverse credit reported in the last 24 months on revolving or installment accounts.
	• The borrower(s) entire credit history must be reviewed to determine that there is not a pattern of delinquent payment history.
	
	Minimum Tradeline Requirements
	• The credit report must contain a minimum number of tradelines, sufficient seasoning and the minimum required credit score applicable to the transaction.
	• There can be no 30-day late payments in the last 24 months on any mortgage (1st, 2nd, or HELOC) or rental accounts for all primary, second home, and investment properties.
	• An acceptable borrower(s) credit report must satisfy one of the following options:
	Note: At least one borrower on the loan must have a non-disputed installment or mortgage debt tradeline for either Option 1 or Option 2 below .

	Option 1
	• The credit report contains a total of at least three (3) open non-disputed tradelines; one (1) of which must be a non-disputed installment or mortgage tradeline,
	• each of the three (3) tradelines must be open for at least 24 months, and
	• each of the three (3) tradelines must be updated within the last six (6) months.
	
	Option 2
	• The borrower(s) must have a credit history of at least five (5) years,
	• the credit report must contain at least five (5) non-disputed tradelines (open, paid or closed); one (1) of which must be a non-disputed installment or mortgage tradeline (open, paid or closed),
	• individual tradelines may be established for less than a five (5) year period, and
	• the tradelines being evaluated in Option 2 must have had activity within the most recent five (5) year period.
	
	Borrowers Not Meeting the Minimum Tradeline Requirements
	• Credit reports that contain too few qualifying tradelines, insufficient trade history and/or do not meet the above tradeline requirements may be considered on a case-by-case basis.
	• Not eligible for First Time Homebuyers.
	• All borrower(s) and co-borrower(s) with a credit score must meet minimum credit score requirements.
	
	Bankruptcy/Foreclosure and/or Deeds in Lieu
	• A borrower must have been discharged or dismissed from a Chapter 7 or 11 bankruptcy at least seven (7) years prior to loan application.
	• The borrower cannot have had a foreclosure or deed in lieu of foreclosure within the seven (7) year period prior to loan application.
	• If Chapter 13, bankruptcy must be:
	  ◦ discharged or dismissed at least four (4) years prior to loan application, and
	  ◦ MUST have a satisfactory Bankruptcy Court payment history. This history must cover payments from Approval of Chapter 13 plan to Discharge.
	• Borrowers with more than one (1) bankruptcy filing are not eligible.
	• When bankruptcy, foreclosure and/or deed-in-lieu of foreclosure information appears in the tradeline section of the credit report, but not in the public records section, use the bankruptcy, foreclosure and/or deed-in-lieu of foreclosure date showing under the tradeline section on the credit report to meet these requirements.
	• The borrower must have re-established a satisfactory credit history and demonstrate the ability to manage his/her financial affairs since the time of the discharge/dismissal.
	• The borrower must show a re-established satisfactory credit history as follows:
	  ◦ minimum four (4) credit references (one must be a traditional credit reference and one must be housing related),
	  ◦ at least three (3) credit references must have been active 24 months before application and all accounts must be current as of loan application,
	  ◦ no more than 2 x 30 day lates on installment or revolving debt in the 24 month before loan application,
	  ◦ no 60+ day lates on installment or revolving debt since discharge or dismissal,
	  ◦ no past due housing payments since discharge,
	  ◦ no new public records for bankruptcies, foreclosures, deeds-in-lieu, unpaid judgments, unpaid collections, garnishments, liens, etc. since discharge or dismissal,
	  ◦ minimal usage of revolving accounts, including accounts with high balances-to-limits (i.e., balances should not typically be more than 50% of the limits), and
	  ◦ the credit score for the LTV/TLTV loan amount combination is required for all borrowers.
	• Documentation must include a copy of the bankruptcy petition, the schedule of debts and discharge or dismissal, and a letter of explanation from the borrower.
	
	Forbearance Eligibility Requirements
	• Status of all mortgage loans on which the borrower is obligated must be determined.

	• Examples of acceptable document include: loan payment history, mortgage payoff statement, mortgage account statement, and verification of mortgage. • A borrower who is not current and has missed payments on any mortgage loan is eligible for a new mortgage loan if those missed payments were resolved in accordance with the requirements (review the table on the next slide). **Collections, Judgments, Garnishments, Liens, and Charge-Offs** • Not more than $2,000 in aggregated balance(s) in judgment, collection, and/or charge-offs may remain unpaid after closing, and not more than $1,000 in aggregated balance(s) that are from revolving, or installment debt may remain unpaid after closing. No accounts may be paid down to meet these guidelines, they must be paid off. • All garnishments and liens must be paid in full prior to closing or paid off at closing as evidenced by the Closing disclosure. • The borrower must provide a satisfactory letter of explanation and have re-established good credit (as evidenced by the residential mortgage credit report). **Note**: Gifts may not be used to pay off a judgment, charge-off, collection, garnishment or lien. **Consumer Credit Counseling** • Borrowers that have been in CCC are ineligible for financing for five (5) years from their completion date. **Inquiries** • If the credit report reflects credit inquiries from lenders within 120 days of the credit report date, explanation for all inquiries referenced, EXCEPT for the inquiry made by the originating lender that is directly related to the subject mortgage loan application, is required. Past Due Accounts • All past due accounts must be brought current at or prior to closing. • Additional underwriter review and consideration is required when there are past due accounts reported in the last 24 months.
Cash Requirements	**Assets/Cash Reserve Requirements** • All assets disclosed on the final loan application must be verified. • The following assets may be used as funds for closing (closing cost and prepaids), down payment, and reserves: bonds, bridge loans, certificates of deposit (CDs), checking accounts, gifts, money market funds, mutual funds, net equity, retirement funds, savings accounts, secured borrowed funds, stock, trust funds. • The following list shows ***ineligible sources*** of closing costs, down payment, and reserves:1031 tax exchange, bridal registry funds, cash-on-hand, cross collateralization, pooled funds, sweat equity, gifts from unrelated person, lines of credit on credit cards, salary advance from employer (unsecured loan), signature loans, overdraft protection on checking accounts, trade equity, unsecured borrowed funds, and/or unverified sale of assets. **Bridge Loans in Second Lien Position** • An equity bridge loan, which is held in second lien position, can be an equity line or loan from a lender securing the property listed for sale. • There is no limit on the term of a bridge loan. • The bridge loan cannot be cross collateralized against the new property. **Business Assets as Source of Funds for Closing** • When business assets are used for down payment, closing costs, or reserves, all of the following requirements must be met: • The borrower must be 100% owner of the business.

- A full analysis of the business financials must consider the current effect of the asset withdrawal on the business and must consider how the withdrawal will impact the viability of the business in the future.
  - Three (3) month of the most recent business asset/bank statements are required to evaluate cash flow.
    - The most recent statement may not be dated more than 45 days prior to the application to date.

Down Payment Requirements

- The borrower must make a down payment of at least 5% from their ow n cash funds.
- The borrower may use gift funds for any additional down payment (over and above the required minimum (5%) and for all closing costs.

Reserves – PITIA

- Loan Amount - </= $1,000,000 – 6 months reserves required
- Loan Amount - > $1,000,000 – 12 months reserves required
- Additional six months if retaining their current primary
- If you are excluding a debt with 10 or less payments, you need to include reserves to cover the balance.
- 30 day accounts – include reserves to cover the balance.

NOTE: If the borrower owns multiple finance properties, **additional reserves of 2 months PITIA are required** for each additional financed property owned regardless of occupancy type for the subject.

Checking, Savings, and Certificate of Deposit (CD)

- The borrower must provide one of the following:
  - Most recent two months or 60 days of complete bank statements, if received monthly, or
  - the most recent complete quarterly bank statement, if received quarterly.

Credit Cards

- Credit cards may be used to pay common and customary fees paid outside of closing such as application fees, closing costs and/or prepaid items under the following conditions:
  - the maximum amount charged is one percent (1%) of new loan amount, not to exceed $5,000, and
  - when fees are charged to the borrower's credit card, the borrower's credit card debt must be recalculated taking into account the additional credit card balance and the recalculated debt must be included in the qualifying ratios, or
  - the borrower must have sufficient liquid assets (documentation in file) to pay charged fees, in addition to funds needed for other closing costs, down payment and reserve requirements.

Earnest Money Deposit

- All earnest money deposit (EMD) sources must be verified with the following documentation:
  - a copy of the cancelled check and 2 months or 60 days of bank statements (up to and including the date the check cleared) to evidence a sufficient average balance to support the amount of the earnest money deposit, or
  - verification that there are sufficient funds on deposit in the applicant's accounts to cover the EMD and any other required funds to close.
- Large deposit guidelines apply.

Donations from Entities

- Donations from entities cannot be a secured lien against the subject property.
- Funds from a gift or grant provided by a church, municipality, non-profit organization (excluding credit unions), or public agency may be used for down payment and closing costs if all of the following applies:
  - the property is a primary residence,
  - the borrower has provided the required minimum down payment from his/her own cash funds for the applicable first mortgage product,
  - the gift or grant is not in the form of secondary financing,

	- documentation is provided of the gift or grant (i.e., a complete copy of the award letter or legal agreement with terms and conditions), and - documentation verifies there is no repayment and indicates how funds will be transferred (i.e., to borrower, lender or closing agent). • If the LTV/TLTV/HTLTV is 80% or less, the full amount of down payment may be provided by a gift or grant from an acceptable entity. • Funds are not eligible if donated to an acceptable entity from the property seller or other interested party to the transaction and the entity passes the funds to the borrower for down payment. Such funds, however, may be used for closing costs/prepaids and are subject to seller contribution limits. • Funds are eligible for use as down payment if they are donated to an acceptable entity from the lender (with no assurance that the funds will be used to assist borrowers obtaining mortgages through the lender) or from the borrower's employer and are not tied to a particular transaction. **Employer Assisted Housing Programs** • An owner-occupant borrower can use funds provided by his/her employer to pay part of the closing costs or to supplement his/her financial reserves. **Note:** Unsecured employer assisted funds cannot be applied to reserves. • The borrower generally must use his/her own funds to make the minimum cash down payment, although the down payment can be supplemented with financial assistance from the borrower's employer. • Employer's affiliated credit union (in addition to the employer) may provide funds under the following conditions: - If credit union provides funds then the loan file must be documented that the credit union is affiliated with the employer. -- If unable to document affiliation then funds may not be used. - Only employees (not employee family members) are eligible. **Note:** The Employer Assisted Housing Program must be an established, ongoing, company-wide employer benefit program, not just an accommodation developed for an individual employee. • The employer's financial assistance for either closing costs or the down payment may be in the form of a grant, a direct, fully repayable second mortgage or unsecured loan; a forgivable second mortgage or unsecured loan; a deferred payment second mortgage or unsecured loan; or mortgage payment assistance. • When assistance is a secured second mortgage, the transaction must satisfy the requirements for mortgages subject to subordinate financing. - The financing does not have to require regular payments of either principal and interest or interest only. Instead, the financing may be structured in any of the following ways: fully amortizing level monthly payments; deferred payments for some period before changing to fully amortizing level payments; deferred payments over the entire term; or forgiveness of the debt over time. The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing. **Gifts** • Gift funds may be used for both primary residence and second home transactions. • Gift funds may be used for any additional down payment (over and above the required minimum five percent (5%) and for all closing costs. • The gift must be provided from an immediate family member. • The borrower may use assets received as a gift to supplement his or her own funds but cannot rely solely on gift assets in satisfying any applicable financial reserve requirement. • A gift letter is always required and must contain the following information: - donor's name - donor's mailing address, - subject property address,

	• donor's relationship to borrower,
	• donor's telephone number,
	• amount of the gift,
	• date of the gift transfer,
	• establish that the funds are a gift and do not have to be repaid, and donor's signature.
	
	Note: It is not acceptable to notate the loan file/application with the gift donor information in lieu of a gift letter.
	
	• The gift funds must be verified in either the borrower's or the donor's account at underwriting.
	• The transfer of gift funds to the borrower must be documented in one of the following ways:
	  • if funds transfer before closing, a copy of the donor's canceled check or withdrawal slip and a copy of the borrower's deposit receipt, or
	  • if funds transfer at closing, the Closing Disclosure with gift funds reflected on it or a copy of the certified check from the donor.
	
	Gifts of Equity
	• Gifts of equity are eligible for primary residence and second home purchases only.
	• The gift must be provided from an immediate family member.
	• If land was deeded to the borrower as a gift before loan application, gift guidelines do not apply.
	• If property was given in a deed of gift, current appraised value of the land is used to determine LTV.
	• A gift of equity cannot be combined with any additional monetary gifts from the seller, and the borrower must contribute a minimum of five percent (5%) from their own funds towards the down payment regardless of the LTV/TLTV/HTLTV.
	• A gift letter is always required and must contain the following information:
	  • donor's name
	  • donor's mailing address,
	  • subject property address,
	  • donor's relationship to borrower,
	  • donor's telephone number,
	  • amount of the gift,
	  • establish that the funds are a gift and do not have to be repaid, and
	  • donor's signature.
	• A gift of equity from the property seller who is also a related person is acceptable when all of the following are met:
	  • related person is not the builder, developer, real estate agent or any other interested party to the transaction nor affiliated with same, and
	  • meets all the gift requirements.
	• The gift of equity must be reflected on the Closing Disclosure.
	• See the Gifts subtopic previously presented for additional information.
	
	Secured Loans
	• Borrowed funds that are secured by an asset may be used as a source of funds for the down payment, closing costs, and financial reserves.
	• Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets [such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.
	• Proof of the value and ownership of the asset used to secure the loan must be documented in the mortgage loan file.
	• Terms of the secured loan must be documented in the file. It must be confirmed that the funds have been transferred to the borrower and verified that the party providing the secured loan is not party to the sale or financing of the property.
	
	Note: It is acceptable for a lender to provide secured lending for BOTH the down payment and the financing of the new mortgage loan. The lender must provide written documentation ensuring that the collateral for the

	secured loan has a value of at least the amount of the loan. • The payment must be included in the total debt ratio EXCEPT when the loan is secured by the borrower's financial assets. When the loan is secured by the borrower's financial assets, monthly payments for the loan do not have to be included in the total debt ratio. If the same financial asset also is used as part of the borrower's reserves, the underwriter must take into consideration the fact that the value of the asset has been reduced by the proceeds from the secured loan (and any related fees). • If the loan does not require a payment, a payment must be calculated using the term, interest rate, and loan amount. **Unacceptable Sources of Down Payment** • 1031 Tax Exchange, • Bridal registry funds, • Cash-on-hand, • Cross collateralization, • Gifts from unrelated person. • Lines of credit on credit cards, • Overdraft protection on checking accounts, • Pooled funds, • Rent with option to buy, • Salary advance from employer (unsecured loan), • Signature loans, • Sweat equity, • Trade equity, • Unsecured borrowed funds, and • Unverified sale of assets.
Maximum Number of Financed Properties	• For primary residence transactions, the number of finance properties is unlimited. • For second home transactions, the number of finance properties is limited to six (6) and is combined for all borrowers on the loan to determine the total number of financed properties, regardless of whether or not the borrowers are married. It is not acceptable to calculate the total number of finance properties by each individual borrower. **NOTE**: If the borrower owns multiple finance properties, **additional reserves of 2 months PITIA are required** for each additional financed property owned regardless of occupancy type for the subject.
Contributions by Interested Parties	**Lender Credits** • If applied to closing costs, seller contribution limits do not apply. • If applied to prepaids, seller contribution limits apply. **Seller Contributions** **Primary Residences** **TLTV** / **Max Contribution %** 80% and below / 6% Above 80% / 3% **Note:** The limits are based on TLTV and not LTV.
Mortgage Insurance	Not required.
Appraisal Requirements	General The table below reflects minimum appraisal requirements based on loan amount. **Loan Amount or Combined Total Loan Amount[1]** / **Appraisal Requirements** < $1,500,000[2] / One (1) full appraisal by a State Certified Appraiser >/= $1,500,000 and </= $2,000,000 / Two (2) full appraisals by State Certified Appraisers

	[1]The total loan amount includes the outstanding balance on second mortgages and the total credit line amount on home equity lines of credit (HELOCs).
	[2]Two full appraisals are required on family transfer transactions when the loan amount or combined loan amount is >/= $1,000,000.
	
	• Homes that have a geothermal heat pump as the main heating and cooling system are eligible. The Underwriter must determine that the appraisal supports the market for this type of property.
	• Collateral/Appraisal Approval from Investor – This is an included service and can be used for a high-level review of the appraisal prior to closing or when there is a FNMA CU with a risk score of 2.5 or higher (should obtain desk review on these, Radian Red Bell is the one they use the most)
	  • Upon your receipt of the appraisal, you would upload to the portal per the Appraisal Delivery Instructions. The National Appraisal Review Team (NART) will be notified to review
	  • Include SSRs with the appraisal submission.

AUS Eligibility	AUS reflecting Approved/Ineligible required.

Escrow Waivers	**Loan eligibility waiver requirements:**
	• Key Loan program transactions are eligible for an escrow waiver, with the following requirements:
	  • fixed rate and ARM loans
	  • 80% LTV or less (California only, LTVs <90%)
	• Loan products and loan transactions ineligible for waiver:
	  • First-time homebuyer for Key loan program only
	  • Transactions with special assessments
	
	Note: If a particular law or regulation does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible without escrows.
	
	Escrows eligible for waiver:
	• Real estate taxes
	• Hazard insurance
	• The product allows escrows to be waived.
	• Flood insurance, if:
	  • the subject property is a purchase or
	  • the subject property is a condominium and all individual flood insurance policies for the condominium unit shows the client as the insured, including flood insurance policies that are required to supplement a Residential Condominium Building Association Policy (RCBAP) shortfall.
	    • A condominium and some PUD properties are not required to establish an escrow for flood insurance if that condominium or PUD property has a master policy that carries sufficient flood coverage, and that policy reflects the HOA as the insured and not the subject. However, it is acceptable for the client to obtain an individual flood policy, then mandatory escrow is required for the individual policies.
	
	    Note: The HO-6 insurance escrow requirement can be waived under the same terms and conditions that apply to HO-3 insurance policies (individual hazard policies).
	
	Borrower Eligibility Waiver Requirements
	• Escrow items can be waived partially or in full provided borrowers meet eligibility requirements. The underwriter must take the following information into consideration when determining if a borrower is eligible for an escrow waiver:
	  • Borrowers must have the financial ability to handle the lump-sum payments on their own. Financial ability is defined as the ability to make a payment from disposable income or to accumulate funds by the time the payment is due. Financial ability could be found to exist, for example, when the borrower has had an acceptable payment history on his or her mortgage.
	  • Escrow waivers must not be approved for clients with derogatory credit history. Examples of derogatory credit history may include the following:
	    • There is more than one account showing recent late payments.
	    • There is more than one 30-day late mortgage payment in the last 12 months.

	- There are multiple episodes of late payments extending over a period of time. - The public record information reveals occurrences of derogatory credit information, including judgments, tax liens, and/or collection accounts. - No portion of the loan proceeds may be used to pay delinquent property taxes when escrows are waived on a loan. **Escrow Waiver Fees** Escrow waiver fees vary according to loan product or property state. **Loan File Documentation** - When an escrow waiver has been granted, Correspondent lenders are required to provide a waiver of tax and insurance escrow form. - The waiver of tax and insurance escrow form must be executed by the borrower(s) and the loan officer. - Copies of the hazard and/or flood insurance policies, and the Tax Information Sheet are required to be in the loan file, even when the loan is non-escrowed in part or full.