IMPAC Mortgage Corp. WHOLESALE

Fannie Mae Fixed Rate

*This matrix includes overlays which may be **more restrictive** than Fannie Mae's requirements. Where this matrix is silent, Fannie Mae guidelines apply.*

Eligibility Matrix

Transaction Type	Units	Minimum FICO	Maximum DTI	Maximum LTV
Primary Residence				
Purchase & Limited Cash-Out Refinance	1	660	Per DU(1)	90%
	2			85%
	3-4			75%
Cash-Out Refinance	1			80%
Second Home				
Purchase & Limited Cash-Out Refinance	1	660	Per DU(1)	80%
Cash-Out Refinance				60%
Investment Property				
Purchase & Limited Cash-Out Refinance	1-4	660	Per DU(1)	75%

Footnote

1. For cash-out refinances with DTI > 45%, six months of reserves are required (FNMA/DU requirement).

Maximum Loan Amount

2020 Conforming Maximum Loan Amounts		
Units	**Contiguous States and D.C.**	**Alaska & Hawaii**
1	$510,400	$765,600
2	$653,550	$980,325
3	$789,950	$1,184,925
4	$981,700	$1,472,550

2020 High Balance Maximum Loan Amounts (for High Cost Areas)			
	Contiguous States and D.C.		**Alaska and Hawaii**
Units	**Minimum Loan**	**Maximum Loan**	**Maximum Loan**
1	$510,401	$765,600	Not Applicable (refer to Conforming Maximum Loan Amounts shown above for Alaska & Hawaii)
2	$653,551	$980,325	
3	$789,951	$1,184,925	
4	$981,701	$1,472,550	

Permanent High Cost area the maximum potential loan limits for designated high-cost areas. Actual loan limits are established for each county (or equivalent) and the loan limits for specific high-cost areas may be lower. The original balance of a Mortgage must not exceed the maximum loan limit for the specific areas in which the mortgage premises is located. For specific loan limits for each high cost area, as released by the Federal Housing Finance Agency visit http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx

Product Codes

Conforming Loan Amounts

Years	Product Code
15 Year	CF15 Conv FRM15
20 Year	CF20 Conv FRM20
30 Year	CF30 Conv FRM30

High Balance Loan Amounts

Years	Product Code
15 Year	CF15HB Conv FRM15 HiBal
30 Year	CF30HB Conv FRM30 HiBal

Conforming Loan Amounts with LPMI

Years	Product Code
15 Year	CF15LM Conv FRM15 Lender Paid MI
20 Year	CF20LM Conv FRM20 Lender Paid MI
30 Year	CF30LM Conv FRM30 Lender Paid MI

High Balance Loan Amounts with LPMI

Years	Product Code
15 Year	CF15HBLM Conv FRM15 HiBal LPMI
30 Year	CF30HBLM Conv FRM30 HiBal Lender Paid MI

Underwriting Guidelines

Age of Documentation	Credit Report: Must be not more than 120 days old on the Note Date. Income and Asset Documentation: Must be no more than 60 days old on the Note Date. When consecutive income/asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 60 days old on the note date Appraisal: When an appraisal is obtained, the property must be appraised within 12 months that precede the date of the note and mortgage. When an appraisal report will be more than four months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction,

	the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D). • If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property. • If the appraiser indicates on the Form 1004D that the property value has not declined, then the lender may proceed with the loan in process without requiring any additional fieldwork. <u>Note</u>: The appraisal update must occur within the four months that precede the date of the note and mortgage. The original appraiser should complete the appraisal update, however lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.
Appraisal	<u>Required Fieldwork</u> Desktop Underwriter (DU) will determine level of fieldwork required. Appraisals must be ordered through an AMC. If allowed by DU, appraisal waivers are allowed (final DU cert must reflect the appraisal waiver) with the following exceptions: 1) Not eligible in Kansas (interior/exterior appraisal required), and 2) Not eligible for Texas 50(a)(6) transactions (interior/exterior appraisal required). Whenever DU does not allow for an appraisal waiver, an interior/exterior appraisal is required with one exception. For purchase transactions where the subject property is a primary residence, a desktop appraisal may be obtained in lieu of an interior/exterior appraisal. Impac otherwise does not allow for temporary Agency flexibilities as published by Fannie Mae. <u>Appraisal Review</u> On CU scores of 2.5 or above, it is required that underwriters run CU on that appraisal and determine if the data from that report can be used to offset the warnings. Additional steps may be necessary to clear the warnings. Desk review or field review may be required as determined by UW Management. <u>Property Condition</u> Properties with a Condition Rating of C5 or C6 are <u>not</u> eligible. <u>Note</u>: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier
Assets	Stocks, stock options and mutual funds (including IRA/SEP/Keough/401K) must show proof of liquidation if used for closing costs or down payment. If used for reserves, only 70% of the vested account balance (net of any outstanding loans) can be used (proof of liquidation not required). Cryptocurrency (e.g. Bitcoin and Ethereum) may NOT be used for funds to close. Any reserves requirement is determined by DU.

Borrower Eligibility	<u>Eligible</u>
	• US Citizen
	• Permanent resident alien
	• Non-permanent resident alien. Acceptable visa types and required documentation below:
	  o <u>Visa Only</u>: H-1B, H-1B1, H-1B2, H-1B3, H-1C, L-1A, L-1B, O-1A/B, O-2, P-1A
	  o <u>Visa and EAD</u>: E-1/E1-D, E-2/E-2D, E-3/E-3D, H-4, I, K-1, K-3, L-2, TN, V-1, V-2, V-3
	• Inter Vivos Revocable Trust
	  o Note: A Power of Attorney is not allowed on properties held in a trust
	<u>Ineligible</u>
	• Foreign Nationals
	• Deferred Action for Childhood Arrivals (DACA)
	• Borrower must have SSN, ITIN is not allowed
	
	<u>Maximum number of borrowers and co-borrowers</u>: 4

COVID-19 Attestation	All borrowers must sign and date Impac's COVID-19 Attestation with regard to forbearance and the borrower's ability to repay the loan.
Credit	Desktop Underwriter (DU) Approve/Eligible recommendation is required along with the following overlays: • Cash-out refinance transactions require mortgage history of 0x30x12 • The borrower may not be in forbearance (or have requested forbearance) on any mortgage loan. All borrowers must execute Impac's <u>*COVID-19 Attestation*</u> confirming no forbearance. • Updated mortgage ratings on all mortgages through the current month are required. Non-traditional credit is not allowed. Each borrower must generate at least one traditional credit score. For borrowers with frozen credit, no more than one of the national credit repositories can have frozen credit information.

Disaster Area Protocol	Whenever FEMA declares properties located in zip codes and counties to be eligible for individual assistance, a re-inspection is required if the effective date of the appraisal is dated on or before the incident period end date. At a minimum, an exterior inspection is required. If the disaster is flood, hurricane or otherwise water-related, an interior inspection is also required. All property inspection products must affirmatively indicate there is no adverse impact to value, condition, or marketability as a result of the disaster and must be dated after the incident end date. If the subject property is a condominium, the property inspection must also assess the condition of the building in which the unit is located and assess any damage to the condo project's common elements. For loans with appraisal waivers, an interior/exterior appraisal is not required provided the final DU cert allows for an appraisal waiver. However, a re-inspection as described above is required prior to loan closing. If the appraisal waiver language is lost on the final DU cert, an interior/exterior appraisal dated after the incident end date is required.
Escrow Waivers	The following are requirements as it relates to escrow accounts: • Property tax and insurance escrows may be waived for LTV ≤ 80% unless individual state laws supersede this requirement and allow for more or less restrictive requirements. • When a property requires flood insurance, an escrow account must be established (i.e. waiver not permitted). • For individual condo units, escrow accounts for property and/or flood insurance are not required provided the unit is covered by a blanket insurance policy purchased by the HOA. • Escrow accounts are required on all limited cash-out refinances when real estate taxes are financed into the loan unless prohibited by state law. • Escrow accounts are required on all cash-out refinances when the new loan amount includes the financing of real estate taxes that are more than 60 days delinquent unless prohibited by state law.

Financing Types	<u>Purchase Mortgages</u>:
	Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions are allowed for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing. For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, only purchase mortgage loans secured by a principal residence are allowed.
	
	Assigned purchase contracts are not allowed.
	
	<u>Limited Cash-Out Refinance</u>:
	Limited cash-out refinance transactions must meet the following requirements:
	• The transaction is being used to pay off an existing first mortgage loan (including an existing HELOC in first-lien position) by obtaining a new first mortgage loan secured by the same property.
	• Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements.
	• The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).
	
	<u>Acceptable Uses</u>:
	• Modifying the interest rate and/or term for existing mortgages;
	• Paying off the unpaid principal balance of the existing first mortgage (including prepayment penalties);
	• Financing the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as
	  ▪ The real estate taxes must be paid in full through the transaction; and
	  ▪ Payment for the taxes must be disbursed to the taxing authority through the closing transaction, with no funds used for the taxes disbursed to the borrower
	• Receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000;
	• Buying out a co-owner pursuant to an agreement;
	• Paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. The lender must document that the entire amount of the subordinate financing was used to acquire the property; or
	• Paying off the unpaid principal balance of PACE loans and other debt used for energy-related improvements.
	
	<u>Ineligible Transactions</u>:
	• No outstanding first lien on the subject property;
	• The proceeds are used to pay off a subordinate lien that was not used to purchase the property (other than the exceptions for paying off PACE loans and other debt used for energy-related improvements);
	• The borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and

- A short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.

Refinances to Buy Out An Owner's Interest:
- A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
- All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in cases in recent inheritance, documentation must be provided to indicate joint ownership by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
- Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing

Cash-Out Refinance:
Cash-Out refinance transactions must meet the following requirements:
- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.
- The property must have been purchased (or acquired) by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
    - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
    - The delayed financing requirements are met. See Delayed Financing Exception below.
    - If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six month ownership requirement. In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
    - If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six month ownership requirement if the borrower is the primary beneficiary of the trust.
- For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves is required.

Acceptable Uses:
- Paying off the unpaid principal balance of the existing first mortgage;
- Financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation;
- Paying off any outstanding subordinate mortgage liens of any age;
- Taking equity out of the subject property that may be used for any purpose;
- Financing a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or a refinance of the short-term refinance loan within six months.

Ineligible Transactions:
- The mortgage loan is subject to a temporary interest rate buydown.
- The subject property was purchased by the borrower within the six months preceding the disbursement date of the new mortgage loan except if delayed financing guidelines are met.
- For certain transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for a cash-out refinance.
- Transactions classified as HomeStyle Energy loans. However, energy-related improvements are permitted.
- Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed.
- The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible for sale to Fannie Mae without an escrow account.

Delayed Financing Exception:
Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:

	• The original purchase transaction was an arms-length transaction • For this refinance transaction the borrower(s) must meet Fannie Mae's and Impac's borrower eligibility requirements. The borrower(s) may have initially purchased the property as one of the following: ▪ A natural person; ▪ An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; ▪ An eligible land trust when the borrower is the beneficiary of the land trust; or ▪ An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100% • The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale. • The title report must confirm that there are no existing liens on the subject property. • The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property) • If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the DTI for the refinance transaction. **Note**: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan • The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the cash-out transaction based on the current appraised value) • All other cash-out refinance eligibility requirements are met and cash-out pricing is applied. Texas Section 50 (a)(6) Fannie Mae's classification of mortgage transactions as "cash-out refinance" or "limited cash-cash-out refinance" differs from the way mortgages are classified under Texas law. Texas law determines whether or not a mortgage is a Texas 50 (a)(6) mortgage, and Fannie Mae's policy determines whether the mortgage must be delivered as a cash-out refinance transaction or as a limited cash-out refinance transaction. All Texas 50 (a)(6) loans must comply with the following requirements • Maximum allowable LTV and CLTV is 70% • Texas 50 (a)(6) loans are eligible for the reduced documentation requirements recommended by DU, provided that all other terms and conditions described herein for Texas 50 (a)(6) loans shall apply • A new full appraisal, including both interior and exterior inspections, is required • First liens only Construction-to-Permanent Financing Impac does not originate, fund, or purchase any form of FNMA "one-time-close" or "single-closing" loans. This includes both loans in the construction phase as well as loans that are closed and modified.
Fraud Report	Required
Geographic Restrictions	Hawaii: Lava zones 1 and 2 not eligible. Ineligible States: DE, MA, ME, MO and WY
High-Cost Mortgage Loans	Impac does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)
Income	Income Documentation: Income documentation requirements are determined by DU but generally include the following: • Employment Income: Current paystub + prior 2 years W2's • Self-Employment Income: Most recent 2 year's personal (and business if applicable) tax returns Ineligible income types: • Employment offers and contracts • Future/projected income • Income commencing after note date Employment Income: Refer to the following sections in FNMA's Selling Guide for requirements: • Section B3-3.1-01 General Income Information • Section B3-3.1-02 Standards for Employment Documentation • Section B3-3.1-03 Base Pay (Salary or Hourly), Bonus, and Overtime Income • Section B3-3.1-04 Commission Income

	• Section B3-3.1-05 Secondary Employment Income (Second Job and Multiple Jobs) and Seasonal Income
	
	Other Income:
	Refer to FNMA's Selling Guide Section B3-3.1-09 for requirements.
	
	Rental Income
	Refer to FNMA's Selling Guide Section B3-3.1-08 for requirements. In addition to the requirements in this section, when using rental income to qualify, the borrower must provide rent receipt from the most recent month to validate the rental income used for qualifying (e.g. cancelled check or bank statement). If a departure residence situation, an executed lease + a security deposit is required. Otherwise, the borrower must qualify with the full PITIA.
	
	Self-Employment Income:
	The mortgage file must include a written analysis of the self-employed income amount and justification of the determination that the income used to qualify the Borrower is stable.
	
	At a minimum, the following additional documentation must be obtained:
	• An audited or unaudited year-to-date (YTD) profit and loss statement that is signed by the Borrower and reports business revenue (i.e. gross receipts or sales), expenses and net income. The information in the YTD profit and loss statement must cover the most recent month preceding the Application Received Date and be dated no more than 60 calendar days prior to the Note Date, and
	• Two months business account statements no older than the latest two months represented on the YTD profit and loss statement
	  o For example, if the YTD profit and loss statement is through May 31, 2020, the business account statements can be no older than for April and May
	  o The lender must review the two most recent depository account statements to support and/or not conflict with the information presented in the current YTD profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date profit and loss statement.
	
	Business Operations:
	• Have business operations been maintained or modified to support continued business income?
	• Is the business continuing to operate in the current location or an alternate location suitable for business operations?
	• Is there a demand for the product or service currently offered by the business?
	• Is the business operation and/or revenue temporarily restricted due to state shelter in place, stay at home or other similar state or local orders?
	• Is the impact to the business operations negligible due to the nature of the business?
	
	Business Income:
	• The lender must complete a business income assessment by comparing the YTD net business income from the YTD profit and loss statement to historical business income calculated using the Cash Flow Analysis (Form 1084) for a similar timeframe (such as monthly).
	• Lenders can make standard adjustments to business cash flow (net income on the profit and loss statement) as allowed on Form 1084.
	• When the lender determines net business income is impacted, but profit and loss details are not sufficient to determine the income is stable at the reduced level, the lender can obtain additional documentation to supplement the profit and loss statement (such as a month-to-month income trending analysis) to make this determination. If stability cannot be confirmed, the income is not eligible for qualifying purposes.
	
	Business Stability:
	• Does the profit and loss identify a significant imbalance between expenses and revenue that may impact financial stability? Or have modifications to current business operations been made to correct this imbalance?
	• Do prior year business tax returns demonstrate ample financial liquidity due to a history of retained earnings?
	• Do current business account balances (excluding Paycheck Protection Program (PPP) or other similar COVID-19 related loans or grants) support the financial ability of the business to operate given current market and economic conditions?
	• A current balance sheet may be used to support the lender's determination of business stability, in conjunction with the profit loss statement.
	
	Income Calculation Adjustment:
	When it is determined that the current year net business income has been impacted by COVID-19 and is:
	• Less than the historical monthly income calculated using Form 1084, but is stable at its current level, the lender must reduce the amount of qualifying income calculated using Form 1084 to no more than the current level of stable income as determined by the lender (see Business Income above)
	• More than the historical income calculated using Form 1084, the lender must use no more than the currently stable level of income calculated using Form 1084 to qualify the borrower.

	Refer to FNMA's Lender Letter 2020-03 for more details regarding temporary requirements and guidance for borrowers with qualifying income derived from self-employment. Standard self-employment guidelines are found in the following sections:
	• Section B3-3.2-01 Underwriting Factors and Documentation for a Self-Employed Borrower
	• Section B3-3.2-02 Business Structures
	• Section B3-3.2-03 IRS Forms Quick Reference
	
	4506-T / Tax Transcripts:
	Tax, W2 and/or 1099 transcripts are required to validate qualifying income. If a self-employed borrower is using income to qualify from business tax returns, tax transcripts for that business are not required. However, a signed 4506-T for that business is required.
	
	Verbal Verification of Employment (VVOE):
	• Salaried: Must be dated within 3 business days prior to the Note Date. An updated VVOE is also required within 3 business days prior to funding. When a VVOE cannot be obtained as required, the following documentation may be obtained in lieu of standard requirements:
	  ○ A Written Verification of Employment (WVOE) in accordance with standard guidelines; or
	  ○ An email directly from the employer's work email address (personal email address not permitted) that identifies the name and title of the verifier and the borrower's name and current employment status.
	• Self-employed: Must be dated within 5 business days prior the Note Date. An updated VVOE is also required within 5 business days prior to funding. Examples include:
	  ○ Evidence of current work (e.g., executed contracts or signed invoices that indicate the business is operating on the day the Seller verifies self-employment)
	  ○ Evidence of current business receipts within 10 Business Days of the Note Date (e.g., payment for services performed)
	  ○ Lender certification the business is open and operating (e.g., the lender confirmed through a phone call or other means)
	  ○ Business website demonstrating activity supporting current business operations (e.g., timely appointments for estimates or service can be scheduled)
	
	As a reminder, Impac does NOT allow a VVOE (or alternative documentation detailed herein) to be obtained post-closing.

Liabilities	Alimony/Child Support: When payments will continue for more than 10 months, the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained. For alimony obligations, the lender has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the DTI. • For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, under Income Type, the lender must enter the amount of the alimony obligation as a negative amount. Business Debt in Borrower's Name: When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business. The payment does not need to be considered as part of the DTI if: • The account in question does not have a history of delinquency, • The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and • The lender's cash flow analysis of the business took payment of the obligation into consideration. The payment must be considered as part of the DTI in any of the following situations: • If the business does not provide sufficient evidence that the obligation was paid out of company funds. • If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis. • If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question. Court-Ordered Assignment of Debt: When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The lender is not required to count this contingent liability as part of the

borrower's recurring monthly debt obligations. The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.

Debts Paid by Others:
Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI:

- When a borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.
- When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:
    - The party making the payments is obligated on the mortgage debt,
    - There are no delinquencies in the most recent 12 months, and
    - The borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the DTI, the lender must obtain the most recent 12 months' canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

Deferred Installment Debt:
Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations. For information about deferred student loans, see Student Loans below.

Federal Income Tax Installment Agreements:
When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The lender obtains the following documentation:
    - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
    - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

As a reminder, lenders remain responsible under the life-of-loan representations and warranties for clear title and first-lien enforceability. The payments on a federal income tax installment agreement can be excluded from the DTI if the agreement meets the terms in Debts Paid by Others or Installment Debt described above. If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS.

Garnishments:
All garnishments with more than 10 months remaining must be included in the DTI.

Home Equity Lines of Credit:
When the mortgage that will be delivered also has a HELOC that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the DTI. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.

Installment Debt:
All installment debt that is not secured by a financial asset – including student loans, automobile loans, personal loans, and timeshares – must be considered part of the DTI if there are more than 10 monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations. See above for treatment of payments due under a federal income tax installment agreement.

Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).

Lease Payments:
Lease payments must be considered in the DTI regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

Loans Secured by Financial Assets:
When a borrower uses their financial assets – life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc. – as security for a loan, the borrower has a contingent liability.
The lender is not required to include this contingent liability as part of the DTI provided the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Open 30–Day Charge Accounts:
Open 30–day charge accounts require the balance to be paid in full every month and are not included in the DTI. For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

> **Note**: DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30–day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.

If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.

Other Real Estate Owned—Qualifying Impact:
When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is

- An existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, Fannie Mae guidelines for Rental Income, Minimum Reserve Requirements, and, if applicable, Multiple Financed Properties for the Same Borrower;
- An existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
- If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan. However, Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:
  - The executed sales contract for the current residence, and
  - Confirmation that any financing contingencies have been cleared.

Property Settlement Buyout:
When a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability. If the lender obtains documentation to confirm the transfer of title to the property, this liability does not have to be considered as part of the DTI.

Rental Housing Payment:
The housing payment for each borrower's principal residence must be considered when underwriting the loan. For the following scenarios, the borrower's monthly rental housing payment must be evaluated (if the borrower does not otherwise have a mortgage payment or no housing expense):

- For non-occupant borrowers, and
- For second homes or investment properties.

The following list provides examples of acceptable documentation to verify the rental payment:

- Six months canceled checks or equivalent payment source;
- Six months bank statements reflecting a clear and consistent payment to an organization or individual;
- Direct verification of rent from a management company or individual landlord; or
- A copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

Revolving Charge/Lines of Credit:
Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the DTI. These tradelines include credit cards, department store charge

<table>
<tr><td></td><td>cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense. If 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%, the lender must use 5% of the outstanding balance in the DTI.

For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of $10 or 5% of the outstanding balance as the monthly payment when calculating the DTI.

<u>Student Loans</u>:
If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.
• If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
• For deferred loans or loans in forbearance, the lender may calculate
    o A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
    o A fully amortizing payment using the documented loan repayment terms.

<u>Calculating Monthly Real Estate Tax Payment</u>:
The lender must base its calculation of real estate taxes for borrower qualification on no less than the current assessed value. However, the lender must project the real estate taxes if one of the following applies:
• For purchase and construction-related transactions, the lender must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements. This policy also applies to properties in jurisdictions where a transfer of ownership typically results in a reassessment or revaluation of the property and a corresponding increase in the amount of taxes.
• There is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:
    o For a municipality with a 10-year abatement, the lender may qualify the borrower with the reduced tax amount;
    o For a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the lender must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.

The lender has the option to project the real estate taxes if the amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.</td></tr>
<tr><td>Limitations on Other Real Estate Owned</td><td><u>Multiple Financed Properties</u>:
The following describes the limits that apply to the number of financed properties a borrower may have.
• Primary Residence: No limit
• Second Home and Investment Property: 10
    o If the borrower is financing a second home or investment property and the borrower will have seven to ten financed properties, a minimum 720 FICO is required.

The number of financed properties calculation includes:
• The number of 1-4 unit residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is excluded from the borrower's DTI because it is co-signed debt/paid by others.
• The total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to Fannie Mae (a multiple unit property counts as one property, such as a two-unit);
• The borrower's principal residence if it is financed; and
• The cumulative total for all borrowers (though jointly financed properties are only counted once).

The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:
• Commercial real estate,
• Multifamily property consisting of more than four units,
• Ownership in a timeshare,
• Ownership of a vacant lot (residential or commercial), or
• Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).</td></tr>
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	DU will determine the number of financed properties for the loan casefile based on the following approach: • If the number of financed properties field is completed, DU will use that as the number of financed properties. The lender must complete this field with the number of financed one-to four-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated. • If the number of financed properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or that are associated with a mortgage or HELOC in the liabilities section of the loan application, as the number of financed properties. • If the number of financed properties field and the REO information was not provided, DU will use the number of mortgages and HELOCs disclosed in the liabilities section of the loan application as the number of financed properties. • When none of the information above is provided on the loan application, DU will use the number of mortgages and HELOCs disclosed on the credit report as the number of financed properties. **Note**: In order to account for the subject property, DU will add "1" to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties. <u>Calculation of Reserves for Multiple Financed Properties</u>: If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's primary residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties: • 2% of the aggregate UPB if the borrower has one to four financed properties, • 4% of the aggregate UPB if the borrower has five to six financed properties, or • 6% of the aggregate UPB if the borrower has seven to ten financed properties. The aggregate UPB calculation does not include the mortgage and HELOCs that are on • The subject property, • The borrower's principal residence, • Properties that are sold or pending sale, and • Accounts that will be paid by closing (or omitted in DU on the online loan application).
Loan Amount	Minimum Conforming Loan Amount: $100,000
Mortgage Insurance	Mortgage insurance is required for LTV > 80%. The following supersedes all other guidelines for > 80% LTV with MI availability • All loans must be submitted to DU Approval/Eligible • Reserve requirement by mortgage insurers prevail <u>Eligible MI companies</u>: • Arch MI • MGIC • National MI • Radian Eligible MI certificates are as follows: • Borrower Paid Mortgage Insurance (BPMI) paid monthly and must be ordered as non-refundable, constant renewal, deferred payment (initial premium is paid with the first monthly loan payment) • Lender Paid Single Premium MI o Premiums for all lender-paid MI plans must be shown on the HUD as being paid to the MI company by Lender Requirements for loans on properties in the state of New York: • The appraised value is used to calculate the LTV ratio to determine whether mortgage insurance is required, and • The lesser of the appraised value or sales price is used to calculate the LTV used to determine the level of mortgage insurance coverage that is required. <u>Ineligible MI</u>: • Financed MI • Single Premium paid by borrower or seller of the property • Split Premium – upfront portion paid by borrower or seller of the property • Prepaid Mortgage Insurance • Lender Paid Monthly • Lender Paid Annual • Borrower Paid Annual • Lender paid pool coverage (referred to as GSE pool insurance) • Investor – paid pool coverage • Loans covered by recourse and/or indemnification agreements

	• Secondary market coverage agreements Coverage Requirements: • Fixed Rate ≤ 20 years: 6% • Fixed Rate > 20 years: 12% Reduced MI coverage amounts provided by agency and AUS decisions are ineligible.
Program Restrictions	Ineligible: • HARP Products • FNMA Homepath • FNMA HomeStyle Renovation • FNMA My Community Mortgage • FNMA Student Loan Cash-Out Program • ChoiceRenovation • Permanent buydowns • Affordable Housing/HFA Preferred • Energy Efficient Mortgages • PACE loans • One Time Close (OTC) • High LTV Refinance • Down Payment Assistance Programs

Property Types	Eligible:
	• 1-unit attached or detached SFR, PUD or condo
	• 2-4 unit
	
	Ineligible:
	• Assisted living or board and care facilities
	• Bed and breakfast (or tourist houses), boarding houses, commercial enterprises fraternity or sorority houses, or non-real property such as houseboats, mobile homes, private clubs
	• Commercial properties
	• Co-ops
	• Exotic or non-traditional types of structures such as dome homes, berm homes or log homes
	• Fee simple land within the bounds of Indian reservation land or under jurisdiction of tribal council or laws
	• Ineligible Condominiums
	• Land Loans (unimproved properties or vacant land)
	• Land trusts (including Illinois land trusts)
	• Life Estate
	• Manufactured homes (whether or not built to MHCSS standards), Manufactured condos (FHA MHCP program), On-frame modular homes
	• Native American Indian Trust Lands
	• Properties with PACE obligations or PACE-like clean energy program assessments
	• Proposed, under construction (construction take-out financing is allowed on eligible property types if there is a new Loan with a new Note and new qualification, and the property is complete)
	• Resale restrictions unless for age, property is 1-unit, owner-occupied and otherwise meets FHLMC guidelines
	• Timeshares
	• Unexpired redemption rights
	• Working farms or ranches.
	• Zoning violations
	
	Condominiums:
	Projects must be warrantable to FNMA guidelines. Project types are either Established or New as indicated below:
	• Established: A project for which all of the following are true:
	  ○ At least 90% of the total units in the project have been conveyed to unit purchasers;
	  ○ The project is 100% complete, including all units and common elements;
	  ○ The project is not subject to additional phasing or annexation; and
	  ○ Control of the HOA has been turned over to the unit owners.
	
	A project may also be treated as an Established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met:
	
	  ○ Construction is 100% complete;
	  ○ The project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners;
	  ○ The developer's share of the units held back for rental is no more than 20% of the project's total units;

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HOA fees are paid current in developer-held units; and there are no active or pending special assessments in the project.
<u>New</u>: A project for which all of the following are true:

Fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception noted in the row above);
The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;
The project is newly converted;
The project is subject to additional phasing or annexation; or
HOA still in the developer’s control.

Regardless of the project Review Type required, the project must not be an ineligible project (unless a 2- to 4-Unit project or a Detached Condominium unit – which are exempt from project review).
Florida Condos: 1) Established projects only, and 2) Investment property not allowed
Condo units located in an Established Project are eligible for Limited Review as follows:
<table>
<tr><th rowspan="2">Occupancy Type</th><th colspan="2">Maximum LTV</th></tr>
<tr><th>Projects not located in Florida</th><th>Projects located in Florida</th></tr>
<tr><td>Primary Residence</td><td>90%</td><td>75%</td></tr>
<tr><td>Second Home</td><td rowspan="2">75%</td><td rowspan="2">70%</td></tr>
<tr><td>Investment Property</td></tr>
</table>
If not eligible for a Limited Review or if located in a New Project, a Full Review (with or without CPM) is required unless the project is a Fannie Mae approved project.
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<tr>
<td>Subordinate Financing</td>
<td>Subordinate financing is not permitted.</td>
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<tr>
<td>Underwriting</td>
<td>
All loans must be submitted and evaluated by Desktop Underwriter (DU) and render an Approve/Eligible recommendation. DU will determine the level of income, asset and appraisal documentation required.
<u>Ineligible</u>:
Manual underwriting
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