



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.

PHH Non-Agency Underwriting Standards

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Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

Overview

This document outlines PHH's detailed general underwriting requirements for Non-Agency loans and is intended to be used in conjunction with the PHH Selling Guide and the individual PHH Product Descriptions. For non-agency guideline questions not addressed by PHH's published guidelines and policies, defer to FNMA guidelines, or reach out to NonAgencyScenarioDesk@phhmortgage.com

For all Non-Agency loans, the lender must document in the loan file that the borrower does not qualify for a GSE loan or has chosen a non-GSE loan program

Products

PHH offers multiple Non-Agency loan products. Refer to the product descriptions for product-specific guidelines.

Qualified Mortgage

Non-Agency loans may be QM or Non-QM.

Ability to Repay

All loans that are subject to Reg Z 'Ability to Repay' must demonstrate the ability to repay. Some of the underwriting factors that are considered under Reg Z Ability to Repay include:

- Current employment status
- Current income / assets
- Monthly mortgage payments (all Real Estate Owned)
- Monthly payments of any installment loans
- Monthly payments for other mortgage related debts / expenses (e.g., taxes, insurance, HOI, HOA, etc.)
- Current financial obligations, alimony, & child support
- Monthly DTI
- Credit history of all borrowers
- Residual income

Loan files that are subject to the Ability to Repay regulation must include a borrower certification attesting to the following:

- (i) they have fully disclosed their financial obligations
- (ii) they have reviewed and understand the loan terms; and
- (iii) they have the ability to repay the loan.

Borrower Eligibility

Definitions and general requirements related to Non-Agency loans are outlined per the below. Refer to the individual Product Description for product-specific eligibility:

Maximum Exposure

The maximum exposure to PHH for each borrower cannot exceed \$3 Million

Ineligible Borrowers

- Foreign Nationals, and all Foreign Nationals as defined by the INS.
- All Persons with Diplomatic Immunity, as defined by the INS
- Persons from OFAC sanctioned countries
- Seller Employee Loans
- Irrevocable or Blind Trusts
- ITIN Borrowers residing in the U.S.
- Other borrowers that not explicitly defined as eligible borrowers in the Product Description

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

Borrower Definitions

US Citizens

All U.S. Citizens, as defined by the U.S. Department of Immigration and Naturalization Service (INS)

Permanent Resident Aliens

A Permanent Resident Alien is an individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. A Permanent Resident Alien typically maintains an alien registration card (“green card”).

Non-Permanent Resident Aliens

A Non-Permanent Resident Alien is an individual who is not a U.S. Citizen but lives in the U.S. under the terms of an applicable Visa.

Inter-Vivos Trusts

Often referred to as a family trust, a living trust, or a revocable living trust, an Inter-Vivos Revocable Trust, this borrower type is eligible for a 1-unit primary residence, second home, or investment property when the trust meets FNMA guidelines.

Limited Liability Company (LLC)

A limited liability company (LLC) is a for-profit company where ownership is divided into shares and where the governing rules are set forth in a contract entered by all the initial shareholders. Shareholders limit their liability exposure to their percentage of ownership or equity interest in the company. When title is vested in the name of a LLC, the loan is qualified based on the income and assets of the individual members, who are required to sign a Personal Guaranty.

Residency Status

Other than U.S. Citizens, eligible borrowers must evidence their residency status by providing applicable INS documentation. Other forms of documentation not listed here that evidence residency status may be accepted, however, must be reviewed on a case-by-case basis.

Eligible Borrowers	Required Documents	Notes
Permanent Resident Aliens	Alien Registration Card I-151 (“Green Card”) or Alien Registration Card I-551 with no expiration or Alien Registration Card I-551 with expiration and accompanied by INS Form I-751 (petition to remove conditions) or An unexpired foreign passport with an unexpired stamp (valid for 3 years).	front/back front/back front/back (1)
Non-Permanent Resident Aliens (including DACA)	Evidence of employment in the U.S. including an EAD document. or Non-immigrant Visa The following Visas are acceptable: E series, G series, H series, L series, O series or Deferred Action for Childhood Arrivals (DACA) approval ⁴	(2) (3)
Inter-Vivos Trust	Per FNMA requirements	

(1) Stamp must state the following: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm/dd/yyyy Employment Authorized”

(2) Employment Authorization Document must be issued by the U.S. Citizenship & Immigration Service (USCIS) providing authorization to work in the US without restrictions

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

(3) 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 must not expire for 3 years following the close date. Please see FNMA Guides for acceptable VISAs.

(4) DACA and Asylum Applicants are ineligible for all Silver Products, review Product Descriptions. Eligibility documentation – I-766, Employment Authorization Document (EAD) with required Category C33.

Title Vesting

Eligible Title Vesting

Unless prohibited in the Product Description, the following are eligible for title vesting:

- Individual
- Joint Tenants
- Tenants by the Entirety
- Tenants in Common

Non-Individual Title Vesting

Title to the property may be vested in a non-individual entity as outlined below:

Inter-Vivos Revocable Trust

An inter-vivos revocable trust is often referred to as a family trust, a living trust, or a revocable living trust. PHH will accept title vesting in an Inter-Vivos Revocable Trust for a first mortgage that is secured by a one-family primary residence, a second home, or an investment property. The trust must meet Fannie Mae guidelines for Inter-Vivos Revocable Trusts.

Limited Liability Company (LLC)

A limited liability company (LLC) is a for-profit company where ownership is divided into shares and where the governing rules are set forth in a contract entered by all the initial shareholders. Shareholders limit their liability exposure to their percentage of ownership or equity interest in the company. When title is vested in the name of a LLC, the loan is qualified based on the income and assets of the individual members, who are required to sign a Personal Guaranty.

Recourse Loan

- Personal guarantees required from all borrowers, co-borrowers, co-signers, and all parties with any personal ownership interest in the property.
- For loans to Entities, guarantee to be signed by all Guarantors; Spousal consent to the guaranty is also required in AK, AZ, AR, CA, ID, KS, KY, LA, MI, MO, NV, NM, NC (refis only), NJ (when purchased before 1980), OH, TX, WA, WI

The PHH LLC Review Checklist is required.

Documentation requirements:

- Purpose and activities are limited to ownership and management of real property
- All members must be natural persons
- Maximum four (4) owners or members
- No correspondent seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.
- Entity must be domiciled in the United States
- *Foreign LLC Certificate of Good Standing* or equivalent if the entity was not formed in the subject property state is required
- *Certificate of Formation / Certificate of Incorporation*. At least one of the LLC owner's income and assets will be evaluated to determine loan eligibility. This owner must be an equal or majority stakeholder per the Certificate of Incorporation.
- *Certificate of Status* (Certificate of Good Standing) from the Secretary of State as provided by the title company within 30 days of closing. Certificate should state that the entity is in good standing.
- *Articles of Organization and by-laws or Operating Agreement* to determine the appropriate agents/signatories for the transaction. Operating Agreement will also be reviewed to determine the agents' powers and limitations to borrow, pledge, encumber, hypothecate or mortgage personal or real property.

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

- *Corporate Resolution.* If the Articles or Operating Agreement do not grant agents' powers, then a copy of a Corporate Resolution must be provided that confirms the governing authority (managers or managing members) has granted authority to borrower, pledge, encumber, hypothecate or mortgage personal or real property to an agent of the LLC.
- *Tax Identification Number*

Documents are completed and signed as follows:

- Individual who is guaranteeing the loan signs:
 - Loan Application (URLA) for each individual member of the entity (all members must apply and be qualified for the new loan)
 - URLA must be signed as an individual
 - Section "Title will be held in what Name(s)" must be completed with only the LLC name
- Personal Guaranty
 - Required from all members of the entity
 - Must be executed at loan closing and dated the same as the Note
 - Spousal Consent to Pledge is required for:
 - Personal Guaranties from community property states must be accompanied with a Spousal Consent to Pledge.
- Signed by authorized signer for the entity:
 - All members of the LLC to sign:
 - Disclosures (e.g., Loan Estimate)
 - Settlement statement
 - Note, Deed of Trust / Mortgage, all Riders

Example LLC Signature Requirements:

[Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing Member, Member, etc.).

Sample 1:

Borrower: Acme Investors, LLC by John Smith, Single Member of LLC

Note, Security Instrument, and all Riders:

Signature Block

ACME INVESTORS, LLC a [] limited liability company

John Smith

By: John Smith

Title: [Authorized Signatory]

Sample 2:

Borrower: Acme Investors, LLC, by John Smith and Jane Smith, two Members of LLC;

Both Members are Authorized Signatories of LLC.

Note, Security Instrument, and all Riders:

Signature Block

ACME INVESTORS, LLC a [] limited liability company

John Smith,

By: John Smith

Title: [Authorized Signatory]

and

ACME INVESTORS, LLC a [] limited liability company

Jane Smith

By: Jane Smith

Title: [Authorized Signatory]

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

Credit

All aspects of the loan will be evaluated, including the borrower's willingness and ability to repay the loan in a timely manner. This review will involve, but is not limited to, the borrower's credit history, asset position, income/cash flow and review of the property used for collateral.

Credit History

A merged in-file credit report including all three national credit reporting repositories is required. A minimum of 2 credit scores are required to be used to determine the qualifying credit score for loan approval. Refer to the individual Product Description to determine the applicable FICO score for the product. Credit reports cannot contain a security freeze and should be resolved prior to an underwriting decision.

Tradeline Requirements

Refer to the individual product description

Authorized User Accounts

Refer to the individual product description

Housing history

When a VOM / VOR is required, acceptable methods of a Verification are:

- Computer Pay History printout directly from Mortgage Lender.
- 12 Months of Bank Statements showing timely payment of rent or mortgage.
- Credit Bureau Report reflecting a pay history over the last 12 months.
- Cancelled Checks front and back or 12 months bank statements showing payment withdrawals and a year-end mortgage statement.
- If renting from a private party canceled checks are required.
- If no VOR is obtained, a copy of the lease and 12 months canceled checks are acceptable.

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- Primary residence only
- Minimum 6 months reserves after closing
- First Time Investors must have 12 months reserves
- 10% minimum borrower contribution
- Payment Shock is not considered
- VOR/VOM must be obtained for all months' available reflecting paid as agreed
- Properties owned free and clear are considered 0x30 for grading purposes

Other Derogatory Credit

Credit Counseling, Collections, Judgements, Liens

- Judgements, Garnishments and Liens – refer to individual product description
- Credit Counseling (CCCS) enrollment is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided.
 - Letter from CCCS administrator allowing the borrower to seek financing on a new home while enrolled in the plan is required.
 - If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.
- Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
 - Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
 - Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
 - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
 - All medical collections
 - IRS repayment plans with 3 months history of payments may remain unpaid.
- Past Due Accounts must be brought current

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

Forbearance, deferred payments, modifications

Refer to the product description for restrictions on Forbearance, deferred payments, and loan modifications. Examples of mortgage loan modifications are:

- 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
- Conversion of any portion of the original mortgage debt from secured to unsecured

Bankruptcy, Short Sale, Deed-in-Lieu, and other Significant Adverse Credit

Refer to the individual product matrix for requirements

Confirmation no new debt is obtained via a new credit report (soft pull) or gap report within 10 days of note date

Assets

Eligible Assets

The following is a list of liquid assets that are generally eligible for down payment, closing costs, and required reserves, along with the eligible value based on its liquidity.

Refer to the individual Product Description to identify any variations from this list based on the individual product or documentation type:

- Checking, savings, and certificates of deposit
- US Savings Bonds
- Marketable Securities (publicly traded stocks, bonds, mutual funds)
- Restricted Stock Units (RSU) – per FNMA Guidelines
- Retirement Accounts (Account statement must be dated within 30 days of the Note date)
- Pension Plans (Account statement must be dated within 30 days of the Note date.)
- Annuities (within 30-day window)
- Trust Accounts – Full review of trust documentation required
- Business Asset Requirements for Self Employed Borrower:
 - Borrowers on the loan must have 50% ownership of the business and must be the owners of the account.
 - Access letters from the remaining owners of the business must be obtained.
 - A letter from a CPA or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If a CPA letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the client for analysis to determine if the withdrawal of funds from the business is acceptable.
- Spousal Accounts – Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to verification requirements listed below. (Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.)
- Unsecured loans, sweat equity, and gifts that require repayment are not eligible for sources of down payment.
- Crypto Currencies, such as Bitcoin, are an eligible source of funds for down payment and closing costs and reserves. For down payment and closing cost, the assets must be liquidated and deposited into an established US bank account. For reserves, documentation to prove ownership of the crypto holdings must be provided together with verification of current valuation from the Coinbase Exchange within 30 days of Note date. Crypto currency is not an eligible liquid asset for asset utilization/depletion

Verification of Assets

The seller can use any of the following types of documentation for verification:

- Verification of Deposit (VOD) Form. The information must be requested directly from the depository institution. The completed, signed, and dated document must be sent directly from the depository institution.
- Bank statements and investment portfolio statements.
- Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. The statements must cover account activity for the most recent periods. A summary statement will not be accepted.

The statements may be computer generated forms, but must include or state the following:

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

- Clearly identify the borrower as the account holder, the account numbers, the time the statements cover. Include all deposits and withdrawal transactions. The report must include the previous close balance, the current balance, and the ending account balance.
- Retirement account statements must be from the most recent period and identify the borrower's vested amount and terms.

Income and Employment

PHH offers the documentation options listed below. Refer to the individual Product Description for requirements not outlined in the Non-Agency Underwriting Standards.

- Full doc
 - W2s and Tax Returns
- Alternative doc
 - 1099 Income
 - Asset Depletion
 - Asset Utilization
 - Asset Qualifier
 - P&L Only
 - Personal Bank Statement
 - Business Bank Statement
- Debt Service Coverage Ratio (DSCR)
 - Current Lease OR Market Rent as indicated on the 1007

Verification of Employment - Alternatives

- A written VOE confirming the borrower's current employment status may be obtained within the same timeframe as the verbal VOE requirements to satisfy the VVOE requirement.
- An email directly from the employer's work email address that identifies the name and title of the verifier and the borrower's name, and current employment status may be used in lieu of a verbal VOE.
- The lender may obtain a year-to-date paystub from the pay period that immediately precedes the note date in lieu of a VVOE.
- Bank statements: The lender can provide bank statements (or other alternative documentation, Verification of Deposits and Assets) evidencing the payroll deposit from the pay period that immediately precedes the note date in lieu of a VVOE.

Unscheduled Income

Applicants with unscheduled income are eligible borrowers according to the following guidelines and requirements:

Bonus Income

- Two-year history of Bonus Income is required. For borrowers in same line of work with different employers, they will be considered on a case-by-case basis.
- Written VOE (WVOE) verifying probable continuance of bonus income is required. If the employer does not comment on probability, a 2-year history will suffice to establish the probability of continuance.
- A 24-month history is used to calculate bonus income. A history of greater than 24-months may be required if there is a significant increase or decrease in bonus income.

Overtime Income

- Overtime must be verified with historical and a YTD average
- To verify continuance, the 24-month history of OT should reflect that the income was consistent over the past 2 years and will have a high likelihood of continuance.

Seasonal Employment/Unemployment

- For consistency, must show the borrower has worked for the same employer for the past 24-months. Please note if they are in a union (construction, electrical, plumbing) and are placed on different jobs over a period that is acceptable.
- WVOE is required and must state a reasonable expectation of returning the next season.
- Unemployment Compensation for time-off has been consistent for the past 24 months and coincides with the seasonal job.

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

- Income must be annualized over a 12-month period for qualifying purposes unless the income is declining.

Commission Income

- A two-year consecutive history of commission earnings is required. Borrowers with less than 2 years with current employer, yet in the same line of work for 2 years will be considered on a case-by-case basis.
- WVOE is required.
- Paystubs must reflect commission income on YTD earnings.
- Declining commissions require a letter of explanation (LOE) from the borrower, expanded history and further support that supports the income used to qualify.
- If commission income exceeds 25% of earnings, then the most recent 2 years of signed tax returns are required.

Rental Income – Departing Residence

- Copy of executed lease **and** verification of security deposit **and** first-month's rent deposited to borrower's account.
- Cannot be leased to a family member.
- Lease agreement must be for a minimum 12-month term.

Rental Income – All properties other than departing residence (In the event of a DSCR loan, please review product guidelines)

- Most recent personal tax return **and** copy of current unexpired, executed lease (if lease is not current, evidence need to be provided showing lease converted to month to month) **and** at least 3 months proof of current rental income being received. The rental income must be derived solely from the ownership of rental properties as declared on the Schedule E.
- New leases on properties purchased within the tax year require a copy of the executed lease **and** verification of security deposit **and** first-month's rent deposited to borrower's account. Lease cannot be to a family member.
- Rental income from short leases, such as Airbnb, VRBO, Homestay or other vacation rentals (i.e., short-term rentals) is allowed for refinance transactions of the subject investment property. A two-year history of receipt must be reported for the property on the borrower's income tax returns. Evidence that the property is currently being offered for rent in the same manner is required. Market Rents cannot be used for short-term rental income. A two-year history of receipt is required along with proof of current receipt of rental income.
- Landlord history is not required.
- FNMA Form 1007 is required for all non-owner-occupied transactions.

Housing and Automobile

- Follow FNMA guidelines.

RSU income – Restricted Stock Units

- Restricted Stock Units (not to be confused with stock options) are a form of stock-based compensation granted by an employer. The grant is restricted by certain conditions set forth in the compensation plan, for example a vesting schedule or performance goals. Restricted stock must be vested and received on a regular, recurring basis.
 - The following documentation is required:
 - Issuance agreement or equivalent (part of the benefits package), and
 - Schedule of distribution of units (shares), and
 - Vesting schedule, and
 - Evidence that stock is publicly traded, and
 - Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)
 - Calculation of income:
 - To determine the restricted stock price, use the lower of the current stock price or the two-year stock price average.
 - Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. The average stock price should be applied to the number of stock units vested each year.
 - Future vesting must support qualifying income.

Interest and Dividend Income

- Borrower must submit the proper tax filing schedule IRS (ex. Form 1040 Schedule B) reflecting the income. Tax exempt interest is also eligible under the same conditions).
- Two-year history of interest and dividend is required to demonstrate stability and continuance.

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

- Income from interest-bearing or dividend-producing assets being used for the down payment or closing costs are not eligible.
- Taxable interest or dividend income that is not recurring should not be included.

Capital Gains/Losses, Royalties, Notes Receivable, Trust, Lottery Winnings, Contract Income, Alimony and Child Support

- 3-year continuance of income must be verified.
- 12-month history of receipt is required.
- 3 years of tax returns are required (for capital gains income only)

Non-taxable Income

- Non-taxable income can be grossed up by adding 25%, or by borrower's income tax bracket, **whichever is less**. Note that at certain levels Non-Taxable Income could be subject to taxation. Defer to FNMA Guides.

Declining or Increasing Income

If income is declining year-over-year, then the lowest income year will be used to qualify the borrower. A letter of explanation detailing the reason for the decline and the possibility of further income deterioration will also be required.

If a borrower's income has grown at a pace greater than 20% per annum, then an average of the last two years' income will be used. The lender is responsible for ensuring that the borrower has the capacity to repay the loan and meet ATR requirements.

Determining Income for Self Employed Borrowers

Business Verification

- A Third-Party Verification of the existence of the borrower's business is required within 30 calendar days of the note date **AND** an updated verification within 10 calendar days of note date to determine business is still open. Verification must be from a third-party, such as a CPA or a third-party licensed tax preparer, a Regulatory Agency, or an applicable business license verification of the business to include a phone listing and address search (ex. Internet Search).

General Requirements for Self Employed Income (Full Doc)

- Applicants must own at least 25% of a business to be considered self-employed.
- Two full years of successful self-employment is required. If the business is stable and shows an upward trend, then the income used for the applicant is averaged over the 2 most recent years' Form1040s. Case-by-case determinations will be made if the business shows a decreasing/downward trend.
- Financial Statements with YTD P&L are required to verify business income.
- CPA Letter is required to verify business income if financial statements are not available.
- Copies of all required business licenses are required.
- Proof of current earnings within 10 days of the note date is required and may be verified using an updated business transaction history, evidence of current work (executed contracts or signed invoices that indicate the business is operating) or other evidence of current business receipts.

Cash Flow Analysis for Full Doc

- When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has been distributed to the borrower.
- When conducting a self-employment income cash flow analysis, the underwriter must determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. This analysis must review business income distributions that have been made, or could be made, to these borrowers while maintaining the viability and stability of the underlying business.
- The business must have the ability to continue generating enough income to enable the borrower to meet their financial obligations.

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

Income Analysis

- Self-employment income is variable in nature and generally subject to changing market and economic conditions. Whether a business is impacted by an adverse event, such as COVID-19, and the extent to which business earnings are impacted can depend on the nature of the business or the demand for products or services offered by the business. Income from a business that has been negatively impacted by changing conditions is not necessarily ineligible for use in qualifying the borrower. However, the lender is required to determine if the borrower’s income is stable and has a reasonable expectation of continuance.
- An audited YTD P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; **or**
- An unaudited YTD P&L statement signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and two business depository account(s) statements no older than the latest two months represented on the year-to-date profit and loss statement. *For example, the business depository account statements can be no older than Apr. and May for a year-to-date profit and loss statement dated through May 31, 2020.
- The lender must review the two most recent depository account statements to support and not conflict with the information presented in the current YTD P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the financials.
- The age of the YTD P&L statement must meet the Age of Documentation requirements.
- Lenders must review the P&L statement, and business depository accounts if required, and other relevant factors to determine the extent to which a business has been impacted by COVID-19. The lender can use the following guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the lender may find it necessary to obtain supplemental documentation listed in the examples below:

Business operations	<ul style="list-style-type: none"> ▪ Have business operations been maintained or modified to support continued business income? For example, review an updated business plan. ▪ Is the business continuing to operate in the current location or an alternate location suitable for business operations? For example, perform an Internet search or verify through a third-party source. ▪ Is there a demand for the product or service currently offered by the business? For example, obtain current business receipts or purchase contracts. ▪ Is the business operation and/or revenue temporarily restricted due to state shelter in place, stay at home or other similar state or local orders? ▪ Is the impact to the business operations negligible due to the nature of the business? For example, obtain a written explanation from the business owner or confirmation that income is seasonal apart from the event timeline.
Business Income	<p>The lender must complete a business income assessment by comparing the year-to-date net business income from the year-to-date profit and loss statement to historical business income calculated using the <i>Cash Flow Analysis (Form 1084)*</i> for a similar timeframe (such as monthly).</p> <ul style="list-style-type: none"> ▪ Lenders can make standard adjustments to business cash flow (net income on the profit and loss statement) in accordance with agency guidelines of Analyzing Profit and Loss Statements when making this determination. ▪ When the lender determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, the lender can obtain additional documentation to supplement the profit and loss statement (such as a month-to-month income trending analysis) to make this determination. If stability cannot be confirmed, the income is not eligible for qualifying purposes. <p>Example Historical monthly self-employment income calculated using Form 1084 = \$2,000</p>

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

	<p>Current level of stable monthly self-employment income as determined by the lender using details from the year-to-date profit and loss statement and other supplemental documentation = \$1,000</p> <p>The impact of the COVID 19 pandemic on current business income results in a 50% decline from historical levels. See Business Income Calculation Adjustment below for next steps.</p> <ul style="list-style-type: none"> ▪ *Form 1084 or any other type of cash flow analysis form that applies the same principles.
Business Stability	<ul style="list-style-type: none"> ▪ Does the profit and loss identify a significant imbalance between expenses and revenue that may impact financial stability? Or have modifications to current business operations been made to correct this imbalance? (Consider documenting with an updated business plan) ▪ Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings? ▪ Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial ability of the business to operate given current market and economic conditions? <p>A current balance sheet may be used to support the lender’s determination of business stability, in conjunction with the profit loss statement.</p>

Business Income Calculation Adjustment

When the lender determines current year net business income has been impacted by the COVID-19 pandemic and is:

- less than the historical monthly income calculated using Form 1084, but is stable at its current level, the lender must reduce the amount of qualifying income calculated using Form 1084 to no more than the current level of stable income as determined by the lender (see Business Income above).
- more than the historical income calculated using Form 1084, the lender must use no more than the currently stable level of income calculated using Form 1084 to qualify the borrower.

In all cases, qualifying income must be supported by documentation, including any supplemental documentation obtained by the lender. Please refer to FNMA Guides for specifics and forms.

Requirements for Corporate Structures

The legal structure of a business determines how income/loss is reported to the IRS, how its taxes are paid and how it accumulates capital. Legal structures also determine the extent of each owner’s liability. The five principal business structures and associated documentation requirements are listed below:

Sole Proprietorship

Business income, expenses and taxable profits are reported on Schedule C of the Individual Tax Return. Required documentation for a Sole Proprietorship include:

- Federal Individual Income Tax Return Form 1040 for the most recent 2-years. Must be signed by the borrower with all applicable schedules.
- YTD P&L and Balance Sheet prepared by borrower or CPA.

Partnership (General or Limited)

Is when two or more owners are joined by contract to conduct business and will share profits and losses according to the partnership agreement. Income taxes are paid by the individuals since the partnership itself is not required to pay taxes. Partnership documentation required:

- Federal Business & Personal Tax Returns for most recent 2 years.
- Must be signed by the borrower with all applicable schedules.
- Schedule K-1 (Partners share of Income) for most recent 2 years.
- Corporate Resolution
- YTD P&L and Balance Sheet prepared by a CPA or borrower.

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

Limited Liability Company (LLC)

An LLC is a business structure that blends the tax efficiencies of a partnership and the limited liability of a corporation. LLCs report profit/loss on IRS form 1065 and each member-owner's share of that profit/loss is reported on Schedule K-1. An LLC pays no tax on its income. Each member-owner uses the information on the K-1 to report their share of the LLC's net profit/loss on their individual IRS Form 1040 (regardless of whether the member-owner receives a cash distribution from the LLC). LLC documentation required:

- Federal Business & Personal Income Tax Returns for the most recent 2-years, signed by the borrower with all applicable schedules.
 - Schedule K-1 (Partner's Share of Income) for the most recent 2- years.
 - Corporate Resolution
 - YTD P&L and Balance Sheet prepared by a CPA.

S Corporation

An S Corp is a legal entity that has a limited number of stockholders that elect not to be taxed as a regular corporation. Business gains and losses are divided among and passed through to stockholders. The stockholders are taxed at their individual tax rate for their proportionate share of ordinary income, capital gains and other taxable items. An S Corp provides many of the benefits of partnership taxation and at the same time provides the owners with limited liability protection.

The ordinary income from an S Corporation's business is reported on IRS Form 1120S with each shareholder's share of income reported on Form 1120S's Schedule K-1. Cash distributions from an S Corp to a borrower will be reviewed and considered when evaluating the cash flow of the S Corp. S Corp documentation required:

- Federal Individual Income Tax Return Form 1040 for the most recent 2-years signed by the borrower with all applicable schedules.
- Schedule K-1, Shareholder's share of income, deductions, credits etc., for the most recent 2-years.
- Corporate Resolutions.
- IRS Form 1120S Income Tax Return for the S Corp's most recent two years (if the ownership is greater than or equal to 25%.)
- YTD P&L and Balance Sheet prepared by a CPA

C Corporation

A C Corporation is a legal tax paying entity with its own rights privileges and liabilities separate from those of its owners. A C Corporation can sue, be sued, hold, convey, or receive property, enter contracts under its own name and doesn't dissolve when ownership changes. C Corp documentation required:

- Federal Individual Income Tax Return Form 1040 for the most recent 2-years. Must be signed by the borrower with all applicable schedules.
- Corporate Resolutions
- IRS Form 1120 Income Tax Return for the C Corp's most recent two years
- YTD P&L with Balance Sheet prepared by a CPA

NOTE: YTD financials from other entities (whose income is not needed to qualify) are not required if the previous two years tax returns show positive income.

Qualifying Ratios

DTI Ratio Calculation

- Total monthly housing expenses (mortgage principal and interest, hazard and flood insurance, real estate taxes, special assessments, association dues, and any subordinate financing payments on mortgages secured by the subject property (PITIA))
- Installment Debt must be included in the borrower debt-to-income ratio, except in the following circumstance:
 - Installment debt of 10 months or less may be excluded unless the payment exceeds 5% of the borrower qualifying income.
 - Installment debt supporting documentation is required to verify that these debts have been paid.
- Revolving Debt is an open-ended debt obligation in which the principal balance may vary each month. The minimum required payment stated on the credit report, or the current account statement must be used to calculate DTI. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance must be included in the DTI.

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- Revolving accounts can be paid off prior to or at closing in order to exclude the payment from DTI. Supporting documentation such as a credit supplement or verification from creditor is required.
- Lease Obligations must be included in the DTI regardless of the time remaining on the lease.
- Child Support, Alimony or Maintenance Obligations must be current at the time of application and must be included in the DTI. The loan file must also contain supporting documentation (such as a final divorce decree, legal separation agreement or court order) evidencing the obligation. If payments are delinquent, then they must be brought current prior to the loan closing.
- Student loan payments in deferral – follow FNMA
- Other continuing obligations
- Business debt less than 6 months old must be included in the debt-to-income ratio.
- Contingent Liabilities occur when an outstanding debt obligation has been assigned to another party, but the creditor has not released the borrower from the obligation. Contingent Liabilities generally must be included in the DTI. However, the debt may be excluded in the following circumstances.
 - If one borrower was obligated to buy-out the other borrower as a result of a divorce, then the loan file must include the separation agreement and or the divorce decree/court order that shows transfer of ownership. In addition, the current obligation on the premise must be current.
 - Debts paid by others if the debt is being paid in a satisfactory manner by another party for the past 12 months. Acceptable documentation would include cancelled checks or bank statements that consistently show another party making at least the past 6 payments.
- Paystub Deductions will be reviewed and included in DTI (excluding 401(K) repayments).

Business Debt

If business debt is reflected on a personal credit report, then the borrower must provide documentation that the borrower’s business is making the payments on these debts. If the business debt 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 payment on these debts.

Permissible documentation can be the following:

- Canceled Checks – Most recent 6 months of canceled checks drawn from the business account.
- Tax Returns – Returns must reflect debt payments as business expense deductions

Payment Shock

The maximum payment shock varies for FTHBs – see product description

Payment Shock Calculation - (Proposed Housing Payment / Present Housing payment)–X 100

Property

Refer to the individual product descriptions for property eligibility details.

Condominiums

A condo questionnaire must be provided with the loan package.

Maximum project exposure to any borrower for condominiums is the lesser of 3 units, or 10% of the total units in the project. Site Condo maximum project exposure is the lesser of \$2MM or 15% of the project.

Warrantable Condos

FNMA eligible projects are allowed.

Non-warrantable Condos

NON-WARRANTABLE CONDOS	
CHARACTERISTIC	REQUIREMENTS

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.

COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building/project < 50%. Any commercial must be “typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
COMPLETION STATUS	The project, or the subject’s legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
CONDOTELS	True Condotels with onsite reservation desks are prohibited. Short-term vacation rental projects will be considered on a case-by-case basis.
DELINQUENT HOA DUES	No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 60%. Higher percentages may be considered under the Investment Property Program on a case-by-case basis when an established history of a high percentage of rental units in the condo project can be demonstrated.
HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA RESERVES	HOA Budget must include a dedicated line-item allocation to replacement reserves of at least 8% of the budget.
LITIGATION	Pending litigation may be accepted on a case-by-case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.
NEW PROJECTS	The project or the subject’s legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 25%.

Property Flipping

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the rules below apply. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) is used.

- Must be arm’s length
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
- No assignments of the contract to another buyer
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
- Flip transactions must comply with the HPML appraisal rules in Regulation Z.
- A second appraisal is required in the following circumstances:
 - >10% increase in sales price if seller acquired the property in the past 90 days
 - >20% increase in sales price if seller acquired the property in the past 91-180 days

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Subordinate Financing

Allowed with the following restrictions:

- Must be with a financial institution
- Must be included in the DTI calculation
- Cannot exceed the max LTV/CLTV in the product guidelines
- No restrictions on repayment (ex. no prepayment penalty)
- Not permitted on new TX 50(a)(6) loans
- Must meet all other FNMA standards for subordinate financing
- A copy of the note and subordination agreement are required.

Texas Home Equity Loans 50(a)(6)

- Must meet FNMA requirements for TXa6 loans and follow TX regulations (e.g., IO not allowed, disclosures, forms, etc.)
- New subordinate financing is not allowed
- Refer to specific product guidelines

Documents and Forms

Standard FNMA documents should be used where one exists. All ARM Notes and Riders should contain ARCC fallback language consistent with Fannie Mae. Refer to the Product Description for requirements to include product-specific forms.

Refer to the PHH Seller Guide for questions not addressed in this underwriting standards document or the individual product description.