

**AXOS BANK  
PRIME JUMBO MORTGAGE PROGRAM**

**UNDERWRITING GUIDELINES**

**Effective Date: August 25, 2021**

**Version 1.1**

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**AXOS BANK JUMBO MORTGAGE PROGRAM  
QUICK REFERENCE GUIDE**

**FIXED RATE PRODUCT**

**Fully Amortizing QM / TQM**

| <b>Purchase / Rate &amp; Term Refinance</b> |                 |                |                  |            |          |
|---------------------------------------------|-----------------|----------------|------------------|------------|----------|
| Occupancy                                   | Max Loan Amount | Max LTV / CLTV | Min Credit Score | DTI***     | Reserves |
| Primary / Second Home                       | 2,000,000       | 80.00          | 660              | 43 / 45*** | 6        |
| Primary / Second Home                       | 2,500,000       | 80.00          | 720              | 43 / 45*** | 12       |
| Primary / Second Home                       | 3,000,000       | 80.00          | 740              | 43 / 45*** | 18       |

| <b>Cash-Out Refinance</b> |                 |                |                  |            |          |
|---------------------------|-----------------|----------------|------------------|------------|----------|
| Occupancy                 | Max Loan Amount | Max LTV / CLTV | Min Credit Score | DTI***     | Reserves |
| Primary                   | 2,000,000       | 80.00          | 680              | 43 / 45*** | 6        |
| Primary                   | 3,000,000       | 80.00          | 740              | 43 / 45*** | 18       |

| <b>Cash-Out Refinance</b> |                 |              |                  |            |          |
|---------------------------|-----------------|--------------|------------------|------------|----------|
| Occupancy                 | Max Loan Amount | Max LTV/CLTV | Min Credit Score | DTI***     | Reserves |
| Second Home               | 2,000,000       | 75.00        | 700              | 43 / 45*** | 12       |
| Second Home               | 3,000,000       | 75.00        | 740              | 45 ***     | 18       |

- **\*\*\* >43 DTI requires Rate Spread Safe Harbor as well as Verification Safe Harbor standards fully satisfied; programs following a manual underwrite to Appendix Q that exceed 43 DTI will be classified as Non-QM and subject to LLPA.**
- **The minimum loan amount is \$1 over the max county limit for Agency High Balance.**
- **Loans in declining markets are subject to additional LTV-CLTV and product restrictions. See Section 110.7-Market Restrictions for further details.**
- **Loan Programs and program parameters subject to change without notice.**
- **2-4 unit properties, the maximum LTV is lowered by 5 in all cases (e.g. if 70 LTV is required for single family property, 65 LTV is required for a 2-4 unit property with the same loan attributes).**

**AXOS BANK JUMBO MORTGAGE PROGRAM  
QUICK REFERENCE GUIDE**

**FIXED RATE PRODUCT**

| <b>Purchase / Rate &amp; Term Refinance</b> |                 |                |                  |            |          |
|---------------------------------------------|-----------------|----------------|------------------|------------|----------|
| Occupancy                                   | Max Loan Amount | Max LTV / CLTV | Min Credit Score | DTI***     | Reserves |
| Investor                                    | 2,000,000       | 80.00          | 680              | 43 / 45*** | 12       |
| Investor                                    | 2,000,000       | 70.00          | 660              | 43 / 45*** | 12       |
| Investor                                    | 2,500,000       | 75.00          | 720              | 43 / 45*** | 12       |

| <b>Cash-Out Refinance</b> |                 |                |                  |            |          |
|---------------------------|-----------------|----------------|------------------|------------|----------|
| Occupancy                 | Max Loan Amount | Max LTV / CLTV | Min Credit Score | DTI***     | Reserves |
| Investor                  | 1,000,000       | 75.00          | 680              | 43 / 45*** | 12       |
| Investor                  | 2,000,000       | 70.00          | 680              | 43 / 45*** | 12       |
| Investor                  | 2,000,000       | 75.00          | 720              | 43 / 45*** | 12       |

**30 Year Fixed Rate Interest Only**

| <b>Fixed Rate 30YR Interest Only / Purchase &amp; R/T Refinance (10YR IO, 20YR Amortization Period)</b> |                 |                |                  |     |          |
|---------------------------------------------------------------------------------------------------------|-----------------|----------------|------------------|-----|----------|
| Occupancy                                                                                               | Max Loan Amount | Max LTV / CLTV | Min Credit Score | DTI | Reserves |
| Primary / Second Home                                                                                   | 1,000,000       | 75.00          | 700              | 43  | 12       |
| Primary / Second Home                                                                                   | 1,000,000       | 80.00          | 740              | 43  | 12       |
| Primary / Second Home                                                                                   | 2,000,000       | 75.00          | 720              | 43  | 24       |
| Primary / Second Home                                                                                   | 3,000,000       | 75.00          | 760              | 43  | 24       |

- **\*\*\* >43 DTI requires Rate Spread Safe Harbor as well as Verification Safe Harbor standards fully satisfied; programs following a manual underwrite to Appendix Q that exceed 43 DTI will be classified as Non-QM and subject to LLPA.**
- **The minimum loan amount is \$1 over the max county limit for Agency High Balance.**
- **Loans in declining markets are subject to additional LTV-CLTV and product restrictions. See Section 110.7-Market Restrictions for further details.**
- **Loan Programs and program parameters subject to change without notice.**
- **2-4 unit properties, the maximum LTV is lowered by 5 in all cases (e.g. if 70 LTV is required for single family property, 65 LTV is required for a 2-4 unit property with the same loan attributes).**
- **The Interest Only program is limited to owner occupied 30 year fixed rate loans.**
  - **DTI & Reserves are qualified using a fully amortizing monthly payment on the subject transaction, along with any simultaneous loan payments on the subject property.**
  - **Full Doc Appendix Q required; exceptions to Appendix Q requirements can be reviewed at the loan level or program (guidelines) level. Loan-level appendix Q exceptions may be subject to reprice.**



## Eligibility Requirements

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Second Homes            | See quick reference guide for eligibility                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Investment Property     | See quick reference guide for eligibility                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Wholesale               | Eligible                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Loan Program            | Fixed Rate 15 and 30 Year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Interest Only           | Fixed Rate - 30 YR only                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Interest Only Term      | 10 Years IO (20 Year Amortization Period)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Property Types          | See quick reference guide for eligibility                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Co-Ops                  | Ineligible                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Cash Out Refinances     | See LTV Quick Reference Guide                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Eligible Borrowers      | U.S. Citizens, Permanent Resident Aliens, Non-Permanent Resident Aliens                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| First Time Home Buyer   | Permitted with restrictions – See Underwriting Guide 102.1.9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Geographic Restrictions | <b>Continental United States + Alaska, Hawaii</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Documentation Type      | Full Doc Only                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Underwriting            | Manual Underwrite                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Appraisal Requirements  | <p>One appraisal is acceptable up to and including \$1,500,000 loan amount. Two appraisals are required for loan amounts greater than \$1,500,000.</p> <p>The lower of the 2 appraised values will be used to determine LTV, unless the Sales Price is lower than both appraisals (in which case the sales price will be used to determine LTV) Appraisals will be completed by different independent appraisers from Axos Bank approved AMCs.</p> <p>All appraisals are subject to review by internal resource or 3<sup>rd</sup> party. <u>A collateral desktop analysis with MLS performed by an Axos Bank approved AMC is required.</u> Appraisal review is completed prior to final determination or validation of original appraisers' opinion of value.</p>                                                                        |
| Credit Requirements     | <p>Tri-merged credit report. Alternative credit not permitted.<br/>3 Trade Lines with 2 year minimum history. (1) Trade Line must be a mortgage except FTHB (first time home buyer).</p> <p>Qualifying Credit Score – Lowest middle score of all borrowers.</p> <p>660 Minimum (See quick reference guide for eligibility)</p> <p><b>Chapters 7, 11, 12 or 13 BK (7) years from discharge – Multiple filings not eligible Foreclosure/Short Sale/Loss Mitigation Loan Modification (7) Years.</b></p>                                                                                                                                                                                                                                                                                                                                    |
| Income/Employment       | <p><u>Salaried Borrowers:</u> W-2s for prior (2) years and most recent pay stubs covering a 30 day period w/ YTD earnings.</p> <p>Verbal VOE within 10 business days of Note date to include independent third party verification of existence of the business telephone number and address. Document name and title of person providing verification.</p> <p>4506-C signed and processed.</p> <p><u>Self-employed:</u> 1040s for prior (2) years both business and personal including all schedules.</p> <p>YTD Profit and Loss statement and balance sheet (regardless if income used to qualify).</p> <p>Verbal VOE within 10 business days of Note date. Verify the company's current entity status as active and provide third party verification of business telephone number and address.</p> <p>4506-C signed and processed.</p> |
| Maximum DTI             | See Quick Reference Guide                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Assets                  | <p><b>Most Recent (2) months bank statements. Explanation for large deposits required.</b><br/><i>A large deposit is any single deposit that exceeds 50% of the total monthly qualifying income for the loan.</i></p> <p><b>See quick reference guide for reserve requirements.</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

## Eligibility Requirements

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Qualification Rate      Fixed Rate loans are qualified at Note Rate.

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Seller Concession      Maximum Contribution 6%

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1031 Exchange      Proceeds from a 1031 exchange in escrow, properly documented and in compliance with Internal Revenue Code Section 1031 are eligible as funds to close. Both the sold property and subject property must be similar and qualify as "like-kind". Tax deferred Exchanges are only eligible for purchases of investment properties.

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Subordinate Financing      CLTV cannot exceed published maximum – see quick reference guide for CLTV limits

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Seasoning      **Rate & Term Refinance** a minimum of 6 months seasoning required since the original purchase transaction or most recent refinance transaction.

**Cash-Out Refinance** a minimum of 12 months seasoning required since the original purchase and 6 months from the most recent refinance transaction.

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Refinance of Property  
Listed for Sale

Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of application. Properties that have been listed for sale within the past 6 months of application date are not eligible for a cash-out refinance. If the property was listed within the previous 6 – 12 months from application date, a letter from the borrower explaining the reason for retaining the property is required.

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Rate-Term/Cash out  
Definition

Rate-Term: In addition to payoff of an existing mortgage on subject property, you may include 1) Payoff of a subordinate lien used to purchase the subject property.

Rate-Term refinance transaction where the borrower receives more than \$2,000 as part of the transaction is considered a Cash-Out Refinance.

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Reserve Requirements      **See quick reference guide**

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Principal Forgiveness      Not permitted

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Prepayment penalty      Not permitted

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Benefit to Borrower      See Underwriting Guideline 100.2

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HOEPA Eligible      Not Permitted.

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## **100. GENERAL POLICY**

### **100.1 INTRODUCTION**

These Underwriting Guidelines apply exclusively to loans under the Axos Bank Jumbo Mortgage Program (the “Program”), and to no other loan programs from time to time marketed by Axos Bank (the “Purchaser”).

**In the event that these guidelines are silent on a given subject, please refer to the Fannie Mae selling guide for guidance.**

PURCHASER RESERVES THE RIGHT TO ALTER, MODIFY, SUPPLEMENT AND/OR WITHDRAW ANY PORTION OF THESE GUIDELINES AT ANY TIME OR FROM TIME TO TIME. PURCHASER MAY FROM TIME TO TIME IMPOSE CREDIT AND/OR PROGRAMATIC OVERLAYS WITH RESPECT TO ANY LOANS TO BE SUBMITTED FOR PURCHASE UNDER THE PROGRAM. PURCHASER SHALL IN NO EVENT BE REQUIRED TO PURCHASE, OR BE DEEMED TO HAVE AGREED TO PURCHASE, ANY PARTICULAR LOAN IRRESPECTIVE OF WHETHER SUCH LOAN CONFORMS TO THE REQUIREMENTS SET FORTH HEREIN.

#### **Fair Lending Statement**

The Purchaser operates in strict compliance with the provisions of the Fair Housing Act and the Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided that the borrower has legal capacity to enter into a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. The Purchaser fully supports the letter and spirit of both of these laws and will not condone discrimination when it determines whether to purchase any particular loan. It should be noted, however, that all credit decisions with respect to all mortgage loans are made solely by the related originator, and the Purchaser does not participate in such decisions.

#### **Responsible Lending Statement**

The Purchaser will not purchase loans that are: (a) Mortgage Loans subject to 12 CFR Part 226.32 of Regulation Z, the regulation implementing the Home Ownership and Equity Protection Act of 1994, as amended, or (b) classified and/or defined, as a “high cost,” “threshold,” “predatory high risk home loan” or “covered” loan (or a similarly-classified loan using different terminology under a law imposing additional legal liability for mortgage loans having high interest rates, points and/or fees) under any other applicable federal, state or local law.

### **100.2 BENEFIT TO BORROWER**

In keeping with the commitment of responsible lending, all loans that are refinance loans must have a measurable benefit to the Borrower. When determining the benefit on a refinance transaction, several of the following items must exist to support the benefit to the Borrower:

1. Lower housing payment

2. Lower total monthly payments
3. Lower interest rate
4. Conversion from adjustable rate to fixed rate
5. Pay off of a balloon payment
6. Conversion from negative amortization to fully amortizing
7. Reduction of loan term
8. Reduction of total interest payments
9. Consolidation of debt
10. Pay off of a tax lien
11. Proceeds (cash-out) to Borrower
12. Pay off of a construction loan
13. Paying off of property taxes
14. Title transfer
15. Court order

Acceptable secondary benefits to be used in conjunction with other benefits are:

1. Cash-out for medical needs
2. Cash-out for education needs
3. Pay off of a privately held mortgage

## **101. PRODUCTS**

### **101.1 FIXED RATE PRODUCTS**

A fixed rate mortgage is a mortgage transaction in which the interest rate remains fixed throughout the amortized term.

**Fixed Rate Term:** As listed on the Program Rate Sheet

**Assumable:** Not allowed

**Convertible:** Not allowed

**Interest-only option:** 30 Year Fixed only, Max LTV 80%

**Prepayment Penalty:** Not allowed

## **101.2 INTEREST-ONLY OPTION**

Available subject to the following restrictions:

1. Fixed Rate: 30 Year Only
2. Purchase and Rate & Term Refinance
3. Primary Residence and Second Home
4. Non-occupant co-borrowers not permitted
5. 1-4 unit(s)
6. Max LTV 80% (2-4 unit properties deduct 5% - see quick reference guide for full details)
7. Minimum FICO: See quick reference guide for full details
8. 10-year interest-only term, 20 Year Amortization Period
9. 12 or 24 months reserves – see quick reference guide for full details

## **101.3 MAXIMUM LTV**

As shown on the Quick Reference Guide.

## **101.4 MAXIMUM LOAN AMOUNT**

As shown on the Quick Reference Guide.

## **101.5 DOCUMENTATION TYPE**

Full Documentation only

## **101.6 TEMPORARY RATE BUYDOWNS**

Not allowed.

## **102. ELIGIBILITY**

The Purchaser requires that each Borrower be a natural person and that title to the property be in the name of one or more natural persons, including the Borrower. A loan is not eligible if the Borrower is another type of legal entity, such as a corporation, general partnership, limited partnership, or real estate syndication or irrevocable trust.

### **Inter-Vivos Revocable Trusts**

Trust must be established by one or more natural persons, individually or jointly.

The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.

The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.

The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

## **102.1 BORROWERS**

### **102.1.1 U.S. Citizenship**

U.S. citizens are eligible for financing.

### **102.1.2 Permanent Resident Aliens**

Permanent resident aliens with an Alien Registration Receipt Card (a "Green Card") are eligible for financing on the same terms as U.S. citizens, provided that the file contains acceptable evidence of lawful permanent residency.

### **102.1.3 Non-Permanent Resident Aliens**

For non-permanent resident aliens: There must be a documented employment and income history including but not limited to two years of U.S. tax returns, a history of visa renewals and no reason to believe employment will cease.

### **102.1.4 Foreign Nationals Other Than Permanent Resident Aliens**

Not allowed.

### **102.1.5 Ineligible Borrowers**

Due to the inability to compel payment or obtain judgment, the following Borrowers are not eligible for financing:

1. Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
2. Limited partnerships, general partnerships, corporations, and other non-natural persons
3. Borrowers whose income is not likely to continue for at least 3 years (e.g., a bonus or an inheritance).

### **102.1.6 Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors**

Generally, co-borrowers/co-mortgagors are Borrowers who will occupy the subject property (if it is a primary residence or a second home), be obligated for the debt and take title to the subject property. The occupying Borrower must demonstrate an ability and willingness to make the mortgage payments and maintain homeownership.

Non-occupying Borrowers for owner occupied primary residence loans are permitted provided that:

1. Occupying Borrower must demonstrate sole financial capacity for loan payments by not exceeding a total DTI of 40% based solely on his/her income.
2. Occupying Borrower must have a minimum 20% of his/her own personal funds into the subject transaction.
3. Subject property must meet the requirements of primary residence for the occupant Borrower.
4. Property is 1-unit.
5. Property type is a Single Family Residence, PUD, or Condo.
6. The non-occupying Borrower
  - a. Must sign the note.
    - i. Must be on the title at closing for refinances or must take title to the subject at closing for purchase transactions.
7. A non-occupant Borrower cannot be an interested party to the transaction (i.e. seller, builder, realtor, etc.) and must have either a family or long-standing relationship with the Borrower.
8. A non-occupant Borrower must meet the minimum credit score requirement.

### **102.1.7 Power of Attorney ("POA")**

A Limited Power of Attorney, under no circumstances a General Power of Attorney, subject to legal approval, may be acceptable with the Purchaser's prior written approval, to be granted or withheld in Purchaser's sole discretion on a case by case basis, when the POA, at minimum, meets all of the following criteria:

1. It is specific to the transaction,
2. It is recorded.
3. It is dated such that it was valid at the time the relevant loan documentation was executed.
4. The Borrower who executed the POA signed the initial Form 1003, and

5. No interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) serves as the attorney in connection with, or the attorney-in-fact under, such POA.

#### **102.1.8 Interested Parties**

All parties involved in each transaction are screened for inclusion on various lists, including without limitation:

1. Freddie Mac's Exclusionary List;
2. Office of Foreign Asset Control (OFAC);
3. The Purchaser's internal exclusionary list.

If a match is determined, the loan will be ineligible.

#### **102.1.9 First Time Home Buyer**

A First Time Home Buyer is permitted, subject to certain restrictions. A First Time Home Buyer is defined as a Borrower who had no ownership interest in a residential property during the preceding three-year period. The Borrower's previous 24-month rental housing payment history is required. No rental payment may be in excess of 0x30 late during this time period. Payments must be documented via an institutional VOR or cancelled checks/bank records. Borrowers who have lived in a rent-free situation are ineligible.

Payment shock cannot exceed 200% (calculated based upon current monthly rent and anticipated PITIA payment following loan closing). All other eligibility requirements as defined by the quick reference guide are applicable.

### **102.2 OCCUPANCY**

#### **102.2.1 Primary Occupancy**

Primary occupancy refers to a property that is occupied as the Borrower's primary residence for a major portion of the year. Primary occupancy is allowed on 1-4 family. A primary residence typically meets the following criteria:

1. Located within a reasonable commuting distance of the Borrower's place of employment;
2. The subject property is declared as the Borrower's primary residence for purposes of tax reporting, voter registration, etc; and
3. Borrower(s) declares their intention to occupy the subject property as a primary residence.



**102.2.2 Transactions where occupancy is questionable are treated as Non-Owner Occupied.**

**102.2.3 Second Home Occupancy**

Second Home occupancy refers to a single family dwelling that the Borrower occupies in addition to his/her primary residence, and may also be referred to as a Vacation Home. A Second Home typically meets the following criteria:

1. Located in a resort or vacation area, or where the Borrower regularly conducts business;
2. Located 50 or more miles from the Borrower's primary residence;
3. Suitable for year round occupancy;
4. Must be available for Borrower's exclusive use. It may not be subject to any timesharing arrangements, rental pools or other agreements that require the Borrower to rent the subject property or otherwise give control of the subject property to a management firm;
5. In certain instances, short-term rental arrangements may be acceptable, but any rental income received will not be considered; and
6. Typically, a Borrower may have only one second home.

Transactions where occupancy is questionable are treated as Non-Owner Occupied.

The following are NOT allowed on a Second Home:

- Subject property occupied by someone other than the Borrower.
- Non-arms length transactions.
- 2-4 unit properties.
- Rental income from subject property.

**102.2.4 Investment Property (Non-Owner Occupied Property)**

See quick reference guide for eligibility.

**102.3 TRANSACTIONS**

**102.3.1 Purchase Transactions**

- A copy of the fully executed purchase contract and all attachments or addenda is required.

"Purchase / Keep" scenarios where the borrower is purchasing a new primary residence and retaining his/her current residence are subject to the following:

- If the current property residence is pending sale but the transaction will not be closed prior to the new transaction, both the current and proposed mortgage payments must be used to qualify the borrower for the new loan.
- If the current primary residence is being converted to a second home, both the current and proposed mortgage payments must be used to qualify for the new loan.
- If the current primary residence is being converted to an investment property, the following applies:
  - The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
    - A current residential appraisal (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
    - An Exterior Only appraisal (2055) (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
    - A 25% expense /vacancy deduction must be applied to all rental income. Copies of the signed lease are required.
  - Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence.

### **102.3.2 Refinance Transactions**

A refinance is a loan transaction on a property already owned by the Borrower. The loan proceeds are used for repayment of an existing mortgage loan debt that has the same Borrower and the same security property, unless the property is owned free and clear of any liens. Refinance transactions are classified as one of the following:

1. Rate and Term/Limited Cash-Out;
2. Cash Out.
3. Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas. The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property. Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

#### **102.3.2.1 Seasoning**

For all cash-out refinance transactions, a minimum of 12 (twelve) months must have elapsed since the original purchase transaction, and a minimum of six (6) months must have elapsed since the last refinance transaction on the subject property. For all rate and term refinance transactions,

a minimum of six (6) months must have elapsed since the original purchase transaction and the last refinance transaction on the subject property. Value increases on recently purchased properties will have to be properly explained and documented in the appraisal report to the satisfaction of the Purchaser.

#### **102.3.2.2 Properties Listed for Sale**

Properties listed for sale are not eligible for a rate and term refinance transaction unless the listing was withdrawn (or expired) prior to the date of the application. Properties that have been listed for sale within the past 6 months of application date are not eligible for a cash-out refinance. If the property was listed within the previous 6 – 12 months from application date, a letter from the borrower explaining the reason for retaining the property is required.

#### **102.3.2.3 Rate and Term Refinance/Limited Cash-Out Refinance**

In connection with a Rate and Term/Limited Cash-Out Refinance, the loan amount is limited to the sum of the present first mortgage loan payoff, the payoff of any subordinate financing that was used to acquire the subject property and closing costs (including prepaid costs). Cash to the Borrower is limited to \$2,000. In cases where cash to borrower exceeds \$2,000 at closing, a principal reduction of up to \$1,000 may be processed to reduce the cash to borrower.

Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:

- Single closing construction permanent loan refinances that include a modification are ineligible.
- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.
- The LTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- Cash out is limited to the maximum amounts stated on the Product Matrix.
- Construction loan refinances in which the borrower has acted as builder are not eligible.

#### **102.3.2.4 Cash-Out Refinance**

The amount of a Cash-Out Refinance may include the present first mortgage loan payoff, subordinate liens (if applicable), closing costs and additional cash in hand to the Borrower. The payoff of

the present lien and the subordinate liens must be indicated on the Closing Disclosure. The payoff demand statement(s) must be in the file.

The payoff or payment to any of the following results in a Cash Out Refinance:

- Cash proceeds to the Borrower in excess of \$2,000.
- Liens on the subject property that were not placed on the property in connection with the acquisition of the property or that provided cash proceeds (of more \$2,000) to the Borrower, and which are less than 12 months seasoned, including HELOC draws greater than \$2,000.
- Any other debt, obligations or payments to any third party (other than for customary closing costs of the subject loan).

Subordinate financing:

The borrower is not required to satisfy outstanding junior liens secured by the mortgaged premises in order to obtain a cash-out refinance loan, provided that:

- The junior lien remains subordinate to the lien of the new refinance mortgage loan.
- A copy of the subordination agreement is maintained in the mortgage loan file.
- The subordinate financing was provided by a financial institution.

#### **102.3.2.5 Debt Consolidation**

A debt consolidation loan is classified as a Cash-Out Refinance for pricing and loan eligibility purposes.

#### **102.3.2.6 Texas Refinance 50(a)(6) or 50(f)(2) Transactions**

Not allowed.

#### **102.3.3 Permanent Financing for Newly Constructed Homes**

Not allowed.

#### **102.3.4 Land Contracts (Installment Land Contract, or Contract or Bond for Deed)**

Not Allowed

#### **102.3.5 Lease-Purchase Option**

Not allowed.

### **102.3.6 Transactions that are not Arms-Length**

Not Allowed

### **102.3.7 Inherited Property**

If the subject property was inherited less than 12 months prior to loan application, the transaction is subject to the following requirements:

1. Proceeds must be used to buy-out the documented equity interest of others if applicable.
2. The subject property must have cleared probate and the property must be owned in the Borrower's name.
3. Current appraised value is used for LTV/CLTV determination.

### **102.3.8 Model Home Lease-Back**

Not allowed.

## **102.4 ESCROW WAIVERS**

Escrows are not required unless otherwise specified by applicable state law. One twelfth (1/12) of the annual taxes and one twelfth (1/12) of the annual hazard insurance premium are to be paid with the P & I payments. If property requires Flood Insurance, it is required to be impounded regardless if the LTV is 80% LTV or less (exception would be if it is paid through a Master Association).

## **102.5 PREPAYMENT PENALTY**

Not allowed.

## **102.6 INELIGIBLE TRANSACTIONS**

Ineligible loan types include but are not limited to the following, provided, however, that in the event that any of these limitations would violate the requirements of the Equal Credit Opportunity Act or the Fair Housing Act, the provisions of those laws and implementing regulations are controlling:

1. Section 32 and/or high cost loans
2. Blanket loans, covering multiple properties
3. Bridge loans
4. Loans to fund escrows for work completion
5. Loans to Purchaser's employees
6. Loans to officers/owners of the originator or their employees
7. Borrowers less than 18 years old or otherwise legally incapable of entering into a contract

8. Cash-out refinance transactions less than 12 months after the date of a purchase transaction

9. Properties in title to an entity that is not a natural person such as a corporation, general partnership, limited partnership, or real estate syndication, or irrevocable trust. Title must reflect a natural person(s) at closing or Inter-Vivos Revocable Trust.

### **103. DOCUMENTATION**

#### **103.1 GENERAL**

The documentation that is required for the non-conforming jumbo programs is used to determine whether the Borrower reasonably can be expected to be able to repay the loan. Such a determination is based on the Borrower's employment history, income sources and past credit experience, which must be commensurate with the loan request.

##### **103.1.1 Full Documentation (FULL DOC)**

Full Doc requires 24 months of verified income and employment history that can reasonably be expected to continue for at least the next 3 years. Verification of assets is required. All loans require that each Borrower with income disclosed on the application sign an IRS form 4506-C, which will be used to validate income and employment history.

##### **Income**

1. **Salaried/Wage earners** – A Borrower with whom a majority of whose income is derived from a consistent hourly, weekly or monthly wage, must be verified by:

- W-2s for the prior two years, and most recent pay stubs covering a 30 day period with YTD earnings and a Verbal Verification of Employment (VVOE) within 10 business days from the date of the note.

2. **Self-Employed** – The Borrower should be employed in the same business and in the same field for the most recent two years. When a Borrower receives all or a percentage of his/her income from his/her own business, he/she is considered self-employed.

a. Self-Employed individuals are those with any of the following:

- i. Own 25% or more of the stock in the corporation in which they are employed
- ii. Own 25% or more interest in a Sub-Chapter S Corporation or C Corporation
- iii. Own 25% or more partnership interests in the partnership in which they are employed
- iv. Work as an independent contractor and receive their income on a 1099

b. Self-Employed income may be verified by the following:

- i. Previous two years tax returns, both business and personal, including all schedules, and
- ii. Year to date Profit and Loss statement and balance sheet (regardless if the income was used to qualify)
- iii. Signed IRS form 4506-C, and
- iv. Verbal Verification of Employment (VVOE) within 10 business days from the date of the note.

3. **Fixed Income/Non-Taxable Income** – Documentation required for Borrowers who receive fixed/non-taxable income varies considerably. Examples of fixed/ nontaxable income are Social Security income, retirement or pension income, alimony, child support, welfare, etc. The income must be likely to continue for three years following loan application. The following support documentation is considered, but consideration is not limited to:

- a. An award letter or most recent three months' bank statements evidencing automatic deposit of the benefit, three months' benefit checks or a copy of the previous two years' tax returns/1099(s).

Twelve months checks are required for child support, alimony or maintenance income. Check specific section in income for determination of exact requirement.

- b. Copies of the divorce decree and copies of canceled checks or copies of bank statements verifying receipt of funds relating to alimony and/or child support.

Assets may be verified with a fully completed Verification of Deposit (VOD) from each of the depository accounts or two months' bank statements from each of the depository accounts.

## **103.2 STATED INCOME LOANS AND LIMITED DOCUMENTATION LOANS**

Not allowed

## **104. EMPLOYMENT AND INCOME**

### **104.1 EMPLOYMENT HISTORY**

Generally, employment must be stable with at least a two year history in the same job or jobs in the same or related field. Self-employed Borrowers must have been in business for at least two years. Other circumstances may also be acceptable as outlined in this section.

### **104.2 SOURCE OF INCOME**

Borrowers are qualified based on calculated stable monthly income. Stable monthly income consists of those amounts and sources that are reasonably expected to continue. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc. Typically, if the income can be verified as received for a reasonable time period (i.e., two or more years) and is likely to continue for at least three more years based upon the totality of the circumstances, the income may be used as qualifying income. Each source of income must be reviewed with regard to the Borrower's ability

to meet his/her total debt obligation. Varying types and levels of income documentation may be necessary for different types of income and loan programs.

#### **104.2.1 Annuity and Pension Income**

Annuity income may be used as qualifying income if it is properly documented and is expected to continue for at least three years. Acceptable documentation includes a copy of the award letter and a copy of the bank statement showing automatic deposit of said income. Nontaxable pension and annuity income may be grossed up by 25% based upon the 1040s to confirm the income is non-taxable.

#### **104.2.2 Automobile Allowance**

Automobile allowances are considered acceptable income provided receipt of such income has been documented for the previous two years and the income is likely to continue.

#### **104.2.3 Commission, Bonus, and Incentive Income**

Bonus income can be considered if it is consistent for a period in excess of 2 years. To establish bonus earnings, bonus and incentive income are calculated as an average over 24 months provided that the income is expected to continue. If the trend is declining then average bonus or incentive income for the most recent 12-month period may be used. If bonus and or incentive income is stable and or increasing, a 24-month average is required.

Commission income is considered stable monthly income if it has been received for two years and is likely to continue. Additionally:

1. Commission and bonus income can be established with recent pay stubs with year to date commission earnings broken out, and either
2. A verification of employment showing year to date commission earnings, or
3. The prior years' W-2s or 1099s

#### **104.2.4 Capital Gains**

Capital gains earned from the sale of assets (including mutual funds but excluding sales of real estate) are considered stable monthly income if the Borrower has a three year history of earning capital gains and sufficient assets to continue generating similar earnings. Federal tax returns for the past three years should be provided. Income is averaged over the past 36 months, provided that the income is expected to continue.

#### **104.2.5 Child Support, Alimony or Maintenance Income**

Child support, alimony or maintenance payments may be used as income only if this information is volunteered by the Borrower and if the file substantiates the receipt of funds on an ongoing basis. Copies of the divorce decree/separation agreement along with copies of court records, bank statements or canceled checks showing payments for a minimum of twelve months are required. In order to be used as income, these payments must reasonably be expected to continue for three years.



#### **104.2.6 Disability Income**

Disability benefits may be used as qualifying income if a two year history of receipt has been documented. Benefits should be verified with a copy of the award letter supported by two years W-2s or 1099s and current evidence of receipt (current pay stub or evidence of direct deposit into the Borrower's bank account). The award letter must indicate the benefit amount, length of time that the benefits are received and the conditions for receipt of benefits. Short term disability income cannot be considered.

#### **104.2.7 Dividend/Interest Income**

Investment income may be used as stable monthly income if the file contains the following documentation:

1. The income has been received for at least 24 months;
2. Year to date income is in line with previous earnings;
3. The investment is from a publicly traded company(s);
4. The Borrower has a diversified portfolio;
5. Verification of stock asset values no older than 30 days at closing; and
6. Sufficient assets remain after closing to continue to generate an acceptable level of earnings in view of the totality of the circumstances.

When historical and current earnings appear to be reasonable under the circumstances, the earnings are averaged over the time period verified. Income may be documented with signed federal tax returns or 1099s for the previous two years.

The cash/stocks/bonds producing this dividend/interest income may not be used as a source for down payment and should not have been previously pledged as security.

#### **104.2.8 Employment by a Relative**

Income for a Borrower who is employed by a relative must be verified using federal tax returns for the past two years and current pay stubs covering a 30 day period. In the event the Borrower owns more than 25% of the company, full self-employed documentation must be provided.

#### **104.2.9 Foreign Income**

Income from a non-US source may be considered only if such income is paid by a corporate entity and is not subject to tax in any jurisdiction outside of the U.S.

#### **104.2.10 Foster Care Income**

Income derived from foster care payments may be considered if it is regular, recurring and likely to continue for three years. A two-year history of past receipt is required. Income used to qualify must be averaged over a two year period. Projected income may not be used in the calculation.

#### **104.2.11 Installment Sales and Land Contracts**

Not considered.

#### **104.2.12 Military Income**

Borrowers employed in military services typically receive compensation in addition to base pay, which may be used as qualifying income. Rations, base housing pay, and flight pay may be considered, provided that the income is typical for the position held and can be documented with one year proof of continuance.

#### **104.2.13 Note Receivable Income**

Note receivable income may be used as qualifying income if received for at least 12 months and expected to continue for at least three more years. Acceptable evidence includes a copy of the note and the previous year's federal tax returns to evidence receipt of income or copies of bank statements to evidence deposit of note income received.

#### **104.2.14 Non-Taxable Income**

Non-taxable income may be "grossed up" by 25%. Non-taxable income includes but is not limited to:

1. Child support.
2. Disability income.
3. Social Security.
4. Worker's compensation.
5. Aid to dependent children (ADC)/foster care.
6. Public assistance.
7. Federal Employees Compensation Act Benefits.
8. VA benefits (VA education benefits may not be used as qualifying income).
9. Military allotment (food and housing).
10. Municipal bond interest.

#### **104.2.15 Part-Time/Second Job and Overtime Income**

Part-time and overtime income is considered as stable income if it has been received for the previous 24 months and has a strong probability for continued receipt at current or increasing levels.

#### **104.2.16 Public Assistance**

Public assistance payments may be used as income, with verification of receipt and verification from the paying entity. Benefits should have been received for the past two years and benefits must be likely to continue for three years. Non-taxable public assistance may be grossed up by 25% with complete tax returns to demonstrate that the income is non-taxable.

#### **104.2.17 Rental Income**

The subject property rental income must be included on a Fannie Mae 1007 or 216. Discrepancies between market rents and verified rents must be satisfactorily explained or the lower amount may be used to qualify the Borrower. Rental income for properties with leases from management companies or other rental companies (i.e., Airbnb and VRBO) is not allowed.

Rental income used to qualify must be disclosed on the loan application. Full Doc requires verification of rental income as follows:

- A fully executed lease agreement of 12 months (or longer)
- Personal income tax return(s), Form 1040 including Schedule E. Include executed IRS form 4506-C. Subtract actual operating expenses (excluding depreciation) from actual rents received for Usable Rental Income. Aggregate net rental loss must be considered a liability for qualification purposes.
- Proposed rental income from the comparable rent schedule may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property.
- Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 12 months or the time period after the lease expired.
- Commercial properties owned on Schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial.

Rental income from a 1-4 unit primary residence:

- If the subject property has been owned less than 12 months prior to the date of the loan application and is not reflected in the Borrower's most recent tax returns, the following must be used to document rental income:
  - Copies of the present lease and income approach on the appraisal. If the subject property was owned 12 months or more prior to the date of the loan application, the same requirements apply in addition to the most recent tax return/s.
  - 2-4 Unit Owner Occupied Properties – The full Housing Expense (PITIA) of the subject property is treated as debt. Usable Rental Income is treated as income.

#### **104.2.18 Retirement Income – 401K/IRA Distribution**

The Borrower must provide verification of the assets of the plan and verification of receipt of monthly income. Assets in the plan must be sufficient to sustain income continuance for a minimum of three (3) years, determined based upon 1) with respect to fixed income investments, the tenor of the instrument and the coupons, and 2) with respect to equities, dividend income times .50.

In order to be eligible for asset annuitization, the borrower must be of retirement age, the assets must be liquid, owned solely by the borrower(s), with unrestricted access and 100% of the balance available without restriction. Eligible assets include qualified retirement plans recognized by the IRS, included but not limited to: a) 401K, b) IRA, or c) KEOGH.

#### **104.2.19 Salaried Income/Wage Earner Income**

Salaried income is verified using current pay stubs covering a 30 day period, W-2s covering the most recent two year period or direct written verification from Borrower's employer.

#### **104.2.20 Seasonal Income**

Some Borrowers may regularly work part-time jobs during certain times of the year (e.g., every Christmas or summer). Income from seasonal employment may be considered as stable monthly income if the Borrower has worked the same job "in season" for the past two years and, based upon a written statement from the employer, expects to be rehired for the next season. Verifications should include 1) Most recent pay stub or salary voucher documenting at least three months of income and 2) W-2 forms for the previous two years and a written verification of employment (VOE). If the Borrower is employed by a party involved in the transaction (i.e., employed by the seller or the real estate agent), two years personal federal tax returns are required.

#### **104.2.21 Self-Employment Income**

A Borrower is considered self-employed when his/her income is derived from a business in which he/she maintains a substantial ownership interest or can otherwise exercise control over the business's activities. Generally a 25% or more ownership interest in the business is considered "substantial" for underwriting purposes. Borrowers who are self-employed but not using self-employment income to qualify must also follow self-employment documentation requirements.

Identifying Self-Employed Income:

1. **Sole Proprietorship** – In a sole proprietorship, the Borrower is the "sole" or individual owner of the business. The business income is most likely reported on the Borrower's individual federal tax returns and is reflected as Schedule C earnings.

2. **Partnerships** – A partnership is formed when two or more people start a business together. The partners share profits (or losses) and control of the business. Partnerships generally fall into two main categories, General and Limited:

- a. **General Partnerships**

- Each partner is personally liable for all debts of the business.

Personal liability to the partnership creditors will continue even after the partnership is dissolved.

**b. Limited Partnerships**

Generally, a limited partnership exists for investment and tax purposes.

Limited partners generally take a loss on the investment, which will show as a loss under Schedule E on their personal tax returns. Determine if the limited partnership income is real or a tax shelter.

**c. Partnership Income**

Documentation required to calculate partnership income is:

- i. Most recent 2 years signed, personal Federal tax returns, complete with all schedules including Schedule E, and W-2s (if latter is applicable); and
- ii. K1s; and
- iii. Form 1065 (if Borrower is a limited partner with <25% ownership, Form 1065 is not required).
- iv. For partnerships, the qualifying income should be taken from 2 years Schedule K1 (Form 1065).

3. **Corporations** – A Corporation is a business owned by stockholders instead of individually. If the Borrower has more than 25% ownership in a corporation, he/she is considered to be self-employed. A Borrower who is self-employed as a corporate officer will receive a W-2 and will report income on his/her personal tax returns. All corporate income or losses are reported on the corporate tax returns (Form 1120 or 1120S with Schedule K-1).

Corporate income documentation is

- a. Most recent 2 years signed, personal federal tax returns, and
- b. W-2s (if latter is applicable); and
- c. 2 years 1120s

4. **“S” Corporations** - “S” Corporations are generally small corporations that are taxed in the same manner as partnerships. They pass gains and losses through to their shareholders, which are then, taxed at the tax rates for individuals. “S” Corporation income is reported on either W-2 and Schedule E, or just on Schedule E (section 27). The profit of the corporation is distributed to each owner according to his/her share of ownership. The adjusted profit (i.e., the net income) is then divided by the Borrower’s share of ownership and combined with W-2 income used for qualifying. To document the file, you must obtain:

- a. The most recent 2 years complete personal, federal tax returns including Schedule E & K1s, with W-2s (if applicable); and

- b. 2 years 1120S for the corporation.

5. **1099 – Miscellaneous Income** – Payments to sole proprietors or contract employees will also be reported on a 1099 form and included in the Borrowers Schedule C. If a Borrower receives 1099 income, the prior two years' complete, signed federal tax returns (Form 1040) are needed to verify the amount of income which is calculated based on how the income was filed.

#### **104.2.22 Social Security and Retirement Income**

These types of income can be verified with an award letter plus tax returns or bank statements evidencing regular monthly deposits in the Borrower's account. Social Security survivor benefits must be expected to continue for at least three years in order to be considered as income.

#### **104.2.23 Social Security Disability, Child's Benefit, or other Social Security Income**

Social Security Disability Income, Child's Benefit, or other income paid by Social Security must be evidenced by:

1. A copy of the Social Security award letter, and
2. A copy of the Borrower's most recent three (3) months' bank statements showing the direct deposit of the income into the Borrower's account.
3. Benefits payable to/for minors:
  - a. The minor must be under the age of 18.
  - b. This income may be used for qualifying purposes only if it is expected to continue for a minimum of three (3) years.

#### **104.2.24 Strike Income**

When a Borrower is on strike or has had other interruption or curtailment of his/her regular monthly income, the income that is currently being received, such as strike benefits, must be considered when qualifying the Borrower.

#### **104.2.25 Tips and Gratuities**

Tips and gratuity income may be considered if receipt of such income is typical for the Borrower's occupation (e.g., waitperson, taxi driver, etc.). Such income generally should have been received for at least 24 months prior to the date of loan application, and be expected, in the originator's reasonable judgment.. Income is averaged over the time period verified.

If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used (most recent 12 months average).

#### **104.2.26 Trust Income**

Trust income may be considered if the trust is non-revocable and the income will continue for at least three years from the date of loan application. A copy of the trust agreement or the trustee's statement confirming the amount, frequency and duration of the payments must be obtained to verify the income and continuance of the income.

#### **104.2.27 Unacceptable Income**

The following types of income may not be considered:

1. Gambling winnings (except lottery payments continuing for 5 years)
2. Educational benefits (such as grants and scholarships)
3. Refunds of federal, state or local taxes
4. Illegal income or income not reported to the IRS
5. Expense account reimbursement

#### **104.2.28 Unemployment Compensation**

Income derived from unemployment compensation is generally not to be considered stable due to the limited duration of its receipt. An exception to this would be a Borrower employed in a field where weather affects the ability to work and where unemployment compensation is often received (e.g., construction). The income may be used to qualify the Borrower on an exception basis when a two year employment history in the same field of work is verified along with a two year history of receipt of unemployment compensation. Verified income is averaged over the time period verified. Tax returns must be used to establish a history of the receipt of these benefits.

#### **104.2.29 VA Survivors' Benefits/Dependent Care**

This income may be considered if received for at least 12 months and is expected to continue for at least three years. A copy of the award letter outlining the duration and amount of payments must be provided by the Borrower.

#### **104.2.30 Public Assistance Benefits**

Public assistance benefits may be considered as stable monthly income if the file contains direct written verification from the welfare agency addressing the amount, duration and frequency of the payment of benefits. Benefits must have been received for the past two years prior to the date of loan application and benefits must be likely to continue for three years.

### **104.3 EMPLOYMENT/INCOME DOCUMENTATION**

#### **104.3.1 Written Verification of Employment**

Income and employment for non-self-employed Borrowers may be obtained via direct written verification from the Borrower's employer or eligible 3<sup>rd</sup> party vendor that is approved with Fannie Mae as

an authorized report provider. A list of the approved providers can be found at [www.duvalidationcenter.com](http://www.duvalidationcenter.com). The verification must be signed by a member of the company's human resource department or one of the business owners/officers. At a minimum, the verification must include:

1. Borrower's name
2. Position
3. Dates of employment
4. Base salary

#### **104.3.2 Pay stubs and W-2s**

When the pay stubs and W-2s are provided for income and employment verification, the documentation must meet the following criteria:

1. Pay stubs and W-2s must be typed or computer generated.
2. They must verify:
  - a. Borrower's full name and address
  - b. Borrower's Social Security number
  - c. Employer's name and address
  - d. Year to date earnings and Borrower's rate of pay

Also confirm if the pay stubs reflect garnishments (child support, IRS, etc.) or if there are any loan deductions.

#### **104.3.3 Tax Returns**

Tax returns, when required, must be signed by the Borrower and contain all schedules and attachments. Whenever tax returns are used to support income, an IRS 4506-C must be signed by the Borrower(s) and executed by the originator.

#### **104.3.4 Declining Income**

If income has been declining or is inconsistent, further documentation is required based on underwriting review. If the decline or inconsistency cannot be shown to be isolated or nonrecurring in nature, then the lowest annual compensation over the 2-year period prior to the date of loan application must be used to qualify the Borrower.

#### **104.3.5 Hourly Wages**

If the Borrower is paid on an hourly basis or may not work a regular 40 hour work week throughout the year, his/her income generally must be averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.



#### **104.3.6 Bank Statements as Income Verification**

Not allowed.

#### **104.3.7 Verbal Verification of Employment (VVOE)**

Verbal VVOEs are required for all loans. VVOEs must meet the following criteria:

1. Completed within 10 business days from the note date.
2. Confirm that the Borrower is employed at the time of verification.
3. Include the name and phone number of the person processing the VVOE.
4. Include the name, position and phone number of the person providing the verification (employer).
5. The telephone number for the Borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

#### **104.3.8 Age of Income Documentation**

The income documentation may not be older than 90 days from the note date.

#### **104.4 IRS 4506-C**

An IRS 4506-C document must be completed and signed by the Borrower(s) on the loan application. The 4506-C must be executed by the originator prior to closing.

W2 income retrieved pursuant to the 4506-C prior to closing should be compared to income disclosed on the application for consistency. Tax Transcripts shall also be requested by the originator from the IRS at the underwriter's discretion.

### **105. CREDIT ANALYSIS**

#### **105.1 EQUAL CREDIT OPPORTUNITY ACT**

The Federal Equal Credit Opportunity Act prohibits lenders from discriminating against credit Borrowers on the basis of race, color, religion, national or ethnic origin, sex, marital or familial status, age (provided the Borrower has the capacity to enter into a binding contract), disability, because all or part of the Borrower's income is derived from a public assistance program or because the Borrower has, in good faith, exercised any rights under the Consumer Credit Protection Act. State laws may also prohibit discrimination on certain additional bases such as sexual orientation.

#### **105.2 CREDIT ANALYSIS**

Determination of a Borrower's creditworthiness is based upon his/her demonstrated willingness to repay past and current debt obligations in a timely manner.

### **105.2.1 Credit Report**

A Credit Report is required for every Borrower who executes the note. The Credit Report must provide merged credit information from at least three national credit bureaus.

### **105.2.2 Age of Credit Report/Credit Verifications**

The Credit Report and credit verifications may not be more than 90 days aged as of the note date.

### **105.2.3 Credit Scoring**

Each loan must have a Representative Credit Score, which is the only Credit Score used for loan eligibility, qualification and pricing. Each Borrower must have a valid and usable score from at least two of the following three agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these three agencies are acceptable.

#### **105.2.3.1 Determining the Borrower's Credit Score**

To determine the Representative Credit Score for the loan:

1. Determine the score for each Borrower on the loan. Select the middle score when three agency scores are provided and the lower score when only two agency scores are provided.
2. To determine the representative Credit Score for the loan (each loan has only one representative Credit Score), the lowest representative Credit Score of all borrowers is used.

#### **105.2.3.2 Minimum Credit History**

A valid and usable score is one that is generated based upon credit history and credit patterns that accurately reflect the Borrower's history. It should be generated based upon at least the following:

- Three (3) trade lines from traditional credit sources (such as a bank or other financial institution) that reported for 24 months or more prior to the date of loan application, and
- One (1) open mortgage trade line during the last 36 months or must comply with the requirements 102.1.9 for first time home buyers. Loans on which the Borrower is not obligated to make payments (such as loans in a deferment period), collection or charged off accounts, and "authorized user" accounts are not acceptable trade lines for establishing the minimum history.

#### **105.2.3.3 Alternative Credit History**

Not allowed.

### **105.2.4 Evaluation of Credit**

Generally, an acceptable credit history will include at least two or three years of credit use.

The number of recently opened accounts should also be considered. If there are a significant number of new accounts, the reasons should be investigated.

There are several different credit usage factors considered in evaluating credit history:

1. Number of accounts
2. Outstanding debt
3. Delinquencies
4. Derogatory credit information
5. Inquiries

It is generally not one credit usage factor, but the combination of factors that establish whether or not the overall pattern of credit use is acceptable. All evaluations of a Borrower's credit must strictly comply with the Federal Fair Credit Reporting Act.

#### **105.2.5 Delinquency and Derogatory Credit**

There are a number of factors to consider in the analysis of delinquencies or derogatory credit information:

1. The type of accounts on which the delinquency occurred;
2. The reason for delinquency;
3. The severity of the delinquency;
4. The frequency of delinquent accounts; and
5. How recently the delinquency occurred.

More weight is placed on installment loan delinquency than on revolving debt delinquency. The most weight is placed on mortgage loan payment history. The most serious types of delinquencies include foreclosures, bankruptcy, judgments, collection accounts and tax liens require 7 year seasoning. Explanations and supporting documentation should generally be in the file to show that these events were an isolated occurrence and are unlikely to happen again. Accounts which are currently delinquent must be closely scrutinized. All past due accounts must be brought current prior to closing.

##### **105.2.5.1 Derogatory Public Records**

If the following limitations are exceeded, the loan is ineligible:

A Borrower with any previous severe derogatory credit history, including derogatory public records, must have a re-established credit history of 24 months with no derogatory credit, and at least 3 satisfactorily paid accounts.

1. Foreclosure/Deed-in-lieu/Notice of Default (NOD)/"Short" Sale or Refinance/Loss Mitigation Modifications – None in the past 7 years.
2. Chapter 7, 11, 12 or 13 bankruptcy - None in the past 7 years.
  - a. Duration since bankruptcy is calculated from the discharged or completed date.
  - b. Borrowers with a prior bankruptcy must exhibit a re-established credit history, with no derogatory credit since the problem occurred.
3. A borrower may not have more than 1 bankruptcy filing regardless of the applicable chapter filing.
4. Consumer Credit Counseling Service (CCCS)

CCCS are considered the same as Chapter 13 bankruptcy for loan underwriting purposes.

Note: Credit bureaus generally do not actively track credit counseling history in the Borrower's credit file. If a completion date is not shown on the Credit Report, then verification is required from the counseling agency to establish the date of completion.

Previous Pre-Foreclosure or "Short" Sales / Refinances – a 7-year elapsed time period for re-establishing credit following completion of the action is required for a short sale or short refinance.

Loss Mitigation Modifications – a 7-year elapsed time period for re-establishing credit following completion of such a modification is required.

#### **105.2.5.2 Major Adverse Derogatory Credit (Collections, Charge-offs, Judgments, Liens)**

All delinquent credit that will impact title – including but not limited to delinquent taxes, judgments, charge off accounts, tax liens and mechanics' liens – must be paid off prior to or at closing of the loan. Title must insure the Purchaser's lien position without exception. Any credit item secured by the subject property must be paid in full.

#### **105.2.5.3 Delinquent Credit Belonging to Ex-spouse**

Delinquent credit that belongs to an ex-spouse may be excluded from the credit evaluation of the Borrower in the following circumstances:

1. The file contains a copy of the divorce decree or separation agreement which shows that the derogatory accounts belong solely to the ex-spouse;
2. The late payments occurred after the date of the divorce or separation; and
3. If the delinquent payments in question relate to mortgage debt, evidence of transfer of title to the mortgaged property prior to the delinquency must be provided, and evidence of "buyout" as part of court proceedings must be provided.

#### **105.2.5.4 Delinquent Credit Belonging to Co-signer**

Delinquent credit that belongs to the Borrower's co-signer must be considered in determining the Borrower's credit acceptability.

#### **105.2.6 Written Explanations**

A satisfactory written explanation signed by the Borrower(s) explaining the reason(s) for adverse credit is required if determination is made that the adverse credit has a significant negative impact on the creditworthiness of the Borrower(s). The explanation must satisfactorily identify the reason(s) for the adverse credit and the timing of the event(s) must be consistent with other application information. Documentation supporting the Borrower's explanation(s) is required. A Borrower with an unfavorable credit history may be deemed acceptable if the occurrences of adverse credit use do not appear to be typical for the Borrower and are due to circumstances beyond the Borrower's control. Additionally, the instances should not be indicative of the Borrower's negligence or unwillingness to repay.

#### **105.2.7 Inquiries**

If the credit report indicated that a Borrower has made multiple inquiries within the previous 90-day period, the underwriter must determine whether additional credit was granted as a result of the borrower's request. A letter from the creditor or, if such a letter is unobtainable, a signed statement from the borrower may be used to determine whether additional credit was obtained.

#### **105.2.8 Limited/No Credit History/Alternative Credit**

Each loan must have a valid and usable score.

#### **105.2.9 Mortgage/Rental Payment History**

The Borrower's previous 24 month primary housing payment history is required. The file must also contain verification of the Borrower's 24 month (or since origination, whichever is less) payment history for all mortgage loans (including loans secured by subordinate liens) appearing on the Credit Report and on the initial application. Prior housing payment history should include mortgage loan payments, rental payments, or a combination of both to cover 24 months. Mortgage loan history must be verified from the credit report and other supplemental documentation.

##### **105.2.9.1 Mortgage/Rental History Requirements**

No mortgage loan payments (including payments on loans secured by subordinate liens) or rental payment may have been in excess of 0x30 late in the previous 12 months. This includes the period up to and including the closing of the subject loan, as may be evidenced by the demand letter submitted at time of closing. When disclosed, as may be on the credit report, no mortgage loan may have been more than 1x30 late in the previous 24 months. A delinquency must be explained and documented in a Letter of Explanation. Each month of contractual delinquency is considered separately, "rolling" late payments are not permitted.

##### **105.2.9.2 Forbearance**

For a borrower that previously had a loan in forbearance, 6 months of satisfactory payments after the applicable loan is out of forbearance need to be completed for the borrower to be eligible.

### **105.2.9.3 Timeshare**

For credit review purposes, timeshare obligations are usually considered installment loans. If the Borrower has a deed to the timeshare property, then the timeshare obligation must be considered a mortgage loan for review purposes.

### **105.2.10 Payment Histories**

Payment histories may be requested and reviewed when the Credit Report indicates that delinquencies have been removed or when the majority of credit is from a non-institutional lender.

### **105.2.11 Lawsuits/Pending Litigation**

Borrowers party to a lawsuit or pending litigation are ineligible.

### **105.2.12 Re-established Credit**

A Borrower with a prior bankruptcy, foreclosure, CCCS or other similar serious credit default in his/her credit history must prove that he/she has re-established his/her credit history. Credit must be re-established for the most recent 24 month period (48 months in the case of a foreclosure), meeting the following minimum requirements:

1. The Minimum Credit History requirements must be met (see Section 105.2.3.2).
2. One reference must be the Borrower's prior 24 month housing payment history, verified by the Borrower's:
  - a. mortgage loan payments disclosed on the Borrower's credit report, or
  - b. canceled checks or money orders for mortgage loan or rental payment, or
  - c. bank statements clearly indicating the mortgage loan or rental payment, or
  - d. a standard mortgage loan verification or loan payment history from the mortgage servicer, or
  - e. Borrower's year-end mortgage loan account statement (provided that it includes a payment receipt history), supplemented by the Borrower's canceled checks for the months that have elapsed since the statement was issued.
3. In addition to a housing payment history, at least one other active trade line must have been established for at least the previous 12 months.
4. No late payments or credit derogatory information with respect to credit card accounts in the previous 24 months.
5. No new public records, judgments, collections, etc., since the problem occurred.

## **106. LIABILITIES AND DELINQUENT ACCOUNTS**

### **106.1 LIABILITIES**

Monthly payments on all existing debts are included in the Borrower's total liabilities or obligations. Debt that is paid off at closing may be excluded from the DTI provided the final Closing Disclosure reflects the payoff.

#### **106.1.1 Installment Debt**

Installment debt is the monthly obligation on accounts with fixed payments and terms (e.g., car loans, student loans, etc.). The monthly payments may be excluded from the DTI calculation if there are fewer than ten (10) monthly payments remaining to repay the debt in full.

However, if the monthly payment is substantial and inclusion would result in an excessive DTI, underwriting discretion will be used to ensure that exclusion of that debt is reasonable under the circumstances.

#### **106.1.2 Lease Obligations**

Lease obligations, regardless of the remaining lease term, are included in the DTI calculation.

#### **106.1.3 Revolving Debt**

Revolving debt is open ended debt of which the principal balance on an account may vary from month to month (e.g., department store credit cards). The minimum required payment as stated on the Credit Report or current statement should be used in calculating the DTI unless as noted below. The following debts must be considered as a recurring monthly debt obligation:

1. The credit report balances suggest that more than ten payments remain to be paid regardless of whether the loan application indicates that the debts will be paid off at or prior to closing,
2. The credit report indicates less than 10 months remaining to be paid, but the payments have a significant impact on the Borrower's ability to repay the mortgage loan or meet other credit obligations.
3. The credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%. In this situation, an amount equal to 5% of the outstanding balance must be used as the Borrower's recurring monthly debt obligation.

#### **106.1.4 Alimony/Child Support/Separate Maintenance**

Monthly alimony, child support or separate maintenance obligations with ten or more payments remaining are included in the DTI. If there are fewer than ten payments remaining, the file must contain evidence of the duration of support payments, and payments may not be included in DTI.

#### **106.1.5 Negative Cash Flow from Rental Property**

See Section "Rental Income"

### **106.1.6 Business Debt**

Business debts for which the Borrower is personally liable are included in the debt calculation up to the amount of the personal recourse. These debts include business paid personal debt, unless proof of payment by the business is established. If the account is new, it must be included in the DTI calculation. These debts may be excluded from the DTI calculation if a minimum of twelve (12) months of consecutive canceled checks from the business are provided.

### **106.1.7 Co-signed Obligations**

Proof of payments made by other parties must be documented with twelve (12) months canceled checks. If the Credit Report does not reflect the Borrower as a co-signer, obtain a copy of the note or security instrument to verify that the Borrower is not the primary obligor. The debt should not have been delinquent at any time.

### **106.1.8 Retirement/Savings Plan Loans (i.e. 401K, Insurance Policy)**

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) may be excluded from the total debt ratio provided that the Borrower can repay the debt by liquidating the asset.

### **106.1.9 Student Loans**

Deferred student loans are included in the DTI calculation as a long term obligation. Student loans can be counted as credit debt as long as they are in repayment and are not being deferred. Student loans listed as delinquent must be brought current. If no payment is shown on the credit report for a student loan payment, then the payment information should be provided by student loan lender. If the monthly payment amount cannot be determined, use 1.0% of the current balance. If a student loan is charged off, the total of the amount charged off will be included in the cumulative charge off balance in the last 24 months. If a student loan is placed for collection, get a copy of the repayment agreement and a copy of a canceled check and include the payment in the DTI.

### **106.1.10 Contingent Liabilities**

Debts that have been co-signed by the Borrower may be excluded from the Borrower's DTI ratio under the following scenarios, provided that the debt has been paid currently and as agreed for at least the previous twelve (12) months. Contingent liabilities can only be excluded from the DTI with proof the borrower is not the primary obligor.

1. A debt secured by property that has been bought out by the former co-owner (for example, in connection with a divorce). The file must include evidence of transfer of title to the former co-owner.

2. A mortgage loan that has been assumed by a third party without a release of the Borrower's liability. A copy of the formal assumption agreement and evidence of transfer of ownership of the property should be in the file. Do not include payment history, and the assumption does not need to include a release of the Borrower from liability.

3. Debts required to be paid by someone other than the Borrower pursuant to a court order. A copy of the court order transferring liability for payments to another party is required to be in the file.



4. Co-signed accounts paid by a third party, with twelve months of cancelled checks evidencing payment by the third party.

If none of these requirements can be satisfied, then the liability must be indicated on the application and considered as a monthly debt payment for mortgage loan eligibility purposes.

#### **106.1.11 Housing Payments**

See Section 107.2 for items included in the monthly housing expense.

### **106.2 DELINQUENT ACCOUNTS**

Consumer credit delinquencies are considered in determining the overall risk of the loan.

#### **106.2.1 Liens That Affect Title**

All liens that affect title to the security property must be paid at closing.

#### **106.2.2 Treatment of Judgments, Collections, Charge-offs, Civil Suits and Disputed Trade Lines**

All delinquent credit that will impact title to the security property, including but not limited to delinquent taxes, judgments, charged-off accounts, tax liens and mechanics' liens, must be paid off prior to or at closing. Title insurance must insure the Purchaser's first lien position without exception. Any item secured by the subject property must be paid in full at or prior to closing. However, charge-offs or collection accounts that do not affect title are not required to be paid off if the combined balance of all derogatory accounts is \$5,000 or less. Total collections exceeding \$5,000 must be paid in their entirety at or prior to closing.

#### **106.2.3 Foreclosure**

If a Borrower who is a party to the loan has had a mortgage loan with any of the following issues, the Borrower's credit will be considered as having had a foreclosure that must be seasoned as indicated in the Derogatory Credit section of Credit Analysis:

1. Property taxes delinquent more than 30 days
2. Foreclosure filed
3. Foreclosure consummated
4. Notice of default filed
5. Foreclosed property redeemed
6. Delinquency of 120 days (or more)
7. Workout agreement in place to alter the terms of the original loan

#### **106.2.4 Payout of Chapter 13 Bankruptcy While in Payment Period**

A loan is not eligible if a Chapter 13 bankruptcy has not been discharged, or was discharged within the previous 7 years.

##### **106.2.4.1 Bankruptcy Dismissal**

A loan is not eligible if a Chapter 13 bankruptcy has been dismissed within the last 7 years.

#### **106.2.5 Consumer Credit Counseling Service (CCCS)**

CCCS considered the same as Chapter 13 bankruptcy for underwriting purposes.

### **106.3 Bridge/Swing Loan**

If the Borrower obtains a bridge loan, the monthly payment for the bridge loan must be included in the debt unless the Borrower can provide a copy of the executed sales contract for the property that is secured by the bridge loan. In addition, the Borrower must have six (6) month's PITIA reserves on any outstanding liens against the property secured by the bridge loan. These reserves are in addition to any reserve requirements for the subject transaction.

## **107. RATIOS AND QUALIFYING**

### **107.1 RATIOS**

Sound judgment should be exercised when considering any ratio calculations. Ratios are general benchmarks, not definitive guidelines. The overall merits of the file are considered when applying ratio guidelines. Purchaser shall develop the parameters with respect to these guidelines.

### **107.2 HOUSING PAYMENT TO INCOME RATIO**

The maximum housing expense to income ratio allowed for all loans is 43% or 45% (requires Rate Spread Safe Harbor as well as Verification Safe Harbor standards fully satisfied). The monthly housing expense is the sum of the following charges as they apply to the loan, divided by the Borrower's stable monthly income:

1. Monthly principal and interest payment.
  - a. Fixed interest rate loans, qualify at the principal and interest calculated at the note rate.
2. 1/12th of the annual hazard insurance premium.
3. 1/12th of the annual real estate taxes. (CoreLogic Property Tax Estimator will be used to determine estimated tax amount)
4. 1/12th of the annual flood insurance premium, when applicable.
5. Monthly leasehold payments, when applicable.

6. Monthly homeowner association dues, condominium maintenance fees and monthly assessments (when applicable).

7. Monthly payment for other secured financing (when applicable).

8. With respect to payments on home equity lines of credit, the payment used for qualification should be based on:

a. Higher of either the initial interest rate and the fully indexed rate (sum of current index plus margin), and

b. Fully amortizing payment (principal and interest), and

c. Term to maturity of the note, and

d. The maximum available credit.

### **107.3 DEBT TO INCOME RATIO AND QUALIFYING DEBT TO INCOME RATIO**

The maximum DTI ratio allowed for all loans is 43% or 45% (requires Rate Spread Safe Harbor as well as Verification Safe Harbor standards fully satisfied). The maximum DTI ratio allowed for Interest-Only Loans is 43%. The qualifying debt-to-income ratio compares the Borrower's total monthly obligations with his/her qualified monthly gross earnings based on the rate of the loan for which the Borrower is applying. The Debt to Income ratio (DTI) is calculated based upon the sum of the following obligations, divided by the Borrower's stable monthly income:

1. Monthly housing expense as per qualifying rate.

a. Fixed rate mortgages qualified using the fully amortized payment.

b. Interest only loans qualified using the fully amortized payment for the term of the loan.

2. Outstanding monthly obligations such as:

a. All installment debt with more than ten (10) payments remaining. (Installment debts may not be "paid down" to 10 payments in order to eliminate such debts from DTI calculation, but they may be paid in full).

b. All revolving debt payments

c. Alimony, child support or maintenance payments with more than ten (10) payments remaining.

d. Losses associated with rental properties from all investment properties owned by the Borrower and with respect to which rental income was used in the income calculation.

e. Other obligations where a monthly payment is legally required.

## **108. ASSET ANALYSIS**

When the documentation type or program requires asset verification, the file must evidence sufficient funds for the down payment, closing costs and reserves, when applicable.

### **108.1 ASSET DOCUMENTATION**

Assets must be sourced/seasoned for 60 days and may be verified using:

1. Direct written verification completed by the depository; or eligible 3<sup>rd</sup> party vendor that maintains approval with Fannie Mae validation services. A list of approved VOA vendors may be found at [www.duvalidationcenter.com](http://www.duvalidationcenter.com)

2. Recent and consecutive account statements covering a period of two months for each bank, brokerage, mutual fund account or investment portfolio. Account statements or 3<sup>rd</sup> party asset verification report must at a minimum provide all of the following information:

- a. Borrower as the account holder;
- b. Account number;
- c. Time period covered;
- d. Current balance in U.S. Dollars;
- e. Statement date.

### **108.2 AGE OF ASSET DOCUMENTATION**

The verification of assets (including the source of funds) may not be greater than 90 days old at the time of note date. If the funds are required for closing, then the most recent account statement(s) will be required for validation of funds.

### **108.3 ACCEPTABLE FUNDS**

The following items are acceptable for down payment and closing funds, including prepaids:

1. Funds from the Borrower's checking or savings account.
2. A gift or grant that does not have to be repaid may be permitted; (See Section 108.9 regarding limitations.)
3. Proceeds from the sale of the Borrower's personal asset(s). The value of the assets must be verified; evidence of sale must be provided (e.g., bill of sale, copy of check, etc.).
4. Proceeds from a loan that is secured by the Borrower's personal asset, for example, the proceeds of loans secured by other real estate are acceptable funds. The terms of the loan must be verified. Repayment of the loan must be included in the total expense ratio.

5. Proceeds from a loan secured by a financial asset (401K, stock, life insurance, etc.) may be used. The net vested amount, multiplied by 70 percent, may be used for reserves.

6. Proceeds from liquidated stock, retirement accounts, certificates of deposit, pension or other savings plan. 70 percent of the value may be used as reserves for stocks, bonds, and mutual funds in a nonretirement account and 70 percent for a retirement account. Ownership of the account must be verified along with borrower's actual receipt of funds.

7. Proceeds from sale of other real estate. If part of the down payment is expected to be paid from the sale of the Borrower's current home, an executed closing statement verifying sufficient net proceeds must be received with the closing package.

8. Net proceeds from the trade of the Borrower's real property.

9. Funds from a business account (if the Borrower is the sole owner of the company and the company's CPA provides a statement indicating withdrawal of the funds will not negatively impact the business) may be used for down payment and reserves.

#### **108.4 UNACCEPTABLE FUNDS**

1. Gift funds which must be repaid in full or in part.
2. Cash-on-hand.
3. Labor performed by the Borrower or goods or materials provided by the Borrower (sweat equity).
4. Gifts from seller-funded programs.
5. Net proceeds from an IRC 1031 exchange.
6. Any payment received as a result of being a party to the sales transaction (i.e., real estate sales commission) after the Borrower has met the minimum down payment requirement.

#### **108.5 SHORT FUNDS TO CLOSE VARIANCE**

Not allowed.

#### **108.6 BRIDGE LOAN**

A bridge loan is typically a short-term secured loan (one year or less), often interest-only, that is based on the Borrower's equity in his/her current home. The bridge loan is paid off when the current home is sold and the sale is closed. A copy of the listing agreement is required. Payments on existing mortgage loans must be included when qualifying the Borrower. See Section 106.3 for instances when payment can be excluded when qualifying the Borrower.

## 108.7 CASH RESERVES

In addition to the down payment and closing costs, the Borrower must have adequate cash reserves available that are appropriate to the transaction. In some instances, substantial liquid assets are considered to offset other risk factors.

See Quick Reference Guide for individual reserve requirements.

Other:

- Assets and Cash Reserves must be sourced and seasoned for at least 60 days.
- Large disparities between the current balance and the opening balances may require additional verification or documentation.
- Large or irregular deposits must be explained and may require further documentation.
- Gift funds may not be used to meet the reserve requirements.
- Proceeds from a Cash Out Refinance on the subject property may not be used to meet reserve requirements.

Funds for the needed Cash Reserves may be verified by any of the following:

1. Verification of Deposit (such as Fannie Mae Form 1006) executed by the financial institution, to include the current balance and the average balances for the preceding two months.
2. Two months checking and/or savings account statements (indicating opening and closing balances to indicate a full 60 days of asset verification).
3. One quarterly account statement.
4. For Cash Reserves generated from asset sales from taxable or tax-deferred accounts, two months statements from the brokerage, retirement savings or pension account (including IRA and 401k) are required. Balances for tax-deferred accounts must be reduced by 30% to reflect income taxes and penalties when funds are withdrawn. Taxable accounts with stocks, bonds and mutual funds must be reduced by 30% to reflect income taxes. Statements from the investment management company or bank are required to verify the ownership of the account/asset, the value of the asset at the time of sale or liquidation, and the Borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction.
5. Two months brokerage statements on publicly traded stocks and bonds, mutual funds, money market accounts, and CDs, (indicating opening and closing balances to indicate a full 60 days of asset verification) are required. Balances must be reduced by 30% for stocks, bonds, and mutual funds.

## 108.8 DOWN PAYMENT

On purchase transactions, the Borrower must make a minimum down payment with funds from his/her own resources. The amount of the minimum required down payment depends upon the

occupancy of the subject property. Funds to close must be fully documented, including sourcing and seasoning.

1-2 Unit Primary Residence / Second Home: The borrower must make a 5% minimum borrower contribution from his/her own funds.

1-4 Unit Investment: 100% of down payment must be from the borrowers own funds. Gift Funds not allowed on investment purchases.

Acceptable documentation to source the funds includes any of the following:

1. Copy of canceled check;
2. Copy of check not canceled with bank statement to evidence check cleared;
3. Evidence from the real estate broker (not the agent) that the funds were deposited into the broker's trust account (i.e., copy of broker's trust account statement); or
4. Escrow agent/attorney's letter acknowledging receipt of funds. Acceptable documentation to season the funds (to verify that they are from the Borrower's own resources include any of the following):
  - a. Closing Disclosure from the sale of another property.
  - b. Verification of Deposit (such as Fannie Mae Form 1006) executed by the financial institution, to include the current balance and the average balances for the preceding two months.
  - c. Two months checking and/or savings account statements (indicating opening and closing balances to indicate a full 60 days of asset verification) with explanations for large deposits, if any.
  - d. One quarterly account statement.
  - e. Two months statements from brokerage, retirement savings or pension account (including IRA and 401k). Balances for tax-deferred accounts must be reduced by 30% to reflect income taxes and penalties when withdrawn. Taxable accounts with stocks, bonds and mutual funds must be reduced by 30% to reflect income taxes. Statements from the investment management company or bank are required to verify the ownership of the account/asset, the value of the asset at the time of sale or liquidation, and the borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction.
  - f. Other forms of verification may be acceptable, so long as the verification clearly indicates that the funds were in the Borrower's possession for at least 60 days prior to transfer.

## **108.9 GIFT FUNDS**

Gift funds or gifts of equity not allowed from any donor that is a real estate builder, developer or in the business of owning, financing, or selling real estate.

A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements. Gifts are not allowed on an investment property.

#### **108.10 JOINT ACCOUNTS**

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

#### **108.11 SECONDARY/SUBORDINATE FINANCING**

Secondary financing is permitted and subject to the Quick Reference Guide when it meets the following requirements:

1. Made subordinate to the first lien
2. Title indicates it is in second lien position
3. Maximum CLTV does not exceed the maximum LTV allowed on the Quick Reference Guide.
4. The terms of the subordinate lien loan must be less than or equal to the term of the first lien loan. Secondary financing must be reviewed to ensure that there are no terms that restrict prepayment. Terms that restrict prepayment are not permitted as acceptable secondary financing. Terms that require payment of certain closing costs that were waived upon origination of the subordinate lien loan are not considered a restriction of prepayment.
5. The source of the secondary financing is not a natural person except when the natural person is the seller of the subject property.

*If the secondary financing is closed simultaneously with the first lien loan, then the following items are required:*

1. A copy of the loan approval from the institution providing the secondary financing prior to closing.
2. A copy of the executed note at closing.

*In all instances, the following items are required:*

1. The terms of the current second lien. If unable to discern from the credit file, get copy of terms from lender.
2. A copy of the unsigned subordination agreement prior to closing.
3. A copy of the executed subordination agreement at closing.

Nothing set forth in this Section 108.11 shall be deemed to restrict secondary financing to the extent that such restriction would violate the terms of the Borrower's loan documents or applicable federal or state law.



## **108.12 TRADE EQUITY IRC 1031 EXCHANGE**

Not Allowed.

## **108.13 UNSECURED LOANS**

Funds from personal unsecured loans are not an acceptable source of funds for the down payment, closing costs, or reserves.

## **109. INSURANCE**

### **109.1 HOMEOWNERS INSURANCE**

The subject property must be protected (including when vacant) against loss or damage from fire and other perils within the standard extended coverage. Refer to the Fannie Mae selling guide for appropriate homeowners insurance coverage requirements.

### **109.2 Master HOA Hazard Insurance Requirements**

Please refer to the Fannie Mae selling guide for appropriate master HOA hazard insurance requirements.

### **109.3 FLOOD INSURANCE**

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. Such area is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing. Life of the loan coverage monitoring is required.

#### **109.3.1 Flood Certificate**

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). In addition, the appraisal report should accurately reflect the flood zone.

#### **109.3.2 Coverage and Deductibles**

If the subject property is located in a Special Flood Hazard Area, flood insurance is required. The amount of flood insurance must be at least equal to the lesser of 100% of the insurable value of the facilities and the maximum coverage available under the appropriate National Flood Insurance Administration program. For condominium projects, the homeowners association should provide a project blanket policy with coverage for the building in which the unit is located. Coverage must be the lesser of 100% of the replacement cost of the building in which the unit is located, including all the common elements and property, and the maximum coverage available under the National Flood Insurance Administration Program times the number of units in the building.

Other requirements:

1. Deductibles permitted up to the maximum deductible available under the National Flood Insurance Program (NFIP);
2. The Borrower name and the subject property must be on the flood insurance application or binder;
3. The flood insurance policy must contain a mortgagee clause, naming the Purchaser as the loss payee and mortgagee;
4. Evidence of coverage must be provided at closing; and
5. The insurance must be maintained throughout the duration of the loan. The flood insurance requirement may be waived if:
  - a. The subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
  - b. The Borrower obtains a letter from FEMA stating that its maps have been amended such that the subject property is no longer in an area of Special Flood Hazard. The appraisal report should accurately reflect the flood zone. An updated flood certification reflecting the updated zone must also be obtained for the loan file.

## **110. PROPERTY**

### **110.1 APPRAISER QUALIFICATION**

Real estate appraisers are to be state-certified or state-licensed according to the Code of Federal Regulations, and to comply with Fannie Mae's or Freddie Mac's requirements for appraisers.

### **110.2 APPRAISAL**

All appraisals must comply with applicable regulations and standards including but not limited to USPAP, FIRREA, AIR and HVCC compliance.

One appraisal is acceptable up to \$1,500,000 loan amount. Two appraisals are required for loan amounts greater than \$1,500,000 loan amount.

The lower of the 2 appraised values will be used to determine LTV, unless the Sales Price is lower than both appraisals (in which case the sales price will be used to determine LTV). Appraisals will be completed by different independent appraisers from Axos Bank approved AMCs.

All appraisals are subject to review by internal resource and or 3<sup>rd</sup> party. A collateral desktop analysis with MLS performed by an Axos Bank approved AMC is required. If the CDA returns a value that is "Indeterminate", a field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. The Seller is responsible for providing the field review or 2nd full appraisal. Appraisal review is completed prior to final determination or validation of original appraisers' opinion of value.

The value of the subject property should be in line with the home prices in the subject's market area. The appraiser must report on the primary indicators of market condition for properties in the subject

neighborhood. The appraisal must be closely reviewed to insure that the appraiser is specific with regard to the impact a market decline has upon the transaction being evaluated. Appraisals should not contain comparables greater than six months prior to the report date.

Maximum lot size 20 acres. Properties with greater than 10 acres must have at least three comparables with similar acreage.

### **110.3 AGE OF APPRAISAL**

At the time of delivery to Axos Bank, the appraisal needs to be less than 90 **days** old relative to the note date. To the extent the appraisal is greater than 75 days old, Axos Bank will have the option of ordering an appraisal update completed on form 1004d or a new appraisal.

### **110.4 DISASTER AREAS**

For loans secured by properties appraised prior to the Presidential/State declaration, the following post-disaster guidelines apply:

1. An interior and exterior inspection of the subject property is required.
  - a. The original appraiser should perform the inspection and provide a certification stating:
    - i. Subject property is free from damage and is in the same condition as previously appraised;
    - ii. Marketability and value remain the same.

For loans secured by properties appraised after the Presidential/State declaration, the following post-disaster guidelines apply:

1. Appraiser must note any damage and its effect on marketability and value.
2. Electronic evaluations are not acceptable.

### **110.5 PROPERTY OVERVIEW**

All properties must:

1. Be improved real property.
2. Be designed and available for year round residential use.
3. Be complete with kitchen and bathroom facilities.
4. Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
5. Be in average or better than average condition.

6. Represent the “highest and best” use of the subject property.
7. Be free of all health and safety violations.
8. NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability or marketability of the subject property.

#### **110.5.1 Properties Listed for Sale**

Properties currently listed for sale are not eligible for refinance transactions.

#### **Property Eligibility Matrix**

Single-Family Residence Detached: Yes

Single-Family Residence Attached: Yes

Low-Rise Condominium (1-4 Stories): Yes

High-Rise Condominium (5+ Stories): Yes

Site Condominium (Detached condo): Yes

Non-Warrantable Condominium: No

Planned Unit Development (PUD) Attached: Yes

Planned Unit Development (PUD) Detached: Yes

Manufactured Home: No

Co-operative Units (Co-op): No

Condotels or Condo Hotels: No

Modular: No

Two-unit: Yes

Three-unit: Yes

Four-unit: Yes

Log Homes: No

Raw Land: No

Mixed Use Property: No

Farms / Working Farms: No

Corporate Properties that are titled to corporations: No

Earth Homes, Home Half in Mountain (Burm) Homes, or Basement Homes (Properties which are generally built underground): No.

Environmental Conditions (Properties with health and/or safety hazards, etc.): No

Ground Lease / Leasehold Property: No

Timeshares: No

Rooming/Boarding Houses: No

Unique Properties: No

Properties Greater than 20 acres: No

### **110.5.2 Rural Properties**

A property indicated by the appraisal as rural, or containing any of the following characteristics must comply with the following criteria:

1. They may not be listed as an ineligible property type.
2. The primary use must be residential.
3. The property must not be agricultural, or otherwise providing a source of income to the Borrower or a source of payment for the subject loan.
4. The lot size and acreage must be typical for the area and similar to the surrounding properties.
5. If the subject contains excess acreage, the loan amount may be adjusted.
6. The subject property must be within reasonable commuting distance to a metropolitan area.
7. The subject property must be accessible by public roads and highways.
8. The present use must be the "highest and best use" for the subject property.
9. 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.
10. Property cannot be subject to any idle acreage tax benefit or other tax incentive program.

## **110.6 PROPERTY CONSIDERATIONS**

### **110.6.1 Condominium**

Refer to the Fannie Mae Selling Guide for condominium project eligibility and appropriate review type. Limited reviews are acceptable if the AUS response indicates such as review type being eligible for the project.

### **110.6.2 Condominium Project Reviews**

Refer to the Fannie Mae Selling Guide for condominium project eligibility and appropriate review type. Limited reviews are acceptable if the AUS response indicates such a review type being eligible for the project.

### **110.6.3 PUD (Planned Unit Development)**

If the subject property is a detached unit, no analysis is required. If the subject is an attached PUD, the following review is required:

1. Type E Warranty applies to established PUD projects in which the owners' association has been turned over to the unit purchasers. This is the sole eligibility criterion for qualifying as a Type E project (manufactured homes not allowed).

2. Type F Warranty applies to new PUD projects that are still under the control of the developer. The project must meet the following eligibility criteria:

a. The project cannot have been created by the conversion of existing buildings into a PUD.

b. The project may not include any multi-dwelling units that represent the security for a single mortgage loan.

c. The project must not be composed of manufactured homes.

d. A sufficient number of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order for the lender to determine whether the presales will support the responsibilities of the homeowners association for at least two years.

e. The units must be owned in fee simple, and the unit purchasers must have the sole ownership interest in, and right to the use of, the project's facilities once control of the homeowners association has been turned over to them.

The homeowners association should complete a questionnaire so that the originator can make the appropriate determination if the Type F requirements have been met.

## **110.7 MARKET RESTRICTIONS**

Loans identified in declining markets may have LTV and other restrictions.

## **110.8 TITLE INSURANCE**

1. Loans must be covered by a title insurance policy that has been paid in full, and is valid, binding and remains in full force and effect. The title insurer must be acceptable to Fannie Mae and Freddie Mac and be qualified to do business in the state where the subject property is located.