



MORTGAGE

Flex IQ Non-Agency Underwriting Standards



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.

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1. Introduction

1.1. General Eligibility Standard

These underwriting guidelines establish a criteria of eligibility standards used in evaluating residential loan applications for the origination of loans to mortgagors who do not generally qualify for or choose not to use traditional agency, government, or private label non-agency jumbo products.

The originator must represent and warrant that the origination of the loan complies with all applicable rules, laws and regulations, including, without limitation, related to the Borrowers' ability to repay the Loan, including the regulations of the Consumer Financial Protection Bureau, as applicable.

PHH Mortgage has a zero-tolerance policy as it relates to fraud or misrepresentation in a mortgage loan transaction. The client is responsible for the content and quality of each application. Any loan with fraud or misrepresentation must be repurchased. The submission of a loan application containing information that is false or misrepresented is a federal crime. If there is sufficient information established to confirm a Client participated in the misrepresentation, the business relationship with the Client will be terminated immediately, including all Loans in the PHH pipeline from the Client.

All loans must be submitted to an automated third-party fraud and data check tool (i.e. Fraud Guard, Corelogic, DataVerify's DRIVE, etc.). A copy of the findings report must be included in the loan file. All red flags and inconsistencies must be resolved and the supporting documentation clearing the deficiencies are to be provided as well.

1.2. Underwriter Criteria

These underwriting guidelines are intended to reference and supplement Fannie Mae's Seller Guide. Refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced in the guidelines. Standard Fannie Mae documents should be used where one exists.

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.

All loans must be manually underwritten and must be documented and certified by the underwriter that the subject loan does not qualify for delivery to the agencies (Fannie Mae/Freddie Mac/Ginnie Mae). The Underwriter must identify the reason(s) for choosing a Non-Agency product either on a certification, 1008, or underwriter summary. If appropriate, in addition to the underwriter comment, a copy of the AUS results from the GSE showing anything other than "approve/eligible" may be used as further proof the loan was not eligible to the GSE (this cannot be used solely to prove the loan was not eligible for sale/securitization to the GSE).

1.3. Exceptions & Items Not Addressed in this Guide

Refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced in the guidelines. Any specific criteria or guideline question that is not covered herein or in Fannie Mae guidelines may be submitted to PHH Mortgage's scenario desk by submitting a request in [TPO Connect](#).

All exceptions will be reviewed on a case-by-case basis. Exception requests should exhibit strong compensating factors. PHH Mortgage’s decision to allow or deny any exception is based on the information provided at the time of request; any material change(s) that become manifest during the processing and underwriting of the case may result in disqualification of the granted exception as originally submitted; therefore, exception decisions do not bind PHH Mortgage to extend credit to the borrower or to purchase loan. Exceptions should be submitted through the scenario desk.

Compensating Factors	Value
FICO	Significantly above guideline requirement.
LTV	Significantly below the max LTV.
Reserves	At least 6 months above guideline requirement.
DTI	Significantly below the max DTI.
Income	Residual Income that is significantly above the minimum requirement or stable ancillary income for the borrower that is not being used for qualifying.
DSCR score	At least 0.25 above guideline requirement.
Housing Payment History	At least 12 months above guideline requirement.
Payment Shock	Negative payment shock (i.e., PITIA is reducing).
# of years with current employer	> 5 years
Seasoned Investor	> 5 years

1.4. Re-Application Process

If a borrower is being removed from a transaction, then an adverse action is required so that the borrower who is being removed is notified. A new loan may be registered with the revised borrowers.

A borrower may be added to a transaction without canceling the current loan, but with a change of circumstance.

Loans in which the documentation flips from a full documentation file to a reduced documentation or alternative documentation file, will require the current loan to be cancelled and new loan registered.

1.5. Compliance with all Laws & Regulations

1.5.1. TILA-RESPA Integrated Disclosure (TRID)

All loans must comply with TRID rules except for DSCR loans that are originated solely for business purposes, as defined in [12 CFR 1026.3\(a\)\(1\) of Regulation Z](#).

As used in this Guide, a “Business Purpose Loan” means a loan:

- DSCR Non-Owner Occupied: To acquire, improve or maintain rental property (regardless of the number of housing units) that is not owner-occupied. This includes, for example, a single-family house that will be rented to another person to live in. If the owner expects to occupy the property for more than 14 days during the coming year, the property cannot be considered non-

owner-occupied and this special rule will not apply.

- All DSCR loans are “Business Purpose Loans”; therefore, to be eligible for the product, the owner cannot occupy the property for more than 14 days during the coming year and all cash out proceeds must only be used for business purposes (e.g., acquisition/maintenance/improvement of rental properties).
- Loans meeting this definition of “Business Purpose” are not subject to ability to repay and TRID disclosure requirements; borrower(s) must affirm the purpose of the loan by executing a Business Purpose and Occupancy Affidavit or a similar form.
- Special rules also apply to Business Purpose loans where the borrower is taking cash-out of the transaction. In such situations, the cash being taken out must also be used for a Business Purpose and not for personal or consumer use. This includes, for example, using the cash-out of the transaction to improve or maintain other rental properties owned by a borrower. An example of an impermissible use would include using the cash-out of transaction to pay for college tuition or personal debt (i.e., a non-business purpose).

If a loan is intended to be and closes as a Business Purpose transaction, the file must include a signed Business Purpose and Occupancy Affidavit.

1.5.2. Homeownership Equity Protection Act (HOEPA)

Loans secured by the consumer's principal dwelling that meet the definition of a "high-cost loan" under Section 32 of HOEPA or other state local "high cost" or other predatory lending regulations are ineligible. Specifically, the “annual percentage rate” or “total points and fees” (as each such term is defined under HOEPA) payable by the mortgagor on such transactions may not equal or exceed the applicable thresholds as defined under HOEPA (12 CFR 226.32 (a)(1)(i) and (ii)). Regardless of if the originator is exempted from state/local "high cost" regulations, loans exceeding any state or local "high cost" laws are ineligible.

The following types of programs/loans are exempt from HOEPA, federal points and fees, limitations: (i) business purpose loans; (ii) loans originated under the DSCR Program; or (iii) loans secured by a dwelling other than the consumer's primary dwelling (e.g., investment Properties and Second Homes).

As there are a handful of states that oversee business purpose loans, we recommend Sellers run an industry compliance tool to check for any such rules and comply with the corresponding results. PHH Mortgage will not purchase a loan labeled as High Cost or predatory under state laws. Additionally, as all loans under our guidelines are purchased as non-QM, QM points and fees and Fannie Mae or Freddie Mac High-Cost limits are not imposed. Loans primarily for consumer purposes are subject to HOEPA, federal and state points and fees limitations. PHH Mortgage will not purchase a loan labeled as High Cost or predatory under federal or state laws.

1.5.3. HPML

If a loan is Higher Priced Mortgage Loan (HPML) as defined by the [Consumer Finance Protection Bureau](#), refer to the [Impound/Escrow Account](#) section and [HPML Property Flipping](#) section.

- **Conforming loan amounts:** A loan is “higher-priced” if the APR is 1.5 percentage points or more than the APOR on a primary residence.

- **Non-conforming loan amounts:** A loan is “higher-priced” if the APR is 2.5 percentage points or more than the APOR on a primary residence.

1.5.4. Qualified Mortgage

Conforming and Non-conforming loan amounts: HPML loans are allowed.

All loans are structured as Non-Qualified Mortgage (Non-QM) therefore QM Safe harbor or Rebuttable Presumption requirements do not apply, but rather still must meet the ability to repay standard.

1.5.5. Ability to Repay

PHH Mortgage will evaluate many aspects of the loan to make a purchase determination, but primarily relies on evaluation of the Borrower’s ability and willingness to repay the loan to predict loan performance. Additional characteristics of the loan will also be examined including credit history, asset position and the property being used for collateral.

All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB’s Reg Z, Section 1026.43(c). Federal, State, and Local High-Cost Loans are not permitted.

The Underwriters detailed attestation regarding a borrower’s ability to repay is acceptable in lieu of the Signed Borrower Ability to Pay Attestation form.

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

2. Program Overview

2.1. Loan Products & Features

Fannie Mae security instruments, notes, riders/addenda, and special purpose documents should be utilized for loan documentation when available. In cases where Fannie Mae doesn’t offer current documentation, (e.g. Interest Only Rider) an industry recognized document vendor, such as Doc Magic, Docutech, or Ellie Mae, should be utilized for forms.

2.2. Fully Amortizing Products

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the loan term. Reserves are calculated based on the qualifying payment.

2.3. Interest-Only (I-O) Products

For full document and alternative document loans, the qualifying ratios are based on the fully amortizing monthly payment (principal and interest) that will repay the loan amount over the term of the loan remaining as of the date the interest-only period ends.

For DSCR loans, the qualifying ratio may utilize the interest only payment.

Reserves for a loan with an Interest-Only feature will be calculated based upon the interest only payment.

2.4. Assumability

Fixed rate loans are not assumable.

2.5. Prepayment Penalties (PPP)

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. The prepayment penalty can be disclosed within the body of the Note or in a separate addendum to the Note. In addition, there must be a separate prepayment penalty rider to the security instrument (Deed of Trust or Mortgage). Max 5-year term.

- Alaska, Kansas, Maryland, Minnesota, New Mexico, North Dakota not allowed.
- Illinois permitted when vesting in an S or C corporation. PPPs are prohibited on all other entities (individuals, LLCs, LLPs, trusts, etc.). If borrower is a natural person, prepayment penalty is prohibited when APR is greater than 8%. Prepay is allowed when APR is $\leq 8\%$.
- Michigan – allows a Flat Prepay Structure for 3 years at 1/1/1 % of the amount of the amount prepaid.
- Mississippi – allows up to a maximum 5-year declining (step down) prepayment penalty structure that cannot exceed 5%/4%/3%/2%/1%.
- New Jersey permitted when vesting in an S or C corporation. PPPs are prohibited on all other entities (individuals, LLCs, LLPs, trusts, etc.).
- Ohio permitted with a flat Prepayment Penalty up to 5 years and equal to 1% or less of the original principal amount. Loan amount must be $\geq \$112,957$ (for 2025). Loan amounts $< \$112,957$ permitted only on 3-4 units
- Oregon – requires state specific disclosure in addition to the Note and Security Instrument Rider
- Pennsylvania loan amounts $> \$319,777$ (for 2025). Loan amounts $\leq \$319,777$ permitted only on 3-4 units
- Rhode Island – allows a flat 1-year Prepayment Penalty equal to 2% of the balance due.
- Washington permitted on Fixed rate loans

Prepayment Structures

- **Six months of interest** - The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance except as otherwise noted below. The charge applies to loans that pay off due to sale or refinance, or

curtailments that exceed 20% of the original principal balance in a given 12-month time period.

- **Step Down Prepay Structure** - Step Down prepayment penalty charge % applies to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.
 - 5 Year Prepayment Penalty- 5/4/3/2/1 %
 - 4 Year Prepayment Penalty- 4/3/2/1 %
 - 3 Year Prepayment Penalty- 3/2/1 %
 - 2 Year Prepayment Penalty- 2/1 %
 - 1 Year Prepayment Penalty- 2 %
- **Flat Prepay Structure- 2%, 3%, 4%, or 5% fixed percentage** - (i.e. 5/5/5/5/5, 4/4/4/4, 3/3/3, 2/2) Flat prepayment penalty charge no greater than 5% and no less than 2% flat prepayment over the life of the prepay penalty term charged to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.

2.6. Impound/Escrow Accounts

On Higher Priced Mortgage Loans as defined by 12 CFR 1026.35, an escrow account must be established before consummation of the loan for payment of property taxes and premiums for mortgage-related insurance. The escrow account must be maintained for at least five years.

The following must be escrowed:

- Flood insurance
- Cash out Refinance transactions when delinquent real estate taxes (past due more than 60 days) are included in the loan amount.

Escrow funds/impound accounts may be waived for taxes and hazard insurance on non HPML transaction loans. Refer to the Product Description for eligibility requirements.

On purchase transactions, exemptions may be applied if fully verified and documented and still apply to the borrower (ex. Primary residence homestead exemption on an owner-occupied purchase). Proof of the exemption amount from the county must be in the file. An underwriter or processor certification is acceptable.

2.7. Conflicts of Interest

A conflict of interest exists when a party to the transaction or the borrower have multiple roles in the transaction. These include but are not limited to the below situations. Parties to the transaction are expected to avoid activities, investments, or associations that might interfere with their independent exercise of judgment in the company's best interest. The following conflicts of interest are not allowed:

- The borrower is the builder of the subject property
- The borrower is owner/principal of the mortgage brokerage or correspondent lender and is originating their personal mortgage with their own company
- The borrower is a relative of any party in the transaction
- The borrower cannot act in dual capacity (for example, borrower acting as loan officer/broker/lender/appraiser/title company in the transaction). The borrower may act as one

of the realtors if there is no other business affiliation.

- The broker/loan officer cannot act in dual capacity (for example, broker/loan officer and realtor or broker/loan officer and any other affiliation within the transaction).
- When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property.

Employees of mortgage brokerages or correspondent lenders originating through their employer are acceptable borrowers only under the following circumstances:

- They do not act as a processor, underwriter or in any capacity in originating their loan; AND
- The subject property is their primary residence or second home; investment properties are not permitted.

3. Transaction Eligibility

3.1. Purchase Transaction

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. All purchase transactions require a copy of the fully executed sales contract and all addenda, which must be reviewed by the Underwriter and included in the Mortgage file.

An assignment of purchase contract is acceptable only if the sales price is not increased and a transfer fee is not charged.

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

3.1.1. Non-Arm's Length Transaction

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with the Seller of the subject property. These transactions include, but are not limited to:

- Family sales or transfers.
- Corporate sales or transfers.
- Borrowers employed in the real estate or construction trades who are involved in the construction, financing, or sale of the subject property.
- Some transactions involving principals or a lender or other vendor (such as an appraiser, settlement agent, or title company) who is involved in the lending process of the subject property.

Non-arm's length transactions are permitted under the following circumstances:

- Primary only
- Transactions must be fully disclosed as non-arm's length and require close examination to ensure the equity position is not compromised. Borrower must provide a written explanation stating the relationship to the seller and the reason for purchase.
- A non-arm's length transaction is not permitted if the subject property is in foreclosure, or a Notice of Default has been filed.
- The file must include all the following documentation:
 - Appraiser to be advised of non-arm's relationship

- Copy of the canceled earnest money check to verify payment to the seller.
- Verification that the borrower is not now on title and has not been on title within the past 24 months.
- A payoff statement showing the mortgage is current with no penalties/late fees is required to confirm this transaction is not a foreclosure bailout.
- Renters purchasing from a landlord: Payment history must be verified per standard [Mortgage / Rental History](#) requirements; however, a VOR from the Seller is not acceptable.
- The transaction must make sense.

Ineligible non-arm's length transactions:

- If the borrower is purchasing from a builder who is buying his or her existing primary residence, the transaction is not permitted.
- Second home or investment properties are not permitted if the property is a newly constructed property, and the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property.

3.1.2. Property Flipping

Property flip transactions refer to the process of purchasing an existing property, then immediately reselling it for a profit. When the property is being resold within 365 days from acquisition date to the seller's purchase date, the transaction is considered a flip. The purchase date, as defined by the CFPB, is the date the borrower and seller execute the original purchase contract. This date, regardless of the number of borrowers added to the Purchase contract, will stay consistent based on original date of execution. This also applies to a builder selling a newly built house or a borrower obtaining permanent financing on a construction loan within the 365-day timeframe as defined by the CFPB.

- The property seller must be the owner of record.
- Loan must be an arm's length transaction.
- 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

3.1.2.1. Property Flipping Exclusions

If the Seller is any of the following, then flipping guidelines do not apply:

- A local, state, or federal government agency
- A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedure
- A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or

marital assets

- An employer or relocation agency in connection with an employee relocation
- A service member, as defined in [50 U.S.C. appendix 511\(1\) 5](#), who received a deployment or permanent change of station order after purchasing the property

3.1.2.2. Resale Price Increase

Flips with resale prices more than the following require the increased value to be supported with commentary from the appraiser, market conditions, and comparable properties. If the appraisal commentary is not sufficient to support the increase and the increase is due to renovations, sufficient documentation (Receipts, building permits and/or signed contracts) to validate the actual costs to renovate, construct, etc. is required.

- >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 91-365 day
- If the property has been transferred to an LLC within the last 365 days for \$0, provide proof that the LLC is majority-owned or controlled by the previous seller and that they owned the property for at least 6 months. This also applies vice versa if the property was recently transferred from an LLC to the seller for \$0.
- If the property has been transferred to a trust within the last 365 days for \$0, provide proof that the previous seller is the beneficiary of the trust and that they owned the property for at least 6 months. This also applies vice versa if the property was recently transferred from a trust to the seller for \$0.

In addition to the above, when the subject is a primary residence and HPML with an increase stated above within 180 days, as defined by the [Consumer Finance Protection Bureau \(CFPB\)](#), a second appraisal is required. The borrower may not pay for the cost of an additional appraisal.

3.2. Rate Term Transaction

3.2.1. Definition

Rate Term Refinance is defined as a transaction in which the new loan amount is limited to the payoff of the present first lien mortgage (including HELOCs), subordinated mortgages used for purchase money, closing costs and prepay penalties. A transaction that requires one owner to buy out the interest of another owner may be considered a rate term refinance transaction per [Fannie Mae guidelines](#).

3.2.2. Eligibility Requirements

The following requirements apply to rate term transactions:

- Continuity of obligation is required.
- No seasoning requirement.
- Cash to the borrower must not exceed the greater of 1% of the new loan amount or \$5,000.
- There is zero cash back allowed for primary/homestead refinance transactions in the state of Texas.
- Properties may not be currently listed for sale. Properties that have been listed for sale within the last six months must adhere to the requirements set forth within the [Properties Listed for](#)

[Sale](#) section.

- For additional eligibility requirements, refer to [Fannie Mae guidelines](#).

3.3. Delayed Financing Transaction

Delayed Financing – Follow [Fannie Mae](#) guidelines. Delayed financing must be treated as a cash out refinance transaction for pricing and LTV/CLTV limits.

Delayed financing on a primary residence/homestead in Texas are not allowed as they must be treated as a cash-out transaction under Texas 50(a)(6) guidelines.

3.4. Cash-out Refinance Transaction

3.4.1. Definition

Cash-out Refinance is defined as a transaction in which any of the following are true:

- paying off the UPB of the existing first mortgage;
- financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation;
- paying off any outstanding subordinate mortgage liens of any age;
- taking equity out of the subject property that may be used for any purpose.

3.4.2. Eligibility Requirements

The following requirements apply to cash-out transactions:

- The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
- Cash-in-hand is determined by the amount of cash out reflected on the Final closing Disclosure (after any debt is paid off, associated with the subject property or otherwise). Any cash-in-hand proceeds, to the Borrower, from any cash-out refinance transaction must be wired to a U.S. bank account. Refer to the individual Product Description for cash back limits.
- At least one borrower must have been on title. Refer to [Seasoning Requirements](#) for exceptions.
- Subject properties may not currently be listed for sale. Properties that have been listed for sale within the last six months must adhere to the requirements set forth within [Properties Listed for Sale](#) of this guideline.
- DSCR Business purpose loans cash-out transactions must include either a signed Business Purpose and Occupancy Affidavit at initial disclosure or a signed letter of explanation from the borrower stating the purpose of the cash-out. The explanation must be detailed enough to understand if any cash-out proceeds will be used for personal (e.g., paying off personal debt, reserves, acquisition/maintenance/improvement of an owner-occupied property, including a second home, or other household usage, etc.) or business (e.g., acquisition/maintenance/improvement of rental properties, capital investment in or working

capital to support a business) purposes. Cash out received on a DSCR Business Purpose loan must be used for business purposes only. Personal use is not allowed.

- Cash-out proceeds can be used to meet reserve requirements, refer to [Reserve](#) section for details.
- Use of a Power of attorney is not allowed.

3.4.3. Seasoning Requirements

The following seasoning requirements apply to cash-out transactions:

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. The 6 months seasoning does not apply:
 - to Inherited Properties - There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership). The inheritance/award must be documented per Fannie Mae guidelines. This seasoning exclusion for an inherited property is not permitted on DSCR loans.
 - to Delayed Financing – Refer to [Delayed Financing Transaction](#).
 - to any existing subordinate liens being paid off through the transaction, or
 - when buying out a co-owner pursuant to a legal agreement.
- If the property was owned prior to closing by an entity that is majority-owned or controlled by the borrower(s), the time it was held by the entity may be counted towards meeting the borrower's six-month ownership requirement.
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.
- If the prior transaction was a cash out refinance, then the existing first mortgage that is being paid off through the transaction must be at least 6 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan.

3.5. Properties Listed for Sale

Properties that have been listed for sale within the last six months prior to the application date must adhere to the below guidelines. A written explanation from the Borrower as to intent for future use (or sale) of the property is required.

Proof that the subject property listing agreement has been terminated is required. Provide a copy of the cancelled listing along with a current Multiple Listing Service (MLS) search to verify that the property is not currently listed by a different real estate agency.

- Rate Term Transaction: Property must be removed from listing for at least 1 month prior to application. LTV will be based on the lesser of the list price or appraised value.
- Cash out Transaction: Property must be removed from listing for at least 1 month prior to application. Properties that have been listed for sale by the current owner within the last 6 months require a 5% reduction in LTV based on occupancy/transaction type. The LTV will be based on the lesser of the list price or the appraised value.

3.6. Construction-to-Permanent Financing

Construction to permanent financing 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 prior to the permanent financing being completed.
- 2-time close construction conversion to pay off an interim construction loan is acceptable per [Fannie Mae guidelines](#).

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. The Settlement Agent must provide either a completed tax information sheet, tax certification, or preliminary title report with tax information to document the taxes with improvements. If that is not available, a county/city tax rate website search must be completed to calculate the millage calculation or tax rate calculation.

Note: On California properties, compare the documented millage/tax rate calculation to 1.25% of the purchase price. Use the greater of value for qualification purposes. If third party documentation cannot be provided, use 1.25% of the purchase price.

3.7. Subordinate Financing

Subordinate financing is allowed with the following restrictions:

- New subordinate financing is allowed on primary purchase transactions only.
- Existing subordinate financing is allowed on refinance transactions and must be subordinated to the subject loan and recorded;
- The executed Subordination agreement and a copy of the note are required.
- Must be with a US financial institution, no private parties.
- Cannot exceed the max LTV/CLTV in the individual Product Description.
- If a HELOC is present, the LTV/CLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the line amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value
- If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction must be included in the DTI
- For closed-end fixed rate, fully amortizing simultaneous loans, the qualifying payment is the monthly payment
- Not permitted with a prepayment penalty
- No balloon financing or negative amortization
- Not permitted on Interest only
- Must meet all other Fannie Mae requirements for subordinate financing

3.8. Interested Third-Party Contributions (IPCs)

Interested party contributions are limited to 6% for all occupancy types.

3.9. Ineligible Transactions

- Builder buyer/bailout transactions (builder is buying from their own inventory)
- CEMA transactions
- Conversion Loans
- Graduated Payment Mortgage Loans
- Ground leases
- Interim Construction
- Lease Options/Rent to Own
- 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.
- Purchase contract assignments to another buyer
- Simple Interest Loans
- Temporary Buydowns
- Texas 50(a)(6) Loans
- Texas 50(a)(4) Loans

4. Borrower Eligibility

4.1. US Citizens

All U.S. Citizens, as defined by the U.S. Department of Immigration and Naturalization Service (INS). A valid social security number is required.

4.2. Geographic Property Concentration

The Company evaluates geographic property concentration risk for Non-Agency loans where a borrower owns multiple financed residential properties within a defined geographic area. Geographic concentration is not a standalone decline factor but may require enhanced analysis, documentation, or compensating factors when layered with additional risk.

Review Thresholds

A concentration review is required when any of the following are met:

- Three (3) or more financed properties in the same ZIP Code or City and appraisal is conducted by same appraiser.
- Four (4) or more financed properties in the same MSA
- Greater than 50% of the borrower's financed portfolio located in one geographic area

Documentation & Narrative Requirement

When concentration exists, the underwriter will clearly document the number and location of properties, summarize risk analysis, and include a narrative supporting the final credit decision.

4.3. 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 valid social security number is required.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 – Front and Back of Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Front and Back of Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Front and Back of Conditional Permanent Resident Card (Green Card) with an unexpired date on the front.
- Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

I-551 due to expire within 3 months of the note date must be accompanied with proof that the borrower has filed one of the following:

- Form I-90 (Application to replace Permanent Resident Card)
- Form I-751 (Petition to Remove Conditions on Residence)
- Form I-829 (Petition to Remove Conditions)

4.4. 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. A valid social security number is required. Non-Permanent resident alien borrower must have a 2-year credit history and employment history.

A copy of the borrower’s unexpired visa must be obtained. Refer to the below list of acceptable visa classifications. If the visa does not provide the authority to work, an Employment Authorization Card (EAD) is also required. An EAD by itself is not sufficient to document that a non-U.S. Citizen is legally able to reside in the United States.

- Acceptable alternative documentation to verify Visa/EAD status is an I-797 form (Notice of Action). The I-797 must relate to either an acceptable non-permanent resident alien status or permanent resident alien status, have a valid extension date and evidence that the proper extension steps have been followed per the USCIS website.
- If the EAD or Visa expires within 3 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower’s continued employment and continued Visa/EAD renewal sponsorship (employer on the loan application must be the same as on the unexpired visa). If there are no prior EAD/Visa renewals, the likelihood of renewal must be determined, based on the information from the USCIS and EAD/Visa type.



Acceptable Visa Classifications	Required Documentation
E Series (E-1, E-2, E-3)	E-1: Visa and EAD (Code C02) E-2 and E-3: Visa Spouse of E-1, E-2, E-3: Visa and EAD (Code A17/C12)
G Series (G-1, G-2, G-3, G-4, G-5)	Visa and proof of no diplomatic immunity. EAD (Code C04) required for spouse or unmarried dependent child of G-1, G-3 or G-4
H Series (H-1B, H-1C, H-4)	H-1B, H-1C: Visa H-4: Visa and EAD (Code C26)
I	Visa
K-1 and K-3	K-1: Visa and EAD (Code A06) K-3: Visa and EAD (Code A09)
L Series (L-1, L-1A, L-1B, L-2)	L-1, L-1A, L-1B: Visa L-2: Visa and EAD (Code A18)
NATO 1 -6	Visa
O-1	Visa
P-1A	Visa
TN-1 & 2 Canadian (NAFTA)	Visa
V Series (V-1, V-2, V-3)	Visa and EAD (Code A15)
An EAD is only required to be provided if using income to qualify.	

Refugees are permitted with an I-94, Arrival and Departure Record, or I-590/I-730/I-797 Notice of Action, or court documents indicating borrower is a refugee (admission class of “RE”) or EAD reflecting a category code A03 or A04.

Grant of Asylum (Asylee) are permitted with an I-94, Arrival and Departure Record, or I-589/I-730/I-797 Notice of Action, or court documents indicating borrower has been granted asylum (such as admission class of “AS”, “AY.”) in the U.S. or an EAD reflecting AO5.

Borrowers who are residents of countries which participate in the Department of Homeland Security’s Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website: <https://www.dhs.gov/visa-waiver-program-requirements>

Non-U.S. citizens, without lawful residency status in the United States, borrowers with Diplomatic Immunity, Foreign Nationals, Deferred Action Status (such as DACA/C33), Temporary Protected Status (such as A12 or C19), or any non-U.S. citizen, who do not hold an eligible visa classification are ineligible.

4.5. First Time Homebuyers (FTHB)

First Time Home Buyers (“FTHB”) are individuals that have not had ownership interest (sole or joint) in a commercial or residential property in the United States during the three-year period preceding the note date of the purchase of the subject property. The following requirements apply if any borrower is a first-time homebuyer:

- Primary Residence and second home transactions only. Investment Property transactions are

ineligible.

- Refer to the individual Product Description for eligibility, LTV/CLTV, FICO and DTI restrictions

4.6. Non-Occupant Co-Borrowers

Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property. The following requirements must be met:

- Primary Residence only
- 1 unit only
- Purchase and Rate / Term Refinance only
- Not allowed on Asset Depletion and Asset Utilization
- One of the following must be met:
 - Occupying borrower must have a DTI ratio of 60% or less, exclusive of income and debts of the non-occupant
 - Max 45% combined DTI and max 80% LTV

4.7. Ineligible Borrowers

- Any other borrower not specified above as an eligible borrower
- Foreign nationals with no residency status in the US
- ITIN Borrowers residing in the US
- Land Trust
- Non-permanent resident alien borrowers from OFAC sanctioned countries
- Non-permanent resident alien borrowers with Diplomatic Immunity, Deferred Action Status, or Temporary Protected Status
- Vesting in a Life Estate
- Vesting in a layered or nested entity

4.8. Vesting

4.8.1. Overview

Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Leasehold
- Inter-Vivos Revocable Trust
- Entity: Limited Liability Company, Corporation, Partnership

4.8.2. 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, this vesting type is eligible for a 1-unit primary residence, second home, or investment property when the trust meets Fannie Mae guidelines.

4.8.3. Vesting in the Name of an Entity

Title can be vested in an Entity for DSCR Business Purpose Investment loans with the following requirements:

- Must be a DSCR loan
- Entity must be domiciled in a U.S. state.
- Entity ownership does not exceed four (4) individual owners/members/shareholders
- All members must be natural persons
- The borrower is at least 25% owner of the entity or majority shareholder
- Personal Guarantees must be provided by all owners/members of the Entity on the loan.
- A signed Business Purpose and Occupancy Affidavit is required.
- 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.
- Title may not be vested in more than one Entity
- The percentage of ownership in an existing entity may not change within 90 days prior to application date
- The PHH Entity Review Checklist is required.
- 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.
- If Note is signed only as the member or business representative, the borrower must sign a Personal Guaranty.
- If the Note is signed as the member or business representative and as an individual or guarantor, the borrower(s) are not required to sign a Personal Guaranty.
- Spousal Consent to Pledge is required for:
 - All loan amounts > \$1,000,000
 - Personal Guaranties from community property states must be accompanied with a Spousal Consent to Pledge.

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

- Official documentation must be issued by a CPA, the State, or the IRS to satisfy the below document requirements. Fillable PDF's or emails from borrowers are not sufficient.
- Limited Liability Company (LLC)
 - LLC Formation Documents and all amendments and Operating Agreements as required. Operating Agreement will be reviewed to determine the agents' powers and limitations to borrow, pledge, encumber, hypothecate or mortgage personal or real property. The mortgage transaction may only be executed by those individuals who are designated as an authorized signatory for the LLC.
 - If Secretary of State from LLC's home state does not require an Operating Agreement, an [Officer's Certificate](#) is 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
 - [LLC Borrowing Resolution](#) required when all owners/members are not on the loan
- Corporation
 - Filed Certificate/Articles of Incorporation (Including all Amendments): Required to determine the appropriate agents/signatories for the transaction.
 - By-Laws (including all Amendments) including provisions that permit the acquisition, improvement and/or maintenance of the property, and ability to mortgage the property.
 - Certificate of Good Standing
 - Tax Identification Number (EIN)
 - [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
 - 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.

4.9. Multiple Financed Properties

A single borrower can have no more than 20 financed properties including subject property. All properties in which the borrower is personally obligated must be included in the financed property maximum. Properties vested in the name of the borrower's business and not on the borrower's credit report are not included in the max financed property limit.

4.10. Maximum Exposure to Single Borrower

Maximum exposure to PHH for one borrower is the lesser of \$5,000,000 or 10 loans.

DSCR \geq 1.0 – \$5mm or 10 loans

DSCR $<$ 1.0 – 2 loans or \$2M

For PHH maximum project exposure on condominiums, refer to [PHH Maximum Condominium Project Concentration](#).

4.11. Power of Attorney (POA)

Power of Attorney is allowed per Fannie Mae guidelines except in the following scenarios:

- Vesting in a Trust
- Vesting is a business entity
- Cash out transactions



4.12. Rapid Acquisition

A single borrower must not have acquired and currently be financing more than 5 properties (including the subject property) in the 12 months prior to the application date. Vacant land and properties owned free and clear are not included in the total count.

5. Credit Requirements

5.1. Age of Documentation - Credit

The maximum age of the credit report is 120 days prior to the note date. The age of the document is measured from the document date to the date of the Note.

5.2. Credit Score

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. Refer to the individual Product Description to determine the applicable FICO score for the product.

# 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"> • Primary wage earner’s lower of 2 or middle of 3 FICO scores • If 2 of the 3 scores are identical, use the identical score as your mid score • If borrowers are 50/50 owners of a business and income is equal or on DSCR loans, the lower middle score is used for qualification.

5.1. Rescore/Repull

The credit report may be re-pulled in the event one of the following scenarios occur:

- Addition or Removal of an applicant
- Correction of reporting errors
- Confirmation of pay down and/or payoff of debt
- Disputed accounts
- Suspected Fraud
- Updates as requested by the underwriter

No private credit repair companies allowed. Documentation must be provided to support the reason that a credit report was performed.

The new credit report and credit score must be used for qualification.

All other cases to re-pull the credit report would be considered unacceptable.

5.2. Credit Report Requirements

A merged in-file credit report including all three national credit reporting repositories is required. The Credit Report must be evaluated to determine the borrower's willingness to pay debts.

Credit reports cannot be frozen and should be resolved prior to an underwriting decision.

A credit refresh/gap report or undisclosed debt notification (UDN) report within 10 days of the note date is required. DTI should be recalculated based on any new debt and any new credit scores must be used for qualification. Debt monitoring is not required on DSCR loans.

5.3. Tradeline Requirements

Each borrower contributing income for qualifying must meet the minimum tradeline requirements. On DSCR transactions, all borrowers must meet the below requirements .

- If a Borrower has three credit scores reporting on credit, then the minimum credit tradeline requirement for that borrower has been met, unless the only tradelines present are authorized user accounts.
- If a borrower has less than 3 FICOs, then the borrower must meet one of the following minimum tradeline requirements:
 - Three (3) current tradelines reporting on the credit report for at least 12 months, accounts may be open or closed with activity reflected within the last 12 months.
 - OR
 - Two (2) current tradelines reporting on the credit report for at least 24 months, accounts may be open or closed with activity reflected within the last 12 months.
- Eligible tradelines cannot have any derogatory history in previous twenty-four (24) months.

The following cannot be counted as a tradeline:

- Self-reported or Non-traditional credit as defined by Fannie Mae
- Deferred accounts
- Any account discharged in a bankruptcy
- Accounts being paid through a trustee in a Chapter 13 bankruptcy
- Charge offs
- Collection accounts
- Foreclosures

5.4. Mortgage / Rental History

Minimum 12 months of housing payments required for all REO properties. Existing mortgage or rent payments must be current at the time of application and the month prior to closing. For refinance transactions on the subject property, the payoff statement must show that the borrower is current or due in the month of funding. If the payment is due, the payoff statement must include that payment and show no 30-day late charges. Refer to the individual Product Description for housing history requirements.

For DSCR, payment history is only required on the subject property and the borrower's primary residence; however, any mortgages reported on the credit report must meet payment history

requirements as well.

- If a 12-month mortgage payment history is not included in the borrower's credit report/credit supplement, one of the following must be used to verify the borrower's housing payment history:
 - loan payment history from the servicer
 - A copy of the fully executed mortgage note/lease agreement and proof of electronic transfer such as 12 months cancelled checks, bank statements, or pay histories (Zelle, Venmo, etc.) that clearly document the payment history for the most recent 12 months.
 - If the existing lien does not require any type of amortized payments (including interest only payments) per the terms of the note, a payment history is not required.
 - Verification of Mortgage (VOM)/Verification of Rent (VOR) from a 3rd party/Management Company
 - Private party VOM/VOR and proof of electronic transfer such as 12 months cancelled checks, bank statements, or pay histories (Zelle, Venmo, etc.) that clearly document the payment history for the most recent 12 months.
- All financed properties must be properly documented for the purpose of documenting satisfactory mortgage payment history(ies)
 - Payment history may be waived for the period in which the borrower owns or owned a property free and clear; the loan must include documentation to support the free and clear status of the property and proof that the property taxes are current.
 - Payment history may be waived if the Borrower is living rent-free with a spouse and is not obligated on the current mortgage for the current residence. Verification that the borrower is not obligated on the note is required.
 - Payment history may be waived if the Borrower is living rent-free with someone other than a spouse and the loan meets the following restrictions:
 - A "Rent-Free" letter from the owner or leaseholder of current residence
 - Verification that the borrower is not obligated on the note for the current residence
 - Minimum 6 months reserves after closing
 - 10% minimum borrower contribution

5.5. Credit Inquiries

A written explanation for credit inquiries in the last 90 days is required for all loans except DSCR transactions. The borrower is required to disclose any secured or unsecured debt that was opened but not yet listed on the Credit Report. A copy of the statement of new debt must be included in the credit file. The DTI is to be recalculated based on any new debt disclosed.

5.6. Open 30-Day Charge Accounts

Open 30-day charge accounts (for example, AmEx), require the balance to be paid in full every month.

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, the borrower must have funds to cover the account balance. The verified funds must be in addition to any funds required

for closing costs and reserves.

If a DTI is calculated, then the following may be applied:

- If proof of a monthly payment is provided that is less than the outstanding account balance, then that monthly payment amount may be included in the calculation of the qualifying DTI.
- If sufficient liquid assets are not verified, then 5% of the outstanding balance must be included in the calculation of the qualifying DTI.

5.7. Significant Derogatory Credit Events

A Significant Derogatory Credit Event is defined as a short-sale (SS), deed-in-lieu (DIL), mortgage loan charge-off (MCO), pre-foreclosure, foreclosure (FCL), Chapter 7, 11, 13 Bankruptcy (BK), non-COVID or disaster Forbearance, Notice of Default (NOD), Lis Pendens, or 120-day mortgage late payment. A modification due to default is a Derogatory Credit Event; however, a COVID or non-default modification is not a Derogatory Credit Event. A written explanation for all derogatory credit is required.

The length of time is measured from the date of discharge/dismissal or property resolution (completion date) to the note date.

Refer to the individual Product Description for significant derogatory credit event seasoning time frame.

5.8. Derogatory Credit

- All past due accounts (revolving and installment) must be brought current. This guideline does not apply to collections and charge-offs.
- 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)
- If a collection account is currently being paid under a payment plan, the balance is not required to be paid off. The payment is to be added to the DTI calculation.
- Medical collections are not required to be paid.
- Judgments, liens, delinquent property taxes reflected on title must be paid off at or prior to closing. Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the loan file.
- 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.
- IRS repayment plans approved by the IRS are permitted if current with proof of a 3-month timely payment history and do not carry a lien on any property

6. Income & Employment

6.1. General Information

Income used in calculating the borrower’s debt-to-income ratio must be verified, stable and reasonably expected to continue. PHH offers the documentation options listed below:

- Full Documentation
 - 12 month and 24 month Wage Earner Salaried/Wage Earner
 - 12 month and 24 month Self-Employed - Tax Returns
- Alternative Documentation
 - 12 month and 24 month Business Bank Statement
 - 12 month and 24 month Personal Bank Statement
 - 12 month Profit and Loss only
 - 2 year Written Verification of Employment only
 - 1 or 2 year 1099 Income
- Using Assets to Qualify
 - Asset Depletion (DTI calculation)
 - Asset Utilization (Residual income calculation)
- Debt Service Coverage Ratio (DSCR)
 - Cash flow of the subject property

6.2. Age of Documentation - Income

The most recent income documentation including paystubs and P&L statements, must be dated no more than 30 calendar days earlier than the date of the loan application, and not more than 120 days earlier than the date of the Note. The age of the document is measured from the document date to the date of the Note.

6.3. Full Documentation

6.3.1. Salaried/Wage Earner Income (Full Doc)

This section applies to wage earner income only. PHH will allow 12 month and 24 month income documentation and calculation. For a 12-month income calculation, the Borrowers must have two (2) years history of employment in same industry and 1-year continuous employment at current job.

The following table summarizes the required documentation for wage earner borrowers. One of the following required documentation options must be provided:

Required Documentation	24 Month Full Doc Wage Earner	12 Month Full Doc Wage Earner
Paystubs and W-2s	Most recent paystub including year-to-date earnings (covering minimum of 30 days) and prior two years’ W-2s. A year-end paystub maybe	Most recent paystub including year-to-date earnings (covering minimum of 30 days) and prior one year’ W-2s. A year-end paystub maybe accepted in lieu of the most recent W-2 if loan

	accepted in lieu of the most recent W-2 if loan is closing in January. W-2 transcripts may be used in lieu of W-2s.	is closing in January. The paystub must include sufficient information to appropriately calculate income. W-2 transcript may be used in lieu of W-2. Seasonal, irregular pay and borrowers employed by family members are not eligible.
Electronic Verification of Employment (i.e., The Work Number)	Electronic VOE must reference the most recent two full years of income.	Electronic VOE must reference the prior year and most recent year-to-date income.
Written Verification of Employment (WVOE) and Paystub	WVOE and most recent paystub including year-to-date earnings (YTD must cover minimum of 30 days). Sufficient information must be provided to verify the most recent two full years of income.	WVOE and most recent paystub including year-to-date earnings (YTD must cover minimum of 30 days). WVOE only needs to reference the prior year and most recent year-to-date income.
Personal Tax Returns	Most recent 2 years 1040's including all schedules when qualifying other income sources in addition to wage earner income where 2 years tax returns are required per Fannie Mae guidelines (e.g. Interest, dividends, capital gains, variable trust income, etc).	Most recent 1 year 1040's including all schedules when qualifying other income sources in addition to wage earner income where 1 year tax returns are required per Fannie Mae guidelines (e.g. Rental income, fixed trust income, notes receivable, royalty income, etc) Interest, dividends and capital gains not allowed.

Additional income requirements:

- A Written Verification of Employment (WVOE) is required if needed for the analysis of overtime, bonus or commission.
- Seasonal or irregular pay can be used to qualify the loan if the borrower can demonstrate prior two years of receipt, as well as the likelihood that it will continue for the next three years. Employer must confirm the upcoming current year anticipated hours of seasonal/irregular employment months anticipated that the borrower will work, etc.
- Tax transcripts: A signed Form 4506-C is required. IRS third-party tax transcripts must be obtained for any income types that require tax returns or as required by the underwriter due to red flags. Transcripts are not required for wage earner income.
- Follow [Fannie Mae guidelines](#) for additional employment documentation requirements.
- Follow [Fannie Mae guidelines](#) for gaps in income.
- All documents must meet the [Age of Documentation - Income](#) requirements.
- A [Verbal Verification of Employment](#) is required.

Income Calculation:

- Follow [Fannie Mae guidelines](#) for calculating wage earner income.
- The income must be stable and likely to continue. If the income is declining, refer to [Declining](#)

Income.

6.3.2. Self-Employed Income (Full Doc)

6.3.2.1. Self-Employment History

Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of three years employment history in the same line of work or one year of previous successful employment in the same line of work and two years of formal education or training in the same line of work. Less than one year may not be considered as effective income. The below restrictions apply to borrowers with less than 2 years, but more than 1 year self-employment history:

- Max 80% LTV
- Min 700 FICO

6.3.2.2. Self-Employment Documentation Requirements

If a borrower has 25% or more ownership interest in any business, they are considered self-employed. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation.

PHH will allow 12 month and 24 month income documentation and calculation. When income from the borrower’s self-employed business is used to qualify, personal & business tax returns (including all schedules and K-1’s) plus most recent year and YTD Profit and Loss Statement (P&L) prepared by a CPA, or the borrower are required.

The following table summarizes the required documentation for self-employed borrowers:

Required Documentation	24 Month Full Doc Self-employed	12 Month Full Doc Self-employed
Personal Tax Returns	Most recent 2 years Form 1040 including all schedules and YTD P&L. Interest, dividends and capital gains must be qualified using 24 months of income documentation.	Most recent 1 year Form 1040 including all schedules and YTD P&L. Interest, dividends and capital gains not allowed.
Partnership Returns	Most recent 2 years Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1’s and YTD P&L.	Most recent 1 year Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1’s and YTD P&L.
K-1s	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
Corporate Tax Returns	Most recent 2 years Form 1120 and YTD P&L	Most recent 1 year Form 1120 and YTD P&L

Additional income requirements:

- The P&L may be audited or unaudited but must be signed and dated by the preparer and the borrower. The P&L is required to ensure that the income is stable and expected to continue; it may not be used for qualifying the borrower. The P&L must report business revenue, expense, and net income up to and including the most recent month preceding the loan application date.
- Self-employed paying themselves W-2 or K-1: The ordinary income from the borrower’s business

multiplied by the borrower's ownership percentage must be used to qualify along with any W-2 wages that they pay themselves. Double-counting is not allowed.

- Tax transcripts:
 - A signed 4506-C and IRS Third party Tax Transcripts must be obtained during the loan process.
 - Business tax transcripts are not required if the net business income is validated on the Borrower's 1040s.
 - In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
 - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
 - Evidence of any IRS filing extensions must also be present in the loan file
- All documents must meet the [Age of Documentation - Income](#) requirements.
- A [Verbal Verification of Employment](#) is required.

Income Calculation:

- A cash flow analysis must be prepared for **all** self-employed borrowers. Use [Fannie Mae Form 1084](#), or similar form, and follow all instruction to document self-employed income.
- The income must be stable and likely to continue. If the income is declining, refer to [Declining Income](#).

6.3.3. Other Income

For other types of income not addressed in this section, refer to [Fannie Mae](#) for documentation and calculation requirements.

6.3.3.1. *Marijuana Related Business (MRB) Income*

Income derived from an illegal source in accordance with all applicable federal, state, and local laws, rules, and regulations is ineligible. Federal law restricts marijuana related activities and therefore the income from these sources is not allowed for qualifying. Related activities include:

- Possession of cannabis or cannabis seeds
- Processing
- Growing
- Harvesting/Cultivation
- Testing
- Packaging/Delivery
- Wholesale or Retail sales, including the sale of marijuana related paraphernalia and other herbal products (such as kratom)

6.3.3.2. *Rental Income*

6.3.3.2.1. *Long Term Rental Income*

Long term rental income may be used for qualifying purposes. Tenant may not be a family member.

- **Full Documentation Loans:** Refer to [Fannie Mae guidelines](#).

- **Alternative Documentation Loans:**
 - Subject Purchase transactions: Rental income must be calculated by using the market rent from the Comparable Rent Schedule Form 1007 or 1025 (as available per market), multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
 - Departing Residence: Copy of 12 month executed lease, verification of security deposit and first-month's rent deposited to borrower's account. Rental income must be calculated by taking the monthly lease amount, multiplied by 75% to account for a vacancy factor.
 - Rental income is a secondary source of income:
 - Subject Refinance transactions: Rental income must be calculated by using 12 months of canceled checks or bank statements. Rental income must be calculated by taking the gross deposits over the 12-month period, multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
 - Other Real Estate Owned properties: Current lease agreement AND most recent 2 months rental deposits reflected on the bank statements/cancelled checks/electronic proof are required. Rental income must be calculated by taking the gross deposits over the 12-month period, multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
 - Rental income is the primary income source of income as a real estate investor:
 - The rental deposits reflected on the bank statements covering the 12 or 24-month period (depending on the documentation type) with a letter of explanation (LOE) from the borrower indicating the rental property address and the rental amount. For any newly rented properties (< 12 months), the borrower must also explain why the property has been rented less than 12 months and provide supporting documentation to confirm the purchase date, such as the settlement statement.
 - The underwriter is not required to request a lease agreement to confirm the rental income that is reported on the bank statements. However, to the extent that the underwriter is unable to determine whether the source of the deposit(s) is tied to the rental property(ies), or if the deposits are inconsistent, the underwriter may, at its discretion, request rental lease(s) as needed.
 - Refer to [Fannie Mae guidelines](#) for landlord history requirements and how to calculate the income.
- **DSCR Loans:** Refer to the DSCR Product Description for more details.

6.3.3.2.2. Short-Term Rental Income

Short-term rental income (such as AirBNB/VRBO) may be used for qualifying purposes on either the subject property or other investment properties that the borrower owns for purchase or refinance transactions.

The appraiser must comment on the prevalence of short-term rental activity in the market area, and whether there is an impact on marketability. Short-term rental properties must be common for the area and located in highly marketable areas.

- **Full and Alternative Documentation Loans:**
 - Purchase transactions: Property must be legally permissible (city, county etc) and licensed as a short-term rental where applicable. Rental income must be calculated by

taking the nightly, weekly, monthly, or seasonal market rent from the Comparable Rent Schedule Form 1007/1025 or Appraisal Management Company specific form, multiplied by 75% to account for a vacancy factor, then averaged over 12 months.

- Refinance transactions: Must be verified by either:
 - The most recent year’s tax returns/ Schedule E. Rental income must be calculated by using the income from Schedule E averaged over 12 months.
 - Remittance statements from the renting entity (AirBnB, VRBO, etc.) covering the most recent 12-month period. Rental income must be calculated by taking the payout amount (Gross booking amount minus deductions), multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
 - In cases where the short-term rental property is self-managed (not through a third-party), evidence of 12 months of receipt of the rental income, through canceled checks or bank statements, is required. Rental income must be calculated by taking the gross deposits over the 12-month period, multiplied by 75% to account for a vacancy factor, then averaged over 12 months.
- **DSCR Loans:** Refer to the DSCR Product Description for more details.

6.3.3.3. Residual Income

If the loan is an HPML or if the DTI exceeds 43%, Borrowers must have a minimum monthly residual income as required below:

# in Household	Required Amount
1	\$1,500
2	\$2,500
Additional family members	Add \$150 for each

6.3.3.4. Restricted Stock (RS) and Restricted Stock Units (RSU) Income

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.

6.4. Alternative Documentation

6.4.1. Self-Employment Requirements

6.4.1.1. Self-Employment History

Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of three years employment history in the same line of work or one year of previous successful employment in the same line of work and two years of formal education or training in the same line of work. Less than one year may not be considered as effective income. The below restrictions apply to borrowers with less than 2 years, but more than 1 year self-employment history:

- Max 80% LTV
- Min 700 FICO

6.4.1.2. Self-Employment Ownership Verification

The borrower’s ownership percentage and length of ownership must be verified with one of the following:

- Letter from CPA/EA/CTEC or a tax preparer with a PTIN. Validation of the license/PTIN is required, refer to [CPA/EA/CTEC/PTIN Verification](#).
- Business Formation Documents (Articles of Incorporation, Bylaws, Charter, Articles of Association, DBA for a sole proprietor). Any documents received must validate that they have been filed properly with the state
- Operating Agreement/Partnership Agreement

A Third-Party Verification that the Business is in existence and in good standing is required.

6.4.1.3. CPA/EA/CTEC/PTIN Verification

Use this chart to determine whether a CPA/EA/CTEC or tax preparer is allowed.	
Reason for Verification/Income Document	Qualification
Verification of: <ul style="list-style-type: none"> • Borrower’s ownership percentage, • length of ownership in the business, or • negative impact of using business funds for downpayment, closing costs, or reserves 	Must be verified by a CPA/EA/CTEC or tax preparer with a PTIN. Validation of the license/PTIN is required.
Either of the following income documents: <ul style="list-style-type: none"> • Profit and Loss (P&L) or • Third-party prepared expense statement 	Must be verified by a CPA/EA/CTEC. Tax Preparers who possess solely a PTIN without one of these designations are not allowed to prepare the P&L or expense statement. Validation of the CPA/EA/CTEC license is required.

The CPA/EA/CTEC license or Tax preparer’s PTIN must be verified with either a copy of their license or an online verification. Examples of online verifications would include but not be limited to:

- CPA verification <https://cpaverify.org/>
- American Institute of CPAs <https://us.aicpa.org/forthepublic/findacpa>
- CPA/EA/CTEC/PTIN verification via the IRS website [RPO Preparer Directory \(https://irs.treasury.gov/rpo/rpo.jsf\)](https://irs.treasury.gov/rpo/rpo.jsf) or [PTIN Verification \(https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act\)](https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act).
- PTIN search <https://www.ptindirectory.com/membership-certificates.cfm>
- CTEC verification: <https://www.ctec.org/verify?nav=tax-professionals>

6.4.2. Bank Statement Requirements

Bank statements may be obtained as an alternative to tax returns to document a self-employed borrower's income. If tax returns or tax transcripts are provided, then the Full Documentation [Self-Employed Income](#) guidelines must be followed.

Self-employed borrowers can use Personal or Business bank statements to document their income. The following restrictions apply to both personal and business bank statement documentation:

- 12- or 24- month complete bank statements must be in the file 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.
- Every page including pages without transactions and advertisements must be present; transaction history printouts are not acceptable.
- Bank statements used for income must be consecutive and reflect the most recent months available per the [Age of Documentation - Income](#).
- Deposits must be common and customary based on the nature of the business and how the borrower conducts their business. Large and unusual deposits must be sourced. If they cannot be sourced, they will be excluded.
- Months with no revenue must be explained by the borrower. The underwriter must validate the stability of the income based on the nature of the business and how the borrower conducts their business.
- Disallowed deposits include:
 - transfers from other accounts, unless it is an ACH/wire transfer from another company for services rendered,
 - credit lines,
 - business loans,
 - rental income,
 - one-time only deposit in 12 months,
 - cash advances from credit cards,
 - returns/refunds, or
 - income from other sources (on personal bank statements).
- Non-Sufficient Funds (NSF) – Defined as an account which stays negative for more than 24 hours and a fee was charged by the financial institution. NSFs in the most recent 12 months require a Borrower LOE documenting they are not due to financial mishandling or insufficient income. If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period. If there are zero (0) occurrences in the most recent three-month time period, up to six (6) occurrences in the most recent 12-month time period are acceptable. NSFs should be covered with deposits shortly after

they are incurred. Reversed/refunded NSF's are NOT included in the NSF count. Multiple NSF's and/or Overdrafts that occur on the same day will count as One occurrence.

- Either PHH's Business Narrative, similar form or a letter of explanation from the Borrower must be provided that explains the operating profile of the business including the following:
 - Description of how the business operates, advertises and generates revenue
 - Business structure (sole proprietorship, general partnership, limited partnership, corporation, or S-corporation)
 - Whether their business requires any heavy equipment/materials/vehicles
 - Number of physical locations (office/plant/storefront)
 - Number of employees/contractors (excluding the borrower)
 - Website (if applicable)

6.4.2.1. Business Bank Statement

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

Employment Requirements:

- Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. Refer to [Self-Employment History](#) section for requirements when the borrower has been self-employed less than 2-years but more than 1-year.
- The business used in qualifying must have existed/active for at least two (2) years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time.
- The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole prop. To LLC).
- Borrower(s) must be at least 25% owner of the business. If multiple owners will be borrowers, then the income used will be based on the combined ownership percentage, refer to the [Self-Employment Ownership Verification](#) section. Proof of 3rd party licensing or certification is required, refer to [CPA/EA/CTEC/PTIN Verification](#).

Documentation Requirements:

- Follow the requirements in the [Bank Statement Requirements](#).
- Business expenses must be reasonable for the type of business (examples of businesses with higher expense ratios include construction companies, builders, restaurants, and retail firms)
- Multiple business bank accounts may be used for multiple businesses.
- Two business bank accounts may be used for the same business in situations where the borrower uses different accounts for different payment types, such as one account for cash or checks and another account for card transactions or 1 account is a checking account and another account is a savings account. The accounts may not be co-mingled. The reason for multiple bank accounts for one business must be clearly explained by the borrower.
- Monthly income must be disclosed on the initial, signed 1003.
- A signed Form 4506-C and transcripts are not required, unless there is a co-borrower (not married to borrower) who is qualifying with full income documentation.
- Statements should show a trend of ending balances that are stable or increasing over time, refer to [Declining Income](#) for decreasing or negative ending balances.
- A [Verbal Verification of Employment](#) is required.

Income Calculation:

- Business bank statement qualifying Income will be determined based on one of the following calculations below:
 - Fixed Expense: Percentage of gross deposits calculated using a fixed expense ratio factor of 50%. Expense ratio must be reasonable for the business based on the Lender's review of the bank statements.
 - Third-Party Prepared Expense Statement: The Expense Statement must be prepared and signed by a third-party CPA/EA/CTEC indicating business expenses as a percentage of the gross annual sales/revenue. Bank Statements are used for income then the expense ratio is used to determine the qualifying income. The lowest acceptable expense ratio for qualifying is 20%.
- Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction.
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
- Income such as W-2 or Social Security Income may be included if it does not conflict with the primary income calculation. Document the income in accordance with Full Documentation requirements.

Calculation Example:

1. Determine the *Average Monthly Qualifying Income*:
$$\frac{(\text{Total Deposits} - \text{Disallowed Deposits})}{12\text{- or }24\text{-months}}$$
2. Determine the *Business Net Income*: Multiply the *Average Monthly Qualifying Income* by (100% - the Expense Ratio).
3. Determine the *Borrower's Monthly Qualifying Income* = Multiply the *Business Net Income* by the Borrower's Percentage Ownership of the Business.

6.4.2.2. Personal Bank Statement - Business Distributions

If the borrower maintains separate bank accounts for personal and business use but pays themselves as a distribution/payroll into their personal bank account, those deposits into their personal bank account may be used for qualifying.

Employment Requirements:

- Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years. Refer to [Self-Employment History](#) section for requirements when the borrower has been self-employed less than 2-years but more than 1-year.
- The business used in qualifying must have existed/active for at least two (2) years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time.
- The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole prop. To LLC).
- Borrower(s) must be at least 25% owner of the business. If multiple owners will be borrowers,

then the income used will be based on the combined ownership percentage, refer to the [Self-Employment Ownership Verification](#) section. Proof of 3rd party licensing or certification is required, refer to [CPA/EA/CTEC/PTIN Verification](#).

Documentation Requirements:

- Two months of business bank statements must be provided to document the qualifying business is an operating entity and to verify transfers to the personal account.
- The deposits into the personal bank account must exhibit the respective account number of the business bank account(s) provided (based on the provided 2 months of business bank statements).
- If one personal bank statement is being used for multiple businesses, then the deposits must be clearly matched to each business so that we can validate the stability of each business and the borrower's ability to repay.
- Significant and/or repeated transfers from a borrower's personal account to their business account should be scrutinized carefully as they may be indicators of poor financial health.
- If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded.
- Monthly income must be disclosed on the initial, signed 1003.
- A signed Form 4506-C and transcripts are not required, unless there is a co-borrower (not married to borrower) who is qualifying with full income documentation.
- A [Verbal Verification of Employment](#) is required.

Income Calculation:

- Qualifying income is calculated as follows: (Total Deposits – Disallowed Deposits) divided by 12 or 24 months
- Qualifying income is calculated using the total eligible deposits from the personal bank statements reviewed minus any inconsistent or large deposits not justified divided by the number of statements. The most recent bank statement must be consistent with the qualifying income.
 - No expense factor is applied if business bank statements support operating activity with expenses being paid.
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated from the bank statements. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
- Income such as W-2 or Social Security Income may be included if it does not conflict with the primary income calculation. Document the income in accordance with Full Documentation requirements.

6.4.2.3. Personal Bank Statement - Commingled Bank Account

A comingled bank account is a personal account used by a borrower for both business and personal use. A separate business account is not required. Personal bank accounts are allowed to be comingled with income/expenses from only one business. Personal bank accounts may not be comingled with multiple businesses.

Employment Requirements:

- Comingled Bank Accounts may only be used by borrowers who own 100% of the business. All income/deposits from sources not related to the business must be removed from the income calculation
 - Borrower and non-borrowing spouse with combined 100% ownership eligible; or
 - All credit qualifying borrowers on the loan own 100% of the business; or
 - an independent contractor dedicated to one occupation and receiving 1099 income

Documentation Requirements:

- Bank statements must only reflect individuals who are borrowers or non-borrowing spouses.
- Follow the requirements in the [Bank Statement Requirements](#) section and the [Business Bank Statement](#) section.
- A signed Form 4506-C is required. Transcripts are not required.
- A [Verbal Verification of Employment](#) is required.

Income Calculation:

- Follow the calculation requirements in the [Business Bank Statement](#) section.

6.4.3. Profit and Loss Statement Only

Self-employed borrowers are allowed to qualify using a 12-month business profit and loss statement (P&L) only. 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.

Refer to the Full and Alt Doc Product Description for LTV/CLTV and FICO restrictions.

Employment Requirements:

- Borrower must be self-employed for at least two (2) years and owned the business used in qualifying for at least two (2) years.
- The business used in qualifying must have existed/active for at least two (2) years.
- The business structure may change within two years if the new business provides the same product and services as the current business (i.e. Sole prop. To LLC).
- Borrower(s) must be at least 50% owner of the business. If multiple owners will be borrowers, then the income used will be based on the combined ownership percentage, refer to the [Self-Employment Ownership Verification](#) section. Proof of 3rd party licensing or certification is required, refer to [CPA/EA/CTEC/PTIN Verification](#).

Documentation Requirements:

- P&L covering the most recent previous 12 months.
- P&L must be dated within 90 days prior to closing.
- P&L must be completed by 3rd party CPA/EA/CTEC – No PTIN tax preparers. Proof of 3rd party licensing or certification is required, refer to [CPA/EA/CTEC/PTIN Verification](#). The 3rd party must sign and date the P&L and provide their attestation as to the accuracy of the P&L statement. The CPA/EA/CTEC must attest that they have performed either the following functions:
 - Audited the business financial statements, or
 - Reviewed working papers provided by the borrower.

- P&L must reasonably reflect the income and expenses for the industry described. If in question, the underwriter should obtain additional documentation.
- A minimum two (2) months of bank statements covering the most recent two (2) month period. The average deposits from the bank statements must support the gross receipts/sales reflected on the P&L statement within a 20% tolerance.
- Income such as W-2 or Social Security Income may be included if it does not conflict with the primary income calculation. Document the income in accordance with Full Document requirements.
- A signed Form 4506-C and transcripts are not required, unless there is a co-borrower (not married to borrower) who is qualifying with full income documentation.
- A [Verbal Verification of Employment](#) is required.

Income calculation:

- Perform a 12-month average calculation of net income from the provided profit and loss statement, multiplied by the borrower's percentage of ownership. Depreciation and W-2 wages are not added back into the net income.
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
- Income such as W-2 or Social Security Income may be included if it does not conflict with the primary income calculation. Document the income in accordance with [Full Documentation](#) requirements.
- The income must be stable and likely to continue. If the income is declining, refer to [Declining Income](#).

6.4.1. 1 Year or 2 Year 1099

Borrowers who are independent contractors, freelancers, or otherwise self-employed in the "gig economy" may qualify with 1099 statements in lieu of tax returns, to support their 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.

Documentation Requirements:

- 1099 statements must be in the borrower's name. Borrowers must be with the same employer for 2 years. The borrower may not have ownership in the company issuing the 1099. Multiple 1099's are allowed in industries where this is a common occurrence such as entertainment, medical contractor, etc.
- The Borrower must receive regular, ongoing compensation on a weekly, bi-weekly, bi-monthly, monthly, or quarterly basis. Do not provide tax returns.
- For a 12-month income documentation, provide the following:
 - Most recent Form 1099 and
 - Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower's year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days are verified.

- For a 24-month income documentation, provide the following:
 - 2 years of Form 1099 and
 - Either most recent paystub showing YTD income, statement, or similar documentation that also shows the Borrower's year-to-date earnings. The most recent documentation may be used if earnings over 30 consecutive calendar days are verified.
- A signed Form 4506-C and IRS 1099 Transcripts are required. The year-end paystub, statement, or similar documentation may be used in lieu of the transcript when no record is found on the transcripts.
- The borrower must provide a written explanation detailing the operating profile of the business.
- Monthly income must be disclosed on the initial, signed 1003.
- A [Verbal Verification of Employment](#) is required.

Income calculation:

- For a 12-month income calculation, the lesser of:
 - The average income reported on the Borrower's most recent 1099 tax form multiplied by (1.00- Expense Ratio) and then divided by 12 months, or
 - The income reported on the Borrower's most recent 1099 tax forms plus the Borrower's year to date income multiplied by (1.00- Expense Ratio), converted into a monthly average.
- For a 24-month income calculation, the lesser of:
 - The average income reported on the Borrower's 1099 tax forms over the most recent 2 years multiplied by (1.00- Expense Ratio) and then divided by 24 months, or
 - The income reported on the Borrower's 1099 tax forms for the most recent 2 years plus the Borrower's year to date income multiplied by (1.00- Expense Ratio), converted into a monthly average.
- Expense Ratio: 10% expense ratio must be applied.
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
- Income such as W-2 or Social Security Income may be included if it does not conflict with the primary income calculation. Document the income in accordance with Full Documentation requirements.
- The income must be stable and likely to continue. If the income is declining, refer to [Declining Income](#).

6.4.2. Written Verification of Employment Only (WVOE)

Borrowers who have a 2-year history of employment in same industry and 1-year continuous employment with the same employer may utilize this program.

The following requirements apply:

- Refer to the Full and Alt Doc Product Description for LTV/CLTV, FICO and occupancy restrictions.
- 0x30x24 housing payment history (rent free or less than 24 months history are ineligible)
- Gift funds and gift of equity are not allowed

Documentation Requirements:

- 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.
- Internet search of the business is required.
- Monthly income must be disclosed on the initial, signed 1003.
- A signed Form 4506-C is required. IRS third-party tax transcripts must be obtained.
- All documents must meet the [Age of Documentation - Income](#) requirements
- A [Verbal Verification of Employment](#) is required.

Income calculation:

- Income is calculated per [Fannie Mae requirements](#).
- Income disclosed on the initial application (1003) should be reviewed for consistency with the income calculated. Large deviations should be evaluated and may require a written explanation from the borrower regarding their business and the income they earn and/or additional documentation to further support the calculated income.
- Income such as W-2 or Social Security Income may be included if it does not conflict with the primary income calculation. Document the income in accordance with Full Documentation requirements. Supplemental income sources such as commissions or rental income are not permitted.
- The income must be stable and likely to continue. If the income is declining, refer to [Declining Income](#).

6.5. Using Assets to Qualify

6.5.1. Asset Depletion

Asset Depletion is a form of alternative documentation and may be used to determine qualifying income, and may be used as the primary income source or as supplemental income 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:

- Primary & Second home only
- Purchase or rate/term refinance only
- Non owner occupant co-borrowers are not allowed
- Income Calculation: (Total Qualified Assets – down payment – closing costs – reserves) divided by 60.
- Minimum net post-closing assets 125% of loan amount.

Asset Depletion as primary income source: If Asset Depletion is the primary source of income (> 50% of the total qualifying income), then refer to the Full and Alt Doc Product Matrix for LTV/CLTV and FICO restrictions. Employment information on the 1003 is not required to be completed.

Supplemental Asset Depletion: If Asset Depletion will be used as supplemental income (\leq 50% of the total qualifying income), then the ending balance of the asset statements must match the total amount of assets used to calculate the income. The balance on the account statement cannot be reduced solely

for the purpose of lowering the supplemental income to less than the 50% qualifying income threshold. The same asset account cannot be used for distribution income and asset utilization.

6.5.2. Asset Utilization

Asset Utilization may be used for borrowers who have significant verifiable assets and would benefit from alternative loan qualification. Asset Utilization does not require a DTI to be calculated, and instead qualifies the borrower based solely on their post-closing liquid assets. Employment information on the 1003 is not required to be completed. The following restrictions apply:

- Primary & Second home only
- Purchase or rate/term refinance only
- Refer to the Full and Alt Doc Product Description for LTV/CLTV and FICO restrictions
- Non owner occupant co-borrowers are not allowed
- No other income type is allowed.

Income Calculation:

- The borrower's post-closing liquid assets must be greater than the combined total of:
 - 100% of the loan amount
 - Down payment
 - Closing costs and prepaids
 - Five years (60 months) of current monthly obligations
 - Monthly debts reported on the credit report
 - Alimony/Child support
 - Monthly PITIA on the subject property
 - Other real estate owned
 - Each additional property owned must qualify using the full PITIA
 - Rental income received is not eligible to be used to reduce, omit, and/or offset the payment
 - Debts being paid off or installment debt being paid down below 10 months for qualifying purposes are not permitted
- Residual income is required:
 - Residual Income = Total verified assets – down payment- closing costs-prepaids / 60 months - Total Monthly Debt Obligations
 - Minimum of \$3,500 is required

6.5.3. Asset Depletion and Asset Utilization Documentation Requirements

Six (6) months of bank statements are required, balances must be verified within 10 days of the Note Date. Statements must meet the [Age of Documentation - Assets](#). If assets from a joint account, all parties must be on the loan. There must be sufficient documentation to clearly demonstrate the amount of assets that the borrower(s) has direct liquidation access to.

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.

6.5.4. Asset Depletion and Asset Utilization Qualifying Assets

The qualifying assets must be liquid. Liquid assets are defined as any asset that can be converted into cash quickly with minimal impact to the price received. The amount of liquid assets used for qualification purposes are specific to the liquidity of such amounts and are set forth below:

- 100% checking / savings / money accounts
- 80% of the remaining value of stocks / bonds / mutual funds
- 70% for all vested retirement assets

6.5.5. Asset Depletion and Asset Utilization Ineligible Assets

- 529 or similar college fund
- Business assets
- Cash out proceeds
- Cash value of life insurance
- Equity in real estate including current home
- Funds held in foreign accounts or investments
- Gift funds
- Gift of equity
- Funds that have been allocated as Margined/Pledged/Collateral assets/loans
- Private securities or any non-publicly traded assets
- Restricted stock units, stock options, non-vested stock
- Stocks and bonds not publicly traded
- The following trusts
 - Blind trusts
 - Irrevocable trust
 - Land trusts
 - Life estates

6.6. Declining Income

Income should be documented and analyzed in each loan file. Both salaried and self-employed borrowers should be reviewed for stability of income.

If income is declining year-over-year, then the lowest income year will be used to qualify the borrower.

Bank statement qualification: Statements should show a trend of ending balances that are stable or increasing over time. Withdrawals consistently greater than deposits will be considered declining cashflow/income.

A letter of explanation detailing the reason for the decline and the possibility of further income deterioration will also be required.

6.7. Verbal Verification of Employment (VVOE)

A verbal verification of employment is required for each borrower using employment or self-employment income to qualify.

6.7.1. Wage Earner

The Verbal Verification of Employment is required for all borrowers using salaried income to qualify and must be completed within 10 calendar days prior to the note date.

- A phone number and, if possible, an address for the borrower's employer must be independently verified by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau.
- The conversation must be documented. It should include the following:
 - name and title of the person who confirmed the employment for the lender,
 - name and title of the person who completed the verification for the employer,
 - date of the call, and
 - the source of the phone number.

Alternative Methods to Verify Employment:

The following can be obtained:

- a written verification (other than an additional paystub) confirming the borrower's current employment status. The written documentation must include the name and title of the person who completed the verification for the employer.
- an email exchange with the borrower's employer from the employer's work email address.
 - Due diligence is required to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites.
 - The email exchange must include borrower's name and employer's name; name, title, and work email address of the individual contacted at the employer; date of contact; and borrower's current employment status.
- either a paystub or bank statement dated within 15 business days prior to the note date that:
 - reflects information for the most recent expected pay period based on the date it is provided and the borrower's pay cadence, and
 - does not include any information indicating the borrower may not be actively employed.
- If the borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), and the union facilitates the borrower's placement in each assignment, a verbal VOE from the union may be obtained.
- If the employer uses a third-party employment verification vendor, a written verification from the vendor of the borrower's current employment status may be obtained. Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.

6.7.2. Military Personnel

If the borrower is in the military, in lieu of a verbal or written VOE, either a military Leave and Earnings Statement dated within 120 calendar days prior to the note date, or a verification of employment through the Defense Manpower Data Center can be obtained.

6.7.3. Self-Employed

Verbal Verification of Employment is required for all borrowers using self-employed income to qualify and must be completed within 30 Calendar days prior to the note date.

Existence of the business(es) is required:

- Verify from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or
- Verify the phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance; or
- For 1099 borrowers, who are paid as individuals, the below documentation is required:
 - Most recent paystub, statement, or similar documentation that shows the Borrower's year-to-date earnings or
 - Verification from the payer of the 1099, that the borrower is currently a contracted employee or
 - evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment) or
 - evidence of current business receipts (payment for services performed).

The source of the information and the name and title of the employee who obtained the information must be documented.

7. Assets

7.1. Age of Documentation - Assets

The most recent asset statement to verify the source of funds or reserves or to calculate income based on the borrower's assets must be dated no more than 45 calendar days earlier than the date of the loan application for monthly statements, and not more than 120 days earlier than the date of the Note. The age of the document is measured from the document date to the date of the Note.

Utilization of a quarterly statement is permissible and must be dated within 90 days of the initial loan application date. The underwriter must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.

Full Asset verification is required for both funds to close and reserves. Asset statements must cover 30 days of account activity in accordance with the documentation types in [Fannie Mae Verification of Deposits and Assets Guidelines](#). The most recent month statement or the most recent quarterly statement is required for all Products. All assets from the borrower(s) must be disclosed and verified. Refer to [Asset Depletion](#) and [Asset Utilization](#) sections for additional requirements.

7.2. Verification of Eligible Assets

Refer to [Fannie Mae guidelines](#) for verification of asset requirements not addressed below.

7.3. Non-Borrowing Spousal Accounts

Funds held jointly with a non-borrowing spouse are considered the Borrower's funds. Funds held jointly

with any other non-borrowing person may be considered if joint account holder is also a title holder on the subject property or a written verification of deposit or an access letter is provided showing the Borrower has authorized access to all funds as though they solely belong to the Borrower.

Accounts held solely in the name of a non-borrowing spouse may not be used.

7.4. Business Funds as Assets

Business funds may be used for down payment, closing costs and reserves with all the following documentation.

- Evidence of Borrower's percentage of ownership must be provided
- The borrower must be (at least 25% owner) of the business account as evidenced by the firm's operating agreement, CPA/EA/CTEC or a tax preparer with a PTIN letter, or equivalent.
- The underwriter must multiply the available business funds by the borrower's ownership percentage to compute the business funds available for down payment, closing costs, and reserves.

In addition, when business funds are being used for down payment or closing costs, and the borrower is using self-employed income from that business to qualify, documentation to prove that the withdrawal of funds will not negatively impact the business is required as evidenced by either:

- a letter from the CPA/EA/CTEC or a tax preparer with a PTIN; OR
- a cash flow analysis by use of individual tax returns and/or business returns when applicable

7.5. Foreign Assets

When the source of funds needed for down payment, closing costs or reserves is, or otherwise originates from, asset(s) located outside the United States and its territories, the funds must be transferred into a United States or State regulated financial institution or to the title company at least 10 days prior to closing and the funds must be currently available to the borrower.

When the funds are deposited in a U.S. or State regulated financial institution within 60 days of the application date, all of the following requirements must be met:

- Documented evidence of funds transferred from the country from which the funds originated,
- It can be established that the funds belonged to the borrower, before the date of the transfer, and
- The source of all funds used for closing can be verified, just as they would for any other depository account.

All documents of foreign origin must be filled out in English or the originator must provide a translation, attached to each document, and warrant that the translation is complete and accurate. Translations are to be completed by a disinterested 3rd party evidenced with a seal or stamp from an official translator, artificial intelligence translations are not acceptable.

All foreign currency amounts must be converted to U.S. dollars using the current exchange rate.

Assets from countries under OFAC sanctions are not permitted.

7.6. Gift Funds

Gift funds can be used for down payment and closing costs per the below requirements. Gift funds cannot be counted towards reserves. Gift funds and gift of equity are not allowed on Asset Depletion or Asset Utilization.

- Gift funds:
 - Primary and Second Home: When LTV is > 75%, a 5% borrower contribution is required.
 - Investment Property: A minimum of 10% borrower contribution is required
- Gift of Equity:
 - Purchase of Primary Residence
 - Max LTV 75%
 - Must be from family member
 - Must be reflected on the final closing disclosure as a Seller Credit.
- Trade Equity is not allowed

Down payment and closing costs funds received from a non-borrowing purchaser, who is on the purchase contract and will sign the deed and security instrument, are not considered a gift; however, existence of the funds is required. A gift letter is not required. Funds received from a non-borrowing purchaser cannot be used as reserves.

7.7. Large Deposits

Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Large deposits require a borrower letter of explanation and must be sourced.

DSCR large deposits should be in line and consistent with the borrower's overall credit profile and may require a letter of explanation.

7.8. Reserves

Refer to individual Product Description for reserve requirements. Reserves for a loan with an Interest-Only feature will be calculated based upon the interest only payment.

Cash out proceeds may be used to meet reserve requirements.

Unacceptable sources of reserves:

- Gift funds
- Proceeds from 1031 Exchange
- Proceeds from unsecured/revolving debt or cash advances such as credit cards

7.9. Ineligible Assets

The following assets are ineligible for down payment, closing costs and reserves:

- 529 or similar college fund
- Builder profits
- Cash advance on credit card
- Cash for which the source cannot be verified (cash on hand)

- Down payment assistance/ Grant funds
- Employer Assistance Assets
- Equity in real estate including current home
- Funds held in foreign accounts or investments
- Marijuana Related Business (MRB) Assets. Federal law restricts marijuana related activities and therefore assets from these sources are not permitted. Related activities include:
 - Possession of cannabis or cannabis seeds
 - Processing
 - Growing
 - Harvesting/Cultivation
 - Testing
 - Packaging/Delivery
 - Wholesale or Retail sales, including the sale of marijuana related paraphernalia and other herbal products (such as kratom)
- Margined/Pledged/Collateral assets that are allocated to a loan are not allowed. Any funds required for closing must be liquidated. After liquidation, any funds still available to be borrowed (the value of the Margined/Pledged/Collateral asset reduced by the outstanding loan balances and accrued interest and fees) may be used for reserves.
- Private securities or any non-publicly traded assets
- Proceeds from an unsecured Loan
- Reverse 1031 exchange
- SBA loans or paycheck protection funds
- Salary advance
- Seller real estate tax credit
- Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Vested and non-vested stock, stock options and non-vested restricted stock
- Unverifiable source of funds

8. Liabilities

8.1. Debt-to-Income Ratios

Refer to the individual Product Description for the maximum debt to income percentage.

8.2. Monthly Debt Obligations

Refer to [Fannie Mae guidelines](#) for monthly debt obligations not addressed below.

8.3. Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on their personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the underwriter must verify that the obligation was actually paid out of company funds and that this was considered in the analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's DTI ratio if:

- the account in question does not have a history of delinquency,
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 6 months of canceled company checks), and
- the underwriter's analysis of the business took payment of the obligation into consideration.

The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the underwriter should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

9. Collateral Requirements

9.1. Property Requirements

9.1.1. Eligible Property Types

- One Unit Single Family Residences (Attached, Detached and Modular)
- Single Family properties with up to three (3) ADUs (Accessory Dwelling Units) per Fannie Mae requirements
- 2–4 Unit Properties
- 2-4 Unit Properties with Accessory Dwelling Units (ADUs) per Fannie Mae requirements
- PUDs – Attached and Detached
- Townhouses
- Leasehold Properties (in areas where leaseholds are common, excluding Tribal Land)
- Warrantable Condo
- Non-Warrantable Condo
- Maximum 20 acres
- Modular Homes (site assembled)

9.1.2. Rural Properties

Rural properties as indicated by the appraisal are allowed on primary and second homes. Investment properties are not allowed. Rural properties must comply with the following criteria:

- Refer to the Full and Alt Doc Product Description for any LTV/CLTV restrictions (if applicable).
- The primary use must be residential;

- The present use must be the “highest and best use” for the subject property;
- The property must not be used for agricultural purposes, or otherwise providing a source of income to the Borrower or for the subject loan;
- The photographs must include pictures of the inside of out-buildings;
- The lot size and acreage must be typical for the area and similar to the surrounding properties;
- The maximum acreage allowed is 20 acres;
- The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information

9.1.3. Zoning

A property’s zoning by itself does not make the property ineligible except as noted below. In addition to other items such as having similar comparable sales that support the subject’s value and marketability, the highest and best use of the property must be residential use whereby the residential use represents a legal and permissible use of the land per the zoning requirements.

Properties with Non-Conforming zoning must meet the following requirements:

- The appraiser’s analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property.
- Either the appraiser must specifically state in the appraisal that the property can be rebuilt “as is” in the event of a loss, or a letter from the local jurisdiction must be obtained which verifies that the property can be rebuilt “as is” in the event of a loss.

Properties with the following zoning classifications are ineligible:

- Properties with Zoning Violations
- Commercial Zoned
- Industrial Zoned
- Mixed Use Zoning
- Properties that do not meet non-conforming requirements above.

9.1.4. Condominiums

9.1.4.1. PHH Maximum Condominium Project Concentration

Maximum project exposure to any borrower for condominiums is the lesser of 3 units, or 15% of the total units in the project.

9.1.4.2. Warrantable Condos

Warrantable condominiums must conform to Fannie Mae condominium project eligibility requirements. A Fannie Mae CPM project certification form must be provided with the loan package.

- Site Condos are eligible per single-family dwelling LTV/CLTV parameters
- Refer to the Full and Alt Doc Product Description for LTV/CLTV restrictions.
- HO-6 insurance policy must provide coverage, as determined by the insurer that is sufficient to

repair the condominium unit to at least its condition prior to a loss claim event, typically this coverage is equal to 20% of the condominium unit’s appraised value.

- Established and New Projects which meet [Fannie Mae](#) requirements are eligible.
- For generic Fannie Mae Condo Project Review and Insurance Requirements, refer to the [Project Standards and Eligibility page](#).
- Limited Review: Follow the process in Fannie Mae guidelines: [B4-2.2-01, Limited Review Process](#)
 - [B4-2.2-04, Geographic-Specific Condo Project Considerations to determine those](#) cases where Limited Reviews are permitted.
 - [Condo Project Manager \(CPM\)](#) is required to verify that the project is not “unavailable”. If the project is “unavailable” refer to the [Non-Warrantable Condominium](#) section.
- Full Review: Follow the process in Fannie Mae guidelines: [B4-2.2-02, Full Review Process](#)
 - Client must submit Fannie Mae Form 1076 (or similar form) along with condo project documentation (including: covenants, conditions and restrictions; bylaws; articles of incorporation, financial statements, budget documents, insurance declaration page, HO6 condo insurance policy, and a recent condo reserve study).
 - [Condo Project Manager \(CPM\)](#) is required. If the project is “unavailable” refer to the [Non-Warrantable Condominium](#) section. When CPM is used as part of the project review, the reviewer must document the loan file with the CPM decision by including the unexpired CPM Certification in the file. CPM Certifications are based solely on the data that the Lender enters into CPM. The reviewer is responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM. The reviewer is also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable Fannie Mae eligibility requirements.
 - For projects that require a [Project Eligibility Review Service \(PERS\)](#) approval:
 - On delegated correspondent loans, the lender may provide a [Project Eligibility Review Service \(PERS\)](#) approval for eligible condominium projects as outlined in the Fannie Mae guidelines. [PERS Overview Fact Sheet](#).
 - On non-delegated correspondent, a full review will be required as a non-warrantable condominium.

9.1.4.3. Non-warrantable Condos

Non-Warrantable Condominiums (condominiums that do not meet Fannie Mae warrantable guidelines) are allowed. No more than 2 non warrantable features are allowed. A Full Review Condo Questionnaire is required. Refer to the individual Product Description for LTV/CLTV restrictions. The following Non-Warrantable Condominium features are eligible:

NON-WARRANTABLE CONDOS	
CHARACTERISTIC	REQUIREMENTS
COMMERCIAL SPACE	Subject unit 100% residential. Commercial/nonresidential space in the project or building where the project is located may not exceed 50%. This includes above and below grade commercial space but does not include commercially dedicated parking. Any commercial must be “typical to the marketplace and have no negative impact on marketability.

NON-WARRANTABLE CONDOS	
	Commercial % determined by appraiser. Commercial entity cannot control HOA. <i>(Warrantable limit: 35%)</i>
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. <i>(Warrantable limit: 15%)</i>
HOA RESERVES	HOA Budget must include a dedicated line-item allocation to replacement reserves of at least 8% of the budget without a special assessment. <i>(Warrantable limit: 10%)</i>
INVESTOR CONCENTRATION	For investment property transactions in established projects, only 60% of the total units may be conveyed to investors. <i>(Warrantable limit: 50%)</i>
LITIGATION	Projects involved in litigation are acceptable if <ul style="list-style-type: none"> • the pending lawsuit(s) are not structural in nature, • do not impact health and safety issues, • do not affect marketability of the units, • potential for damages do not exceed 25% of the HOA’s reserves funds OR documentation is provided from the association’s insurance carrier and attorney, representing the HOA or insurance carrier, that the insurance carrier has agreed to provide the defense and the policy limit is sufficient to cover the litigation claim amount
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, regardless of occupancy type. 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.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 25%. <i>(Warrantable limit: 20% for projects with 21 or more units. 2 units for 5–20 unit projects)</i>

9.1.5. Ineligible Property Types

In addition to the list below, see 9.1.3 for more details on zoning restrictions

- Second Homes with 2-4 Units
- Condotels
- Cooperatives

- Mobile or Manufactured Home
- Manufactured Home Condo Projects
- Mixed-use properties
- Properties > 20 acres
- Unique Properties (Barndominiums, log homes, geodesic domes, etc.)
- Builder bailout
- Lease with option to buy / Rent-to-own
- Leasehold properties on Tribal Land
- Undeveloped land
- Timeshares
- Tenancy in Common properties
- Properties with less than 500 square feet of total living space
- Boarding houses/Bed and Breakfast/Pad splits
- Assisted Living/Continuing Care Facilities
- C5 or C6 property condition grades
- Working Farms
- Vacant land
- Properties without a fully functioning kitchen with stove and oven. Hook-ups allowed on new construction properties. Cooktops only are not permissible.
- Properties not suitable for year-round occupancy
- Properties that are using short term rental to qualify but the local code of ordinances do not allow short term rentals.
- Properties located in Puerto Rico, Guam and the US Virgin Islands
- Properties located on federal and state Indian reservations, allotments conveyed to members of Indian tribes and land where title can only be held by an individual Indian person or tribe.

9.2. Appraisal Requirements

A Full Interior / Exterior appraisal is required. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, or 1073/465 must be used. Hybrid appraisals and reduced appraisals are not allowed. All Fannie Mae guidelines apply to appraisal process and value determination.

- A full appraisal must not be more than 180 days old on the date of the note and a Fannie Mae approved appraisal update is required on appraisals older than 120 days.
- A new appraisal must be ordered for this origination. Using the same appraisal from a previous origination for this subsequent transaction is not allowed.
- Appraisals must have COLOR photos.
- All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for higher priced mortgage loans (HPMLs), if applicable.
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction.
- 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.

9.2.1. Transferred Appraisals

Transferred appraisals are permitted with the following requirements:

- 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.
- An appraisal prepared by an individual who was selected or engaged by a borrower, property originator, real estate agent or other interested party is not acceptable.
- Appraisals must be ordered through an AIR-compliant process. The appraiser of the subject property or the Appraisal Management Company (“AMC”) must acknowledge that they have followed the appraiser independence safeguards in compliance with Appraisal Independence Requirements (AIR).
- Refer to the PHH Mortgage Seller Guide for more details.

9.2.2. Number of Appraisals

Two appraisals are required in the following scenarios:

- Loan amounts > \$2,000,000 or
- HPML flip transactions
- Based on the below [appraisal valuation requirements](#)

Second appraisal must not be completed by the same appraiser or appraisal company as the original appraisal report.

9.2.3. Appraisal Valuation Requirements

A secondary valuation review product is required for all loans. All files must have an appraisal that was either submitted to Fannie Mae’s Collateral Underwriter (SSR), supported by a desk review (see below list), or have a second appraisal. Any warnings from the Submission Summary Report (SSR) must be reconciled on the 1008.

When two appraisals are obtained for a loan, no additional review product is required. LTV must be calculated based on the lower of the two appraisal values.

When one appraisal is obtained, the following applies:

- When an appraisal is submitted with a CU score ≤ 2.5 no other valuation required.
- When an appraisal is submitted with a CU Score is > 2.5 or no score, a desk review from one of the following is required.
 - Collateral Desktop Analysis (CDA) from Clear Capital
 - Appraisal Risk Review (ARR) from Stewart (formerly known as Pro Teck)
 - Field Review
- A second full appraisal is required when:
 - the desk review value is > 10% lower than the appraisal or sales price when the LTV $\leq 85\%$
 - the desk review value is > 5% lower than the appraisal or sales price when the LTV > 85%

9.3. Declining Market

When the property is in a declining market a 5% LTV reduction from the max LTV/CLTV for the transaction and occupancy type is required.

Declining market is determined by the appraisal.

9.4. Escrow Holdbacks

Escrow holdbacks are not allowed.

9.5. Disaster Areas

Sellers are responsible for identifying areas impacted by disasters and ensuring that subject property has not been adversely impacted. A list of federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov.disasters>. The disaster policy must be followed for 120 days from the disaster declaration date, unless a completed appraisal dated post-incident is provided:

- FNMA Form 1004D
- Post-Disaster Inspection (PDI) report from a third-party vendor (i.e. Clear Capital, ServiceLink, Stewart, etc.)
 - Exterior color photos of subject property, address verification and street scene
 - Color photos and details of any damage incurred as a result of the disaster, along with cost to cure (if applicable)
 - Any damage must be remediated prior to purchase. Re-inspection of the subject property will be required with evidence that repairs were completed in a workmanlike manner

9.6. Property Insurance

All hazard insurance (homeowner's insurance) and title policies must meet [Fannie Mae guidelines](#).

On a refinance, the Hazard Insurance effective date must be no more than 30 days after the note date.

9.7. Title Insurance

Title policy must include a minimum 24-month 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. A homestead is not considered as being on title.

The Title Commitment and Closing Protection Letter must be dated within 60 days prior to Note Date.



10. Exhibits

10.1. Officer’s Certificate Example

I, _____, hereby certify that I am the duly appointed _____ of _____ a _____ [limited liability company/corporation] (“Company”), and further certify, on behalf of the Company, as follows:

1. The Company was formed on _____ under the laws of the State of _____.
2. _____ is (please check boxes of all that apply): (a) the sole member of the Company [] (b) the Manager of the Company []; and (c) personally owns the entirety of the Company [].
3. Attached hereto as Exhibit A is a true and correct copy of the Certificate of Formation for _____ (“Articles”) filed with the _____ on _____. To the best of my knowledge, the Articles have not been amended, restated, or otherwise revised since their filing.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Company this ____ day of _____ 20__.

Name:

Title:

Name:

Title:

Name:

Title:

Name:

Title:

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this ____ day of _____ 20____, by _____ (name of person acknowledging.)

(Seal) Signature of Notary Public

Print, Type/Stamp Name of Notary

Personally known: _____

OR Produced Identification: _____

Type of Identification Produced: _____



10.2. LLC Borrowing Resolution Example

The undersigned, being all of the Members of _____, a _____ [state] Limited Liability Company (hereafter "Company"), acting by unanimous written consent and pursuant to the Certificate of Organization and Operating Agreement (if any), do hereby consent to and adopt the following resolutions;

BE IT RESOLVED: that the Company acknowledges that _____ [name of individual borrower(s)] is obtaining a loan from _____ ("Lender") in the principal amount up to \$ _____ (the "Loan"). As security for the Loan, the Company is hereby authorized to execute a first deed of trust or mortgage on the property commonly known as: [property address] _____;

The Resolution is adopted this _____ day of _____, 20__.

Name of Entity: _____
By: _____
Printed Name: _____
Title: _____

Name of Entity: _____
By: _____
Printed Name: _____
Title: _____

Name of Entity: _____
By: _____
Printed Name: _____
Title: _____

Name of Entity: _____
By: _____
Printed Name: _____
Title: _____



10.3. Corporate Borrowing Resolution Example

The undersigned, being all of the members of the Board of Directors of _____ Corporation, [INSERT STATE] corporation (“Company”), hereby consent to the adoption of the following resolutions and actions which shall have the same force and effect as if duly adopted at a meeting of the Board of Directors duly called and held for the purpose stated herein.

BE IT RESOLVED: that the Company acknowledges that

_____ [name of individual borrower(s)] is obtaining a loan from _____ (“Lender”) in the principal amount up to \$ _____ (the “Loan”). As security for the Loan, the Company is hereby authorized to execute a first deed of trust or mortgage on the property commonly known as: [property address] _____;

IN WITNESS WHEREOF, the undersigned have duly executed this unanimous written consent of the Board of Directors as of the _____ day of _____, 20__.

Name: [Director #1]

Name: [Director #2]

10.4. Personal Guaranty Agreement Example

THIS GUARANTY (“Guaranty”) is effective as of (**note date**), and dated the same date as the Note and Security Instrument (the “Loan Documents”) securing the property located at (**property address**) (the “Subject Property”) by (**Borrower's Names**) (the “Guarantor”, collectively if more than one), for the benefit of the (**Lender**) (the “Lender”).

IN CONSIDERATION FOR Lender agreeing to lend the sum of (**\$ loan amount**) to (**Entity name**) (the “Borrower”), the Guarantor, does hereby absolutely, unconditionally, and irrevocably guarantee to Lender, it's successor or assignee, as their interests may appear, jointly in severely with other guarantors, each of the following:

- Guarantor guarantees the full and prompt payment when due, whether at the Maturity Date or earlier, by reason of acceleration or otherwise,
- Guarantor guarantees all costs and expenses, including reasonable Attorneys’ Fees and Costs incurred by Lender in enforcing its rights under this Guaranty,
- Guarantor guarantees the full and prompt payment of performance of, and compliance with, all Borrower’s obligations under the Loan Documents when due and
- Guarantor has a direct and indirect ownership or other financial interest in Borrower and/or will otherwise drive a material benefit from the making of the loan.

Defined Terms. The terms “Indebtedness”, “Loan Documents” and “Property Jurisdiction” and other capitalized terms used but not defined in this Guaranty, will have the meanings assigned to them and the Loan Agreement.

NOW THEREFORE Guarantor acknowledges and agrees:

The liability of the Guarantor shall exist and continue to exist whether or not the signature or name of the undersigned appears on any evidence of indebtedness from the Borrower to the Lender.

The undersigned Guarantor hereby waves notice of the acceptance of this Guaranty and of any demand for payment hereunder, presentment, demand, protest, dishonor or default or notice thereof with respect to the above transaction.

The undersigned Guarantor agrees to be liable and pay for any deficiency of the note holder forecloses the mortgage the securing the note pursuant to the terms of the Loan Documents and the proceeds received under a foreclosure proceeding, after deduction for expenses, are not sufficient to satisfy the indebtedness for the Borrower.

No extension of time or forbearance on the part of Lender, it's accessor or assignee, with respect to the mortgage or modification of the terms and provisions of the mortgage sale operate to release any of the Guarantor’s obligations hereunder nor shall any delay on the part of the Lender, it's successor or assignee, in exercising any of its options, powers or rights under the Loan Documents, or hereunder, or a partial or single exercise thereof constitute a waiver of any other rights hereunder.



This Guaranty shall be construed as an absolute, continuing and unlimited guaranty of payment without regard to the regularity, validity, or enforceability of any liability of any obligation of the Borrower hereby guaranteed: and Lender shall not be required to proceed first against the Borrower or any other person, firm or corporation or any collateral security held of Lender, it's accessor assignee, before resorting to the Guarantor for payment. All remedies of Lender to be deemed cumulative and the availing of one remedy or another not to be deemed an election of remedy.

In witness whereof, Guarantor has signed and delivered this Guaranty as of the date represented below.

Dated: _____

Guarantor Signature

Guarantor Printed Name

State of County of

On the **(date)** before me, the undersigned, a Notary Public in and for said State, personally appeared **(Guarantor)**, personally known to me or prove to me on the basis of satisfactory evidence to be the Individual whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same and his/her capacity, and that by his/her signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

Seal: