

## Synopsis

This product is designed for conforming or jumbo balance loans with alternative documentation types. This document is intended as a general guide, is not all inclusive, and provides basic product parameters. For items not otherwise addressed in this product description, refer to the PHH Selling Guide or FNMA guidelines, as applicable.

### Key Attributes at a Glance

Alt Doc Options:	WVOE, Personal or Business Bank Statement, 1099, Asset Depletion, Asset Utilization, P&L Only
Occupancy:	Primary, Second Home and Investment
Condo:	Warrantable (85%) and Non-Warrantable (80%)
Min/Max Loan Amt:	Non-Delegated: \$125k - \$3MM Delegated: \$125k - \$1MM
LTV Maximum:	85% for Primary Residence 80% for Second Home or Investment Property 80% Asset Utilization
Non-QM:	Allowed
Sub Financing:	Allowed with conditions
Prepayment Penalty:	Permitted on Investment Property loans only and must follow state & federal requirements



Correspondents must receive prior approval to originate Non-Agency products. Please contact your Correspondent Specialist, Regional Sales Executive, or contact us via the support line at 1-800-929-4744 for additional information.

## Loan-To-Value Grid

Products			
Description	Amortization Term	Interest Only Period	Product Code
Non-Agency Gold 30Yr Fixed – Alt Doc	360 months	N/A	ALT30G
	360 months	120 months	ALT30FRM_IOG
Non-Agency Gold 5/6 ARM – Alt Doc <sup>1</sup>	360 months	N/A	ALT56ARMG
	360 months	120 months	ALT56ARM_IOG
Non-Agency Gold 7/6 ARM – Alt Doc	360 months	N/A	ALT76ARMG
	360 months	120 months	ALT76ARM_IOG

Occupancy	Loan Purpose	Loan Amount <sup>2</sup>	LTV/CLTV <sup>3</sup>	Credit Score <sup>4</sup>
Primary Residence	Purchase, R/T Refi	\$2,500,000	80%	680
		\$1,500,000	85%	720
Primary Residence & Second Home	Purchase, R/T Refi	\$3,000,000	75%	680
		\$2,000,000	80%	680
		\$2,000,000	70%	660
Investment Property	Purchase, R/T Refi	\$3,000,000	75%	740
		\$2,000,000	80%	700
		\$2,000,000	75%	680
		\$2,000,000	70%	660
Occupancy	Loan Purpose	Loan Amount <sup>2</sup>	LTV/CLTV <sup>3</sup>	Credit Score <sup>4</sup>
Primary Residence &	Cash-Out Refi <sup>5</sup>	\$3,000,000	70%	680

Refer to the PHH Seller Guide for questions not addressed in this product description.

Second Home		\$2,000,000	75%	700
		\$2,000,000	70%	680
		\$1,500,000	65%	660
Investment Property	Cash-Out Refi <sup>5</sup>	\$3,000,000	70%	740
		\$2,000,000	75%	740
		\$2,000,000	65%	660

<sup>1</sup> HPML/High Cost – Not Allowed

<sup>2</sup> Minimum loan amount: \$125,000, Max Loan Amount for Interest Only \$3,000,000

<sup>3</sup> Max LTV Limits:

- Non-Warrantable Condo – 75%
- Declining Market – 5% LTV/CLTV reduction (see grid below)
- Asset Utilization – 80%
- DTI > 45%, Max LTV 80%
- Loan amounts < \$150,000, Max LTV 80%
- Loans with 1x30x12 or Prior Credit Event, Max LTV 80%

<sup>4</sup> Interest Only:

- Min Credit Score is 660, Max LTV = 80%
- >\$2.0MM - \$2.5MM, Max 75% LTV
- >\$2.5MM, Max 70% LTV

<sup>5</sup> Max Cash-Out by LTV: ≤ 65% – \$3,000,000 | > 65% – \$1,000,000

Refer to the PHH Seller Guide for questions not addressed in this product description.

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## Alternative Documentation

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options.

Personal Bank Statements, Business Bank Statements, P&L Only, 1099 Reduced Doc, Asset Depletion & Asset Utilization are all considered Alt-Doc from a credit and pricing standpoint. When more than one documentation option is utilized for qualifying, i.e. bank statements together with asset depletion, then the documentation option yielding the highest borrower income will be used to determine pricing.

## Appraisal

- Appraisals must meet FNMA’s appraisal standards, including Uniform Appraisal Data Set (UAD) specifications and field-specific requirements. Reduced appraisals are not allowed.
- Appraisals must have COLOR photos.
- Properties in excess of the predominant value of the subject market area are acceptable if supported by similar comparables and represent the highest and best use of the land as improved.
- Transferred appraisals must be less than 60 days old at the time of transfer (less than 120 days at closing) and ordered through an Appraisal Management Company.
- Loans ≤ \$2 million require only one appraisal.
- Loans > \$2 million or FSBO > 70% LTV/CLTV require 2 full appraisals, the lesser of which will be used for valuation
- An appraisal review report is required for loans with only one appraisal. If the review valuation is less than 90% of the appraised value, then the LTV will be calculated using the lower value. If one of the review report options listed below is not available, then a second full appraisal is required. Valuation review report options when the CU score is 2.5 or greater:
  - Collateral Desk Top Analysis (CDA) or
  - Appraisal Risk Review (ARR) (from Pro Teck)
  - Similar independent vendor

## pARM Data

<b>Index</b>	30 Day Average SOFR (Secured Overnight Financing Rate)
<b>Margin</b>	3.75%
<b>Floor</b>	The margin is the floor
<b>Conversion Option</b>	Non-Convertible
<b>Periodic and Life Cap</b>	<b>5/6 ARM:</b> 2% initial cap, periodic cap is 1%, lifetime cap is 5% <b>7/6 ARM:</b> 5% initial cap, periodic cap is 1%, lifetime cap is 5%
<b>Interest Rate Change Date</b>	Rate is fixed for 5 or 7 years and changes every six months thereafter
<b>Interest Rate Calculation</b>	For each interest rate adjustment date, the calculation is based on the index rate available plus the margin. The adjustment is equal to the relevant index plus the margin, rounded to the nearest 0.125%.
<b>Payment Adjustment Date</b>	Initial rate is fixed and adjusts to the index plus margin on the first-rate change date and every six months thereafter.
<b>ARM Qualifying Rate</b>	The minimum qualifying rate is the greater of note rate or the fully indexed rate rounded to the nearest 0.125%.

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Asset Depletion

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 60% of the remaining value of stocks and bonds
- 70% of 401K, Retirement assets (Under eligible retirement age of at least 59 ½)
- 70% of 401K, Retirement assets (Eligible retirement age of 59 ½).

## Assumability

Not assumable

## Borrower Eligibility

### Allowed

- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien
- First Time Homebuyers – Primary Residence or 2<sup>nd</sup> Home only
- Non-occupant coborrower
- Trustees of living trusts
- Non-arm's length transactions – Primary residence only
- Corporations, including Limited Liability Company (LLC) and Partnerships

### Not Allowed

- Vesting in a Life Estate
- Foreign nationals with no residency status in the US
- Employees of the originating lender
- ITIN Borrowers residing in the US
- Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts
- Trusts or business entities where a Power of Attorney is used
- Any other borrower not specified above as an eligible borrower
- Power of Attorney (POA) for cash out loan programs, or when closing/vesting in the name of an Entity
- Businesses or Persons whose income derives from the Cannabis Industry

### Multiple Financed Properties

- Primary Residence and 2<sup>nd</sup> Home – 20 (including subject property)
- Investment Property – unlimited
- Maximum exposure to PHH for one borrower is \$3MM or 10 loans

Eligible Borrowers	Required Documents	Notes
Permanent Resident Aliens	Alien Registration Card I-551 with no expiration or accompanied by INS Form I-757 (if expiring within 6 months prior to closing proof of a filed form I-90 is required)	Front/Back
	OR	
	Alien Registration Card I-551 with expiration and accompanied by INS Form I-751 (petition to remove conditions)	Front/Back

Refer to the PHH Seller Guide for questions not addressed in this product description.

Non-Permanent Aliens	<p>Evidence of 24-month history of Employment in the U.S  AND  Non-Immigrant VISA (Following are acceptable: E-Series, H-Series, Series L, O-Series, V Series, I, K-1, K-3, TN, P-1A<sup>3</sup>)  AND  An EAD<sup>45</sup> card for the following acceptable VISA Types: E-1, E-1D, E-2D, E-3D, H-4, K-1, K-3, L-2, V Series</p>	<p>Front/Back  Front/Back</p>
<ol style="list-style-type: none"> <li>Stamp must state the following: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence, Valid until MM/DD/YYYY Employment Authorized."</li> <li>Employment Authorization Document must be issued by the U.S. Citizenship &amp; Immigration Service providing authorization to work in the U.S. without restrictions.</li> <li>An unexpired (at time of closing) Non-immigrant Visa with an Entry Stamp issued by the U.S. Department of State which will evidence legal entry into the U.S. for temporary residence. Visa expiring within 6 months of closing need USCIS Form 1-797 confirming submitted application to renew and copy of the employer's letter of sponsorship for Visa renewal.</li> <li>EAD's must be unexpired at closing, if expiring within six months of the application the borrower must show evidence they have applied for an extension or provide letter from the employer indicating they will continue to sponsor their employment.</li> <li>An EAD is only required to be provided if using income to qualify regardless of VISA type.</li> </ol>		

## Buydown

Not Allowed

## Cash out Refinance

- Cash-out incidental Cash. If the net proceeds eligible for distribution to the borrower is equal to the lesser of 2% of the principal or \$5,000, then the transaction will not be considered a cash -out refinance.
- At least one borrower on the new loan must be on title of the subject property at the time of loan application.
- Net proceeds from a cash-out transaction may be used to meet reserve requirements.
- A cash-out purpose letter is required.
- Sale Restriction – property must be removed from listing for at least 3 months prior to application.
- Properties listed for sale or purchased within the last 6 months prior to application (Note to Note), require a 5% LTV reduction.
- Properties that have been listed by the current owner within the last 6 months will have the LTV based on the lesser of the list price or the appraised value.
- LTV/CLTV Limit. If the subject property is owned for less than 6 months at the time of application, then the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value.
  - Proof of Improvements is required
  - Proof of Purchase Price is required as evidenced by the prior Closing Disclosure.
- No waiting period if the borrower acquired the property through an inheritance or was legally awarded the property through a divorce, separation, or dissolution of a domestic partnership.

## Construction to Permanent Financing

Construction conversion refers to the replacement of interim construction financing with a long-term mortgage.

- PHH does not provide interim construction financing.
- 1-time close construction conversion loans are not allowed
- 2-time close construction conversion to pay off an interim construction loan is acceptable

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Credit Considerations

Credit scores – A minimum of 2 credit scores are required to be provided and used to determine the representative qualifying credit score for loan approval.

# Of Borrowers	# Of Scores per Borrower	Methodology
1	2 or 3	Lower of 2 or the middle of 3 FICO scores
2 or more	2 or 3	<ul style="list-style-type: none"> <li>Primary wage earner’s lower of 2 or middle of 3 FICO scores</li> <li>If 2 of the 3 scores are identical, use the identical score as your mid score</li> <li>If borrows are 50/50 owners and income is equal, the higher middle score should be used</li> </ul>

### Other credit requirements:

- The maximum age of the credit report is 120 days. A gap report or undisclosed debt notification (UDN) report within 10 days of the note date is required. The age of the document is measured from the document date to the date of the Note.
- Minimum 12 months of housing payments required with maximum delinquency of 1x30, must be current at closing. A VOM/VOR is required for all the borrower’s outstanding mortgages or rent paid. See the PHH Seller Guide for documentation options, including alternatives for borrower’s with < 12 months of housing history.
- Borrowers who own their primary residence free and clear for a minimum of 12 months are acceptable. Borrowers living rent free with a spouse are acceptable with rent-free letter and evidence of spouse’s mortgage.
- Tradelines (Only the Primary Wage Earner is required to meet the minimum tradeline requirements and will have open and active tradelines that meet the following requirements):
  - 3 open and active for  $\geq 12$  months **OR**
  - 2 open and active for  $\geq 24$  months **OR**
  - 1 open and active for 12 months – Allowed with a minimum credit score of 700 and max DTI of 35%
  - Authorized User accounts may be counted toward the tradeline requirement when another borrower on the subject transaction is the owner of the tradeline, the borrower is an authorized user on a spouse’s tradeline, or when the borrower can provide proof, they have made at least 50% of the payments on the tradeline for the most recent 12 months preceding the application.
  - If the Primary Wage Earner has 3 credit scores reporting on credit, then the minimum credit tradeline requirements are considered met.
- Debt Monitoring – an undisclosed debt notification (UDN) is required within 10 days of closing.
- A written explanation for credit inquiries in the last 90 days is required.
- Bankruptcy, Foreclosure, Short Sale, or Deed-in Lieu significant derogatory credit events must be seasoned 36 months.
- Forbearance, deferred payments, or modifications – Not Allowed unless COVID related and must be released and fully current.
- Open Judgements, Garnishments, or Liens – must be paid off prior to closing
- Credit Counseling – allowed with restrictions. Must have a minimum of 12 months elapsed on the plan. See PHH Selling Guide for additional requirements.
- Collection accounts and charge offs must be paid in some circumstances. Refer to the PHH Selling Guide.
- Past due accounts must be brought current
- Business debt is typically a financial obligation of a business. However, business owners can sometimes be personally responsible for that debt as well. If business debt is reflected on a personal credit report and the business debt facility is less than 6 months old, then the payments must be included in the debt-to-income ratio. If the business debt is greater than or equal to 6 months old, the debt may be omitted from the debt-to-income ratio, if the borrower provides documentation that the borrower’s business is making the payments on these debts.

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Declining Markets

Declining Markets (applies to LTVs >65%)			
Property Value	Demand	Market Time	Reduction to LTV
Declining	Shortage or In Balance	Under 3 months	5%
Declining	Shortage	3-6 months	5%
Declining	In Balance	3+ months	5%
Declining	Over Supply	Over 6 months	5%

## Down Payment / Source of Funds

- Assets must be seasoned for 30 days
- See PHH Selling Guide for list of eligible assets
- Marketable securities up to 100% of value
- IRA and 401K including ROTH – 80% of vested balance less outstanding loans if under eligible retirement agent, 100% of the vested balance less loans for applicants eligible for retirement age.
- Second Home & Investment Property requires 10% of the borrower’s own funds to be verified before gift funds can be used
- Gift funds – Allowed if permitted by the income type. See also “Exhibit A”
  - Purchase of Primary Residence
  - 5% of borrower’s own funds must be verified
  - Cannot be used for reserves
- Gift of Equity – Allowed if permitted by the income type. See also “Exhibit A”
  - Purchase of Primary Residence
  - Max LTV 75%
  - Must be from family member
- Trade Equity is Not Allowed
- Down Payment Assistance, Employer Assistance and/or grant programs are Not Allowed

## Employment and Income

This product allows several alternative forms of income documentation. **All loans require a minimum residual income of \$1,500**, unless otherwise specified in the documentation details. Documentation options include the following:

- Written Verification of Employment
- 1099
- Asset Depletion
- Asset Utilization
- P&L Only
- Personal Bank Statements (12 or 24 months)
- Business Bank Statements (12 or 24 months)

**See Exhibit A – Alternative Income Documentation for Detailed Requirements**

## Escrow Waiver

The following must be escrowed:

- HPMLs that are for Primary Residences

Refer to the PHH Seller Guide for questions not addressed in this product description.



- Debt Consolidation Refinances
- Flood insurance must be escrowed
- Refinance where taxes show delinquent on title

## Geographic Restrictions

All 50 states are eligible

**Guam, US Virgin Islands and Puerto Rico – Not Permitted**

## Hazard Insurance

Deductibles:

Family residences. The higher of:

- \$1,000; or
- 5% of the face amount of the policy.
- If there is a separate wind-loss endorsement, then the deductible will increase to \$2,000 or 2% of the face amount of the policy.
- Condo and PUDs – The maximum deductible amount for policies covering the common elements must be no greater than 5% of the face amount of the policy
- For losses related to an individual unit in a PUD that is covered by a blanket policy; the maximum deductible is no greater than 5% of the face amount of the policy.
- For Condos with blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

Other Requirements:

- Property Insurance Minimum Rating standards - Must meet Agency requirements
- A Loss Payable Endorsement is required on all loan transactions

## Interested Party Contributions

Occupancy	LTV	Max Percentage
Primary and 2 <sup>nd</sup> Homes	≤ 75	9%
Primary and 2 <sup>nd</sup> Homes	75.01 – 85.00	6%
Investment	All	6%

## Ineligible Transactions

- Assumable Loans
- Construction to Perm
- Temporary Buydowns
- Builder Bailout
- Conversion Loans
- Lease Options/Rent to Own
- Non-Arm's Length Transactions on Second Homes and Investment Properties
- Assignments of the contract to another buyer
- No Graduated Payment Mortgage Loans
- No Ground leases, No Buydown Mortgage Loan, No Pledged Asset Loan

Refer to the PHH Seller Guide for questions not addressed in this product description.

- No Convertible Mortgage Loan – allows an ARM to convert to a Fixed Rate Mortgage
- Periodic Payment – Loans must have periodic payments due and loans cannot have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan.
- Simple Interest Loans

## Loan to Value Calculation and Seasoning

**Declining Market:** Properties that are in a declining market as designated by the appraiser may be subject to reductions in LTV/CLTV regardless of transaction type. See Declining Markets section.

### Purchase:

- Calculate LTV/CLTV/HCLTV based on lesser of the purchase price or appraised value of the subject property.

### Refinance, Rate/Term:

- If the borrower has less than six (6) months ownership in the property, the LTV for a refinance transaction is calculated on the lesser of the purchase price plus documented improvements, or the current appraised value.
- Property acquired through inheritance or legally awarded through a divorce, separation, or dissolution of a domestic partnership may use current appraised value.
- If the borrower has owned the property for six (6) months, the LTV is based on the current appraised value.
- Properties listed for sale must be removed from the listing at least one month prior to the application date. LTV will be based on the lesser of the list price or appraised value when listed within the last 6 months by the current owner.

### Refinance, Cash-Out:

- Minimum of 180 days ownership prior to application date is required.
- The LTV for a Cash-Out Refinance transaction is calculated based on the current appraised value.
- Properties listed for sale or purchased within the last 6 months (Note to Note), require a 5% reduction in LTV

### Delayed Purchase Cash-Out Refinance:

- Allowed for Primary Residence only
- The LTV is calculated based on the lesser of the purchase price or current appraised value of the subject property. Original appraisal cannot be used regardless of age.

### *Definitions*

**Rate/Term Refinance** – The new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs, prepaid items, buying out a co-owner pursuant to an agreement, and court ordered buyout settlements. Cash-out to the borrower cannot exceed the greater of \$2,000 or 1% of the loan amount

- Prepayment fees may be included
- Closing costs must be reasonable and within market standards
- The maximum cash-out to the borrower reflects both cash in hand, the payoff of miscellaneous debts, and is net of fees and other related closing costs.

A seasoned non-first lien mortgage is either a purchase money mortgage or any other closed end or HELOC mortgage that has been in place for more than 12 months and has no draws greater than \$2,000 in the past 12 months. Withdrawal activity must be documented with a transaction history from the HELOC.

**Delayed Purchase Cash-Out Refinance** – Per FNMA guidelines, except that the LTV/CLTV is based on the lesser of the purchase price or current appraised value. Original appraisal cannot be used regardless of age.

**Cash-Out Refinance** – Any transaction that does not qualify for a Limited Cash-Out Refinance is considered a Cash-Out Refinance.

**Continuity of obligation** is required for all refinance transactions.

Refer to the PHH Seller Guide for questions not addressed in this product description.

## Mortgage Insurance

Not Applicable.

## Prepayment Penalties

Permitted on investment property loans only. PHH will not purchase loans with prepayment penalties in the following states. All other loans with a prepayment penalty must be in compliance with applicable federal and state laws.

- Alaska, Kansas, Maryland, Minnesota, New Mexico, North Dakota
- New Jersey prohibits to individual borrowers. Permitted to legal entities
- Ohio loan amounts  $\leq$  \$110,223 (for 2024) are not eligible, loan amounts  $>$  \$110,223 allow a flat prepayment penalty up to 5 years and equal to 1% or less of the original principal amount
- Pennsylvania loan amounts  $>$  \$312,159 (for 2024)
  - Loan amounts  $\leq$  \$312,159 are permitted on 3- or 4-unit properties
- Washington ARM loans. Permitted on Fixed rate loans
- Oregon – requires state specific disclosure in addition to the Note and Security Instrument Rider
- Michigan – 3-year prepayment penalty 1/1/1 % of amount of the prepayment
- Mississippi – 5-year maximum declining prepayment penalty structure is allowed
- Rhode Island – 1 year Prepayment Penalty, 2% of the balance due

Prepayment Structure – allowable 1-to-5-year prepayment types as permitted by applicable state and federal laws.

- 6 months interest allowed on amount of prepayment above 20% of the origination loan amount in any 12-month period.
- Step Down Prepay Structure, or Flat Prepay Structure allowable

## Property Types & Features

### Allowed

- 1 Unit SFR, 1 Unit SFR w/ Accessor Unit, 2-4 Unit, Attached or Detached PUD
- Warrantable Condo
- Non-Warrantable Condo (see PHH Selling Guide)
- FNMA Eligible Leasehold
- Rural up to 10 acres
- 1031 exchange
- Delayed 1031 exchanges are allowed only for down payment and cash to close
- Leaseholds (in areas where leaseholds are common)
- Property flips are subject to additional requirements (see PHH Selling Guide)
- Modular Homes (site assembled)

### Not Allowed (list is not all-inclusive)

- Second Homes with 2-4 Units
- Condotels
- Property listed for sale at any time in the 180 days prior to loan application
- Property in foreclosure or which have an open redemption period
- NY CEMA
- Cooperatives

Refer to the PHH Seller Guide for questions not addressed in this product description.

- Mobile or Manufactured Homes
- Properties > 10 acres
- Unique Property (Barndominiums, log homes, geodesic domes, etc.)
- Builder bailout
- Conversion loans
- Lease with option to buy / Rent-to-own
- Undeveloped land
- Completion escrows
- Timeshares
- Tenancy in Common properties
- Properties with less than 500 square feet living space
- Boarding houses
- Mixed Use
- C5 or C6 property condition grades
- Assisted Living
- Commercial Properties
- Working Farms

## Qualifying Income

Qualifying Income will be determined based on one of the following calculations below:

Percentage of Gross deposits as calculated using a fixed expense ratio factor of 10% (Personal) / 50% (Business) or expense ratio provided by a CPA

OR

Percentage of Gross deposits as calculated using a fixed expense ratio factor as provided by a CPA

OR

The monthly net income using a Net Income average from a validated third-party prepared P&L. The total deposits with 12, or 24 months of business bank statements is used solely to validate third-party prepared P&L.

## Qualifying Ratios

Based on the documentation type, more restrictive rules may apply. See also Exhibit A.

- Maximum DTI is 50%
- When DTI exceeds 45%, Max LTV = 80%
- First Time Homebuyer Max DTI = 45%, 70% LTV
- Refer to the PHH Selling Guide for specific requirements on inclusion or exclusion of debt in the DTI ratio.

Qualifying payment for interest-only loans should be calculated over the fully amortizing period after I/O period has expired.

## Reserves

Assets for reserves must be seasoned for 30 days.

### Rate Term

LTV < 65% - No Minimum

LTV > 65% - See Below

Refer to the PHH Seller Guide for questions not addressed in this product description.

### Purchase/Cash Out/Rate Term

< \$1,000,000 = 3 months  
\$1,000,000 – \$1,500,000 = 6 months  
> \$1,500,000 = 9 months

### Residual Income

\$1,500 Residual Income is required on all loan products.

### Subordinate Financing

Allowed with a US institution, no private parties.

### Underwriting and Closing

- Loans are manually underwritten
- Lender must explain the reason an agency loan was not selected by the borrower
- A minimum of two (2) years employment and income history is required, unless exempted under the documentation type. Refer to PHH Selling Guide for documentation details.
- A signed Form 4506-C and tax transcripts are not required for alternative documentation loans unless supplemental wage income is used to qualify.
- Verbal Verification of Employment – Required within 10 calendar days from the note date for employment income and within 30 days for self-employment income.
- When paying off a private mortgage, a copy of the note and security instrument for the loan to be paid off is required.
- An Underwriters detailed attestation regarding a borrower's ability to repay is acceptable in lieu of the Signed Borrower Ability to Pay Attestation form.
- OFAC and Watchlist – documentation to confirm borrowers, entities as borrower, sellers, realtors, settlement agent, appraiser and appraisal company should be provided.
- Property Taxes must be based on the value of the land and the total of all assessed improvements – new construction or full renovations must be based on the improvements and proposed taxes.

#### Chain of Title

- Title policy must include a minimum of six months' history of property ownership from the effective date of the policy or preliminary report. All transfers of title within the last six-month period must be disclosed and fully investigated. Property flips are subject to additional restriction.

#### Documents

- The following forms are required and can be found in the PHH Selling Guide.
  - Borrower Ability to Repay Attestation
  - Condo questionnaire (full) \* if an approved FNMA Condo Project Manager (CPM) report is provided, a questionnaire is not required.
  - Condo questionnaire (limited review)
  - If a loan is intended to be and closes as a Business Purpose transaction, the file must contact a signed Business Purpose and Occupancy Affidavit

Refer to the PHH Seller Guide for questions not addressed in this product description.

## **Exhibit A – ALTERNATIVE DOCUMENTATION**

### **Written Verification of Employment**

Borrowers who have a 2-year history of employment with the same employer may utilize this program:

- WVOE must be sent directly to and received from the employer and must be completed by HR, Payroll, or an Officer of the company. Borrowers employed by family members or related individuals are not eligible. A WVOE from an online provider such as Equifax or The Work Number is also acceptable.
- Paystub, Tax Returns or W2's are not required.
- Form 4506-C is required
- One month personal bank statements are required and should reflect deposits from the employer support at least 65% of the salary reflected on the WVOE.
- Supplemental income sources such as commissions or rental income are not permitted.
- Internet search of the business is required
- VVOE within 10 days of closing
- Minimum FICO 680
- Primary Residence only
- FICO  $\geq$  720: Max LTV 80% for Purchase/Rate Term; Max LTV for Cash Out is 70%
- FICO  $<$  720: Max LTV 75% for Purchase/Rate Term; Max LTV for Cash Out is 70%
- 0x30x24 housing payment history (rent free or less than 24 months history are ineligible)
- First Time Homebuyer maximum LTV is 70%
- No Gift Funds

### **1099 Income**

Borrowers who have a 2-year history of receiving only 1099 income, or who have recently converted from W2 to 1099 and have at least 1 year of receiving 1099 income in the same line of work, may utilize this form of documentation. The borrower must provide:

- 1099 for the previous tax year, payable to the borrower and not a Business.
- VVOE from the current contract employer covering the most recent 2 years plus YTD earnings, likelihood of continued contractor status and whether the contractor has non-reimbursed business-related expenses.
  - If verification of non-reimbursed business-related expenses is not available, apply the expense ratio found under the Personal Bank Statement income documentation type.
- Proof of receipt for the most recent 2 months via check stubs, bank statements, or other 3<sup>rd</sup> party verification.
- Supplemental income such as W-2 or Social Security Income may be included if it is not the dominant income type or conflicts with the primary income calculation. Document the income in accordance with Full Document requirements.
  - Residual income of \$1,500 is required.

### **Asset Depletion**

Asset Depletion is a form of alternative documentation and may be used to determine qualifying income, and may be used both alone or in conjunction with other documentation options. Asset Depletion uses the borrower's post-closing, liquid assets to estimate a monthly income stream that is used to calculate the DTI. The following restrictions apply:

- Borrower must have at least 1.5 times the loan balance in Qualified Assets after deducting down payment, closing costs, or reserves. Qualified Assets used for these purposes must be deducted prior to evaluating the portfolio for income determination.
- Primary & Second occupancies only

Refer to the PHH Seller Guide for questions not addressed in this product description.

- Purchase or rate/term refinance only
- Gift funds are not permitted
- Proof of six months seasoning on all assets is required
- Employment information is not required to be disclosed on the 1003.
  - Enter “N/A to this loan” in the employment field
  - Enter a secondary phone number in the employer phone field

Qualified Assets for the Asset Depletion doc type can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts, and must be held in a US institution. The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 60% of stocks & bonds
- 60% of Pension Plans (must be accessible within a 30 day window)
- 70% of 401k, Retirement assets (Under eligible retirement age of at least 59 ½)
- 70% of 401k, Retirement assets (Eligible retirement age of 59 ½)
- Personal funds in the borrower’s names only (business funds and joint accounts with individuals not on the loan are not eligible).

Monthly Income = Net Qualified Assets / 84 Months

- Residual income of \$1,500 is required

#### Asset Utilization

Asset Utilization is another form of alternative documentation and may be used to determine qualifying income both alone or in conjunction with other documentation options. Asset Utilization does not require a DTI to be calculated, and instead qualifies the borrower based solely on their post-closing liquid assets.

The following restrictions apply:

- DTI is not calculated; however, the borrower’s post-closing liquid assets must be greater than the combined total of:
  - 100% of the loan amount
  - 60 months of all revolving, installment, alimony/child support, and mortgage related expenses (see below).
    - Paydown of installment debt to 10 months to avoid inclusion is not allowed, however total payoff of installment debt to qualify is allowed.
  - Subject property reserves requirements
  - 2 months PITIA for each additional financed property
- Employment and income are not required to be disclosed on the 1003.
  - Enter “N/A to this loan” in the employment field
  - Enter a secondary phone number in the employer phone field
- Gift funds not permitted
- Proof of six months seasoning of liquid assets is required
- Balances of qualifying assets must be verified within 10 days of Note Date
- Residual income is required as outlined in this section
- Borrower affirmation stating that the borrower has the ability to repay is required

Qualified Assets for the Asset Utilization doc type can be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. Increases or decreases of greater than 15% over the prior six (6) month period (i.e., compare month 1 to month 6) must be explained by the borrower, and may require supporting documentation to demonstrate that no adverse changes to the portfolio are expected. The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 60% of the remaining value of publicly traded stocks & bonds & mutual funds
- 70% of 401k, Retirement assets (Under eligible retirement age of at least 59 ½)

Refer to the PHH Seller Guide for questions not addressed in this product description.



- 70% of 401k, Retirement assets (Eligible retirement age of 59 ½)
- 60% of Pension Plans (must be accessible within a 30 day window)
- 100% of cash value of life insurance policy
- Personal funds in the borrowers name only (business funds and joint accounts with individuals not on the loan are not eligible).
- Foreign assets are not eligible

Mortgage Related Expenses as referenced in the second bullet point above:

- **Subject Property:** Exclude the subject P&I from the 5-year calculation (only include taxes, insurance, HOA, special assessments, etc.).
- **Non-Subject Properties:**
  - Include the PITIA of additional REO in the 5-year calculation
  - For investment properties with positive cash flow, the PITIA may be excluded.
  - If the investment property has negative cash flow, the net negative rental amount must be multiplied by the 60-month term with the resulting amount added to the required assets.
  - Leases + 2 month's most recent rent receipts are required to document the rental income received for an investment property (Form 1007 is not required).
  - New leases executed for new tenants must provide proof of receipt of the deposit and 1<sup>st</sup> months' rent.
  - A 25% vacancy factor must be applied to the monthly rent prior to calculating positive/negative cash flow for the property.
  - Net rent can never equal \$0.
- **Short-Term Rentals:** Short-term rentals are properties in which the rental term is less than 12 months, relatively variable in duration (e.g., short weekend, two weeks, several months, etc.), and may not be subject to a traditional lease agreement.
  - Use documented 12 months of payments to derive the monthly rental amount average. If no rent is received, use zero for that month.
  - Proof of receipt for the most recent 12 months rental income is required using 12 monthly statements or an annual statement provided by the on-line service to document receipt. A screen shot of the online listing must show the property is actively marketed as a short-term rental.

Residual Income is required. Use the calculation below to determine the residual income:

- **Total Monthly Income** = Total Qualified Assets (do not deduct reserves) / 60 months
- **Monthly Residual Income** = Total Monthly Income - Total Monthly Debt Obligations (Expenses). Minimum of \$1500 is required

#### P&L Only Loans

Self-employed borrowers are allowed to qualify using a business P&L statement alone. P&L income can be supplemented by other documented income options. Profit and loss must reasonably reflect the income and expenses of the industry described. P&L statements which are suspicious in nature may require additional information.

The following requirements apply:

- FICO < 720, Max LTV 75%
- P&L covering the most recent previous 12 or 24 months depending on the loan program.
  - Must be dated within 30 days prior to closing.
  - Must be completed by 3<sup>rd</sup> party CPA or Independent Licensed Accountant – No PTIN tax preparers. The 3<sup>rd</sup> party must sign and date the P&L and provide their attestation as to the accuracy of the P&L statement.
  - Proof of 3<sup>rd</sup> party licensing or certification is required. Acceptable if verified by professional services directory, government listing, or other reasonable 3<sup>rd</sup> party source
- Proof the business has been in operation for a minimum of 12 months
- Proof of **>25%** business ownership percentage via K-1 or other 3<sup>rd</sup> party documentation if business is a corporate entity. Documents which are not required to list all owners do not meet this requirement.
- P&L must reasonably reflect the income and expenses for the industry described. If in question, the underwriter should obtain additional documentation.
- Supplemental income such as W-2 or Social Security Income may be included if it is not the dominant income type or conflicts with the primary income calculation. Document the income in accordance with Full Document requirements.

Refer to the PHH Seller Guide for questions not addressed in this product description.



- Residual income of \$1,500 is required.

### **All Bank Statement Loans**

Bank statements may be obtained as an alternative to tax returns to document a self-employed borrower's income. When analyzing Business Bank Statements, the Lender must verify the borrower's percentage of ownership. Self-employed borrowers can use Personal or Business bank statements to document their income. Bank statement income may be supplemented by other documented income options, including W2 or asset-based income. The following restrictions apply to both personal and business bank statement documentation:

- Self-employed History – At least one borrower must be self-employed for a minimum of 2 years with the same business.
- The business must be established and be in existence for the past 2 years.
- A Third-Party Verification that the Business is in existence and in good standing is required.
- Like-to-Like Accounts – All parties listed on a bank account must be included as borrowers on the application.
- Recent and Continuous – Statements used for income must be consecutive and reflect the most recent months available.
- Stability – Statements must support stable and generally predictable deposits. Large and unusual deposits must be sourced. If they cannot be sourced they will be excluded.
- Earnings decline may result in loan disqualification.
- Net Decrease – Withdrawals consistently greater than deposits will be considered declining cashflow/income.
- Non-Sufficient Funds (NSF) – Defined as an account which stays negative for more than 24 hours. Non-Sufficient funds typically result in a fee charged by the financial institution. Maximum of 3 Non-Sufficient funds occurrence within the last 12 months. LOE must be satisfactory.
- Overdraft protection (OD) – Occurs when the account goes negative but is linked with another account or line of credit with the same financial institution. Overdrafts with OD are treated as an isolated incident when the account did not reflect a negative balance and shows a transfer from another account. LOE must be satisfactory.
- Transfers will be excluded from income unless it is a wire transfer in from another company for services rendered.
- W2 and Other income. Other income is allowed in conjunction with the Bank Statement Program, for example W2 income or fixed income such as Social Security Benefits.
- Residual income of \$1,500 is required

### ***Personal Bank Statements***

The following documentation is required for loans using personal bank statements to derive qualifying income:

- 12 or 24-months complete personal bank statements (multiple bank accounts may be used). Dated within 30 days of application: **and**
- Three (3) months business bank statements supporting that the borrower does maintain separate account(s). If business bank statements cannot be provided to evidence a separate business account, then the personal statements must follow the requirements of business bank statements to determine the appropriate expense factor to be used.
- Transaction histories are not acceptable.
- The Initial 1003 with monthly income must be disclosed
- Bank statements must only reflect individuals who are applicants or non-borrowing spouses
- When spousal joint accounts are used, the borrower must be 100% owner of the business, all income/deposits from the non-borrowing spouse must be removed and all parties must attest in writing to the income belonging to the applicant.
- If the last bank statement is >30 days, a current transaction history is required to show current activity and earnings for business prior to funding.

The following apply when analyzing personal bank statements:

- 100% of personal bank account deposits
- Large deposits and any unidentified deposits as determined by the underwriter must be sourced.
- Transfers will be excluded unless they are from a documented business account
- Cash is not an acceptable deposit source

Refer to the PHH Seller Guide for questions not addressed in this product description.

Qualifying income will be the lesser of:

- Personal bank statement total gross deposits divided by 12 or 24
- If business bank statements are not provided, then the deposits must be adjusted by the appropriate expense ratio
- Income listed on the initial, signed 1003

### **Business Bank Statements**

If business bank statements are used to derive income, the following documentation is required:

- 12 or 24-months of complete business bank statements from the same account. Evidence that an account was moved to a new institution is acceptable, however other co-mingling of multiple accounts to generate a full 12 or 24 months is not permitted.
- Initial, signed 1003 with the monthly income disclosed
- An expense ratio must be applied, unless a CPA prepared P&L that covers the same time frame as the bank statements is provided

The following apply when analyzing business bank statements:

- Personal bank accounts may be treated as business statements in the following circumstances:
  - Personal bank accounts that are addressed to a DBA
  - Personal bank accounts that can evidence use for business expenses
  - Blended bank statements are allowed on a case-by-case basis with sole proprietor structure.
  - Cash is not an acceptable deposit source
- Wire transfers from other accounts must be either documented or excluded
- Declining balances will require an acceptable LOE
- Transaction histories are not acceptable
- Borrower must be at least 25% owner of the business. If multiple owners, then the income used will be based on ownership percentage(s)
- Third-Party verification of business existence to be confirmed by a licensed CPA or a copy of the State or Federal License certification.
- Business Bank Statements must be consecutive and from the most recent period

Business bank statement income will be calculated per one of the three options below, however, ***the qualifying income cannot exceed the income listed by the borrower on the initial, signed 1003.***

1. Percentage of gross deposits calculated using a fixed expense ratio factor of 50%
2. P&L – Monthly net income based on a third-party prepared P&L
  - The total deposits calculated with 12- or 24 months of business bank statements will be used solely to validate third-party prepared P&L. Bank statements must show at least 75% of gross receipts.
  - P&L statement must cover the same 12- or 24-month period as the bank statements.
  - Borrower prepared P&L will not be permitted under any circumstances
  - CPA/licensed tax preparer (No PTIN tax preparers) must attest that they have audited the business financial statements or reviewed working papers provided by the borrower
  - CPA/licensed tax preparer (No PTIN tax preparers) must attest that they are not related to the borrower or associated with the borrower's business
3. The monthly net income using a net income average from a validated third-party prepared P&L. The total deposits calculated with 12 or 24 months of business bank statements are used solely to validate third-party prepared P&L. P&L statements covering the same 12- or 24- month period as the bank statements. **Borrower prepared P&L will not be permitted under any circumstances.** The CPA/Licensed Tax Preparer (No PTIN tax preparers allowed) must attest that they have audited the

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business financial statements or reviewed working papers provided by the borrower as well as attest that they are not related to the borrower or associated with the borrower's business.

## Vesting

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust

Vesting is permitted in an Entity for Business Purpose Investment loans and 2nd home with the following requirements:

- Purpose and activities are limited to ownership and management of real property.
- Entity must be domiciled in a U.S. state.
- Business structure is limited to a maximum of (4) owners/members.
- Personal Guarantees must be provided by all owners/members of the Entity on the loan.
- Each Entity owner/member on the loan must sign the security instruments.
- Each Entity owner/member providing a Personal Guaranty must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member/owner providing a Personal Guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

For each business type, the following documentation must be provided:

- Limited Liability Company (LLC)
  - Entity Articles of Organization, Partnership, and Operating Agreements as required
  - Tax Identification Number (Employer Identification Number – EIN) – In any case where a sole proprietor is using SSN in lieu of EIN, provide an UW cert or other supporting documentation
  - Certificate of Good Standing
  - Certificate of Authorization for the person executing all documents on behalf of the Entity
  - LLC Borrowing Certificate required when all owners/members are not on the loan
- Corporation
  - Filed Certificate/Articles of Incorporation (Including all Amendments)
  - By-Laws (including all Amendments)
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the business is incorporated)
  - Tax Identification Number (EIN) – In any case where a sole proprietor is using SSN in lieu of EIN, provide an UW cert or other supporting documentation
  - Borrowing Resolution/Corporate Resolution granting authority of signor to enter loan obligation
  - Receipt of current year franchise tax payment or clear search where applicable per State
- Partnership
  - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
  - Partnership Agreement (and all Amendments)
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the Partnership is registered)
  - Tax Identification Number (EIN)
  - Limited partner consent (where required by partnership agreement)
- All parties who take title to the subject property must sign the Security Instrument, all parties to the loan do not have to be on title.

Note: Preference is to use official documentation issued by a CPA, the State, or IRS to satisfy document requirements. Fillable PDF's or emails from borrower's are not sufficient.

Refer to the PHH Seller Guide for questions not addressed in this product description.