Correspondent Lending

Jumbo Underwriting Guide

AIG INVESTMENTS

AIG Investments
Jumbo Underwriting Guidelines

September 7, 2017

These AIG Investments Jumbo Underwriting Guidelines (Exhibit A-2) are dated September 7, 2017.
The Underwriting Guidelines may be updated or modified from time to time. AIG Investments believes the information contained in this document relating to state laws and third party requirements to be accurate as of September 7, 2017. However, this information is provided for informational purposes only and may change at any time without notice. AIG Investments is providing this information without any warranties, express or implied.

AIG Investments is an affiliate of American International Group, Inc. ("AIG").
AIG Investments is the program administrator for this program and not the purchaser of the loan.
Please refer to the AIG Investments Correspondent Seller's Guide for additional information regarding the relationship between the parties.

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Jumbo Loan Underwriting Introduction

The purpose of credit and property underwriting is to ensure that each loan meets AIG Investments' quality standards. A loan meets AIG Investments' underwriting quality standards if the borrower's credit and capacity to make payments and the quality of the collateral are consistent with the mortgage loan program under which the loan is sold to an Approved Buyer. The likelihood of timely repayment is expected to be commensurate with the credit quality of the loan program and the represented value of the subject property is expected to reflect accurately its market value.

These Jumbo Underwriting Guidelines set forth the underwriting standards that apply to all jumbo loan programs, for purposes hereof, "jumbo mortgage loan" means that the loan amount exceeds the conforming maximum mortgage loan limits imposed by the Federal Housing Finance Agency (FHFA), as the same may be set from time to time. The maximum loan amount for jumbo mortgage loans eligible for sale to Approved Buyers through the AIG Investments program is currently $1,000,000. Generally, underwriting standards that vary from one Loan Program to another are described in Section One, General, as modified from time to time. In most cases, differences will not be referenced in these Jumbo Underwriting Guidelines. Requirements set forth in these Jumbo Underwriting Guidelines are applicable to loans underwritten by Desktop Underwriter® unless otherwise specified.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

These Jumbo Underwriting Guidelines are a part of the AIG Investments Correspondent Seller's Guide (the "Seller's Guide"). All capitalized terms not defined in these Jumbo Underwriting Guidelines have the respective meanings set forth in the Seller's Guide.

All references to "agency guidelines" are based on the specific agency guides as they were stated as of the release date of these jumbo underwriting guidelines. Sellers should refer to FNMA guidelines for any topic not specifically addressed in these Jumbo Underwriting Guidelines.

1. General

Section 1.01 Matrices

The following product matrix applies to jumbo mortgage loans eligible for sale to Approved Buyers:

Low LTV Loan Products	
Low LTV Product Codes	**Product Description**
• Jumbo 15-year Fixed (JFX15) • Jumbo 20-year Fixed (JFX20) • Jumbo 30-year Fixed (JFX30)	• Fixed-rate loan products only. • 15, 20, and 30-year amortization terms. • Fully amortizing.

Low LTV Product Matrix

Occupancy Type	Transaction Type	Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Limited Cash-Out Refinance	Single Family, PUD, Condominium	80%	$850,000	680	43%
			80%	$1,000,000	700	
		2- to 4-Units	65%	$850,000	740	
	Cash-Out Refinance	Single Family, PUD, Condominium,	65%	$1,000,000	740	
		2- to 4-Units	65%	$850,000	740	
Second Home	Purchase and Limited Cash-Out Refinance	Single Family, PUD, Condo	70%	$1,000,000	740	
Investment Property	Purchase and Limited Cash-Out Refinance	Single Family, PUD, Condo	65%	$1,000,000	740	
		2-4 Unit		$850,000		

High LTV Loan Products	
High LTV Product Codes	**Product Description**
• **Jumbo 15-year Fixed High LTV (JFX15HLTV)** • **Jumbo 20-year Fixed High LTV (JFX20HLTV)** • **Jumbo 30-year Fixed High LTV (JFX30HLTV)**	• **Fixed-rate loan products only.** • **15, 20, and 30-year amortization terms.** • **Fully amortizing.**

High LTV Product Matrix

Occupancy Type	Transaction Type	Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Credit Score	Maximum DTI
Primary Residence	Purchase and Limited Cash-Out Refinance	Single Family, PUD, Condominium	80.01% -85%	$1,000,000	700	43%
Primary Residence	Purchase and Limited Cash-Out Refinance	Single Family, PUD, Condominium	80.01%-90%	$850,000	680	43%
Primary Residence	Purchase and Limited Cash-Out Refinance	Single Family, PUD, Condominium	95%	$636,150	740	38%

First Time Home Buyer

Defined as: Any borrower who has not owned a residential dwelling at any time during the prior three years (prior ownership within the previous three years is measured from the HUD or Closing Disclosure closing date (when property was sold) to the date of the subject mortgage loan application). Note: First-time home buyer requirements do not apply to loans with more than one borrower when at least one borrower has owned a residential property at any time during the prior three years. See First-Time Home Buyer section within these Jumbo Underwriting Guidelines for additional criteria.

- Jumbo product eligible (see above matrix for loan amount restrictions).
- Primary residence only.
- 38% maximum DTI.
- 740 minimum FICO.
- 12 months' reserves.
- 24 months rental history with no late payments.
- One-unit properties only.

Secondary Financing Eligibility

Purchase transactions with simultaneous secondary financing are **ineligible**.
Limited Cash-out refinance transactions:

- Transactions with new simultaneous secondary financing are **ineligible**.
- Existing subordinate financing may be re-subordinated. The HCLTV may never exceed the maximum LTV for the transaction.

Interested Party Contribution Requirements			
Product Type	**Occupancy**	**Loan Amount**	**Interested Party Contribution**
Maximum Interested Party Contributions: 95% LTV Jumbo	Primary Residence	$424,100–$636,150	3%
Maximum Interested Party Contributions: Jumbo Loans up to $1 Million	**Occupancy**	**Loan Amount**	**Interested Party Contribution**
	Primary Residence	Up to $1,000,000	3%
	Second Home	Up to $1,000,000	3%
	Investment	Up to $1,000,000	2%

Asset Reserve Requirements

Borrowers with other properties in addition to the property being purchased or refinanced are required to have six months PITIA reserves for each property. Properties owned free and clear require six months of taxes, insurance and HOA dues in reserves.

Property Type	Cash Reserves Required
Primary 1 Unit	9 months
Primary 2 Unit	12 months
Primary 3 Unit	15 months
Primary 4 Unit	18 Months
Second Home and Investment Property— 1-4 Units	24 Months

Gift Fund Eligibility

Occupancy Type	Transaction Type	Property Type	Maximum DTI	Maximum LTV Based on Loan Amount
Primary Residence	Purchase, Limited Cash-out Refinance	Single Family, PUD, & Condominium	40% Maximum 38% (First-time Home Buyer and 95% LTV Program).	95% LTV up to $636,150 90% LTV up to $850,000 80% LTV up to $1M

- Minimum 5% borrower contribution must come from the borrower's own demonstrated savings.
- Co-mingled accounts are ineligible as the source of funds for the 5% borrower contribution.
- Eligible Gift Donor—relative, spouse, domestic partner, fiancé.
- First time home buyer eligible.
- 95% Jumbo program eligible for closing costs and pre-paid interest. The Borrower (s) must meet minimum 5% contribution from their own funds.
- Gift funds must be evidenced by fully executed gift letter, evidence of donor's ability, and evidence borrower has received the funds.
- Gifts of equity are ineligible
- Gift funds are not eligible for reserves.
- The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
- All other jumbo guidelines apply.

Other Key Underwriting Requirements	
Ineligible Geographic Locations	• Mississippi • U.S. Territories (including Puerto Rico, Guam, and the Virgin Islands).
Ineligible Transaction Types	• Loans to Principal Owners of Business Lending Client. • Permanent Financing for New Construction. • Single-Close Construction-to-Permanent Mortgage. • Installment Land Contracts. • Loans with principal curtailments. • Refinance of Restructured Loan or Short Refinance Loan. • Renovation/Rehabilitation Mortgages. • Texas Section 50(a)(6) Loans. • Property Flips (as defined within these Jumbo Underwriting Guidelines). • A refinance transaction of a home currently listed for sale. • A cash-out refinance on a property listed for sale in the previous six months. • Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction. • EEM Loans (Energy Efficient Mortgages). • HUD-184 Mortgages.
Cash-Out Refinance	• Maximum cash out $250,000. • Maximum allowable cash back for limited cash-out refinance is 1% of the loan amount. • Cash-out totals are based on the combination of unseasoned second lien payoff amount and cash back at closing.
Ineligible Loan Attributes	• Balloons and ARMs • Temporary Buydowns. • Assumptions. • Loans with principal curtailments. • Pre-Payment Penalties. • Blind Trusts.
Escrow Waivers	• No escrow waivers on jumbo mortgage loans with LTVs greater than 80%, unless the subject property is located in the state of California, with LTVs from 80.01% to 89.99% (partial escrow waiver permitted; escrow waiver not allowed as to premiums and fees for flood insurance as mandated by the Flood Disaster Protection Act of 1973, as amended). Partial escrow waivers on jumbo mortgage loans with LTVs 80% or less are eligible, except as to premiums and fees for flood insurance as mandated by the Flood Disaster Protection Act of 1973, as amended.
Ineligible Credit	• Documented credit profiles containing less than two valid credit scores. • Loans involving borrowers with undocumented credit histories ("no credit"). • "Thin-file" credit. • Non-traditional credit reports and credit reports which are not Tri-merge. • Foreign credit reports.
Appraiser Requirements	• The appraiser must be licensed and in good standing.
Limitations on other R.E. Owned	• The borrower(s) may own a maximum of four financed, one- to four-unit residential real properties, including the subject property (regardless of occupancy type). Each separate property (other than the subject property) requires an additional six months of PITIA reserves.

Appraisal Requirements

- Full Uniform Residential Appraisal Report (URAR), with interior and exterior inspection required.
- Additional third-party Residential Appraisal Field Review Report (Fannie Mae Form 2000) or Desk Review Report. The acceptable Desk Review providers can be found in the appraisal section of these guides. The appraisal must be in the name of the originating lender. No transfers or assignments allowed.

State-Specific Requirements

- All specific state required disclosures must be provided in the closed loan package.

Documentation

Additional Requirements:

- Documentation requirements for manual underwriting for the applicable agency must be provided.
- All documentation related to Seller's determination that the mortgage loan is QM-compliant, including all underwriting documentation, must be provided (including evidence of compliance with Regulation Z, Appendix Q).
- The verification of assets, credit (including mortgage/rental history), and income may not be verified by a non-arms-length third party without additional supporting documentation.
- All loan files must contain a third-party fraud report to be eligible for sale to an Approved Buyer (see Section 1.10 for specific criteria).

Mortgage Insurance

For Jumbo Mortgage Loans with LTVs greater than 80 percent, mortgage insurance must be provided by an Eligible Mortgage Insurer only. See the Seller's Guide glossary section (MI Policy) for specific criteria.

- Delegated data submission (delegated) mortgage insurance (MI) is ineligible. Must submit request for MI to the Eligible Mortgage Insurer for a Full-file Review.
- **Borrower-Paid Mortgage Insurance (BPMI).**
  - Monthly.
  - Level annual.
  - Standard annual.
  - Split premium (with or without options).
  - Single premium (must be paid to an Eligible Mortgage Insurer prior to purchase via the AIG Investments platform).
- **Lender-Paid Single Premium (LPSP).**
  - Must be paid to an Eligible Mortgage Insurer prior to purchase via the AIG Investments platform.
  - Documentation that the lender has paid the MI premium must be contained in the file.
- Lender-paid monthly premiums and lender-paid split premiums are currently ineligible.

Standard MI Coverage

	LTV Range		
Transaction Type	**80.01%–85%**	**85.01–90%**	**90.01%–95%**
Fully amortizing fixed rate, term ≤ 20 years	6%	12%	30%
Fully amortizing fixed rate, term > 20 years	12%	25%	30%

- Discounted coverage requiring additional premium per AUS is not eligible.
- MI may be financed:
  - The mortgage amount and LTV, **including** the financed premium, may not exceed the limitations set forth in these Jumbo Underwriting guidelines.
  - Mortgage insurance coverage is based on LTV **excluding** the financed premium. Rate lock pricing is based on mortgage amount including financed premium.
  - **NY State:** Use the appraised value to determine if mortgage insurance is required. If mortgage insurance is required, use the lesser of the sales price or appraised value to determine the appropriate coverage.

Section 1.02 Eligibility

Approved buyers will not purchase mortgage loans if any company or individual who is a material party to the mortgage loan transaction is listed on the Department of Housing and Urban Development (HUD) Limited Denial of Participation List, Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List, the Freddie Mac Exclusionary List (if the Seller is a Freddie Mac approved Seller/Servicer with access to such list), or the General Services Administration (GSA) Excluded Party List System. All lists must be checked for all parties to the transaction. If any party's name appears on any list, the mortgage loan is not eligible for purchase by an approved buyer.

Section 1.03 Loan Application

The Fannie Mae/Freddie Mac Uniform Residential Loan Application must be used, and the loan application must be complete, including without limitation:

- A full two-year history of employment/income and residency and all personal information for each borrower. If a borrower's employment history includes unemployment or insurance benefits, the application must reflect at least two years of previous employment, therefore covering a longer period of time.
- The Declarations Section VIII must be answered for each borrower.
- The method of taking the application including face-to-face, by telephone, by fax or mail, by email or the internet.
- The Loan Originator's information, including name, telephone, and NMLS number must be completed.
- The initial application must be signed and dated by the appropriate parties.

All loan applications must be reviewed by the Seller for reasonableness as part of the underwriting process, including without limitation:

- The feasibility of occupancy claims and the overall financial picture of the borrowers must be reasonable.
- When conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the mortgage loan file.
- All documents in the mortgage loan origination file that are relevant to underwriting must be reviewed by the Seller for signs of alteration or fabrication. When conflicting information exists between or within documents, an adequate explanation must be obtained and documented.

The final application must be signed and dated by each borrower and comply with the requirements set forth above, including without limitation:

- The borrower's complete and accurate financial information relied upon by the underwriter.
- All debt incurred during the application process and through loan closing must be disclosed on the final application.
- A borrower's credit profile may be established by one of the following methods:
    - Submitting the loan to Desktop Underwriter.
    - Submitting the loan to Loan Product Advisor.

Section 1.04 Identity Verification

The identity of each borrower whose credit is used for loan qualification must be confirmed in accordance with the applicable Agency guidelines unless otherwise stated within this guide. (As used herein, "Agency" refers to Fannie Mae and Freddie Mac as those terms are defined in the Seller's Guide.)

Section 1.05 Social Security Number Validation

- Evidence of a valid Social Security number is required for all borrowers. Any Social Security number discrepancies that are identified must be resolved.
- Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are ineligible for sale to an Approved Buyer.

Section 1.06 Electronically Signed Documentation

For all Mortgage Loans, AIG Investments will accept Electronic Signatures on all documentation except on the Mortgage, the Mortgage Note, and any Power of Attorney (unless expressly permitted under applicable state law). All Electronic Signatures must comply with applicable federal and state law regarding enforceability.

Documents on which AIG Investments accepts electronic signatures include, but are not limited to:

- Purchase Contracts.
- Appraisal Reports.
- Origination Documentation.

Section 1.07 Miscellaneous Closing and Servicing Procedures

A. Leaseback Option

A Leaseback of the subject property to the seller is acceptable provided the period in which the lease is available does not exceed 60 days from the note date.

Builder leasebacks for the continued use of a model home are ineligible.

B. Power of Attorneys

AIG Investments will allow the use of a specific POA document, provided applicable Agency guidelines are followed. See additional restrictions in Section 5.07.

C. Non-borrowing Spouse

A Non-borrowing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

D. Recast Option

Recast options are allowed on loans funded by AIG Investments, provided there is a 10% reduction to the outstanding principal balance.

E. Principal Curtailment

Loans with principal curtailments are ineligible for purchase by an Approved Buyer.

F. Escrow for Postponed Improvements

Escrow for postponed improvements is generally not permitted, however escrow holdbacks on new construction for completion of driveways, landscaping, etc. as a result of weather related delays, will be allowed on a case-by-case basis. All other agency requirements must be met.

- Escrows for postponed improvements must be satisfied within 180 days from the loan closing date. Evidence of funds release and property completion must be provided to AIG Investments.
- 120% of the proposed value of the improvements must be escrowed; however, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds escrowed only need to equal the full amount of the contract price.

AIG Investments will allow an escrow holdback related to the completion of in-ground pool installation. The criteria below are a minimum standard by which an escrow holdback will be considered for this reason:

- A pool must be common for the area in which the subject is located.
- The work must be completed within 90 days of loan closing. Evidence of funds release and property completion must be provided to AIG Investments.
- 120% of the proposed value of the improvements must be escrowed; however, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds escrowed only need to equal the full amount of the contract price.
- Pool installation must be included in the sales contract, with the work to be completed by a licensed pool installation company, or the subject builder.
- The value of the pool improvements must be no more than 10% of the total subject property value.

All other loans with escrows for postponed improvements will be ineligible for purchase by an Approved Buyer.

G. Requirements for the Cancellation of Mortgage Insurance

The following are the requirements which must be met for consideration of MI cancelation by our current Servicing provider. These requirements are not set by AIG Investments and are subject to change.

- Borrower must submit request for MI removal in writing;
- Borrower can pay down loan at any time;
- Loan must be aged at least 2 years if borrower would like a new appraisal to calculate the LTV used for MI removal.
- LTV must be less than 80 percent; and
- Account must be in good standing.

Section 1.08 Escrows/Impounds

Escrow or impounds are defined as all funds collected by a mortgagee on a mortgage loan for the servicer to cover expenses of the borrower that are required to be paid under the security instrument. The funds may include, but are not limited to, taxes, homeowners association charges, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Mortgage Loan, as well as hazard, flood and mortgage insurance premiums.

An escrow of funds for the payment of mortgage insurance, property taxes, hazard insurance, flood insurance, and HO6 is required.

- A renewal policy is required for hazard and flood insurance policies expiring within 60 days from the loan closing.
- Two months of escrow is required on all loans unless escrows have been waived or if otherwise mandated by federal or state law.
- Escrow of the HO6 policy is not required if coverage is for personal contents only.
- If property taxes are due within 30 days of the loan closing, the HUD Settlement Statement or Closing Disclosure (s) should reflect the amount sufficient for the Seller to pay the taxes.
- Escrow of premiums and fees for flood insurance is required for all mortgage loans as mandated by the Flood Disaster Protection Act of 1973, as amended.

Section 1.09 Escrow/Impound Waiver

Mortgage loans with escrow waivers are ineligible for sale to an Approved Buyer, with the exception of the following:

- Mortgage Loans on properties located in the state of California, with LTVs from 80.01 percent to 89.99 percent may have a partial escrow waiver except as to premiums and fees for flood insurance as mandated by the Flood Disaster Protection Act of 1973, as amended.
- Partial escrow waivers on jumbo mortgage loans with LTVs 80 percent or less are eligible, except as to premiums and fees for flood insurance as mandated by the Flood Disaster Protection Act of 1973, as amended.

- Partial escrow waivers for the escrow of homeowner's insurance or property taxes **only,** are acceptable provided all other parameters allowing for an escrow waiver are met. Contact clpricing@aig.com for additional information.

Section 1.10 Fraud Reports

All loans purchased by an Approved Buyer must contain a Fraud Report. Each Fraud Report must include a minimum list of interested parties to the transaction as verified participants. The participants should include, but are not limited to:

- Buyer
- Seller
- Listing Agent (if applicable)
- Selling Agent (if applicable)
- Appraiser(s)
- Loan Originator

2. Transaction

Section 2.01 Occupancy Type

A. Primary Residence

- A primary residence is a property in which all borrower(s) take title and occupy as his, her, or their primary residence.
- All borrowers on the transaction must occupy the property for the majority of the year and take title to the property.
- Borrowers are required to occupy subject property within 60 days of closing.

B. Second Home

- The property must be located in a recreational area.
- The property must be occupied by the borrower for some portion of the year.
- The property must be suitable for year round occupancy.
- Property cannot be subject to any agreements that give a management company control over the property.
- The property must be under the borrower's exclusive control (timeshares and rental agreements ineligible).
- Gift funds are ineligible and may not be used for down payment, closing costs, pre-paids, or reserves.

If any of these requirements are not met, the borrower must give a satisfactory explanation for the use of the property as a second home, and the seller must carefully consider the property eligibility.

C. Investment Property

- An investment property is owned but not occupied by the borrower.
- Income from the subject investment property may not be used to qualify the borrower.
- Gift funds are ineligible and may not be used for down payment, closing costs, pre-paids, or reserves.

Section 2.02 Loan Purpose

This section outlines the transaction requirements that apply to all Loan Programs.

An Approved Buyer may purchase Mortgage Loans made for the following purposes as defined in this section:

- Purchase Money Mortgage Loan.
- Refinance Mortgage Loan.
  - Limited Cash-out refinance Mortgage Loan.
  - Cash-out Refinance Mortgage Loan.

A. Eligible Purchase Money Mortgage Transactions

The proceeds from a purchase money transaction must be used to finance the acquisition of the subject property.

a. Additional Purchase Transaction Attributes:

- Except as otherwise required by applicable laws, closing costs (with the exception of mortgage insurance premiums) may not be financed as part of a purchase money transaction.
- Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing:
  - A reimbursement for the borrower's overpayment of fees.

- Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees).
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.

B. Ineligible Purchase Money Mortgage Transactions

The following transactions are ineligible for sale to an Approved Buyer:

a. Purchasing in Redemption Period

- Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed under the related mortgage loan.
- The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.
- Unexpired redemption periods are deemed to be an unacceptable title impediment, and a mortgage loan with an unexpired redemption period is not eligible for sale to an Approved Buyer.

b. Texas Section 50(a)(6) loans

Section 50(a)(6) loans are ineligible for sale to an Approved Buyer.

c. Purchase transactions that include new subordinate financing

Transactions with new subordinate financing are ineligible for sale to an Approved Buyer.

d. Property Flips

If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, this transaction would be ineligible for purchase by an Approved Buyer.

The following types of re-sale transactions are not considered property flips:

- Property being sold by a spouse who acquired the property through a divorce settlement.
- Property acquired by an employer through a relocation program.
- Property being sold by an administrator or executor of an estate.
- Property being sold by a lender, mortgage investor, or mortgage insurance company that was acquired through foreclosure or deed-in-lieu of foreclosure.

C. Eligible Refinance Mortgage Transaction Attributes

- There must be continuity of obligation if there is currently an outstanding lien that will be satisfied with the proceeds of the refinance transaction.
- Loans with an acceptable continuity of obligation (see Section 5.08) may be underwritten as either a no-cash-out or a cash-out refinance transaction based on the definitions in these Underwriting Guidelines.
- If the subject property was purchased in the previous 12 months, the HUD-1 Settlement Statement(s) or Closing Disclosure(s) must be provided.
- See "Determining Value" section to assist in LTV/CLTV calculations.

a. Limited Cash-out Refinance (Rate and Term)

Eligible Limited Cash-out Refinance Transactions:

- Paying off a mortgage loan secured by the same property.
- Buying out a co-owner as a result of a court ordered agreement.
- Paying off a first lien and purchase money subordinate lien (Seller must document that the entire subordinate lien was used to purchase the property).
- Paying off a seasoned non-purchase money subordinate lien.

  A seasoned non-purchase money subordinate lien is a mortgage that has been in place for a minimum of 12 months. Seasoning is based on the note date of the second lien to the application date of the subject Mortgage Loan. A seasoned equity line of credit is defined as not having cumulative draws greater than $2,000 in the past 12 months.
- Withdrawal activity must be documented with a transaction history for the Line of Credit.
- Paying off a first lien HELOC used to purchase the subject property.
- The payoff of a private mortgage lien, for which cancelled checks and bank statements are provided to support a satisfactory 12 month (most recent) payment history.

I. Limited Cash-out Refinance: Acceptable Attributes

- Closing costs, points, and pre-paid fees may be rolled into the loan amount.
- Delinquent real estate taxes, which are past due 60 days or more, must be handled according to the applicable agency guidelines.
- Borrowers may receive up to 1 percent of the subject loan principal amount back at closing.

II. Limited Cash-out Refinance: Unacceptable Attributes

- New subordinate financing is ineligible.
- Construction-to-Permanent loans are ineligible.

b. Properties Located in Texas

- A copy of the current mortgage or mortgage note is required to determine that the existing loan is not subject to Texas Section 50(a)(6)—also known as Home Equity Deed of Trust, Home Equity Installment Contract, or Residential Home Loan Deed of Trust requirements.
- If the first mortgage loan is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and the new mortgage loan is considered to be a rate and term refinance. The second lien must be subordinate to the lien of the Mortgage Loan purchased by an Approved Buyer. The borrower may not receive any cash back from the transaction.
- Refinance of an existing Texas Section 50(a)(6) loan is ineligible for sale to an Approved Buyer.

c. Cash-Out Refinance Mortgage Loan

- Paying off a non-seasoned (financed for less than twelve months) non-purchase money subordinate lien.
- Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding $2,000 cumulatively in the previous twelve months.
- The payoff balance of a non-purchase money or non-seasoned (see definition) second lien, must be included in the overall allowable cash-out maximum of $250,000.
- The payoff of a private mortgage lien for which the note requires no payment or for which a payment history is not available.
- Properties owned for fewer than six months are ineligible.

d. Eligible Cash-Out Transaction Attributes

- Funds received by the borrower from a cash-out refinance loan are not limited to a specific purpose.
- A cash-out refinance is eligible for primary residences only.
- Maximum cash-out is limited to $250,000 for all transactions.
- Maximum LTV/HCLTV is limited to 65 percent for any cash-out transaction.

e. Ineligible Cash-Out Transaction Attributes

- Properties listed for sale in the last six months
- Second homes
- Investment properties
- Owner-occupied properties located in Texas (see section 2.02 for additional details)

f. Refinance of a Home Improvement or Renovation Loan

Borrowers may pay off a home improvement loan for recent renovations completed after living in the home for a minimum of 12 months provided the home improvement lien has also seasoned for a period equal to or exceeding 12 months.

g. Homes Recently Listed for Sale

- If the subject was acquired in the previous 12 months, the file must contain the HUD Settlement Statement or Closing Disclosure from the previous transaction, and the LTV calculation would be based on the lesser of the purchase price or the current appraised value.
- If the subject was acquired in the previous 6 months as a result of an inheritance or the dissolution of a marriage or domestic partnership, then the file must be documented accordingly.

h. Homes Currently Listed for Sale

Homes currently listed for sale are ineligible for sale to an Approved Buyer.

Section 2.03 First-Time Home Buyer

Any borrower who has not owned a residential property at any time during the prior three years (prior ownership within the previous three years is measured from the HUD or Closing Disclosure closing date [when the property was sold] to the date of the subject mortgage loan application).

First-time home buyer requirements do not apply to loans with more than one borrower, when at least one borrower has owned a residential property at any time during the prior three years. The following requirements apply to first-time home buyer transactions:

- Maximum LTV based on loan amount: 85 percent up to $1,000,000 or 90 percent up to $850,000.
- 95 percent Jumbo product eligible (see above matrix for loan amount restrictions)
- Primary residence only.
- 38 percent maximum DTI.
- 740 minimum FICO.
- 12 months' reserves.
- 24 months' rental history with no late payments.
- One-unit properties only.

The following documentation may be necessary to provide evidence of previous/current residential property ownership:

- Evidence borrower(s) was responsible for the PITIA (if additional non-borrowing parties are or were on title to the property with the borrower).

- Evidence borrower(s) was the purchaser on the original HUD or Closing Disclosure for the purchase of the previous or current residential property, or;
- Evidence borrower has been on title to the property for the previous 12 months.

Section 2.04 Delayed Financing

Loans with delayed financing are ineligible for sale to an Approved Buyer.

Section 2.05 Third Party Originations (TPO)

A loan for which the loan origination (taking the loan application) is performed by an entity other than the Seller is considered a third-party origination. Mortgage service providers are not considered third-party originators if they do not take the loan application and are paid on an arm's-length fee basis for services performed, with payment of fees not being contingent on mortgage approval or closing.

See AIG Investments Seller's Guide for eligibility requirements.

Section 2.06 Subordinate Financing

A. New Subordinate Financing

Transactions with new subordinate financing are ineligible for sale to an Approved Buyer.

B. Existing Subordinate Financing

Existing subordinate financing may be eligible, provided such financing is re-subordinated to the first lien of the Mortgage Loan. The CLTV may never exceed the maximum LTV permitted with respect to the transaction type.

- HUD-1 settlement statement(s) or Closing Disclosure(s) are required with respect to any transaction involving the property within the past 6 months.
- The terms of any existing subordinate financing must be fully disclosed to AIG Investments, documented with a copy of the note, and compliant with the requirements as set forth by AIG Investments.

C. Re-subordination Requirements for Refinance Transactions

- If subordinate financing remains in place in connection with a first mortgage loan refinance transaction, AIG Investments requires execution and recordation of a subordination agreement.
- If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage loan being refinanced, AIG Investments does not require re-subordination. Seller is responsible for determining that the subordinate lien satisfies any specified criteria of applicable law.
- Insurance against a former junior lien not being properly subordinated to the refinance Mortgage Loan does not release Seller from its obligation to comply with these re-subordination requirements, or from the requirement that the subject property be free and clear of all encumbrances and liens having priority over the lien of the Mortgage Loan.

D. Ineligible Subordinate Financing

- Employer assistance secured by a subordinate lien against the subject property.
- Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
- Disaster Relief Grants or loans that require a subordinate lien against the subject property.
- Any subordinate financing ineligible for sale to Agency.

Section 2.07 Multiple Properties Financed/Owned

- "Properties financed" limitations are designed to protect Approved Buyers from excessive risk exposure with the same borrower. These limitations apply for loans sold to Approved Buyers by the same Seller or by different Sellers.
- The borrower may own a maximum of four financed, one- to four-unit residential real properties, including the subject property (regardless of occupancy type). Each separate financed property (other than the subject property) requires an additional six months of PITI reserves (in addition to the reserves required for the subject property, as set out in Section 8).
- Properties in the name of a borrower's business, commercial or residential, typically do not need to be included in this count, when the associated mortgage debt is not the borrower's personal obligation and thus not reported on the borrower's personal credit report. Financed commercial properties that are the borrower's personal obligation must be included in the count of maximum financed properties owned by a borrower.
- Vacant land is not typically considered in the count of maximum financed properties.

Section 2.08 Ineligible Transaction Types

Mortgage Loans made for the following purposes are **not eligible** for sale to an Approved Buyer:

- **A. Loans to Principal Owners of Business Lending Client—**Mortgage Loans made to principal owners or majority shareholders (25 percent or greater ownership) of a Seller.
- **B. Permanent Financing for New Construction—**Mortgage Loans for the purpose of paying off interim construction financing.
- **C. Single-Close Construction-to-Permanent Mortgage—**A single-close transaction that modifies the Mortgage Note and the first payment date.
- **D. Refinance of the Permanent Financing from a Construction Loan** with less than 12 months seasoning.
- **E. Installment Land Contracts.**
- **F. Loans with principal curtailment..**
- **G. A Refinance of a Restructured Loan or Short Refinance Loan.**
- **H. Renovation/Rehabilitation Mortgages.**
- **I. Texas Section 50(a)(6) Loans.**
- **J. Property Flips.**
- **K. A Refinance Transaction on a Home Currently Listed for Sale.**
- **L. Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction.**
- **M. EEM Loans (Energy Efficient Mortgages).**
- **N. HUD-184 Mortgages).**
- **O. Cash-out transactions on properties listed for sale in the previous six months.**

Section 2.09 Maximum Loan to Value (LTV)

Jumbo mortgage loans with an LTV of up to 95 percent are eligible for sale to Approved Buyers, subject to satisfaction of the other applicable requirements for such jumbo mortgage loans (see product matrix).

All jumbo mortgage loans with an LTV in excess of 80 percent will be required to have mortgage insurance from an Eligible Mortgage Insurer.

Section 2.10 Determining Amount to be Financed

For any Mortgage Loan, the amount eligible for financing is determined by factors specific to that Mortgage Loan, including, but not limited to, the type of financing, LTV, loan amount, property type, income, credit, and asset determination.

Section 2.11 Determining Value

A. Purchase Transactions

The LTV will be based on the lesser of the purchase price or appraised value.

B. Refinance Transactions

When the subject property has been purchased in the past 12 months, the lesser of the current appraised value or the purchase price will be used to calculate the LTV. Ownership date is measured from the date of acquisition (or HUD or Closing Disclosure closing date) to the application date of the subject mortgage.

Section 2.12 Calculating Loan-to Value

Loan-to-value should be determined by dividing the sum of the first mortgage by the value as defined in section 2.11.

Section 2.13 CLTV / HCLTV

- CLTV is the combination of the outstanding first lien and the outstanding balance of all additional liens or line amounts from home equity lines of credit.
- HCLTV is the combination of the outstanding first lien with all outstanding additional liens or available credit limits from a home equity line of credit.
- The HCLTV is calculated by dividing the sum of the first mortgage amount and any additional lien balances (whether disbursed or not) by the value, as defined in section 2.12.

Section 2.14 Treatment of Auctioneer Fees for LTV and HCLTV Purposes

In most cases (but not all), it is common and customary for the buyer to pay the auctioneer fee (buyer's premium). The table below outlines the most common to least common events and the required treatment of auctioneer fees (buyer's premium) in relation to total sales price, LTV, and interested party contributions:

Customary Payer of Auctioneer Fee (Buyer's Premium	Actual Payer	Add Premium to Auction Price	Include Premium in LTV	Considered an IPC/Sales Concession
Buyer	Buyer	Yes*	Yes	NA
Seller	Buyer	Yes*	Yes	NA
Buyer	Seller**	No	No	Yes
Seller	Seller**	No	No	No

* The value in the "Purchase Price" of the Details of Transaction of the application should be the total of the winning bid plus the auctioneer fee. If the borrower has pre-paid the auctioneer fee, it should be documented in the same manner as an earnest money deposit and the fee should be identified in the "other credits" section of the Details of Transaction.

** Highly unlikely the seller will ever pay buyer's premium at auction.

Section 2.15 Interested Party Contributions (IPCs)

A. Interested party contributions

Interested party contributions are used to cover costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may be in the form of financing concessions or sales concessions.

Interested parties include, but are not limited to builders, realtors, brokers, and sellers.

AIG Investments does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

a. IPC Limits Based on Occupancy

- Primary Residence or Second Home: Cannot be greater than 3 percent of the lesser of the mortgaged property's sales price or its appraised value.
- Investment Properties: Cannot be greater than 2 percent of the lesser of the mortgaged property's sales price or its appraised value.

b. Financing Concessions

Common and customary closing costs and pre-paids typical for the subject property location are acceptable. Financing concessions paid on the borrowers' behalf which include, but are not limited to, financial contributions from an interested party, payments related to pre-paids, financing terms, or other payments related to acquiring the property are subject to Agency limits, unless otherwise specified in these underwriting guidelines.

Common and customary financing concessions may include, but are not limited to:

- Origination fees, discount points, commitment fees.
- Appraisal costs.
- Transfer taxes, tax stamps, tax service fees.
- Title insurance premiums, attorneys' fees.
- Survey fees.
- Pre-paid interest (30 days maximum).
- Real estate taxes covering any period after settlement, unless no escrow account established.
- Property insurance premiums (14 months).
- HOA assessments (limited to 12 months).
- Initial or renewal MI premiums.

c. Sales Concessions

Non-realty items with real value, provided to the borrower within or outside a sales contract, are considered sales concessions and must be deducted from the sales price of the subject property in accordance with Agency guidelines.

d. Auctioneer Fees

See Section 2.14 for treatment of auctioneer fees as interested party contributions.

B. Ineligible Interested Party Contributions

- Down-Payment Assistance Programs.
- Payment Abatements.

C. Builders Affiliated with Mortgage Lender

If an affiliation exists due to common ownership or control by a Seller (originating lender) over an interested party, or when there is common ownership by a third party over a Seller (originating lender) and interested party; then all sales and financing concessions from these parties are considered in the total allowable interested party contributions.

D. Repairs Noted within Purchase Contract

Follow applicable Agency guidelines related to those property repairs or improvements included in a purchase contract, as these amounts may impact subject sales price.

Section 2.16 Monthly Housing Expense

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. Monthly housing expenses include the following:

- Principal and Interest Payments on the First Mortgage Loan.
- Financing Payments on Subordinate Lien Loans Secured by the Subject Property.
- Hazard Insurance Premiums.
- Flood Insurance Premiums.
- Mortgage Insurance Premiums.
- Real Estate Taxes (If new construction property; borrower(s) must be qualified with taxes based on full completion).
- Homeowners' Association Dues.
- Leasehold Payments.
- Ground Rent.
- Special Assessments

Section 2.17 CEMA Loans

Sellers should follow the applicable Agency guidelines for New York refinance and purchase transactions documented by a consolidation, extension, and modification agreement (CEMA) which consolidate into one document the terms of prior notes and mortgages related to the security of a property.

3. The Property

This chapter outlines the property types and project standards that apply to all Loan Programs. For additional property requirements see Section Four: The Appraisal, for specific requirements.

Section 3.01 Eligible Property Types

- Single-family residences.
- Two-to four-unit properties.
- Attached Condominiums (borrower does not own the land or the exterior walls of their unit).
- Site Condominiums (borrower owns the land on which the structure is located and the property is essentially a single-family dwelling).
- Detached Condominiums (borrower does not own the land or the exterior walls of the structure).
- Planned Unit Development (PUD).

Not all property types listed above are eligible under all Loan Programs. See the product matrix in Section One for specifics.

A. Single-Family Residence

A single-family residence is an attached or detached single-family dwelling, including town homes, row homes, and site condominiums.

B. Two-to-Four Units

A two-to-four unit is a residential structure with more than one unit, but not more than four units.

C. Condominiums

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.

Additional Condominium requirements include but are not limited to:

- Condominiums can be both attached and detached, and should have both a master deed and bylaws in association with the total project. Detached condominiums should not be confused with site condominiums.
- A condominium project must be created in accordance with local and state statutes and regulations.
- The structure must contain two or more units with the interior airspace individually owned.
- The balance of the property (land and building) must be owned in common by the individual unit owners.
- The condominium project must meet all applicable Agency insurance requirements
- In order for a condominium to be eligible for purchase, it must be eligible for sale to either one of the Agencies, based on the Agency's current published selling guide criteria.

a. Condominium Overview

Seller must not be aware of any circumstances that would make the project ineligible for approval.

1. Maximum Exposure within a Project

- AIG Investments requires that a minimum of 50 percent of the units in a new condominium project must be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.

- For two- to four-unit condominium projects, all but one unit in the project must have been conveyed or under contract to owner-occupant principal residence or second home purchasers.
- AIG Investments aligns with the Agencies for investor concentration requirements on existing projects in which the subject property is a primary residence or second home.
- Investment property transactions must have a minimum 51 percent of the units in the project conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.
- Non-realty limited common elements (for example, boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.

b. Ineligible Condominium/PUD Projects

AIG Investments does not permit Mortgage Loans secured by a property located in a project identified by the applicable Agency as Ineligible, or within any of the following project types or units containing any of the following additional property characteristics:

- Cooperatives.
- Projects which include manufactured housing.
- Non-warrantable Condominium/PUD projects.
- A condominium which receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements.
- A condominium project with no master insurance policy for the project.
- A condominium located in a project which received a Project Eligibility Review Service (PERS) approval that allows exceptions to the Agency's published requirements.
- Live/Work projects.
- Conversion condominium projects that have not been fully converted or do not meet applicable agency requirements.
- A condominium project which contains more than 25 percent of its total space dedicated to non-residential or commercial use.
- Projects in which a single entity owns more than FNMA allowable limits as listed below:
  - Projects with 21 units or more with 10 percent or more of the units owned by one entity.
  - Projects with 5–20 units with more than 2 units owned by one entity.
  - Projects with 2–4 units with more than 1 unit owned by one entity.

c. Approval Authority and Process for Condominium Projects

- Sellers must follow the eligibility guidelines of the applicable Agency and of AIG Investments as provided in this section with respect to condominium and PUD projects.
- Sellers are responsible for providing accurate condominium warranties for all transactions secured by condominiums.
- All condominium and PUD projects must be warrantable and comply with the applicable Agency requirements, except as otherwise specifically set forth herein. A warrantable condominium is a condominium project that meets Agency and AIG Investments eligibility standards.
- A limited review is ineligible on loans for sale to an Approved Buyer.

a. Warranting the Project

Sellers approved by Fannie Mae as a Seller/Servicer with a Seller/Servicer ID number, must warrant the condominium project's eligibility through one of the following methods:

1. Previously Approved Projects

If Fannie Mae has previously issued a Final Project Approval through (PERS) as listed at https://www.fanniemae.com/singlefamily/project-eligibility, print it, circle the project name that appears on the approval page, and place it in the Mortgage Loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the Mortgage Loan will be ineligible for sale to an Approved Buyer.

2. **Condominium Project Manager (CPM) Expedited Review**
Condo Project Manager (CPM) Expedited Review is a Fannie Mae web-based tool that is used to provide Seller-specific project acceptance for attached, detached, new, established, and 2-4 unit condominium projects. Only Sellers with a Fannie Mae Seller/Servicer ID number will have access to the CPM system.

   The project must have a valid, unexpired CPM Seller Certification as of the date of the Note and a copy must be in the Mortgage Loan file prior to loan funding. In addition, the Seller must not be aware of any changes in circumstances since the project information was submitted to CPM that would result in the project's not satisfying Fannie Mae's eligibility criteria.

3. **Fannie Mae Project Eligibility Review Service (PERS)**
Fannie Mae's Project Eligibility Review Service (PERS) is available to Sellers with a Fannie Mae Seller/Servicer ID number, for submission and review of existing, new and newly converted condominium projects by Fannie Mae. PERS approvals that allow exceptions to the Agency's published requirements are ineligible.

   PERS-approved projects are posted on the Fannie Mae website. Final Project Approval decisions will expire one year after issuance. PERS-reviewed projects determined to be ineligible for delivery are identified as well.

4. **Full Review**
The Seller Full Review process is another method for the review of new and established condos. Sellers performing a Full Review must ensure that the project meets all eligibility criteria of the applicable Agency and of AIG Investments.

Sellers <u>not</u> approved by Fannie Mae as a Seller/Servicer must warrant the condominium project's eligibility through the review of Fannie Mae Previously Approved Projects or a Full Review process.

i. **Previously Approved Projects**

   If Fannie Mae has previously issued a Final Project Approval through (PERS) as listed at https://www.fanniemae.com/singlefamily/project-eligibility, print, circle the project name that appears on the approval page and place in the mortgage loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the mortgage loan will be ineligible for sale to an Approved Buyer.

ii. **Full Review**

   The Seller Full Review process is another method for the review of new and established condos. Sellers performing a Full Review must ensure that the project meets all applicable eligibility criteria of the applicable Agency and of AIG Investments.

   The warranty documentation must identify the warranty type of the project and be included in the Mortgage Loan file. AIG Investments will not purchase a Mortgage Loan if a warranty form is not in the Mortgage Loan file.

   Sellers must retain all project documentation that supports its warranty that the project meets the applicable Agency eligibility criteria. This documentation must be retained from the time the Seller first originates mortgages secured by units in the project until all such mortgages that were sold to an Approved Buyer have been liquidated. The project documentation must be available upon request for review by AIG Investments or the Approved Buyer.

A project warranty is valid for three months preceding the date of the Mortgage Note. After the three-month expiration date, all appropriate documentation must be updated to verify that there have been no changes that would adversely affect the project.

D. Planned Unit Development (PUD)

A PUD is a real estate project or subdivision in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, parking space).

a. PUD Eligibility Requirements

The individual unit owner must own a parcel of land improved with a dwelling. This ownership may not be in common with other unit owners.

- The development must be administered by a homeowners' association (HOA) that owns and is obligated to maintain the common elements (including greenbelts, recreation facilities, and parking areas) within the development for the common use and benefit of the unit owners.
- The unit owners must have an automatic, non-severable interest in the HOA and pay a mandatory assessment.
- Must be a single-family residence.
- Must meet all applicable Agency insurance requirements.
- Must meet any additional requirements specific to these Jumbo Underwriting Guidelines.

A project or subdivision is not classified as a PUD solely based on zoning. If the units in a project or subdivision have the following characteristics they would not be considered a PUD.

- there are no common improvements,
- there are no established HOA membership; and,
- there are no required assessments paid.

b. Warranting PUD Projects

Seller is required to warrant the following Attached PUD projects in order for the Mortgage Loan to be eligible for sale to an Approved Buyer. A warrantable PUD is a PUD project that meets Agency and AIG Investments eligibility standards.

- Fannie Mae Established PUD (Type E).
- Fannie Mae New PUD (Type F).
- Freddie Mac Established PUD (E).
- Freddie Mac New PUD (F).

E. Mixed Use Properties

Properties that have a business use in addition to their residential use are considered mixed-use properties and are ineligible for sale to an Approved Buyer.

Section 3.02 Ineligible Property Types

AIG Investments does not permit Jumbo Mortgage Loans secured by a property identified by the applicable Agency as Ineligible or with any of the following additional property characteristics:

- Manufactured housing.
- Modular, prefabricated, and panelized homes.

- Geodesic homes.
- Properties comprising more than 15 acres of land.
- Cooperatives.
- Group homes.
- Log homes.
- Live/Work Projects
- Properties with deed restrictions (with the exception of age restricted properties that meet FNMA deed restriction requirements.)
- Mixed use properties

Section 3.03 Environmental Hazard Assessment

If the Seller has identified environmental problems through the performance of its project review process and due diligence review, and an environmental assessment would be required, then the loan is ineligible for sale to an Approved Buyer.

Section 3.04 Hazard and Flood Insurance Requirements

- Seller should follow the applicable Agency guidelines as they relate to Hazard and Flood Insurance requirements, unless otherwise specified in these Jumbo Underwriting Guidelines and/or Correspondent Lending's Seller's Guide.
- Documentation should be in the form of a declaration page or policy. Binders are not considered acceptable evidence of insurance.
- Maximum allowable deductible securing a first mortgage loan is 5 percent of the face value of the policy.
- Such flood insurance policy for each Mortgage Loan is in an amount representing coverage not less than the least of (A) the outstanding principal balance of the Mortgage Loan (plus any additional amount required to prevent the Mortgagor from being deemed a co-insurer), (B) the full insurable value of the related Mortgaged Property, and (C) the maximum amount of insurance which was available under the Flood Disaster Protection Act of 1973, as amended.

Section 3.05 HOA Assessment Liens / Super Liens

Sellers should follow Fannie Mae guidelines relative to a subject property located in a PUD or condominium project in which the subject's HOA assessments have priority over, or will not subordinate to, our subject Mortgage Loan first lien.

Section 3.06 Multiple Parcels

AIG Investments aligns with Agency guidelines with regard to multiple parcels.

Section 3.07 Rural Properties

Comparable properties should be in similar rural locations and similar property styles. Appraiser must adequately explain the use of comparables not meeting these requirements.

Section 3.08 Leased/Owned Utilities and Community Utilities

A. Utilities owned, such as solar panels, must meet standard eligibility requirements, based on the applicable Agency.

B. Leased utilities such as solar panels are acceptable provided the applicable Agency guidelines have been met, and the borrower is being qualified with any monthly obligation related to the lease. Additionally, the leased utility should be addressed by the appraiser in the property appraisal report.

C. Community Utilities such as a shared well must follow the applicable Agency guidelines, which include, but may not be limited to the following standards:

- Must meet community standards.
- Must be adequate for the number of users of the shared utility.

- Must be in service.
- Must be accepted by area residents.
- Must be accessible by the subject property owner.
- If the shared utility is not located on the subject site, there must be a legally binding agreement for access and maintenance in place by the impacted parties.

Section 3.09 Private Road Maintenance Agreement/Shared Driveways

If the subject property is located on a private road, or access to the property requires the use of a private road, the file must contain at a minimum, one of the following documents:

- Title policy with the private road maintenance agreement language contained within.
- Private road maintenance agreement.
- Evidence the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street; then no separate agreement or covenant is required.

Section 3.10 Life Estate or Leasehold Estate

Loans secured by a life estate or leasehold estate are not eligible for sale to an Approved Buyer.

Section 3.11 Homeowner's and Condominium Owner's Association Obligation

If the subject property is part of a Homeowner's Association or Condominium Association, which results in a financial obligation on the part of the borrower, provide the following information in the closed loan package.

A. Name of Association or Management Company.
B. Association or Management Company phone number and/or email address.
C. Evidence of current status of dues (current, past due, etc.) if applicable.
D. Amount and frequency of the dues payable for the Association or Management Company (if not provided on appraisal report.)

4. The Appraisal

This section outlines the appraisal documentation and evaluation requirements that apply to all Loan Programs. Seller should follow the applicable Agency guidelines as they relate to Appraisal Documentation, Requirements, and Property Evaluation, unless otherwise specified in these Underwriting Guidelines.

Section 4.01 General Appraisal Requirements

- Generally, requirements that vary from one Loan Program to another are described in Section One, and in most cases, program-specific differences are not referenced in this section.
- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, the analysis and/or opinion of value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required. All other valuation methods are ineligible.
- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
- Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Section 4.02 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser’s professional conclusion, based on market data, logical analysis, and judgment.

The appraiser must comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision, as well as Fannie Mae and Freddie Mac Appraiser Independence Requirements.

- The appraiser must comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989 (regardless of whether Seller is subject to those regulations).
- The appraiser must be experienced in the appraisal of properties similar to the type being appraised.
- The appraiser must be actively engaged in appraisal work.
- The appraiser may not be an interested party in the subject transaction.
- The appraiser must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

Section 4.03 Appraisal Report Requirements

Effective with all loans locked on or after June 2, 2017, AIG will require all jumbo appraisals to be accompanied by a field review or desk review. The Desk Review products acceptable to satisfy this requirement must be from one of the three providers listed below:

- Clear Capital © Collateral Desktop Analysis (CDA®)
- Summit Valuations © (SVR)
- Pro Teck Valuation Services © Appraisal Risk Review (ARR)

A ten percent value variance between the full appraisal report value and the desk review or field review value is acceptable for purchase by an Approved Buyer. A second full appraisal is considered an ineligible secondary valuation product.

Field Reviews may not be provided by the same appraisal company performing the full appraisal review.

Section 4.04 Documentation Age and Standards

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

The appraisal must be in the name of the originating lender. No transfers or assignments allowed.

All versions of the subject property appraisal report must be included in the closed loan package. Sellers must provide borrowers with all copies of the appraisal report upon completion of said report but no later than three days prior to the consummation.

A. Age of Appraisal

If the appraisal report is more than 120 days old as of the date of the note and mortgage, an appraisal update is required.

If the date of the appraisal report is more than 120 days but less than 360 days from the date of the Mortgage Note, the original appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 days of the date of the Mortgage Note. A new appraisal is required when the appraiser indicates in an Appraisal Update that the property value has declined.

Loans purchased more than 90 days after closing (Mortgage Note date to purchase date) require an Appraisal Update (Fannie Mae Form 1004D/Freddie Mac Form 442) or a new appraisal (Fannie Mae Form 1004/Freddie Mac Form 70) supporting the original appraised value. If an Appraisal Update indicates that the value has declined, a new appraisal (Fannie Mae Form 1004/Freddie Mac Form 70) must be obtained and must support the original appraised value. The Appraisal Update or New Appraisal must be dated within 60 days of the date that an Approved Buyer purchases the loan.

The appraisal date may not be more than 12 months prior to the date of the Mortgage Note.

B. Acceptable Appraisal Forms

The appraisal form must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form listed below.

1. Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)—URAR

Used for appraisals of one-unit properties and units in PUDs, (including a one-unit property with an accessory apartment) based on interior and exterior property inspections. The URAR may also be used for units in a detached condominium project if the appraiser includes an adequate description of the project and information about the homeowner association fees and the quality of project maintenance. An interior and exterior inspection of the subject property is required. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.

2. Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 and Freddie Mac Form 465)

This report must be used for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. The appraisal report must be UAD compliant.

3. Small Residential Income Property Appraisal Report (Fannie Mae Form 1025 and Freddie Mac Form 72)

This report must be used for appraisals of two- to four-unit properties. An interior and exterior property inspection is required.

4. Appraisal Update (Fannie Mae Form 1004D/Freddie Mac Form 442)

When performing an appraisal update, the appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property.

The use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used.

The type of inspection required depends on the nature of the appraisal conditions or changes to the subject property.

a. If the appraisal is completed "as is," an interior inspection is not required unless there are any known changes to the subject property that would have an adverse effect on condition or marketability.
b. If the appraisal is subject to completion per plans and specifications, interior and exterior inspections are required. Exterior and interior photographs are required.
c. If the appraisal is subject to repairs that affect safety, soundness, or habitability, interior and exterior inspections are required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection with exterior photographs is required.

5. Market Conditions Addendum (Fannie Mae Form 1004MC)

This is required for all mortgage loans with appraisals of 1–4 unit properties. It is intended to provide the Seller with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

6. Field Review

An analysis comparing the original appraisal and the review appraisal must be performed. The original appraiser must address any significant differences or discrepancies. The following forms must be present when a field review appraisal is required by the Loan Program or at the discretion of the underwriter: Field Reviews may not be provided by the same appraisal company performing the full appraisal review.

a. One-Unit Property

I. A One-Unit Residential Appraisal Field Review Report (Fannie Mae Form 2000 or Freddie Mac Form 1032).
II. Original front and street photos of the subject property.
III. Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.
IV. Street map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

b. Two- to Four-Unit Property

I. Two- to four-unit Residential Appraisal Field Review Report (Fannie Mae Form 2000A or Freddie Mac Form 1072).
II. Original front and street photos of the subject property.

III. Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.

IV. Street Map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

C. Ineligible Appraisal Forms

- Exterior-Only Inspection Residential Report (Fannie Mae and Freddie Mac Form 2055).
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae Form 1075 and Freddie Mac Form 466).
- Desktop Underwriter Property Inspection Report (Fannie Mae Form 2075).
- Loan Product Advisor Condition and Marketability Report (Fannie Mae Form 2070).
- Property Inspection Waiver (PIW).
- Property Inspection Alternative (PIA).

Section 4.05 Property Quality and Condition

A. Condition Rating

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Condition rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- Property condition ratings of C1, C2, C3, or C4 are acceptable in an “as is” condition.
- Property condition ratings C5 and C6 carry additional risk, and therefore any appraisals with a C5 or C6 rating must include, but may not be limited to the following to be eligible for sale to an Approved Buyer:
  - An account of the condition items causing the C5 or C6 rating.
  - The initial appraisal must be “subject to completion of repairs.”
  - Evidence of completion of repairs.
  - An updated minimum condition rating of C4.

B. Quality Rating

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

- Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 is acceptable.
- Any appraisal report containing a Quality of Construction rating Q6 is ineligible for sale to an Approved Buyer as a result of an increased risk associated with this quality rating.
- When the appraisal is made subject to completion, repairs, or inspection, the lender must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed prior to closing in order for the transaction to be eligible for sale to an Approved Buyer.

Section 4.06 Disaster Policy

- When natural disasters, such as hurricanes, tropical storms, and tornadoes, occur prior to the purchase of a loan by an Approved Buyer, the Seller must take steps to ensure that the subject property secured by the loan is protected.
- Once the federal government has declared a disaster with individual assistance (assistance to individuals and households), a FEMA Disaster Notification is issued at http://www.fema.gov/.
- Note: A disaster declared with public assistance (assistance to State and local governments and certain private nonprofit organizations for emergency work and the repair or replacement of disaster-damaged facilities) does not require a re-inspection.
- Unless otherwise specified, Seller should follow the applicable Agency guidelines as it relates to properties involved in a disaster.

Section 4.07 Lava Zones

Approved Buyers will purchase mortgage loans secured by properties located in the state of Hawaii that are located within lava zones 3 through 9 only. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

Section 4.08 Improvements without Permits

- Unpermitted additions to a subject property should not be included in the overall square footage of the subject in the appraisal report.
- In order to include the unpermitted addition, the proper permits must be acquired, and evidence the addition is covered by an acceptable homeowner's insurance policy would be required.

5. The Borrower

Section 5.01 Borrower Types

The loan originator must have conducted all origination and underwriting procedures without regard to the borrower's race, color, religion, national origin, age, sex, marital status, handicap, or status in any other class of persons protected under any applicable federal, state or local law.

- Any person signing an application for a loan is a borrower. All borrowers must sign the Mortgage Note.
- A borrower must be an individual. Non-individual legal entities, including but not limited to corporations, general partnerships, limited partnerships, real estate syndications, blind trusts and investment trusts, are not eligible.
- Borrowers must meet credit and program eligibility requirements of AIG Investments and the applicable Agency, as set forth in these guidelines.
- Inter vivos and Land Trust requirements must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.

Section 5.02 Non-Occupant Co-Borrower, Guarantor, and Co-Signer

Loans with non-occupant co-borrowers, guarantors, and co-signers are ineligible for purchase by an Approved Buyer.

Section 5.03 Citizenship Requirements

A. U.S. Citizens and Nationals

U.S. citizens and nationals (citizens of a U.S. possession or territory) are eligible borrowers.

B. Non-U.S. Citizens

1. **Permanent Resident**
   A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. A permanent resident is an eligible borrower, provided that legal residency is documented according to the applicable Agency requirements. Please see www.uscis.gov for more information.
2. **Non-Permanent Resident**
   Loans to non-permanent residents are ineligible for purchase by an Approved Buyer. All borrowers signing the Mortgage Note must have a valid social security number.
3. **Other Residency Statuses**
   Individuals classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole, and foreign nationals (other than permanent residents meeting the requirements of Section 5.01) are ineligible.

Section 5.04 Loans to Trust

A. Inter Vivos Revocable Trust

- An inter vivos revocable trust (a "living trust") is a trust created by an individual during his/her lifetime and become effective during the creator's lifetime. An inter vivos revocable trust can be changed or cancelled by its creator at any time and for any reason during the creator's lifetime.
- The inter vivos revocable trust must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.

- The subject property must be a 1–2 unit primary residence.
- An attorney's opinion letter or a lender's legal attestation (signed by an officer of the company or Legal Counsel) stating the trust meets Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable state requirements must be provided.

B. Land Trust (Illinois Land Trust)

A land trust is an arrangement by which title to real estate is transferred to a trustee, but the full management and control of the property is retained by the beneficiaries of the trust. The trustee is named as owner of the property in the security instrument and is the "borrower" of record on the loan, even though the trustee is not personally liable for repayment of the loan.

Land trust loans are eligible subject to the following conditions:

1. The subject property must be located in Illinois.
2. The beneficiary of the trust must be an individual.
3. At least one of the borrowers must be one of the beneficiaries of the trust.
4. The land trustee must be a financial institution customarily engaged in the business of acting as trustee under Illinois state law.
5. The land trust beneficiary must execute the Mortgage Note and guarantee the payment of the Mortgage Loan.
6. The trustee must execute the Mortgage Note solely in his or her capacity as trustee of the land trust. The trustee must not be personally liable on the Mortgage Note.

C. Community Land Trusts

A mortgage loan made to a community land trusts are not eligible for sale to an Approved Buyer.

D. Blind Trusts

Blind trusts are ineligible for sale to an Approved Buyer.

Section 5.05 Ownership Interest

Title to the subject property must be in the borrower's name at the time of application for a refinance transaction; and at the time of or simultaneously with the closing for all transactions.

- Continuity of obligation guidelines provided in this chapter must be followed.
- The borrower must hold title to the property as a fee simple estate.
- All individuals signing the application are borrowers.
- All borrowers must sign the Mortgage Note.
- All individuals on the HUD or Closing Disclosure are not required to sign the Mortgage Note (must meet all applicable state laws).

Section 5.06 Non-Borrowing Spouse

The non-borrowing/purchasing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

Section 5.07 Power of Attorney

The use of a Power of Attorney (POA) is acceptable. The POA must be specific to the transaction, and meet all applicable Agency and state requirements. AIG Investments will not review POA documents prior to closing.

The use of a Power of Attorney is prohibited when:

- Both borrowers on the transaction are relying upon the use of a Power of Attorney for consummation of the subject property, or ;
- The transaction type is a cash-out refinance.

Section 5.08 Continuity of Obligation

- At least one borrower on the new loan must also be obligated on the current lien; or
- Borrower has been on title to the subject property for the previous 12 months; occupied the subject property for the previous 12 months; and can demonstrate having made the payments in the previous 12 months.

Section 5.09 Possible Exceptions to Continuity of Obligation

- The borrower on a refinance transaction was added to title a minimum of 24 months prior to the subject transaction.
- The borrower acquired the subject property through an inheritance or was legally awarded the property through a court ordered agreement. This scenario requires no minimum waiting period for continuity of obligation.
- The borrower has been on title for at least 12 months but is not obligated on the existing mortgage which is being refinanced, and the borrower meets at least one of the following requirements:
  - Can document he or she has been residing at the property for a minimum of 12 months.
  - Can document he or she has paid the mortgage for a minimum of 12 months.
  - Can demonstrate a relationship with the current obligor (for example, a relative or domestic partner).

6. Employment and Income

This section outlines the Employment and Income Analysis and Documentation requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in our Product Matrices and, in most cases; those program-specific differences will not be referenced in this section. See product matrices in Section One for specifics on the loan program.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Section 6.01 Documentation Age

The following documentation age limitations apply:

- Desktop Underwriter (Fannie Mae)—120 days prior to the Note date.
- Loan Product Advisor (Freddie Mac)—120 days prior to the Note date.

Section 6.02 Stability and Continuance of Employment and Income

Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.

Sellers must verify the borrower's employment for the most recent two full years, and the Seller must require the borrower to:

- Indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim with college transcripts or military discharge papers.
- For additional guidance see Chapter 10—Ability to Repay Requirements.

Section 6.03 Employment Gaps

- Gaps in employment which exceed one month must be explained.
- Borrowers returning to work after an extended absence (defined as six months), may be considered as having stable income provided they've been in their current employment position for a minimum of six months, and borrower can document a two year work history prior to an absence from employment.
- For additional guidance see Chapter 10—Ability to Repay requirements.

Section 6.04 Extended Absences

A borrower must be back to work for a minimum of six months after an extended absence (defined in the ATR section of these guides as six months) for the income to be considered eligible for qualifying. This income will be considered for qualifying if the borrower can document a two year employment history prior to the absence and subsequent return to work. A two year employment history must be documented with W2s and paystubs, or written employment verification and paystub.

Section 6.05 Documentation Standards

Please refer to the applicable Agency guidelines for specific standards which are not addressed below or in Section 10 Ability to Repay Requirements:

A. **Personal Tax Returns (1040)—**two years signed returns required.
B. **Tax Transcripts (personal)—two years 1040 transcripts required on all Jumbo Mortgage loans.**
C. **Business Tax Returns—**two years required, to include all schedules and K-1s as applicable.
D. **Tax Transcripts (business)—**optional.

E. **Profit and Loss Statement—**required for all self-employed borrowers. P & L Statement must be through the most recent quarter-ending, based on the application date.
F. **Balance Sheet—**required for all self-employed borrowers. Balance Sheets must be through the most recent quarter-ending, based on the application date.
G. **Self-Employed Income Analysis—**in keeping with the Ability to Repay requirements, Sellers must provide written documentation as to the borrower's ability to repay the mortgage debt.
H. **Paystubs—**a minimum of a full 30 days of paystubs dated no earlier than 30 days prior to the initial loan application date must be included in the file for non-self-employed borrowers. See agency standards for acceptable paystub documentation**.**
I. **W2s—**two years of W2 statements must be provided for all non-Schedule C self-employed borrowers (if applicable), as well as all salaried employees, unless a written Verification of Employment is being provided.
J. **W2 transcripts—**W2 transcripts may be used in lieu of W2s when necessary. A written explanation should be included in the closed loan package as to why the borrower's W2 statement was unavailable.
K. **Written Verification of Employment—**written verification of employment forms are acceptable provided they are accompanied by a minimum of one paystub dated within 30 days of the application date. The paystub must include year to date earnings for the borrower.
L. **Verbal Verification of Employment—**verbal verification of employment must be included in all Mortgage Loan files, dated within ten days of the borrower's closing date.
M. **Third Party Verification of Employment—**if the verbal verification of employment is provided by a third party and dated within ten days, however the "information current as-of" date on the verification is older than 35 days, updated verification documentation must be provided.
N. **4506-T—**required for each loan.

Additional documentation may be required at the discretion of the underwriter, or as a result of inconsistencies or legibility concerns.

Section 6.06 Executed Employment Contracts, Confirmation Letters, and Offer Letters

- Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
- The creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes fall under this category.
- The income does not qualify if the loan closes more than 60 days before the consumer starts the new job.

Section 6.07 Non-Reimbursed Business Expenses

Out of pocket, unreimbursed business expenses reported on a borrower's federal tax return Form 2106, must be deducted from the borrower's qualifying income. If reported on the most recent two years tax returns, the expenses would be averaged over 24 months. If the unreimbursed expenses are higher in the most recent tax year, then a 12 month average of the expenses should be deducted from the qualifying income.

Section 6.08 Tax Transcripts and IRS Rejection Code

If a request for tax transcripts has been rejected by the IRS by means of a rejection code, the applicable Agency guidelines should be followed. In addition, the Seller should obtain documentation which includes but is not limited to the following:

- IRS rejection documentation.
- Letter of explanation from the borrower.
- Transcripts obtained directly from the borrower.
- Form 14039 (IRS Identity Theft Affidavit) if applicable.

Section 6.09 Income Types

A. Primary Employment (Base Earnings)

Employees who receive a consistent wage or salary from an employer in return for a service rendered and have less than 25 percent ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semimonthly basis. W2-salaried borrowers are not required to provide tax returns unless deemed necessary due to additional factors such as unreimbursed business expenses, however tax transcripts must be included for all borrowers.

B. Second Job or Multiple Job Employment

a. Verification of a two year minimum history of uninterrupted secondary income is required. However, if a borrower has a history of working a second job or multiple jobs simultaneously, and has been working said second job or multiple jobs consistently for 18 months or more, this income may be considered for qualifying, provided there are positive factors to reasonably offset the shorter history.
b. A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received.

C. Seasonal Employment

a. The borrower must have worked in the same seasonal job for the previous two years. If the borrower has a history of seasonal employment equal to or exceeding two years, and has been with their current employer for no less than 18 months, this income may be considered for qualifying as long as there are positive factors to reasonably offset the shorter history.
b. Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
c. For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

D. Part-Time Employment

a. Part time employment may be considered as an eligible income source provided it has been received for a minimum of 18 months. Sellers should evaluate the stability of the income for qualifying.
b. If a borrower's primary employment is less than a typical full time schedule (40 hour work week), but is considered common and customary for the field, the borrower should have a demonstrated history in this line of work, and the file should contain documentation to support this type of income for qualifying.

E. Bonus or Overtime Income

Bonus or overtime income is compensation in addition to an employee's straight salary or hourly wage. Automated underwriting must recognize bonus or overtime income.

a. If used for qualifying, bonus and overtime income must be documented for the previous two or more years.
b. The documentation submitted for the loan cannot indicate that this income source will likely cease.
c. Bonus or overtime income received for less than two years, but more than 18 months may be eligible for qualifying, with strong compensating factors and documentation.
    - Bonus income should be averaged based on a minimum of two years receipt from the current employer.
    - Overtime income should be averaged based on a minimum of the previous two years plus year-to-date.
d. If the earning trend is stable or increasing, the income must be averaged. If the earning trend is declining, the use of this income should be carefully considered, and the file must contain strong rationalization for the use of this income for qualifying purposes. If the declining bonus or overtime income is being used for qualifying, only the most current lower earnings should be averaged.

e. Bonus income not yet earned from a new employer, regardless of whether the borrower has remained in the same field, may not be used for qualifying unless guaranteed in writing as part of an employment agreement or contract.

F. Commission Income

Commission income is defined as a fee or percentage paid to an employee for performing a service. Automated underwriting must recognize commission income.

a. A minimum history of two years commission earnings is required, however if the borrower has a history of commission income earnings with less than 24 months but more than 18 months, and has been with their current employer for no less than 18 months the commission income may be considered for qualifying, provided there are positive factors to reasonably offset the shorter history.
b. Commission income must be averaged over the previous two years and year to date period using two years 1040s, W2s, and a paystub dated within 30 days of the date of application.
c. Two years tax returns are required in addition to standard agency required income documentation.
d. All 2106 Expenses (non-reimbursed business expenses) must be averaged and deducted from the borrower's earnings, see Section 6.07 of these Underwriting Guidelines.
e. Commission earnings from the previous employer may be considered, provided the following factors apply:
    - The income has remained stable or has increased.
    - The borrower has been with their current employer, and in the same position for 12 months.
    - The previous employer is within the same industry.

G. Rental Income

a. Rental income for qualification purposes may be derived from owner-occupied two- to four-unit primary residences, or other real estate owned.
b. Rental income from the subject investment property may not be used for qualification on a purchase transaction.
c. When a borrower vacates a principal residence in favor of another principal residence, the rental income reduced by the appropriate vacancy factor, may be considered in the underwriting analysis, provided the following criteria are met:

Exception	Description
Sufficient Equity in Vacated Property	The loan has a loan-to-value ratio of 70 percent or less, as determined either by a current (no more than six months old) Residential Appraisal (for Single-Family units on Form Fannie Mae 1004/Freddie Mac 70 or for Condominium units on form Fannie Mae 1073/Freddie Mac 465).
Leased to Unrelated Third Party	The current lease must be to an unrelated arm's-length third party.
Additional Documentation	Must provide evidence that the security deposit and first month's rent have been received and deposited.

H. Self-Employment Income

A self-employed borrower is an individual who has a 25 percent or greater ownership interest in a business or receives 1099s to document income.

a. For transactions originated from January through mid-April of any given year, we will consider using the most current year's tax returns for a self-employed borrower for which tax transcripts are not yet available. We would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS. Any significant increase or decrease in income from the prior year's returns must be satisfactorily explained.
b. For transactions closed on or after October 15 of any given year (where the borrower had filed an extension for their previous year's return); tax returns for said previous tax year will be required regardless of application date.
c. Any significant increase in income from the prior year's returns must be satisfactorily explained and justified—and may warrant further documentation. The length of self-employment, type of business and business structure will be evaluated to assess stability and continuance of self-employment income.
d. Travel and entertainment expenses should be deducted when calculating S-Corp earnings.
e. Mortgages and Notes due and payable within the next twelve months must be deducted from the borrower's income, unless documentation can be provided to support a year-to-year revolving debt obligation roll over occurrence.
    i. Borrowers with a two year history of a business debt roll-over event, will no longer be required to reduce business income by the amount of said debt obligation, provided all of the following documentation is present in the closed loan submission package.
        - Copy of Promissory Note for the business debt in question, and;
        - Written documentation from the bank or financial institution acknowledging the debt has and will be rolled over annually; or Letter from the CPA stating the debt is renewed or rolled over annually.

    ii. If acceptable documentation can be provided to evidence the debt has been paid in full since the most recent tax return filing date, it is acceptable to then exclude said debt(s) without the above documentation.

f. The following guidance should be considered when using K-1 self-employment income for qualifying:

    - If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required.

    - If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying:
        - the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and;
        - the business has adequate liquidity to support the withdrawal of earnings.

I. Borrowers Working for a Family Business

Borrowers working for a business owned and/or operated by a family member, spouse, or domestic partner carry additional risk, and therefore qualifying income must be calculated based on an average of the previous two years W-2 earnings amortized over a period of 24 months unless a substantial decrease is reported during said 24 month period. Income must be reported on the borrower's most recent two years signed federal income tax returns; regardless of the type of income the borrower receives (commission, salary, overtime, or bonus). If there has been a decline in earnings from one year to the next, the Seller must use the more conservative lower income for qualifying.

Section 6.10 Borrowers Planning to Retire

Sellers must provide the following documentation in the closed loan package for borrowers planning to retire during the first three-year period of the Mortgage Loan.:

- Document retirement benefits.
- Document social security payments.
- Other payments expected to be received in retirement.

Section 6.11 Retirement Income

Retirement income should be documented with tax returns and the most recent pension statement or verification from employer. Retirement income must continue for a minimum of three years from the date of the Mortgage Loan closing.

Section 6.12 Retirement Distribution Income

- Borrowers must have unrestricted access without penalty to the accounts.
- Retirement distribution income from stocks, bonds, or mutual funds must be based on account balances and reduced by 30 percent to account for market volatility.
- Account distribution income must continue for a minimum of three years from the Mortgage Loan closing.
- File must contain evidence of at least one month receipt of distribution income.

Section 6.13 Social Security Income

Social security income must be verified with the most recent Social Security Administrations benefit verification letter. Social security income must continue for a minimum of three years from the date of the Mortgage Loan closing.

Section 6.14 Self-Employed Co-Borrower Income/Loss

Borrowers jointly applying for a Mortgage Loan with a self-employed Co-borrower whose income is not being used for qualifying, must provide at a minimum the first page of the Co-borrower's latest individual tax return as supporting evidence that his/her business did not experience a loss. If the tax returns evidence a loss, it will then be necessary to obtain full income documentation for the self-employed Co-borrower and, the loss must be averaged and reduced from the borrower's earnings.

Section 6.15 Other Acceptable Income Sources

If used to qualify the borrower, document the income according to the underwriting requirements in Chapter 10—Ability to Repay Requirements as aligned with Regulation Z, Appendix Q.

A. Alimony, Child Support, and Maintenance Payments (must be received for a minimum of 12 months and continue for a minimum of three years from the date of closing). A legally binding court document supporting this income is required.
B. Annuity Income.
C. Auto Allowances (see Chapter 10 for additional guidance).
D. Capital Gains and Losses.
E. Disability Income.
F. Distribution Income/Asset Depletion from Employment Related Assets (follow Agency requirements).
G. Foster Care Income.
H. Housing or Parsonage Allowances: If the clergy receives a housing or parsonage allowance, AIG Investments will follow Freddie Mac's Housing or Parsonage Allowance guidelines.
I. Interest and Dividend Income.
J. Military Income.
K. Non-taxable Income.

L. Note Receivable Income (with evidence of three year continuance from date of closing).
M. Retirement and Pension Income.
N. Royalty Payment Income.
O. Seasonal Income.
P. Seasonal Unemployment Benefits Income.
Q. Social Security Income.
R. Temporary Leave and Short-term Disability Income.
S. Tip and Gratuity Income.
T. Trust Fund Income.
U. Union Member Employment income.
V. VA Benefits.

Section 6.16 Unacceptable Income Sources

Income from sources considered ineligible includes, but is not limited to the following:

A. Farm Income from the Subject Property.
B. Foreign Income.
C. Future Income.
D. Gambling Income.
E. Income Derived from the Subject Property with Land Being Leased to Another Party.
F. Income Derived from the Sale or Distribution of Marijuana.
G. Income Determined to be Temporary or One-Time in Nature.
H. Lump Sum Payments such as Inheritances or Lawsuit Settlements.
I. Lump Sum Payments of Lottery Earnings that are not ongoing.
J. Mortgage Credit Certificates.
K. Non-Incidental Income Received from Farming or Agricultural Use of a Property.
L. Rental Income Received from the Borrower's Single Family Primary Residence or Second Home.
M. Rental Income from the Subject Investment Property.
N. Rental Income Resulting from a Rapid Acquisition of Multiple Rental Properties (which has not yet been documented on the borrower's 1040s).
O. Restricted Stock Units.
P. Retained Earnings in a Company.
Q. Stock Options.
R. Taxable Forms of Income not declared on Personal Tax Returns.
S. Trailing Co-Borrower Income.
T. Unverifiable Income.
U. VA Education Benefits.

7. Credit & Liabilities

This section outlines the credit requirements that apply to all Jumbo Mortgage Loans. Generally, requirements that vary from one jumbo loan program to another are described in our Product Chapters and, in most cases; those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

A borrower's credit profile may be established by submitting the loan through Desktop Underwriter or Loan Product Advisor, but may not be relied on solely for the credit review.

Section 7.01 Documentation Age

The following documentation age limitations apply:

- Desktop Underwriter: The credit report must be dated no more than 120 days prior to the note date.
- Loan Product Advisor: The credit report must be dated no more than 120 days prior to the Note date.

Section 7.02 Documentation Standards

- All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference.
- The following data is required for each trade line reported on the credit report:
    - Current balance.
    - Current status.
    - Current rating.
    - Monthly payment amount.
    - Payment history for the most recent 12 months.
- Written verifications of mortgage, rent, or credit must be sent by the Seller directly to the creditor. The return address on the verification must be the Seller's address. The hand carrying of verifications by the borrower or interested party is strictly prohibited.

Section 7.03 Credit Report Requirements

- Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Credit Report Requirements, unless otherwise specified in these Underwriting Guidelines.
- All borrowers on a loan are required to have a valid Social Security number.
- Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud. AIG Investments requires the complete Social Security number to be displayed on the credit report.
- Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are ineligible.
- Rapid re-score credit reports are ineligible.

Section 7.04 Credit Report Red Flags

Credit repositories have developed messages to identify potential fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the borrower's Social Security number, address, telephone number, etc.

All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.

Section 7.05 Non-Traditional Credit

Any loan for which one or more borrowers do not have a valid credit score, or borrowers who do not have at least two valid credit scores, are considered "non-traditional" credit loans. All non-traditional credit loans are ineligible for sale to an Approved Buyer.

Section 7.06 Foreign Credit References

If a borrower does not have sufficient trade line references in the United States, credit references from foreign countries may not be used, and the loan will be ineligible for sale to an Approved Buyer.

Section 7.07 Minimum Credit Score

Sellers should refer to the product matrix in Section One to determine the minimum credit score for a particular loan program, loan amount, and/or property type.

Section 7.08 Authorized User Accounts

- The Seller must follow the automated underwriting requirements and the applicable Agency guidelines to determine whether the authorized user trade lines can be considered part of the borrower's credit history.
- The authorized user trade line cannot be considered part of the borrower's credit history when:
    1. The credit score will be deemed invalid and the loan will be ineligible for sale to an Approved Buyer; or
    2. A corrected credit report may be supplied with the authorized user accounts removed and the new credit score reflected.
- If a borrower provides canceled checks as proof of payment on an authorized user account, the account may be considered part of the borrower's credit history. The required monthly payment must be included in the DTI calculation.
- Authorized user accounts are not required to be included in the borrower's DTI ratios, unless the debt was listed on the initial loan application, or if the borrower is responsible for making the payment. Every effort should be made to remove the trade line from the borrower's credit report.

Section 7.09 Minimum Trade Line Requirement

All loans require a credit score based on the following minimum credit history and trade line requirements:

- The score for each borrower must be generated from a minimum of three traditional trade lines evaluated for at least 12 months.
- Trade lines for closed accounts may be used to meet this requirement.
- Authorized user accounts may not be used to satisfy this requirement unless the borrower can provide written documentation (such as canceled checks or payment receipts) proving that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.
- A trade line for which a payment has never been made may not be used to satisfy this requirement (for example, a deferred student loan).
- Borrowers who do not meet the above requirements would be viewed as having a "thin file" credit history and would be ineligible.

Section 7.10 Minimum Credit Score Requirement

AIG Investments requires a minimum of two credit scores per borrower. Borrowers who do not meet the minimum credit score and minimum trade line requirements are considered "non-traditional" or "thin file" credit borrowers and are ineligible for sale to an Approved Buyer.

Section 7.11 Significant Adverse or Derogatory Credit

To conclude that the borrower's credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur and the borrower's credit profile is acceptable must be explained.

The following guidelines apply to individuals who have a significant adverse or derogatory credit incident such as a bankruptcy or foreclosure reporting in their credit history. The same guidelines apply to borrowers who have or have had ownership interest in a property that has been included in a significant adverse or derogatory credit incident:

A. Documentation Requirements

- Evidence that the borrower has re-established an acceptable credit profile. The borrower will be considered as having acceptable re-established credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments.
- Evidence on the credit report and other credit documentation of the length of time since completion of the significant derogatory event to the date of the loan closing, and of completion of the recovery time period requirements as identified below.

B. Reestablished Credit Requirements

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale, or other significant derogatory credit, the borrower's credit will be considered reestablished if all of the following are met:

- The waiting period and related additional requirements are met.
- The minimum credit score requirements based on the loan parameters and established eligibility requirements are met.
- The borrower has traditional credit. Non-traditional credit is not acceptable. The borrower will be considered as having acceptable reestablished credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments
- AUS approval based on credit profile.

C. Recovery Time Periods

Recovery time requirements are based on the discharge, dismissal, or completion date to the date of the loan closing.

a. Bankruptcy Filing

For all bankruptcies discharged or dismissed, AIG Investments will align with applicable agency waiting period requirements with the exception of the following:

- Borrowers with bankruptcy filings in the past seven years are ineligible.
- Mortgages discharged in bankruptcy require seven-year waiting period.
- Borrowers with multiple bankruptcy filings are ineligible.

b. Foreclosures/Deeds-in-Lieu of Foreclosure/Pre-Foreclosure/Short Sales/Settled Debts

Any of the above credit events require seven years' seasoning after the completion date, and satisfactory re-established credit must be verified.

- Regardless of the borrower's credit score and/or payment history, the seven-year seasoning requirement applies for any reference to one of the above-mentioned events, whether via the credit report or other loan file documentation.
- Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.

c. **Deed for Lease**

Borrowers may have the opportunity to lease a property for which they have given a deed-in-lieu of foreclosure. When the borrower's loan file references a deed for lease, the underwriter must determine the completion date of the deed-in-lieu of foreclosure to ensure all requirements are met.

d. **Restructured Mortgage Loan**

A borrower who has had a loan restructured, in which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following is ineligible for sale to an Approved Buyer within seven years of the credit event:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- Short Refinance Mortgage Loan.
- A new transaction that includes any of the above is ineligible for sale to an Approved Buyer.

Section 7.12 Significant Adverse or Derogatory Credit Caused by Extenuating Circumstances

Extenuating circumstances are defined as non-recurring events that were beyond the borrower's control, resulting in a sudden, significant, and prolonged reduction in income (extended illness, unemployment, and death of a spouse or co-borrower). They are not defined solely by one event.

A. Age of Adverse or Derogatory Credit

If the borrower's credit history reveals significant adverse or derogatory credit within the most recent two years, even if caused by extenuating circumstances, the borrower's credit profile cannot be considered acceptable.

B. Due Diligence

The severity of the hardship and the borrower's efforts to resolve the situation must be considered. Documentation provided to support claims of extenuating circumstances should confirm the nature of the event that led to the significant derogatory credit and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations.

C. Documentation Requirements for Extenuating Circumstances

In order to consider a file for extenuating circumstances, all of the information below must be included in the closed loan package:

1. The borrower's written statement, attributing the cause of the financial difficulties to factors beyond his or her control.
2. The difficulties must not be ongoing or likely to recur.
3. Third-party supporting documentation to verify the extenuating circumstances. The supporting documentation must correlate with the borrower's explanation and timetable of events, and confirm the events were an isolated occurrence that resulted in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligation. Documentation confirming the event may include a copy of a divorce decree, notice of job layoff, job severance papers, etc.
4. Supporting documentation establishing the date of the foreclosure, deed-in-lieu, short sale, or a copy of the applicable bankruptcy documents to confirm the bankruptcy discharge date and identify any debts not satisfied by the bankruptcy, if applicable.
5. Supporting documentation indicating all debts are paid.

6. Evidence the borrower has reestablished credit. The borrower will be considered as having acceptable reestablished credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments. See Section 7.11 (B) for additional information.
7. Recovery time period from significant derogatory credit is met.

Section 7.13 Consumer Credit Counseling

Borrowers who have received credit counseling as a result of derogatory credit within the past four years are ineligible for sale to an Approved Buyer.

Section 7.14 Past-Due Accounts

Past-due open accounts must be brought current prior to the loan closing, and will be factored into the overall credit profile.

Section 7.15 Collections/Charge-offs/Liens/Judgments

- Liens impacting title must be satisfied prior to closing.
- All collections and charge-offs must be paid if an individual collection or charge-off is equal to or greater than $1000 or if the cumulative total of collections and charge-offs per loan is equal to or greater than $2500.

Section 7.16 IRS Installment Plans

Borrowers making monthly installment payments to the Internal Revenue Service (IRS) may be eligible for sale to an Approved Buyer provided the borrower is being qualified with the installment payment, and the following documentation is included in the loan file:

- Document a satisfactory payment history for the most recent twelve months (account must be in good standing).
- Evidence of the approved installment agreement with the IRS.
- If the installment debt is scheduled to be repaid in ten months or less, the debt may be excluded from the borrower's DTI, provided one following scenarios apply:
    - The obligation does not impact the borrower's ability to pay the mortgage after closing, or;
    - The borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt.

Section 7.17 Housing Payment History

- Seller should follow the manual underwriting requirements for the applicable Agency guidelines as they relate to Housing Payment History unless otherwise specified in these Underwriting Guidelines.
- An acceptable VOR or cancelled checks with supporting bank statements for the most recent 12 or 24 months (based on program requirements) must be provided.
- For homes owned free and clear, provide evidence taxes, property insurance, and association dues are paid as agreed.
- Borrowers renting from a private landlord must provide cancelled checks for rental verification.

Section 7.18 Derogatory Housing Payment History

- Borrowers with late mortgage or rent payments in the previous 12 months are ineligible for purchase by an Approved Buyer. Additionally, late mortgage or rent payments in the previous 24 months are deemed significant derogatory credit, and should be considered in the total credit analysis.
- First-time home buyers with late rental payments in the previous 24 months are ineligible for purchase by an Approved Buyer.

Section 7.19 Disputed Accounts

The Seller must follow the automated underwriting requirements and the applicable Agency guidelines to determine how to treat the disputed account. The disputed trade line must be considered in the overall AUS risk assessment.

Section 7.20 Debts Paid by a Business

In order for a debt to be excluded from the borrower's total qualifying ratio calculation, evidence must be provided to show the business has paid the debt for the previous twelve month period. Additional requirements in removing a business paid debt include but are not limited to the following:

- No history of delinquency on the account in question.
- Evidence the obligation was paid out of company or business funds.
- Tax returns or cash flow analysis to reflect the business making said payment.
- Applies to all business types, with the exception of Schedule C Sole Proprietorship.

Section 7.21 Paying Off Debt

Both installment and revolving debts may be paid off in order to remove the payment from the total qualifying ratios. The following documentation must be provided:

- Evidence the account has been paid in full.
- Source of funds to pay off the debt must be documented.
- Installment debts with ten payments or fewer remaining do not need to be considered in the borrower's qualifying ratios provided the obligation does not impact the borrower's ability to pay the mortgage after closing, or the borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt.
- Lease payments may not be paid down or paid off for qualifying purposes.
- Revolving debt must be paid off in full in order for the monthly obligation to be removed from the qualifying DTI.

Section 7.22 Student Loans

All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans:

- A payment that when made will fully amortize the loan, and is documented by the credit report or student loan lender.
- A payment based on 1% of the outstanding balance of the loan, as documented by the credit report or student loan lender.
- A calculated payment that will fully amortize the loan based on the documented repayment terms provided in the file.
- A calculated payment based on current prevailing student loan interest rates and an allowable repayment term based on agency guidelines.

Section 7.23 Qualifying Housing Payment

Seller should follow the manual underwriting requirements and the applicable Agency guidelines as it relates to the Qualifying Housing Payment unless otherwise specifically documented to the contrary in Chapter 10—Ability to Repay Requirements of these Jumbo Underwriting Guidelines, as aligned with Regulation Z, Appendix Q. Maximum DTI is 43 percent.

Section 7.24 Monthly Debt Obligations

Seller should follow the manual underwriting requirements and the applicable Agency guidelines as it relates to Monthly Debt Obligations, unless otherwise specified in these Jumbo Underwriting Guidelines.

Section 7.25 Qualifying with an Interest Only Mortgage

Borrowers who currently have any of the following, and will be retaining the property associated with this mortgage, must be qualified with the fully amortizing payment and not the interest only optional payment:

- Interest only first mortgage;
- Option ARM Mortgage (negatively amortizing); or

- An interest only HELOC or second lien that will be converting to a fully amortized payment within 12 months of the note date.

Section 7.26 Total Qualifying Debt-to-Income Ratios

- The maximum debt-to-income ratio is 43 percent.
- The maximum debt-to-income ratio for first time home buyers is 38 percent.
- The maximum debt-to-income ratio for 95 percent Jumbo products is 38 percent.
- The maximum debt-to-income ratio for loans involving gift funds is 40 percent (may be lower based on program specifications).

Section 7.27 Alimony and Child Support

Borrowers making monthly child support or alimony payments must be qualified with the monthly payment:

- Arrearages must be satisfied prior to closing.
- If the installment debt is scheduled to be repaid in less than ten months, the debt may be excluded from the borrower's DTI, provided one following scenarios apply:
    - The obligation does not impact the borrower's ability to pay the mortgage after closing. or;
    - The borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt.

Section 7.28 Payment Shock

AIG Investments does not have specific requirements related to payment shock; however, payment shock is taken into consideration in the overall risk of the loan.

Section 7.29 30 Day Open Accounts

Thirty-day open accounts with no payment reflected on the credit report or a payment reflected that is equal to that of the current outstanding balance may be handled as shown below:

- Include a payment equal to 5 percent of the current outstanding balance in the borrower's DTI or;
- The balance may be supported with assets in reserves (liquid or non-liquid), equal to the current outstanding balance. These assets are in addition to any reserves required for the transaction.

If the borrower paid off the account balance prior to closing, the lender may provide proof the account balance has been paid in full, in addition to the source of funds used to pay the account balance.

Section 7.30 Separation Agreements

AIG Investments will accept a legal separation agreement in lieu of a final divorce decree, provided the agreement includes proper separation of assets and liabilities, and is signed by all parties.

Section 7.31 Privately Financed Mortgages

A satisfactory payment history for privately financed mortgages must be documented with the most recent 12 months cancelled checks and bank statements.

Section 7.32 Borrowers Living Rent-Free

Borrowers living rent-free in the most recent twelve months are eligible provided there is an acceptable previous rental or mortgage history documented in the file. The borrowers may not be first-time homebuyers and the file must contain an acceptable letter of explanation.

8. Assets

This section outlines the asset requirements that apply to all Jumbo Loan Programs. Generally, requirements that vary from one Loan Program to another are described in Section One and, in most cases; those program-specific differences will not be referenced in this section. Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Section 8.01 Documentation Age

The following documentation age limitations apply:

- Desktop Underwriter (Fannie Mae)—120 days prior to the Note date.
- Loan Product Advisor (Freddie Mac)—120 days prior to the Note date.

Section 8.02 Minimum Down Payment and Cash to Close

- Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as the Loan Program requires.
- Evidence of liquidation of funds necessary for closing must be provided in the closed loan package.
- For all Loan Programs, the borrower is required to make a minimum down payment from his or her own assets.
- All down payment funds and cash to close must be documented and verified. Electronic verifications are acceptable.

Section 8.03 Verification and Sourcing Funds

- All funds must be documented with a minimum of two months bank statements or most recent quarterly statement.
- A verification of deposit (VOD) form is acceptable if accompanied by a minimum of one full month bank statement.
- All funds from accounts opened for 90 days or less, must be sourced if used for down payment, closing costs, or reserves.
- Large deposits exceeding 50 percent of total qualifying income must be sourced.
- If source of funds cannot be documented, it is acceptable to exclude a large deposit, so as not to consider these funds for qualifying.

Section 8.04 Cash Deposits

Cash deposits are ineligible funds in a transaction and should be reduced from the amount of available funds, regardless of whether they are considered large deposits.

Section 8.05 Co-Mingled Funds

- All funds must come from the borrower's own demonstrated savings.
- Borrowers using accounts in which their funds are co-mingled with a non-borrowing party or parties, have the burden of proving funds in those accounts are a result of their earnings/savings. In addition, the file must also contain appropriate authorization letters from all additional account owners.
- Funds from co-owned accounts that appear to have no connection to, or ownership by the borrower, will not be considered the borrower's own funds for use in the transaction.

Section 8.06 Co-Mingled Funds--Non-Borrowing Spouse

- Provide account statements to support the borrower's history as an account holder, in addition to supporting the borrower's past and continued contributions to the account.
- All large (a-typical/non-payroll related) deposits must be sourced, and will not be considered eligible if the funds are originally from a source solely associated with the non-borrowing spouse.

Section 8.07 Gift Funds

Gift funds are eligible for down payment and closing costs when a borrower has met a minimum 5 percent contribution from their own funds.

Additional criteria for the use gift funds in any transaction are provided below:

- Primary residence only.
- Eligible for 95 percent LTV up to $636,150, 90 percent LTV up to $850,000 and 80 percent LTV up to $1M.
- Purchase and Limited Cash-out only (Cash-out transaction are not eligible).
- Single Family, PUD, and condominiums only.
- Maximum 38 percent DTI for first-time home buyer program and the 95 percent loan program; maximum 40 percent DTI for all other loan programs.
- 95 percent Jumbo product eligible for closing costs and pre-paids only; borrower must meet minimum 5 percent contribution from their own funds.
- Co-mingled accounts are an ineligible source of funds for the borrower's minimum required contribution.
- Relative, spouse, domestic partner, fiancé or fiancée are all considered eligible donors.
- Gifts must be supported with a fully executed gift letter; proof of donor's ability to provide the gift, and evidence the borrower has received the gift funds.
- Gift funds are **not** eligible for reserves.
- A donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

Section 8.08 Gift Funds for the Purposes of Paying Off Debt

Gift funds for the purpose of paying off or reducing debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.

Section 8.09 Gifts of Equity

Gifts of equity are ineligible on jumbo loans for sale to an Approved Buyer.

Section 8.10 Credit Card Deposits

It is acceptable for common and customary fees, typically paid outside of closing, to be paid via an initial credit card deposit.

Section 8.11 Business Assets

Business assets are eligible for the borrower's down payment and closing costs. The percentage of business assets withdrawn from an account (for use in the transaction) should be equal to or less than the borrower's percentage of ownership in said business. Business assets are not eligible as reserves.

Evidence of the following must be included in the file:

- Evidence supporting the borrower has full access to their percentage of the funds.
- A cash-flow analysis or CPA letter stating the withdrawal of said funds will not negatively impact the business.

Section 8.12 Foreign Assets

- All assets considered in the transaction must be located in US bank accounts. Funds in financial institutions located outside of the US will not be eligible for reserves.
- The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.

Section 8.13 1031 Exchange

- 1031 exchange funds are an acceptable source of funds for a like type of investment purchase, provided the transaction meets all applicable Agency guidelines. 1031 exchange funds are an ineligible source of funds for reserves.

Section 8.14 Retirement Accounts

- Retirement accounts are an eligible source of funds for closing, down payment and reserves.
- If using funds from a retirement account for reserves, a discounted value of 70 percent of the vested balance must be used for qualifying based on market volatility.
- Terms of withdrawal from the account program administrator should be provided when using the account for reserves.
- Terms of withdrawal are not required when the 401(k) funds are associated with a previous employer; however, a discounted value of 70 percent of the vested balance must be used for qualifying .Any existing loans secured by a retirement asset must be deducted from the discounted value of the vested balance.

Section 8.15 Reserve Requirements

Occupancy	Cash Reserves Required
Primary residence (1 unit)	9 months
Primary residence (2 unit)	12 months
Primary residence (3 unit)	15 months
Primary residence (4 unit)	18 months
First-time home buyer	12 months
Investor/Second home	24 months

Section 8.16 Additional Reserve Requirements

- Borrowers with other properties in addition to the property being purchased or refinanced are required to have an additional six months of reserves for each property. Evidence of six months taxes, insurance, and association dues are required for properties owned free and clear.
- Borrowers who do not currently own a primary residence are required to have six months of rent payments in reserves when financing a second home or investment property.
- Reserve calculations for an existing rental property are based on the actual PITIA calculation for that property, rather than the negative cash flow from the property.
- Assets required to cover the outstanding balance of a 30 day Open Account in which the reported payment equals the current balance, or in which a payment is not reported, should be included in the final reserve total.

Section 8.17 Retaining and Converting Departing Residence

If the borrower is retaining their departing principal residence and converting it to a second home or investment property, reserve requirements of six months PITIA for the departing residence must be met. If a borrower has sold but not closed on the sale of their departing residence, the debt must be included in the ratios when qualifying. In order to determine whether rental income can be used to off-set a portion of the PITIA see requirements below:

Exception	Description
Sufficient Equity in Vacated Property	The loan has a loan-to-value ratio of 70 percent or less, as determined either by a current (no more than six months old) Residential Appraisal (for Single-Family units on form Fannie Mae 1004/Freddie Mac 70 or for Condominium units on form Fannie Mae 1073/Freddie Mac 465).
Leased to Unrelated Third Party	The current lease must be to an unrelated third party.
Additional Documentation	Must provide evidence that the security deposit and first months' rent have been received and deposited.

Section 8.18 Reported Non-Sufficient-Funds (NSF) Fees

Asset statements showing a history of non-sufficient-fund (NSF) fees present a layer of risk that must be weighed against the borrower's credit history from the credit report and all of the other risk factors in the file. Letters of explanation should be provided.

Section 8.19 Securities Based Loan/Margin Accounts

Securities based loan or margin accounts are considered ineligible assets for reserves for sale to an Approved Buyer.

Section 8.20 Stocks, Bonds, and Mutual Funds

Stocks, Bonds, and Mutual Funds must be reduced by 30 percent of the current market value, to account for market volatility.

Section 8.21 Relocation Funds

Funds provided toward the borrower's down payment when an employer relocation or transfer occurs, are ineligible funds for loans for sale to an Approved Buyer. Funds provided toward the borrower's closing costs and/or pre-paids must meet interested party contribution (IPC) requirements.

Section 8.22 Acceptable Assets

The following table indicates whether a particular asset type can be considered for borrower's minimum contribution, down payment, closing costs, or reserves. The asset must be properly documented and verified, in addition to meeting all applicable Agency guidelines.

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Anticipated Savings					X
Bank Accounts/Funds on Deposit in Financial Institutions	X	X	X	X	
Borrowed Funds Secured by Borrower's Own Assets (financial)	X	X	X	X	
Borrower Earned Real Estate Commission from Subject Transaction (limited to primary residence transactions)	X	X	X		
Bridge Loan Must be from a financial institution, and the borrower must qualify with the bridge loan payment.	X	X	X	X	
Business Assets See Section 8.11 for additional guidance.	X	X	X		
Cash-on-Hand					X
Cash-out from Subject Transaction					X
Cash Value of Life Insurance	X	X	X	X	
College Savings Plans/529 Accounts **(for which borrower(s) is/are not the Intended Recipient)** *May only be used as reserves when account has been liquidated.	X	X	X	X (*)	
Community Savings Plans and Lending Clubs					X
Custodial Accounts Still Under Custodians Control					X
Disaster Relief Grant Provided the funds are not considered loan funds and there is no subordinate lien to be recorded against the subject property.	X	X			
Earnest Money Deposit (EMD)	X	X	X		
Employer Assistance Programs (may not result in a lien against the property)				X	
Funds Not Yet Drawn From an Existing HELOC					X
Gift Funds See additional restriction in 8.07 within this Section		X	X		
Gifts of Equity					X
Individual Development Account Provided the account does not require a subordinate lien to be recorded against the subject property.	X	X	X	X	

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Individual Development Account Matching Funds					X
Interested Party Contributions (IPCs)			X		
Lot Value (when purchased or inherited by the borrower)	X	X			
Lot Value (when received as a gift)					X
New Simultaneous Financing on Subject Property					X
Pension Funds					X
Proceeds From Sale of Borrower's Own Real Estate or Assets	X	X	X	X	
Relocation: Down Payment					X
Rent Credit with Option to Purchase	X	X			
Retirement Accounts (401K and IRA) See Section 8.14 for additional guidance.	X	X	X	X	
Sales Concessions			X		
Stock Options/Restricted Stock Units					X
Stocks/Bonds/Mutual Funds 70 percent of current market value or evidence of liquidation required	X	X	X	X	
Sweat Equity/Trade Equity					X
Trust Accounts for which the Borrower is the Owner and Has Immediate Access to the Funds.	X	X	X	X	
Unsecured Line of Credit Financing					X
U.S. Savings Bonds	X	X	X	X	

9. AUS Requirements

AIG Investments requires the use of Fannie Mae's Desktop Underwriter® (DU® or Desktop Underwriter) or Freddie Mac's Loan Product Advisor® (LP® or Loan Product Advisor) for automated underwriting decisions on all loans. DO® (Desktop Originator®) findings may not be considered a substitute for DU approval.

Regardless of underwriting method, a full manual underwrite will be required and additional information may be requested at the discretion of the underwriter.

Section 9.01 Documentation Requirements

Loans underwritten by Desktop Underwriter or Loan Product Advisor may not follow the DU Underwriting Findings Report or LP Feedback Certificate, including but not limited to Streamlined Accept or Streamline Refinance requirements. Documentation requirements for manual underwriting for the applicable agency must be provided unless otherwise stated in these Jumbo Underwriting Guidelines or in the Matrices in Section One.

Section 9.02 DU and LP Resubmission Requirements

A. The final DU and LP decisions must reflect the proper risk class and/or documentation level as the loan was closed, including occupancy type, product type, amortization terms, loan terms, property type, loan purpose, sales price, and appraised value.

B. Verification documents must be reviewed and the verified values compared to the data submitted to Loan Product Advisor or Desktop Underwriter. The terms of the closed loan must match the terms of the final loan submission.

C. Resubmission of a loan to DU or LP is required if:

- Prior to or after closing, the data has expired.
- The findings are no longer valid due to an expired submission.
- If information on the previous submission was not true, complete, or accurate.

Section 9.03 Desktop Underwriter (DU) Decisions

A. Acceptable Findings

When a loan is submitted to Desktop Underwriter, the only recommendation in the DU Underwriting Findings Report that is acceptable to AIG Investments is the following:

Decision	Description
Approve/Ineligible	Based on the data submitted to DU, "Approve/Ineligible" findings would be the result of either the loan amount and/or the LTVs of the Mortgage Loan only. Approve/Ineligible findings for excessive cash-out may also apply, as the Jumbo Underwriting Guidelines permit cash back up to 1% of the loan amount on a jumbo rate and term refinance.
Approve/Eligible	Approve/Eligible findings are acceptable for Agency eligible high-balance loans ($424,100–$636,150) when submitted and locked on the jumbo loan program. These files will be manually underwritten and must meet all applicable jumbo loan guidelines.

B. Unacceptable Findings

Loans submitted to DU that receive other Desktop Underwriter Recommendations (including but not limited to the following) are ineligible for sale to Approved Buyers:

- Refer with Caution
- Out of Scope

C. Desktop Underwriter Accuracy

The data submitted to Desktop Underwriter must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value. Post-closing submission of a loan to DU is acceptable when necessary to correct loan data on the report.

D. Desktop Underwriter Data

Verification documents must be reviewed and the verified values compared to the data submitted to Desktop Underwriter. The terms of the closed loan must match the terms of the final loan case-file submission to Desktop Underwriter. Desktop Underwriter allows specific data tolerances for DTI ratios, assets, reserves, etc.; however, AIG Investments does not use these tolerances. If any of the loan data changes, the Seller must ensure that the loan continues to meet all requirements of these Jumbo Underwriting Guidelines.

E. Desktop Underwriter Version Control

Fannie Mae continuously updates Desktop Underwriter with new versions of the system; therefore, when a loan is initially run though a specific version of Desktop Underwriter, any underwriting updates for that same loan must be run through the same version of Desktop Underwriter. Any updated Desktop Underwriter versions will not apply to previously submitted loans.

Section 9.04 Loan Product Advisor (LP) Decisions

A. Acceptable Findings

When a loan is submitted to Loan Product Advisor, the only recommendation in the LP Feedback Certificate that is acceptable to AIG Investments is the following:

Decision	Description
Accept/Ineligible	Based on the data submitted to LP, "Accept/Ineligible" findings would be the result of either the loan amount and/or the LTV only. Accept/Ineligible findings for excessive cash-out may also apply, as the Jumbo Underwriting Guidelines permit cash back up to 1% of the loan amount on a jumbo rate and term refinance.
Accept/Eligible	Accept/Eligible findings are acceptable for Agency eligible "super conforming: loans ($424,100–$636,150) when submitted and locked on the jumbo loan program. These files will be manually underwritten and must meet all applicable jumbo loan guidelines.

B. Unacceptable Findings

Any loans that are submitted to LP that receive other Loan Product Advisor Recommendations (including but not limited to the following) are ineligible for sale to an Approved Buyer:

- Caution
- Caution/500 A-Minus
- Incomplete/Invalid

C. Loan Product Advisor Accuracy

The data submitted to Loan Product Advisor must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value. Post-closing submission of a loan to LP is acceptable when necessary to correct loan data on the report.

The final Transmittal Summary must be maintained in the permanent loan file documenting the verified values of the data utilized to perform the underwriting analysis.

D. Loan Product Advisor Data

Verification documents must be reviewed and the verified values compared to the data submitted to Loan Product Advisor. The terms of the closed loan must match the terms of the final loan case-file submission to Loan Product Advisor LP allows specific data tolerances for DTI ratios, assets, reserves, etc.; however, AIG Investments does not use these tolerances. If any of the loan data changes, the Seller must ensure that the loan continues to meet all requirements of these Jumbo Underwriting Guidelines.

E. Loan Product Advisor Version Control

Freddie Mac continuously updates Loan Product Advisor with new versions of the system; therefore, when a loan is initially run though a specific version of Loan Product Advisor, any underwriting updates for that same loan must be run through the same version of Loan Product Advisor. Any updated Loan Product Advisor versions will not apply to previously submitted loans.

Loan Product Advisor allows specific data tolerances for DTI ratios, assets, reserves, etc.; however, AIG Investments does not use these tolerances. If any of the loan data change, the Seller must ensure that the loan continues to meet all requirements of these Jumbo Underwriting Guidelines.

10. Ability to Repay Requirements

Seller must comply with all state, local, and municipal Ability to Repay requirements, including providing any required documentation.

For all initial applications taken on or after January 10, 2014, the Seller must comply with TILA and Regulation Z requirements regarding the borrower's ability to repay (ATR). In all circumstances, the Seller must consider and document the borrower's ability to repay in accordance with applicable law. The Seller must also confirm and provide evidence to AIG Investments that the Mortgage Loan is a Qualified Mortgage (QM) within the meaning of 12 C.F.R. 1026.43(e)(2), (e)(4), or (f). Seller bears the sole responsibility for determining that the Mortgage Loan is a QM, and the Approved Buyers will rely on the Seller's designation at delivery. Sellers should refer to Section 4.4 of the Seller's Guide and Chapter 11 of the Underwriting Guidelines for additional information. Furthermore, all jumbo mortgage loans must be underwritten in accordance with the requirements of set forth in these Jumbo Underwriting Guidelines. Please note that certain of these requirements may be more restrictive that the requirements set out in Appendix Q to Regulation Z, so Sellers should rely on the requirements set forth herein.

NOTE: In an attempt to provide additional clarity to those topics where AIG Investments has more restrictive requirements than those set forth by the CFPB, we have emphasized those additional requirements in blue type.

I. EMPLOYMENT-RELATED INCOME

A. Stability of Income

1. Effective Income.

Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.

Written VOEs are acceptable documentation for salaried employees when accompanied by a current pay stub. Written VOEs are not acceptable for a borrower employed by family or self-employed.

2. Verifying Employment History.

a. The Seller must verify the borrower's employment for the most recent two full years, and the Seller must require the borrower to:

   i. Explain any gaps in employment that span one or more months; and

   ii. Indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim, such as college transcripts, or discharge papers.

b. Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented by the Seller.

   Note: A borrower with a 25 percent or greater ownership interest in a business is considered self-employed and will be evaluated as a self-employed borrower.

3. Analyzing a Borrower's Employment Record.

a. When analyzing a borrower's employment, Sellers must examine:

   i. The borrower's past employment record; and

   ii. The employer's confirmation of current, ongoing employment status.

   Note: Sellers may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been, or is set to be terminated. Sellers should not rely upon a verification of current employment that includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

b. Sellers may favorably consider the stability of a borrower's income if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

4. **Borrowers Returning to Work After an Extended Absence*.**

A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:

a. Is employed in the current job for six months or longer; and
b. Can document a two year work history prior to an absence from employment using:
   i. Traditional employment verifications; and/or
   ii. Copies of IRS Form W-2s or pay stubs.

   Note: An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce.

c. Important: Situations not meeting the criteria listed above may not be used in qualifying.

***Extended absence is defined as six months.**

B. Salary, Wage, and Other Forms of Income

1. **General Policy on Borrower Income Analysis**

a. The income of each borrower who will be obligated for the mortgage debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether his/her income level can be reasonably expected to continue.
b. In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective when properly verified and documented by the Seller.

Notes:

i. Effective income for borrowers planning to retire during the first three-year period must include the amount of:

   a. Documented retirement benefits;
   b. Social Security payments; or
   c. Other payments expected to be received in retirement.

ii. Sellers must not ask the borrower about possible future maternity leave.

iii. Sellers may assume that salary or wage income from employment verified in accordance with section I.A.3 above can be reasonably expected to continue if a borrower's employer verifies current employment and income and does not indicate that employment has been, or is set to be terminated. Sellers should not assume that income can be reasonably expected to continue if a verification of current employment includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

2. **Overtime and Bonus Income.**

a. Overtime and bonus income can be used to qualify the borrower if he/she has received this income for the past two years, and documentation submitted for the loan does not indicate this income will likely cease. If, for example, the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.
b. The Seller must develop an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable; **bonus or overtime income received for less than two years, but more than 18 months, may be eligible for qualifying with strong compensating factors and documentation.**

3. Establishing an Overtime and Bonus Income Earning Trend.

a. The Seller must establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the Seller must document in writing a sound rationalization for including the income when qualifying the borrower.

b. A period of more than two years **(two years plus year-to-date)** must be used in calculating the average overtime and bonus income if the income varies significantly from year to year. **Additionally, bonus income should be evidenced for the previous two or more years and averaged over the same time frame. If a borrower has recently changed employment, remaining in the same field, evidence that the borrower is guaranteed a bonus consistent with the bonus received at the previous employer must be provided. Otherwise, bonus earnings from previous employers should not be considered in the calculation.**

4. Qualifying Part-Time Income.

a. Part-time and seasonal income can be used to qualify the borrower if the Seller documents that the borrower has worked the part-time job uninterrupted for the past two years and plans to continue. Many low and moderate income families rely on part-time and seasonal income for day-to-day needs, and Sellers should not restrict consideration of such income when qualifying the income of these borrowers.

b. Part-time income received for less than two years may be included as effective income, provided that the Seller justifies and documents that the income is likely to continue.

Part-time income received for no less than 18 months may be included as effective income, provided that the Seller justifies and documents that the income is likely to continue.

c. Part-time income not meeting the qualifying requirements may not be used in qualifying.

Note: For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours per week.

5. Income from Seasonal Employment.

a. Seasonal income is considered uninterrupted, and may be used to qualify the borrower, if the Seller documents that the borrower:

i. Has worked the same job for the past two years, and

ii. Expects to be rehired the next season.

b. Seasonal employment includes, but is not limited to:

i. Umpiring baseball games in the summer; or

ii. Working at a department store during the holiday shopping season.

6. Primary Employment Less than 40-Hour Work Week.

a. When a borrower's primary employment is less than a typical 40-hour work week, the Seller should evaluate the stability of that income as regular, ongoing primary employment.

b. Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income.

7. **Commission Income.**

a. Commission income must be averaged over the previous two years **and current year to date.** To qualify commission income, the borrower must provide:

i. Copies of signed tax returns for the last two years; and

ii. The most recent pay stub.

b. Borrowers whose commission income was received for more than one year but less than two years may be considered favorably if the underwriter can:

i. Document the likelihood that the income will continue, and

ii. Soundly rationalize accepting the commission income.

Notes:

i. Unreimbursed business expenses must be subtracted from gross income.

ii. A commissioned borrower is one who receives more than 25 percent of his/her annual income from commissions.

iii. **Providing tax transcripts in lieu of signed tax returns is not acceptable.**

8. **Qualifying Commission Income Earned for Less than One Year.**

a. Commission income earned for less than one year is not considered effective income. Exceptions may be made for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer.

b. A borrower's income may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower for the mortgage.

9. **Employer Differential Payments.**

If the employer subsidizes a borrower's mortgage payment through direct payments, the amount of the payments:

a. Is considered gross income, and

b. Cannot be used to offset the mortgage payment directly, even if the employer pays the mortgagee directly.

10. **Retirement Income.**

Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k) accounts, will cease within the first full three years of the mortgage loan, such income may not be used in qualifying.

If the assets are in the form of stocks, bonds, or mutual funds; 70% of the value (remaining after any applicable deductions for the subject transaction) must be used to determine the number of distributions remaining, in order to account for the market volatility.

11. **Social Security Income.**

Social Security income must be verified by a Social Security Administration benefit verification letter (sometimes called a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter"). If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Notes:

i. If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three years of loan origination, the Seller shall consider the income effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.

ii. Some portion of Social Security income may be "grossed up" if deemed nontaxable by the IRS.

12. **Automobile Allowances and Expense Account Payments.**

a. Only the amount by which the borrower's automobile allowance exceeds actual expenditures may be considered income.
Auto allowance reimbursement or expense account payments that exceed actual expenditures may not be considered eligible income for the purpose of qualifying for an Approved Buyer.

b. To establish the amount to add to gross income, the borrower must provide the following:

i. IRS Form 2106, Employee Business Expenses, for the previous two years; and

ii. Employer verification that the payments will continue.

c. If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income.

d. Expenses that must be treated as recurring debt include:

i. The borrower's monthly car payment; **unless offset by the auto allowance**; and

ii. Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

C. Borrowers Employed by a Family-Owned Business.

1. **Income Documentation Requirement.**
In addition to normal employment verification, a borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business, which may include:

a. Copies of signed personal tax returns, or

b. A signed copy of the corporate tax return showing ownership percentage.

c. Must be qualified using a two-year average of W-2 earnings amortized over 24 months (unless a substantial decrease is reported during said 24 month period). Income must be reported on the borrower's most recent two years signed federal income tax returns, regardless of the type of income the borrower receives (commission, salary, overtime, or bonus. If there has been a decline in earnings from one year to the next the Seller must use the more conservative lower income for qualifying.

Note: A tax transcript obtained directly from the IRS may not be used in lieu of signed tax returns.

D. General Information on Self-Employed Borrowers and Income Analysis.

1. **Definition: Self-Employed Borrower.**
A borrower with a 25 percent or greater ownership interest in a business is considered self-employed.

2. **Types of Business Structures.**
There are four basic types of business structures. They include:

a. Sole proprietorships.
b. Corporations.
c. Limited liability or "S" corporations.
d. Partnerships.

3. Minimum Length of Self Employment.

a. Income from self-employment is considered stable, and effective, if the borrower has been self-employed for two or more years.

b. Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for borrowers who have been self-employed for less than two years.

If the period of self-employment is:	Then:
Between one and two years	For the borrower's income to be effective, the borrower must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. Note: A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable.
Less than one year	The income from the borrower may not be considered effective income.

4. General Documentation Requirements for Self-Employed Borrowers.

Self-employed borrowers must provide the following documentation:

a. Signed, dated individual tax returns, with all applicable tax schedules for the most recent two years, **as well as tax transcripts for the corresponding years; if current year tax returns are not available due to a filed extension, a copy of the extension is required.**

b. For a corporation, "S" corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules; and

c. Year-to-date profit and loss (P&L) statement and balance sheet.

5. Establishing a Self-Employed Borrower's Earnings Trend.

a. When qualifying income, the Seller must establish the borrower's earnings trend from the previous two years using the borrower's tax returns.

b. If a borrower:

i. Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or

ii. Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings. **Income from a P & L statement may not be considered in the income calculation.**

c. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the Seller must base the income analysis solely on the income verified through the tax returns.

d. If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

6. **Analyzing the Business's Financial Strength.**
The Seller must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.

E. Income Analysis: Individual Tax Returns (IRS Form 1040).

1. **General Policy on Adjusting Income Based on a Review of IRS Form 1040.**

The amount shown on a borrower's IRS Form 1040 as adjusted gross income must either be increased or decreased based on the Seller's analysis of the individual tax return and any related tax schedules.

2. **Guidelines for Analyzing IRS Form 1040.**
The table below contains guidelines for analyzing IRS Form 1040:

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	An amount shown under this heading may indicate that the borrower: • Is a salaried employee of a corporation, or • Has other sources of income. • **Receives a salary from his/her self-employed business.** This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's adjusted gross income.
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income. • Depreciation or depletion may be added back to the adjusted gross income. • **Deductible meals and entertainment must be deducted from the gross income.**
Rents, Royalties, Partnerships (from Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E
Capital Gain and Losses (from Schedule D)	Capital gains or losses generally occur only one time, and should not be considered when determining effective income. However, if the borrower has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earnings trend. If the trend: • Results in a gain, it may be added as effective income, or • Consistently shows a loss, it must be deducted from the total income. The Seller must document anticipated continuation of income through verified assets. Example: A Seller can consider the capital gains for a borrower who purchases old houses, remodels them, and sells them for profit.
Interest and Dividend Income (from Schedule B)	

IRS Form 1040 Heading	Description
	This taxable/tax-exempt income may be added back to the adjusted gross income only if it: • Has been received for the past two years; and • Is expected to continue. If the interest-bearing asset will be liquidated as a source of the cash investment, the Seller must appropriately adjust the amount.
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage.
Adjustments to Income	**Adjustments to income may not be added back to the adjusted gross income, therefore the following adjustments would be ineligible:** • IRA and Keogh retirement deductions; • Penalties on early withdrawal of savings; • Health insurance deductions; • Alimony payments.
Employee Business Expenses	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.

F. Income Analysis: Corporate Tax Returns (IRS Form 1120)

1. **Description: Corporation**

   A corporation is a State-chartered business owned by its stockholders.

2. **Need To Obtain Borrower Percentage of Ownership Information.**

   a. Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the:
      - **i.** Corporate tax returns IRS Form 1120; and
      - **ii.** Individual tax returns.

   b. When a borrower's percentage of ownership does not appear on the tax returns, the Seller must obtain the information from the corporation's accountant, along with evidence that the borrower has the right to any compensation.

3. **Analyzing Corporate Tax Returns.**

   a. In order to determine a borrower's self-employed income from a corporation, the adjusted business income must:
      - i. Be determined; and
      - ii. Be multiplied by the borrower's percentage of ownership in the business.

b. The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description of Adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income.
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability.
Fiscal Year vs. Calendar year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.
Mortgage Notes Due and Payable This Year	**All mortgage notes due within the tax year must be deducted from the borrower's business income. See Section Six: Employment & Income for additional details.**

G. Income Analysis: "S" Corporation Tax Returns (IRS Form 1120S)

1. Description: "S" Corporation.

a. An "S" corporation is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.

b. Income for owners of "S" corporations comes from IRS Form W-2 wages, and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's individual IRS Form 1040.

2. Analyzing "S" Corporation Tax Returns.

a. "S" corporation depreciation and depletion may be added back to income in proportion to the borrower's share of the corporation's income.

b. In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one year, **unless documentation can be provided to support a year-to-year revolving debt obligation roll over occurrence.**

Borrowers with a two year history of a business debt roll-over event, will no longer be required to reduce business income by the amount of said debt obligation, provided all of the following documentation is present in the closed loan submission package.

- **Copy of Promissory Note for the business debt in question.**
- **Written documentation from the bank or financial institution acknowledging the debt has and will be rolled over annually; or Letter from the CPA stating the debt is renewed or rolled over annually.**

If acceptable documentation can be provided to evidence the debt has been paid in full since the most recent tax return filing date, it is acceptable to then exclude said debt(s) without the above documentation.

Important: The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.

c. The following guidance should be considered when using self-employment income for qualifying:

- **If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required.**

- **If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying:**
    - **the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and**
    - **the business has adequate liquidity to support the withdrawal of earnings.**

H. Income Analysis: Partnership Tax Returns (IRS Form 1065).

1. Description: Partnership.

a. A partnership is formed when two or more individuals form a business and share in profits, losses, and responsibility for running the company.

b. Each partner pays taxes on his/her proportionate share of the partnership's net income.

2. Analyzing Partnership Tax Returns.

a. Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040.

b. The Seller must review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the borrower's share of income.

c. Income must also be reduced proportionately by the total obligations payable by the partnership in less than one year, **unless documentation can be provided to support a year-to-year revolving debt obligation roll over occurrence.**

Borrowers with a two year history of a business debt roll-over event, will no longer be required to reduce business income by the amount of said debt obligation, provided all of the following documentation is present in the closed loan submission package.

- **Copy of Promissory Note for the business debt in question, and**
- **Written documentation from the bank or financial institution acknowledging the debt has and will be rolled over annually, or letter from the CPA stating the debt is renewed or rolled over annually.**

If acceptable documentation can be provided to evidence the debt has been paid in full since the most recent tax return filing date, it is acceptable to then exclude said debt(s) without the above documentation.

d. Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating and must be considered in the income analysis.

e. **The following guidance should be considered when using self-employment income for qualifying:**

- **If the Schedule K-1 reflects a documented, stable history of receiving income via cash distributions from the business, and it is consistent with the level of business income being used to qualify, then no further documentation supporting business liquidity and access to income is required.**
- **If the Schedule K-1 does not document a stable history of receiving income via cash distributions from the business that is consistent with the level of business income being used to qualify, then the following must be included in the closed loan package in order for the income to be used for qualifying:**
    - **the borrower can document access to the income (for example, via a partnership agreement or corporate resolution), and;**
    - **the business has adequate liquidity to support the withdrawal of earnings.**

II. NON-EMPLOYMENT RELATED BORROWER INCOME

A. Alimony, Child Support, and Maintenance Income Criteria.

Alimony, child support, or maintenance income may be considered effective if:

1. Payments are likely to be received consistently for the first three years of the mortgage;

2. The borrower provides the required documentation, which includes a copy of the:

a. Final divorce decree;

b. Legal separation agreement;

c. Court order; or

d. Voluntary payment agreement; and

3. The borrower can provide acceptable evidence that payments have been received during the last 12 months, such as:

e. Cancelled checks;

f. Deposit slips;

g. Tax returns; or

h. Court records.

Notes:

i. Periods less than 12 months may be acceptable, provided the Seller can adequately document the payer's ability and willingness to make timely payments.

ii. Child support may be "grossed up" under the same provisions as non-taxable income sources.

B. Investment and Trust Income.

1. Analyzing Interest and Dividends.

a. Interest and dividend income may be used as long as tax returns or account statements support a two-year receipt history. This income must be averaged over the two years.

b. Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.

2. Trust Income.

a. Income from trusts may be used if constant payments will continue for at least the first three years of the mortgage term as evidenced by trust income documentation.

b. Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:

i. Amount of the trust;

ii. Frequency of distribution; and

iii. Duration of payments.

c. Trust account funds may be used for the required cash investment if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

3. Notes Receivable Income.

a. In order to include notes receivable income, the borrower must provide:

i. A copy of the note to establish the amount and length of payment, and

ii. Evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns.

b. If the borrower is not the original payee on the note, the Seller must establish that the borrower is able to enforce the note.

c. Income from notes receivable must continue for three years from the date of closing to be considered qualifying income.

4. Eligible Investment Properties.

Follow the steps in the table below to calculate an investment property's income or loss if the property to be subject to a mortgage is an eligible investment property.

1	Subtract the monthly payment (PITIA) from the monthly net rental income of the subject property. Note: Calculate the monthly net rental by subtracting the 25 percent reduction for vacancies and repairs from the gross rents.
2	Does the calculation in Step 1 yield a positive number? If *yes*, add the number to the borrower's monthly gross income. If *no*, and the calculation yields a negative number, consider it a recurring monthly obligation.

C. Military, Government Agency, and Assistance Program Income

1. Military Income.

a. Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as:

i. Income from variable housing allowances;

ii. Clothing allowances;

iii. Flight or hazard pay;

iv. Rations; and

v. Proficiency pay.

b. These types of additional pay are acceptable when analyzing a borrower's income, as long as the probability of such pay to continue is verified in writing.

Note: The tax-exempt nature of some of the above payments should also be considered.

2. VA Benefits.

a. Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the Seller receives documentation from the VA.

b. Education benefits used to offset education expenses are not acceptable.

3. Government Assistance Programs.

a. Income received from government assistance programs regardless of the length of continuance, is ineligible for use in qualifying for an Approved Buyer.

b. Unemployment income may only be used for qualifying when related to seasonal unemployment, and must include a minimum two year history.

Note: Social Security income is acceptable as provided in Section I.B.11.

4. **Mortgage Credit Certificates.**
   a. If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, **these payments are ineligible for use in qualifying for loans purchased by an Approved Buyer.**
5. **Home Ownership Subsidies.**
   a. **Home ownership subsidies of any kind are ineligible for use in qualifying for an Approved Buyer.**

D. Rental Income.

1. **Analyzing the Stability of Rental Income.**
   Rent received for properties owned by the borrower is acceptable, as long as the Seller can document the stability of the rental income through:
   i. A current lease **from a non-interested third party**;
   ii. An agreement to lease **from a non-interested third party**; or
   iii. A rental history over the previous 24 months that is free of unexplained gaps greater than three months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation).
   iv. **Rental income from the subject investment property is not eligible for qualifying purposes.**

   a. A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application.

   Note: The underwriting analysis may not consider rental income from any property being vacated by the borrower, except under the circumstances described **in number 8 (policy exceptions)** below.

2. **Rental Income from Borrower Occupied Property.**
   a. The rent for multiple-unit property, where the borrower resides in one or more units and charges rent to tenants of other units, may be used for qualifying purposes.
   b. Projected rent for the tenant-occupied units only may:
      i. Be considered gross income, only after deducting vacancy and maintenance factors, **if newly acquired from the time the borrower filed their most recent 1040.**
      ii. Not be used as a direct offset to the mortgage payment.
   c. **If rental income has previously been reported on the 1040(s), income would be based on the average of rental income reported on the 1040 Schedule E.**

3. *Income from Roommates or Boarders in a Single-Family Property.*
   a. **Rental income from roommates or boarders in a single family property occupied as the consumer's primary residence is ineligible for qualifying.**

4. **Documentation Required to Verify Rental Income.**
   Analysis of the following required documentation is necessary to verify all borrower rental income:
   a. **Two years' IRS Form 1040 Schedule E (One year IRS Form 1040 Schedule E will be considered when rental history is less than 24 months); and**
   b. Current **12 month** leases/rental agreements.

5. **Analyzing IRS Form 1040 Schedule E.**
   a. The IRS Form 1040 Schedule E is required to verify all rental income. Depreciation shown on Schedule E may be added back to the net income or loss.
   b. Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability.

c. The Seller must confirm that the borrower still owns each property listed, by comparing Schedule E with the real estate owned section of the Uniform Residential Loan Application (URLA).

6. Using Current Leases to Analyze Rental Income.

a. The borrower can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on Schedule E.

b. In order to calculate the rental income:

i. Reduce the gross rental amount by 25 percent for vacancies and maintenance;

ii. Subtract PITI and any homeowners association dues; and

iii. Apply the resulting amount to income (if positive) or recurring debts (if negative).

7. Exclusion of Rental Income from Property Being Vacated by the Borrower.

Underwriters may not consider any rental income from a borrower's principal residence that is being vacated in favor of another principal residence, except under the conditions described **in number 8 (policy exceptions)** below.

Notes:

i. This policy assures that a borrower either has sufficient income to make both mortgage payments without any rental income, or has an equity position not likely to result in defaulting on the mortgage on the property being vacated.

ii. This applies solely to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040).

8. Policy Exceptions Regarding the Exclusion of Rental Income from a Principal Residence Being Vacated by a Borrower.

When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis under the circumstance listed in the table below.

Exception	Description
Relocation	**Rental income exceptions are not eligible for relocating borrowers.**
Sufficient Equity in Vacated Property	The borrower has a loan-to-value ratio of **70** percent or less, as determined either by: • A current (no more than six months old) residential appraisal, or • Comparing the unpaid principal balance to the original sales price of the property **is not an option for determining value.** Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1073/Freddie Mac 465. **Exterior-only appraisals are not acceptable in determining the equity position for an Approved Buyer.**
Leased to Unrelated Third Party	**The current 12-month lease must be to an unrelated arm's-length third party.**
Additional Documentation	**Must provide evidence the security deposit and first month's rent has been received and deposited.**

E. Non-Taxable and Projected Income

1. **Types of Non-Taxable Income**.

   Certain types of regular income may not be subject to Federal tax. Such types of non-taxable income include:

   a. Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income;

   b. Certain types of disability and public assistance payments;

   c. Child support;

   d. Military allowances; and

   e. Other income that is documented as being exempt from Federal income taxes.

2. **Adding Non-Taxable Income to a Borrower's Gross Income.**

   a. The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.

   b. The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.

   c. The Seller:

      i. Must document and support the amount of income grossed up for any non-taxable income source, and

      ii. Should use the tax rate used to calculate the borrower's last year's income tax.

      iii. **Foreign income is not eligible for use in qualifying.**

      Note: If the borrower is not required to file a Federal tax return, the tax rate to use is 25 percent.

3. **Analyzing Projected Income.**

   a. **Projected or hypothetical income is not acceptable for qualifying purposes. See number four below for projected income for new job.**

4. **Projected Income for New Job. (Executed Employment Contracts, Confirmation Letters, and Offer Letters)**

   a. Projected income is acceptable for qualifying purposes for a consumer scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.

   b. The creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes fall under this category.

   c. The income does not qualify if the loan closes more than 60 days before the consumer starts the new job.

III. BORROWER LIABILITIES: RECURRING OBLIGATIONS

1. **Types of Recurring Obligation. Recurring obligations include:**

   a. All installment loans;
   b. Revolving charge accounts;
   c. Real estate loans;
   d. Alimony;
   e. Child support; and
   f. Other continuing obligations.

2. **Debt-to-Income Ratio Computation for Recurring Obligations.**

a. The Seller must include the following when computing the debt-to-income ratios for recurring obligations:

i. Monthly housing expense; and

ii. Additional recurring charges extending ten months or more, such as:

a. Payments on installment accounts;

b. Child support or separate maintenance payments;

c. Revolving accounts **(must be included when outstanding balance exists)**; and

d. Alimony.

b. Debts lasting less than ten months must be included if the amount of the debt affects the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after loan closing.

Note: Monthly payments on revolving or open-ended accounts, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less **(unless evidence exists in the file to show account has been paid in full).**

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, Sellers must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.

3. **Revolving Account Monthly Payment Calculation.**
If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:
a. 5 percent of the balance; or
b. $10.

Note: If the actual monthly payment is documented from the Seller, or the Seller obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

4. **Reduction of Alimony Payment for Qualifying Ratio Calculation.**
The reduction of an alimony payment from the borrower's gross income for qualifying ratios calculation is not an eligible method of income calculation for an Approved Buyer.

IV. BORROWER LIABILITIES: CONTINGENT LIABILITY

1. **Definition: Contingent Liability.**
A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

2. **Application of Contingent Liability Policies.**
The contingent liability policies described in this topic apply unless the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

3. **Contingent Liability on Mortgage Assumptions.**

Contingent liability must be considered when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that:

a. Has been sold or traded within the last 12 months without a release of liability, or
b. Is to be sold on assumption without a release of liability being obtained.

4. Exemption from Contingent Liability Policy on Mortgage Assumptions.

An exemption from a contingent liability on mortgage assumptions is not eligible for an Approved Buyer.

5. Contingent Liability on Cosigned Obligations.

a. Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:
    i. A car loan;
    ii. A student loan;
    iii. A mortgage; or
    iv. Any other obligation.
b. If the Seller obtains documented proof **in the form of 12 months cancelled checks** that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

V.BORROWER LIABILITIES: PROJECTED OBLIGATIONS AND OBLIGATIONS NOT CONSIDERED DEBT

1. Projected Obligations

a. Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the Seller as anticipated monthly obligations during the underwriting analysis.

All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or educational loans:

- **A payment that when made will fully amortize the loan, and is documented by the credit report or student loan lender.**
- **A payment based on 1% of the outstanding balance of the loan and documented by the credit report of student loan lender.**
- **A calculated payment that will fully amortize the loan based on the documented repayment terms provided in the file.**

b. **Debt payments deferred to a period outside the 12-month timeframe must be classified as projected obligations.**

c. Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

2. Obligations Not Considered Debt.

Obligations not considered debt, and therefore not subtracted from gross income, include:

a. Federal, State, and local taxes;
b. Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
c. Commuting costs;
d. Union dues;
e. Open accounts with zero balances;
f. Automatic deductions to savings accounts;
g. Child care; and
h. Voluntary deductions.