

## Synopsis

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

### Key Attributes at a Glance

Target Market	This program is for Borrowers with a clean derogatory housing event history (>36 months clean) and mortgage history (1x30x12) (0x60x24)
Documentation:	Full Documentation, Streamline Documentation, 1099, Written Verification of Employment, Asset Depletion, Asset Qualifier, 12 Mo 3rd Party P&L, 12 Mo/24 Mo Personal and Business Bank Statements
Occupancy:	Primary Residence, Second home and Investment Properties
Condo:	Warrantable Condos: Max 80% LTV/CLTV
Non-Warr Condos:	Max 75% LTV/CLTV
Min/Max Loan Amt:	\$150k - \$3MM
LTV Maximum:	90%
Minimum FICO	660
Sub Financing:	New subordinate financing allowed for purchase transactions of primary residences only; existing subordination is permitted on refinances
Prepayment Penalty:	Permitted on Investment Properties only
Max DTI:	50%, DTI > 43% requires residual income (see residual income section)

### Product Codes:

Products			
Description	Amortization Term	Interest Only Period	Product Code
Non-Agency Silver Sharp A+ - 30 Yr. Fixed	360 months	N/A	NA30SSA+
Non-Agency Silver Sharp A+ - 15 Yr. Fixed	180 months	N/A	NA15SSA+
Non-Agency Silver Sharp A+ - 5/6 ARM	360 months	N/A	NA56ARMSSA+
Non-Agency Silver Sharp A+ - 7/6 ARM	360 months	N/A	NA76ARMSSA+
Non-Agency Silver Sharp A+ - 10/6 ARM	360 months	N/A	NA106ARMSSA+

Non- Permanent Resident Aliens - Max 75% LTV | Purchase & Rate/Term only

Non-Occupant Co-Borrowers:

- Max 75% LTV | Purchase & Rate/Term only
- 1-unit Primary residence only
- Max DTI 43% | Additional 6 months reserves required
- Occupying borrower must have documented income equal to 75% of PITIA

2-4 Units | Max 80% LTV/CLTV

Rural Property | Primary - No Cash out, Max 75% LTV/CLTV, 2<sup>nd</sup> home – No Cash out, Max 70% LTV/CLTV

Declining Markets or Rural 2<sup>nd</sup> Home | 5% LTV Reduction

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

## Loan-To-Value Grid

FICO & LTV/CLTV Grids		Purchase & Rate/Term Refinance		
		Owner Occupied	Second Homes	Investment
FICO	Loan Amt			
740	≤\$1.0MM	90	85	85
	≤\$1.5MM	85	80	80
	≤\$2.0MM	80	75	75
	≤\$2.5MM	75	75	75
	≤\$3.0MM	70	70	70
720	≤\$1.0MM	85	80	80
	≤\$1.5MM	85	80	80
	≤\$2.0MM	80	75	75
	≤\$2.5MM	75	75	75
	≤\$3.0MM	70	70	70
700	≤\$1.0MM	85	80	80
	≤\$1.5MM	80	80	80
	≤\$2.0MM	80	75	75
	≤\$2.5MM	75	70	70
	≤\$3.0MM	70	N/A	N/A
680	≤\$1.0MM	80	80	80
	≤\$1.5MM	80	75	75
	≤\$2.0MM	75	70	70
	≤\$2.5MM	70	70	70
	≤\$3.0MM	N/A	N/A	N/A
660	≤\$1.0MM	80	75	75
	≤\$1.5MM	75	75	75
	≤\$2.0MM	70	70	70
	≤\$2.5MM	N/A	N/A	N/A
	≤\$3.0MM	N/A	N/A	N/A
FICO & LTV/CLTV Grids		Cash Out Refinance		
		Owner Occupied	Second Homes	Investment
FICO	Loan Amt			
740	≤\$1.0MM	75	75	75
	≤\$1.5MM	75	70	70
	≤\$2.0MM	70	70	70
	≤\$2.5MM	65	65	65
	≤\$3.0MM	60	60	60

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

720	≤\$1.0MM	75	75	75
	≤\$1.5MM	75	70	70
	≤\$2.0MM	70	70	70
	≤\$2.5MM	65	65	65
	≤\$3.0MM	N/A	N/A	N/A
700	≤\$1.0MM	75	70	70
	≤\$1.5MM	75	70	70
	≤\$2.0MM	70	65	65
	≤\$2.5MM	65	N/A	N/A
	≤\$3.0MM	N/A	N/A	N/A
680	≤\$1.0MM	75	70	70
	≤\$1.5MM	70	65	65
	≤\$2.0MM	65	N/A	N/A
	≤\$2.5MM	60	N/A	N/A
	≤\$3.0MM	N/A	N/A	N/A
660	≤\$1.0MM	70	65	65
	≤\$1.5MM	65	60	60
	≤\$2.0MM	60	N/A	N/A
	≤\$2.5MM	N/A	N/A	N/A
	≤\$3.0MM	N/A	N/A	N/A

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

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

## Appraisal

- Appraisals are good for 120 days and may be recertified for up to 180 days.
- Assigned/transferred appraisals are acceptable, unless ordered by Borrower.
- Two appraisals are required when the loan amount exceeds \$2,000,000 or the loan is a HPML (Higher Priced Mortgage Loans) Flip transaction as defined by the CFPB.
- Appraisals with condition or quality rating of C5 or C6 will not be accepted
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences
- For 2-4 Unit Properties a FNMA (Fannie Mae) 1025 Small Residential Income Property Appraisal Report is required
- All loans require a validation of the appraisal – either a CDA (Collateral Desktop Analysis) or a Protek Valuation ARR (Appraisal Risk Review) are acceptable.
  - Collateral Underwriter (CU) may be utilized as a secondary valuation if the score is  $\leq 2.5$ .
  - Value must be within 10% of the appraisal or sales price – LTVs > 85% must be within 5%
  - Desk review is not required for loans with 2 appraisals

## ARM (Adjustable-Rate Mortgage) Data

<b>Index</b>	30 Day Average SOFR Index as published by the New York Federal Reserve
<b>Margin</b>	4.50%
<b>Floor</b>	Equal to the loan's initial margin (4.50%)
<b>Periodic and Life Cap</b>	5/6 - 2/1/5 7/6 and 10/6 - 5/1/5
<b>Payment Adjustment Date</b>	6 months
<b>ARM Qualifying Rate</b>	Greater of note rate or fully indexed rate (Index + margin)

## Asset Depletion/Asset Qualifier Options

- Asset Depletion/Asset Qualifier (Max 85% LTV, Min 700 FICO, No Cash Out and Owner Occupied Only)
- Programs are designed to meet ATR requirements by requiring DTI with the Asset Depletion program and a residual income calculation for the Asset Qualifier program
- For Asset Depletion, the utilization of financial assets will be considered as Borrower income to qualify for their monthly payments.
- For Asset Depletion, the utilization of financial assets will be used to calculate a Borrower's residual income.
- A Borrower using Asset Depletion or Asset Qualifier cannot use other sources of employment income. Non employment income will be considered on a case-by-case basis.
- Reserves are not required
- Borrowers must have a minimum of \$450K in Qualifying Assets (these assets must be seasoned for at least 120 days)
- Bitcoin or other forms of cryptocurrency can be utilized as a Qualifying Asset only if it has been liquidated to cash and the cash holding meets the 120 day seasoning requirements.
- Gift Funds are NOT allowed
- Business Assets are NOT allowed

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

- Trust Assets are NOT allowed
- Foreign Assets are NOT allowed
- Non-Occupant Co-Borrowers are NOT allowed

**Asset Depletion:**

- Borrower must have a minimum of the less or \$1mm in Qualifying Assets OR must have Qualifying assets > 125% of the original subject loan amount.
- Qualifying Assets with utilization draw schedule of seven years (Qualified Assets divided by eighty-four will be used as qualifying income)
- Resulting DTI meets product guidelines.

**Asset Qualifier:**

- To determine residual income, Qualifying Assets will be divided by eighty-four months. From this number subtract the Borrower's total month debt obligation to calculate the Borrower's residual income (see Residual Income section).
- Total post-closing assets must be > 125% of the original subject loan amount

## Assumability

- Loans are not assumable.

## Borrower Eligibility

**Allowed**

- U.S. Citizens
- Permanent Resident Aliens
- Non- Permanent Resident Aliens (Max 75% LTV/CLTV, no Cash Out)
- Non-Occupant Co-Borrowers
- Inter Vivos Revocable Trust (must meet FNMA requirements)
- Limited Partnership, General Partnerships, Corporations, Limited Liability Companies (LLC's) for the purpose of Real Estate ownership and management

**Not Allowed**

- Irrevocable or Blind Trusts
- Foreign Nationals
- Land Trusts
- Borrowers with diplomatic immunity
- Asylum applicants
- Self-employed Borrower deriving their income from any Cannabis related business
- Borrower(s) with residence of any country not permitted to conduct business with U.S. companies as determined by U.S. Government authority
- Borrower who is no longer employed with the same employer listed on the initial 1003 will not be eligible

**Multiple Financed Properties**

- The maximum number of financed properties to any one borrower/guarantor is limited to 20 residential properties

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

- Maximum exposure to a single borrower/guarantor is limited to \$7.5 Million in unpaid principal balance, or 10 properties

Eligible Borrowers	Required Documents	Notes
Permanent Resident Aliens	Alien Registration Card I-151 "Green Card" OR Alien Registration Card I-551 with no expiration OR Alien Registration Card I-551 with expiration and accompanied by INS Form I-751 (petition to remove conditions)	Front/Back  Front/Back  Front/Back
Non-Permanent Aliens	Unexpired Foreign Passport with an unexpired stamp (Valid for 3 years) <sup>1</sup>  AND Evidence of Employment in the U.S. included an EAD document <sup>2</sup> OR Non-Immigrant VISA - Following are acceptable: E-Series (E-1, E-2, E-3, EB-5), G-Series (G-1 through G-5), H-1B, L-1, NATO, O-1, R-1, TN (NAFTA)R-1 <sup>3</sup>	
<ol style="list-style-type: none"> <li>Stamp must state the following: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence, Valid until MM/DD/YYYY Employment Authorized."</li> <li>Employment Authorization Document must be issued by the U.S. Citizenship &amp; Immigration Service providing authorization to work in the U.S. without restrictions.</li> <li>An unexpired (at time of closing) Non-immigrant Visa with an Entry Stamp issued by the U.S. Department of State which will evidence legal entry into the U.S. for temporary residence. Visa must not expire for 3 years following the close date. Please see FNMA Guides for acceptable VISAs.</li> </ol>		

## Buydowns

- Permitted in accordance with FNMA seller guides
- Primary and Second homes eligible
- Cash out transactions and ARMs are ineligible

## Cash Out

- LTV > 60%      \$500,000 (Maximum Cash Out)
- LTV ≤ 60%      Unlimited Cash Out

## Construction to Permanent Financing

- Delayed Financing is available
- 2-time close construction conversion to pay off an interim construction loan is acceptable

## Credit Considerations

Tri-merged in file credit report from all three repositories is required.

Credit scores – A minimum of 2 credit scores are required to be provided and used to determine the qualifying credit score for loan approval. Methodology of which FICO score to use is as follows:

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

# 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	Primary wage earner's lower of 2 or middle of 3 FICO scores

**Other credit requirements:**

- The maximum age of the credit report is 120 days. A gap or undisclosed debt notification (UDN) report within 10 days of the note date is required. The age of the document is measured from the date of the document to the date of the Note
- Minimum 12 months of housing payments required with maximum delinquency of 1x30. A VOM/VOR is required for all the borrower's outstanding mortgages or rent paid. If primary residence is documented as free and clear no exception is needed.
- Private Party VOR/VOM's will require an exception for approval to use.
- Tradelines
  - 3 open and active for >12 months OR
  - 2 open and active for >24 months OR
  - Authorized User accounts will not be counted toward the tradeline requirement when another borrower on the subject transaction is the owner of the tradeline, the borrower is an authorized user on a spouse's tradeline, or when the borrower can provide proof, they have made at least 50% of the payments on the tradeline for the most recent 12 months preceding the application.
- Debt Monitoring – an undisclosed debt notification (UDN) is required within 10 days of closing.
- Bankruptcy, Foreclosure, Short Sale, or Deed-in Lieu significant derogatory credit events must be seasoned 36 months
- Forbearance, deferred payments, or modifications – Not Allowed
- Open Judgements, Garnishments, or Liens – must be paid off prior to closing
- Medical collections over \$15,000 are required to be paid off prior to closing
- Credit Counseling – allowed with restrictions. Must have a minimum of 12 months elapsed on the plan. See PHH Selling Guide for additional requirements.
- Collection accounts and charge offs must be paid in some circumstances. Refer to the PHH Selling Guide.
- Past due accounts must be brought current
- IRS tax payment plans approved by the IRS are permitted if current and do not carry a lien on the property
- Business Debt- Business debt is typically a financial obligation of a business. However, business owners can sometimes be personally responsible for that debt as well. If business debt is reflected on a personal Credit Report. If the business debt facility is less than 6 months old, then the payments must be included in the debt -to-income ratio. If the business debt is greater than, or equal to 6-months old, the debt may be omitted from the debt-to-income ratio if the borrower provides documentation that the borrower's business is making the payments on these debts.
- Contingent Liabilities- An individual has contingent liabilities when an outstanding debt obligation has been assigned to another party, but the creditor has not released the borrower from the obligation. Contingent Liabilities must be included in DTI.
  - Excluded from DTI: If one borrower was obligated to buy-out the other borrower because of a divorce, then the loan file should include the Separation Agreement and or the Divorce Decree/Court Order that shows transfer of ownership. In addition, the current obligation on the premise must be current.
  - Excluded from DTI: Debts paid by others can be excluded from the DTI ratio if the debt is being paid in a satisfactory manner by another party for the past 6 months. Acceptable documentation would include cancelled checks or bank statements that consistently show another party making at least the past 6 payments.

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

## Documentation Types

### Full Doc

- Full Documentation
- Streamline Documentation
- Asset Depletion (Max 85% LTV, Min 700 FICO, No Cash Out and Owner Occupied Only)

### Alt Doc

- 12M/24M Bank Statement
- 12M P & L (Max 75% LTV, Min 660 FICO)
- WVOE (written verification of employment) (Max 75% LTV, Min 660 FICO)

## Employment and Income

### Full Doc

- **Full Documentation – Wage Earners**
  - Most recent 30-day paystub- including YTD earnings
  - 2 Yrs. W2s or 1040 Tax Returns
  - Written Verification of Employment if using overtime, bonus or commission
  - Borrowers qualifying with 1099 income must provide 2 years 1099's
    - Generally limited to a single employer and requires employer confirmation of no Borrower job related expenses – if the borrower is unable to provide confirmation a 10% expense factor will be applied
    - In cases where the borrower receives multiple 1099's, they must be in an industry where this is a common occurrence (entertainment, medical contractor, etc..)
    - Most recent check stub (or 3 months back statements) including YTD earnings and must cover minimum of 30 days
  - 1040's when using the following sources of income dividends/interest, capital gains, notes receivable, trust income etc
  - 4506C W2 transcripts or 4506C transcripts (if 1040 transcripts are provided W2 transcripts do not need to be provided)
  - Verbal Verification of Employment completed within 10 days of closing
  - A borrower who is no longer employed as the same employer listed on the initial 1003 will not be eligible
- **Full Documentation - Self-employed borrowers**
  - 2 Yrs. Tax Returns (Business and Personal) with K1s, 1099's
  - YTD P & L
  - 4506-T tax transcripts business tax transcripts are not required if net business income is validated on the Borrower's 1040s.
    - In the case where taxes have not 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 the 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.
  - Independent verification of the business through a third party such as a CPA, regulatory agency, or applicable licensing bureau.
  - Verification of business existence and that the business is fully operational/active required withing 10 calendar days of closing.
  - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
  - Business assets are acceptable as long as:
    - The borrower's on the loan have at least 50% ownership of the business and be on the business account

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

- All non-borrower owners must provide a signed and dated letter acknowledging the transaction
  - The balance of the assets must be multiplied by the ownership percentage to determine the owner's portion allowed for the transaction
  - Signed letter from the CPA or borrower must verify the withdrawal will not negatively impact the business
- Self-employed paying themselves W-2 or K-1 are acceptable – but income should not be based on K-1 or W2 wages. The analysis should be on the business entity, and the net income be multiplied by the Borrower's ownership % to determine qualifying income
  - Borrower will be qualified using the lower of: Monthly average of the net income from tax return or P&L
  - Monthly net income from tax return multiplied by 115%
- Not permitted as qualifying income – interest, dividends, capital gains, etc.
- If the P&L covers more than nine (9) months, three (3) month bank statements are required to validate continued positive cash flow of the Borrower's business. Additional bank statements may be required if deemed necessary
- Declining income of the last 2 years may be utilized for qualifying with a signed letter of explanation from the Borrower. Lower of the two years would then be used to qualify unless the income has stabilized over the most recent 6 months.
- **Streamline Documentation for Wage Earners**
  - 1 Yrs. W2s or IRS 1040
    - Generally limited to a single employer and requires employer confirmation of no Borrower job related expenses – if the borrower is unable to provide confirmation a 10% expense factor will be applied
    - In cases where the borrower receives multiple 1099's, they must be in an industry where this is a common occurrent (entertainment, medical contractor, etc..)
  - IRS 1040s are recommended when using other sources of income to qualify i.e., interest dividends, capital gains, note receivable, trust income etc.
  - Most recent paystub YTD Paystub (or three months bank statements for 1099) covering past 30 days
  - Interest, dividends, capital gains may NOT be considered as income
  - 4506C W2 or 1040 transcripts
  - Verbal Verification of Employment must be completed within 10 days of the closing date
- **Streamline Documentation for Self-employed borrowers**
  - 1 Yr. Tax Returns (Business and Personal) along with K1s
  - Borrower is considered self-employed with >=25% ownership interest.
  - Borrower's qualifying with 1099's must provide 1 yrs worth – if borrower is not able to provide confirmation of no job-related expenses, a 10% expense factor should be applied
  - Most recent check stub (or 3 months bank statements for 1099) including YTD earnings of at least 30 days
  - Borrower prepared P&L covering the period since last filing
  - Interest, dividends, capital gains may NOT be considered as income
  - If the PL covers more than 9 months three months bank statements are required to validate continued positive cash flow of the Borrower's business.
  - Borrower will qualify on the lower of:
    - Monthly average of the net income from the tax return and P&L or
    - Monthly net income from tax returns multiplied by 115%
  - If the P&L covers more than nine (9) months, three (3) month bank statements are required to validate continued positive cash flow of the Borrower's business. Additional bank statements may be required if deemed necessary
  - All borrowers must also provide evidence the business has been in existence for at least 2 years via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau
  - Verification of business existence and that the business is fully operational/active required withing 10 calendar days of closing
  - Self-employed Borrower income in a licensed profession (Medical, Legal, Accounting) will be considered from a business that has been in existence for less than 2 years, but great than 1 year if the Borrower has at least 2 years of documented previous experience in the same profession.

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

- IRS form 140 personal and business 4506 – T tax transcripts required for the tax year used for qualifying

#### **Alt Doc – Bank Statements**

- Bank Statement loans submitted with tax returns or tax transcripts must follow Full Documentation guidelines
- Any loan using qualifying income from Bank Statements with evidence of tax returns or tax transcripts will be ineligible
- Borrowers who are using more than 3 businesses to qualify must use Personal Bank statement option
- **Documentation Requirements:**
  - 12- or 24-months consecutive bank statements
  - Any loan with less than 12 months of consecutive bank statements will not be eligible
  - Business Narrative required
    - Size and operating profile of the business
    - Description of Business / Business Profile
    - Location and associated rent
    - Number of employees/contractors
    - Estimated cost of goods sold (if any)
    - Materials/Trucks/Equipment
    - Commercial or Retail Client Base
  - Internet search of the business is required
  - Verification of business existence and confirmation its fully operational/active required within 10 calendar days of closing
  - Multiple bank accounts may be used
  - Co-mingled accounts will require the loan be qualified as a business bank statement loan
- **Business Requirements**
  - Validation of minimum 2 years existence of the business from one of the following:
    - Business License, Letter from Tax Preparer, Secretary of State Filing or Equivalent
    - Ownership must not be less than 25% and documented via CPA letter, Operating Agreement of equivalent.
    - Borrowers who own more than 3 businesses must use personal bank statements option
- **Personal Bank Statements**
  - Deposits into a personal account from a source other than the business must be excluded
  - Large deposits exceeding 50% of monthly income into bank accounts must have a Letter of explanation and must be consistent with the business profile
  - 2 months business bank statements are required to support business operations and reflect transfers to the personal account
  - Co-mingling of personal and business receipts is not permitted
- **Qualifying Income**
  - Personal bank statement average (eligible deposits/12 or 24 months)
  - If declining income and is qualifying with the 24 months of bank statements, the last 12 months of income will be utilized to qualify
  - Monthly income disclosed on the initial signed 1003
- **Business Bank Statements**
  - Transfers from other bank accounts into business bank accounts will require evidence that the source of transfer is business related income
  - Large deposits exceeding 50% of monthly income into accounts must be explained with a Letter of explanation and

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

must be consistent with the business profile

- Declining income or NSF's may require a Letter of explanation. A maximum of 3 NSF occurrences within a twelve-month period are allowed. If there are zero occurrences in the most recent 3 months, then up to 6 occurrences in the most recent twelve-month period are acceptable.
- Expense line items they can be added back to the business net income include depreciation, depletion, amortization, casualty losses and other losses or expenses that are not consistent or reoccurring
- If income is declining, the last 12 months of income should be utilized to qualify

• **Income Qualification (3 options)**

○ **OPTION 1 | Expense Ratio**

- Percentage of gross deposits 12- or 24-months using expense ratio factor based on business type and number of employees
- Qualifying income will be lower of the expense ratio formula or monthly income disclosed on the initial signed 1003
- Qualifying income should be multiplied by the borrowers documented business ownership percentage

	Employees		
Service Business (Offers Services)	0	1-5	>5
Examples of Service Business: Consulting, Accounting, Legal, Therapy, Counseling, Financial Planning, Insurance, Information Technology	15% Expense Factor	30% Expense Factor	50% Expense Factor
Product Business (Sells Goods)	0	1-5	>5
Examples of Product Business: Retail, Food Services, Restaurant, Manufacturing, Contracting, Construction	25% Expense Factor	50% Expense Factor	85% Expense Factor

○ **OPTION 2 | 3<sup>rd</sup> Party Profit & Loss Statement**

- Qualifying income is the lower of the P&L net income from a validated 3<sup>rd</sup> party or monthly income disclosed on the initial signed 1003
- Borrower prepared P&L will not be permitted
- Business qualifying with P&L statement showing less than 15% expense ratio will be limited to a 15% ratio and should be reasonable for the profession.
- Business bank statements are used to validate 3<sup>rd</sup> party prepared P&L, gross revenue listed on the P&L must be within 10% +/- of the qualified deposits
- If income is declining and is qualifying with 24 months of business bank statements, the last 23 months of income will be used to qualify.
- P&L statement must cover the same months as the bank statements submitted
- Tax professional must have filed the borrower's most recent 2 years business tax returns
- Twelve- or twenty-four-months complete bank statements from the same account (transaction history prints outs are not acceptable)
- Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expense can be used for qualification
- P&L must be prepared by a tax professional, CPA, Tax Attorney, Enrolled Agent, CA Tax Education Council Member of Paid Tax Professional
- P&L statement must cover the same months as the bank statement
- P&L must be signed by the Borrower and the Tax Professional

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

- Tax Professional must attest that they have audited the business financial statement
- P&L statement must cover the same months as the bank statements submitted
- P&L must be signed by the Borrower and the Tax Professional
- Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the Borrower
- Tax Professional must attest that they are not related to the Borrower or associated with the Borrower's business
  - **OPTION 3 | 3<sup>rd</sup> Party expense Ratio**
    - Qualifying income is the lower of the 3<sup>rd</sup> party prepared expense ratio net income or monthly income disclosed on the initial 1003
    - To determine net income, multiple eligible business deposits by the following – 100% minus the Expense Ratio/12 or 24 months
    - 3<sup>rd</sup> party prepared expense ratio floored at 15%
    - If income is declining and is qualifying with 24 months of business bank statements, the last 12 months of income will be used to qualify
    - Expense statement must be prepared and signed by a 3<sup>rd</sup> party tax professional specifying business expense as a percentage of the gross annual sales/revenue
    - Self-employed borrowers who have filed their own business returns are ineligible
    - Following documentation is required:
      - Twelve (12) or twenty-four (24) months complete business bank statements from the same account, (transaction history print outs are not acceptable)
      - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
    - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the Borrower
    - Tax Professional must certify that the Expense Statement represents an accurate summary of the applicable cash expenses of the business
    - Tax Professional must attest that they are not related to the Borrower or associated with the Borrower's business
    - Tax Professional must have filed the Borrower's most recent two (2) years business tax returns
    - Tax Professional license must be verified and signed
- **12M P & L (Max 75% LTV, Min 660 FICO)**
  - Self-employed only. Self Employed borrowers who file their own tax returns are not eligible
  - Minimum 2 years self-employment history in the current profession
  - Validation of minimum 2 years existence of the business
  - Self-employed defined as borrow owning >=50% of the business
  - CPA or other approved option must attest to have:
    - Filed the borrowers most recent business tax returns
    - Are not related to the borrower
    - Are not associated with the borrower's business
    - Have audited the business financial statements
    - Reviewed working papers provided by the borrower
  - Borrower narrative on nature of business required
  - An internet search of the business is required with documentation to support the existence of the business
  - Most recent 12-month P&L statement required – end date must be less than 60 days old at closing
  - CPA/EA/CTEC preparing the P&L must have filed the Borrowers most recent tax returns

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

- Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing
- Qualifying income is the lower of the 12 Month Profit & Loss statement (P&L) or monthly income disclosed on the initial signed 1003
- **WVOE (Max 75% LTV, Min 660 FICO)**
  - Wage earners only
  - 2-year history of employment in the same industry and 1-year continuous employment at current job
  - WVOE form (FNMA Form 1005) should be utilized and be completed by HR, Payroll department, or an officer of the company
  - Verification of delivery and receipt of the WVOE must be in the file
  - WVOE should include name of contact at place of employment, phone number and title along with company name, address and Borrower's job description and title. Verbal verification of employment for previous jobs within last two (2) years
  - Borrowers employed by a family member or related individual are not eligible under the WVOE program
  - WVOE must be performed within 10 calendar days prior to the funding date
  - A Borrower who is no longer employed at the same employer listed on the initial 1003 will not be eligible
  - Qualifying income is the lower of the income disclosed on the FNMA Form 1005 or monthly income disclosed on the initial signed 1003

**Rental Income Eligibility:**

- Rental Income is permitted for both purchase and refinance transactions including non-subject properties
- 100% ownership is not required. Allowed income will be calculated based on ownership percentage and 100% of PITIA must be used regardless of ownership percentage

**Documentation Requirements:**

- Rental income reported on Tax returns: Schedule E net income should be used for loans using full/streamline documentation types
- Rental income not reported on tax returns OR loans qualifying with alternative documentation types:
  - Lease agreement and two (2) months cancelled checks to show proof of rental payments, or
  - if subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit)
- Evidence that rent is market rate (free online source is permitted)

**Calculation:**

- Purchase transactions
  - 75% of 1007 market Rental income identified on the 1007rent rental schedule for 75% utilized for qualifying income
  - If the existing lease from seller is transferring to borrower, the lease that predates the mortgage could have a superior claim to the mortgage. The seller is responsible for ensuring clear title and first lien enforceability
- Refinance Transaction (including Non-Subject Properties)
  - 75% of fully executed Lease agreement with the supporting 2 months evidence of receipt.

**Short Term Rental Income Eligibility:**

- STR rental income is permitted for both purchase and refinance transactions
- STR income must be legally permitted and considered common for the area, as confirmed by the appraisal and/or property location
- For STR income reported on tax returns, please follow guidance from Section 8.6.1.2

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

#### Documentation Requirements:

- STR income may be documented using a supplemental appraisal form completed by the licensed appraiser who performed the original appraisal. This form must accompany and be a part of the original appraisal
- Income must be verified through a third-party property management provider:
  - Vendors such as Airbnb, AirDNA, VRBO, and HomeAway are acceptable
  - Documentation must include the property address or a unique property ID specific to the subject property

#### Calculation:

- Purchases: Gross rent is based on the 75% of 1007 market rent stated in the appraisal OR the supplement appraisal form completed by the appraiser of record
- Refinances: Gross rent is the lower of:
  - 75% of 1007 term market rent from the appraisal OR 75% of the supplement appraisal form completed by the appraiser of record
  - 100% of actual 12-month STR income history, supported by documentation from Airbnb, VRBO, HomeAway, or a third-party property management provider. 12-month history is required for refinance transactions

## Escrow Waiver

Mandatory escrows for all HPMLs (Higher Priced Mortgage Loans)

## First Time Homebuyers

Individuals that have not owned a home or had a residential mortgage in the last 3 years.

- Max payment shock of 250%
- Rent Free FTHB are unable to meet payment shock requirements but are permitted assuming no credit exceptions

## Geographic Restrictions

All 50 states are eligible

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

## Gift Funds

- Purchase transactions only
- Not permitted on 2nd homes or Investment properties >80% LTV/CLTV
- Not eligible for borrowers utilizing Asset Depletion or Asset Qualifier Programs
- Gift funds are acceptable as 100% down payment for loans <75% LTV/CLTV
- Gift funds are acceptable for loans >=75% LTV/CLTV however the underlying Borrower(s) must contribute at least 5% of the transaction (lower of Purchase Price or appraised Value) from their own funds

## Interested Party Contributions

LTV	Max Percentage
LTV/CLTV $\geq$ 80%	3%
LTV/CLTV < 80%	6%

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

## Ineligible Transactions

- Assumable (ARM only)
- Construction to Perm
- Builder Bailout
- Conversion Loans
- Daily Simple Interest Loans
- Escrow Holdbacks
- Lease Options/Rent to Own
- Tenants in Common, unless all parties vested match the actual borrowers of the loan
- Non-Arm's Length Transactions on Second Homes and Investment Properties – note: any employee of a seller, broker or originator that is party to the subject loan must be completed as full documentation
- Assignments of the contract to another buyer
- No Graduated Payment Mortgage Loans
- No Ground leases, No Buydown Mortgage Loan, No Pledged Asset Loan
- No Convertible Mortgage Loan – allows an ARM to convert to a Fixed Rate Mortgage
- Periodic Payment – Loans must have periodic payments due, and loans cannot have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan.

## Limited Partnership, General Partnership, Corporations, and Limited Liability Companies

- Properties vested in any of these are limited to Investment and Business Purpose.
- Additional Requirements:
  - LLC – purpose is for ownership and management of real estate
  - Maximum 4 borrowers
  - Guarantor must be a manager or majority owner (25% or greater) and is subject to the same underwriting requirements as an individual borrower
  - Personal Guaranty required if the note is not being signed individually and all disclosures must be signed
  - Note must be signed by the applicant and as a member of the LLC. All members must sign the note.
  - Mortgage/Deed of Trust, Security instrument should be signed by all members of the LLC.

## Loan to Value Calculation and Seasoning

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

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

**Rate/Term Refinance** – The new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs, prepaid items, and court ordered buyout settlements. Cash-out to the borrower cannot exceed the lesser of 2% of the principal balance, or \$5,000.

- Prepayment fees may be included
- Closing costs must be reasonable and within market standards
- The maximum cash-out to the borrower reflects both cash in hand, the payoff of miscellaneous debts, and is net of fees and other related closing costs.
- If the borrower has less than six (6) months ownership in the property, the LTV for a refinance transaction is calculated on the lesser of the purchase price plus documented improvements, or the current appraised value.
- Property acquired through inheritance or legally awarded through a divorce, separation, or dissolution of a domestic partnership may use current appraised value.

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

- If the borrower has owned the property for six (6) months, the LTV is based on the current appraised value.
- Properties listed for sale in the last 6 months require pre-approval from scenario desk and must be removed from the listing at least one month prior to the application date. LTV will be based on the lesser of the list price or appraised value when listed within the last 6 months by the current owner.
- A seasoned non-first lien mortgage is either a purchase money mortgage or any other closed end or HELOC mortgage that has been in place for more than 12 months and has no draws greater than \$2,000 in the past 12 months. Withdrawal activity must be documented with a transaction history from the HELOC.

**Delayed Purchase Cash-Out Refinance** – Per FNMA guidelines except:

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

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

- Minimum of 180 days ownership prior to application date is required.
- The LTV for a Cash-Out Refinance transaction is calculated based on the current appraised value.
- Properties listed for sale within the last 12 months are not eligible.
- Properties owned less than 12 months, but great than 6 months at application will based the LTV/CLTV on the lesser of the original purchase price plus documented improvements, or current appraised value. The previous settlement statement will be required for proof of the purchase price.
- Regarding Cash out transactions, anything seasoned less than 12 months will be considered a cash-out regardless of whether cash was received in the subsequent refinancing

**Flip Transactions**

- On a purchase transaction the seller must have owned the property for at least 12 months to not be considered a property flip transaction
- Bank owned REO and Corporate Relocations are eligible and not considered a flip transaction
- When the subject property is being resold within 12 months of its acquisition by the seller (purchase agreement execution to the day the seller became the legal owner), and the sales price has increased by more than 10% the transaction is considered a flip.
  - Transaction must be arm's length
  - No pattern of previous flipping activity may exist in the last 12 months
  - Property was marketed openly, through MLS, auction, or FSBO
  - No assignments of the contract to another buyer
  - If the property is being purchases for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
  - An additional appraisal product is required on all loans – Collateral Desk Top Analysis (CDA) or Appraisal Risk Review (ARR) (from Pro Teck)
  - 2<sup>nd</sup> appraisal is required if the increase in sales price is greater than 10% in the past 90 days, or 20% in the past 180 days

## Mortgage Insurance

Not Applicable

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

## Power of Attorney

- Limited Power of Attorney is eligible but must be specific to the transaction, contains an expiration date, and the initial 1003 is signed by the borrower executing the POA
- Power of Attorney is not eligible for cash out transactions or Entities such as LLC, Corps, or Entity Borrowers

## Prepayment Penalty

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 comply with applicable federal and state laws.

- Alaska, Kansas, Maryland, Minnesota, New Mexico, North Dakota
- Illinois prohibits individual borrowers. Permitted to legal entities when APR is  $\leq 8\%$
- New Jersey prohibits individual borrowers, LLC's, LP's, & Trusts. Permitted to C-corps and S-corps.
- Ohio loan amounts  $\leq \$110,223$  (for 2024) are not eligible, loan amounts  $> \$110,223$  allow a flat prepayment penalty up to 5 years and equal to 1% or less of the original principal amount
- Pennsylvania loan amounts  $> \$312,159$  (for 2024)
  - Loan amounts  $\leq \$312,159$  permitted only on 3- or 4-unit properties
- Washington ARM loans. Permitted on Fixed rate loans
- Oregon – requires state specific disclosure in addition to the Note and SI Rider
- Michigan – 3-year prepayment penalty 1/1/1 % of amount of the prepayment
- Mississippi – 5-year maximum declining prepayment penalty structure is allowed
- Rhode Island – 1 year Prepayment Penalty, 2% of the balance due

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

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

## Property Types & Features

### Allowed

- One Unit Single Family Residences (Attached, Detached and Modular)
- Single Family properties with an Accessory Unit Dwelling (must meet FNMA requirements)
- 2-4 Unit Properties (3-4 unit eligible for Non-Owner Occupied only)
- PUDs (Planned Unit Development) – Attached and Detached
- Townhouses
- Leasehold Properties
- Warrantable Condominium
- Non-Warrantable Condominiums (full review required)
  - Commercial Space up to 49%, Investor concentration to 70%, Single Entity to 30%, HOA delinquency up to 25% including special assessments
- Site condos will not require project review and are eligible for SFR LTV/CLTV
- 2-4 unit projects will not require project review if the priority of common expense assessments applies and standard insurance requirements are met
- Florida Condos subject to SB-4D must have a Structural Integrity Reserve Study (SIRS) and will be considered on an exception basis only, subject to an LLPA adjustment
- Maximum of 20 acres

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

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

- Manufactured Homes
- Cooperatives
- Log Homes
- Condotels
- Condominium projects with registration services or restrictions on owner's ability to occupy
- Unique Properties (Geodesic Homes, Houseboats, Live Work Properties)
- Mixed Use Properties
- Properties under Construction
- Builder Model Leaseback
- Rural Investment Properties
- Mandatory memberships
- Group Homes
- Multiple dwellings on a single lot
- Working Farms
- Live/Work Condos
- Houseboats
- Geodesic Domes
- Earth Berm Homes
- Homes on Native American Land
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana

## Reserves

Loan amounts	Required Reserves
\$150,000 - \$500,000	3 months
\$500,000 - \$1,000,000	3 months
\$1,000,001 - \$2,000,000	6 months
\$2,000,001 - \$3,000,000	9 months
Additional Financed Properties	(2) months incremental PITIA/ITIA per financed property
Cash out used as reserves	Allowable

## Residual Income

If the loan is HPML or DTI exceeds 43% borrowers must have the following residual income defined by Household member:

- 1 Household Member - \$1,500
- 2 Household Members - \$2,500
- Add \$150 for each additional Household Member

## Subordinate Financing

- New subordinate financing (institutional) allowed for purchase transactions only
- Allowed on primary residences only
- Existing subordinate financing is permitted on refinances
- If the subordinate financing is a HELOC (Home Equity Lines of Credit) the LTV/CLTV must be calculated considering the full line amount, regardless of how much is utilized through draws.
- If the subordinate financing is a HELOC, the monthly payment for qualification purposes must be calculated as though the

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

line is fully drawn.

- Interest only not permitted

## Underwriting and Closing

- All loans must be manually underwritten
- Lender must explain the reason an agency loan was not selected by the borrower
- A minimum of two (2) years employment and income history is required, unless exempted under the documentation type. Refer to PHH Selling Guide for documentation details.
- A signed Form 4506-C and tax transcripts are not required for alternative documentation loans unless supplemental wage income is used to qualify.
- Verbal Verification of Employment – Required within 10 calendar days from the note date for employment income and within 30 days for self-employment income.
- When paying off a private mortgage, a copy of the note and security instrument for the loan to be paid off is required.

### Chain of Title

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

### Documents

- The following forms are required and can be found in the PHH Selling Guide
- Borrower Ability to Repay Attestation
- Business Narrative for Bank Statement Program
- Condo questionnaire (full)
- Condo questionnaire (limited review)

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