| TOWNE MORTGAGE COMPANY | CORE JUMBO FIXED RATE PROGRAM GUIDE |
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## PRIMARY RESIDENCE – 15 YEAR FIXED RATE, 30 YEAR FIXED RATE

| Purchase or Rate and Term Refinance | | | | Cash-Out Refinance | | | | |
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| Property Type | LTV/CLTV/HCLTV | Maximum Loan Amount | Minimum Credit Score | Property Type | LTV/CLTV/HCLTV | Maximum Loan Amount | Minimum Credit Score | Maximum Cash-Out |
| 1 Unit | 75 | $1,750,000 | 720 | 1 Unit | 65 | $1,000,000 | 720 | $250,000 |
| | 70 | $2,000,000 | 740 | | | | | |
| 2 Unit | 70 | $1,500,000 | 720 | | | | | |

## SECOND HOME – 15 YEAR FIXED RATE, 30 YEAR FIXED RATE

| Purchase or Rate and Term Refinance | | | |
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| 1 Unit | 75 | $1,000,000 | 720 |
| | 70 | $1,500,000 | 720 |
| | 65 | $2,000,000 | 720 |

**FOR ALL JUMBO FIXED RATE PRODUCTS AS APPLICABLE:**

- **Minimum loan amount** is the maximum Fannie Mae "general loan limit" **(not high cost- area limit) + $1.**
- Maximum DTI for all loans is 42.00%
- Rural property refinance with cash out, and all declining markets require 5% reduction in max. LTV/CLTV/HCLTV
- Reserve requirements: See Reserve Requirement Calculation Table.
- Property owned < 6 months not eligible for cash-out, except as allowed per Fannie Mae Delayed Financing Exception guidelines.
- Property owned 12 months or less: LTV/CLTV/HCLTV is based on the lesser of the current appraised value or acquisition cost, regardless of any property improvements that have been made since purchase.
- Second appraisal required for purchases with loan amounts > $1,500,000 and refinances with loan amounts > $1,000,000. A second appraisal is also required for property "flips".
- Eligible States: DC, FL, GA, IA, IL, IN, KY, MD, MI, MN, NJ, NC, OH, PA, SC, TN, WI
- Require full file prior to sending to investor. Allow an additional 2-3 business days for investor approval.
- All jumbo loans require investor approval prior to clearing the loan to close. We will notify you when your loan has been submitted for investor approval.

| Topic / Seller Guide Reference | **Core Jumbo Program Guidelines**<br>When this Program Guide and the Seller Guide are silent, follow Fannie Mae guidelines |
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| **General Underwriting Standards, QM Compliance, Manual Underwriting** | ▪ **Manual Underwriting Only**:<br>o No AUS is used for this program.<br>o An *underwriting worksheet* or written details documenting income, debt, and debt-to-income ratio calculations must be in the Loan file, supporting the data on the 1008, demonstrating the borrower's Ability to Repay.<br>▪ **Guidelines:** Fannie Mae guidelines will control when this Program Guide unless noted.<br>▪ **Qualified Mortgage (QM) Status:**<br>o All loans must be Qualified Mortgages meeting the requirements in 12 CFR §1026.43(e)(2).<br>o Rebuttable Presumption QM Loans and HPML are **not** eligible; all loans must be QM Safe Harbor.<br>▪ **Ability to Repay Rule, (ATR):** All Mortgage Loans in this Program must meet the requirements of the "Ability to Repay" (ATR) Rule in 12 CFR §1026.43(c)(2). |
| **Age of Credit File Documents** | ▪ All credit file documents must be no more than 90 days old at the Note date, except that the appraisal may be 120 days old.<br>▪ For standards relating to the age of tax returns, see the *Fannie Mae Selling Guide B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns.* |
| **Appraisal Requirements** | ▪ **Appraisal Type**: A full URAR appraisal report with interior and exterior inspection on appropriate Fannie / Freddie form is required for all properties. No Property Inspection Waiver (PIW) or exterior-only inspections are allowed.<br>▪ All appraisals must additionally meet Fannie Mae requirements, and<br>o Subject property value must not significantly exceed predominant value for the market area, and<br>o Appraiser must provide at least six comparable sales. Preferably all comparable sales should be closed sales. If the appraiser is unable to provide six<br>o comparable closed sales, the appraiser may use comparable listings or pending sales, but at a minimum four of the comparable sales must be closed sales.<br>o **At least 3 comparable sales must have been closed within 12 months prior to the effective date of the appraisal,** and comparable sales must be deemed<br>o otherwise valid and appropriate<br>▪ **Appraisal Age:** Appraisals must be dated within 120 days prior to Note date, age of appraisal may not be extended with an update or re-certification of value, etc.<br>▪ **UDCP Requirement:** Appraisals must be submitted to GSE's "UDCP" (Uniform Collateral Data Portal) and obtain a "successful" finding on the "SSR" (Submission Summary Report). The SSR must be in the delivered loan file.<br>▪ **Appraisal Format**: Appraisals must be delivered in a 1st Generation PDF.<br>▪ **Ineligible Appraisals:** Appraisals generated for third parties or transferred are NOT eligible. Appraisal must be completed in name of Lender or originating TPO.<br>▪ **Properties owned** < 12 Months: LTV/CLTV/HCLTV is based on the lesser of the appraised value or acquisition cost, regardless of any property improvements that may have been made. (Property acquisition date may be measured from the HUD 1 purchase date, mortgage rating or other acceptable documentation in the loan file).<br>▪ **Declining markets LTV Restriction**: If appraisal indicates declining market, then maximum allowable LTV/CLTV/HCLTV is reduced by 5%. |

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| **Appraisal Review and Second Appraisal Requirements** | ▪ **Second Appraisal Requirement:** Purchases with loan amounts > $1,500,000 and refinances with loan amounts > $1,000,000. Appraised value for underwriting purposes is the **lower of** the two appraisals. The second appraisal must be from a different appraiser not affiliated with the original appraiser or the appraisal company (ordered through same AMC is acceptable). A second appraisal is also required for all 2 unit properties.<br>▪ Second Appraisal required (meeting above requirements) if the subject transaction is a "flip" or resale of the property where purchase contract date < 180 days after the prior sale date, and subject sales price is more than 10% over the previous sales price. ALSO, **THE APPRAISAL(s) MUST SPECIFICALLY ADDRESS THE PRIOR SALE AND JUSTIFY THE PRICE INCREASE.** |
| **Assets, Minimum Borrower Contribution, Gifts** | ▪ **Minimum Borrower Contribution**: In addition to required reserves, borrower(s) must have sufficient assets documented following the requirements of *Fannie Mae Selling Guide B3-4, Asset Assessment*, to contribute from their own funds a down payment and closing costs equal to **5%** of the sales price for primary residences from the *occupying* borrower(s). Gifts are not allowed for second home transactions.<br>▪ Down payment, funds to close, and reserves must be documented in accordance with *Fannie Mae Selling Guide Section B3-4.*<br>▪ The most recent bank statement to verify the source of funds must be dated no more than 45 days earlier than the date of the loan application, and not more than 90 days earlier than the date of the Note.<br>▪ Properly documented gifts from a Family Member (using Fannie Mae definition) are permitted **only if** minimum borrower contribution requirements above are met.<br>▪ Gifts may not be used to meet reserve requirements.<br>▪ **Ineligible Source of Funds:**<br>o Gift of Equity<br>o Grant Funds<br>o Pooled funds<br>o Builder Profits<br>o No Employer Assistance Assets<br>o Foreign assets<br>o Cash advance on credit card<br>o Signature loan<br>o Unsecured financing<br>o Personal loan<br>o Cash for which the source cannot be verified (cash on hand)<br>o Commission from sale of subject property<br>o Salary advance<br>o Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)<br>o Unverifiable source of funds<br>o Reverse mortgage<br>o Pension fund<br>o Seller Real Estate Tax Credit<br>o Funds donated by the property seller, builder, real estate agent or any other party not related to the borrower to satisfy down payment requirements |

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| **Assets, Use of Business Funds** | ▪ Business assets may be used if the borrower is 100% owner of the business **and** a letter from the business accountant is obtained to confirm that the withdrawal will not negatively impact the business. Business assets may not be used for reserves. |
| **Assets, Interested Party Contributions, Concessions** | ▪ Loans with undisclosed interested party contributions are not acceptable.<br>▪ Once the borrower has met the Minimum Borrower Contribution, then maximum interested party contributions (to be used for Fannie Mae permissible purposes only) are:<br>o Owner occupied primary residences –CLTV **>**75% maximum 3%, CLTV **≤**75% maximum 6%,<br>o Second home maximum 3%<br>o Excess amounts are considered concessions that must be subtracted from the sales price when determining LTV/CLTV<br>▪ Interest Rate Buy-downs and Payment Abatements are NOT acceptable. |
| **Assets, Reserve Requirements** | ▪ **Reserve Requirements:**<br>o See the Reserve Requirement Calculation Table in this Program Guide for the required calculations.<br>o Requirements vary based on subject property type, occupancy, loan amount, loan product, other financed properties owned and departure residence status.<br>▪ **Eligible Reserve Sources**- Follow Fannie Mae *Selling Guide Section B3-4*, *Asset Assessment,* except that Gifts may not be used to meet reserve requirements. |
| **Borrower Eligibility, and Number of Financed Properties** | ▪ **Maximum Financed Properties**: Borrowers may have a maximum of four financed residential 1-4 unit properties, including the subject transaction. (See also the Reserve Requirement Calculation Section).<br>▪ **Maximum Borrowers Per Loan:** Maximum four (4) borrowers per loan.<br>▪ **Non-Occupant Co-Borrowers:** Must be family members only (as defined in Fannie Mae *Selling Guide B3-4.3*), and occupant borrower(s) must by themselves qualify at 42.00% DTI maximum.<br>▪ **Eligible Borrowers**:<br>o Borrower must be an eligible, revocable inter vivos "living" trust or a natural person. See Trusts section below for details and signature requirements.<br>▪ **Ineligible Borrowers:** The following borrower types are not allowed **-**<br>o Loans to owners and employees of the lender, its affiliates and subsidiaries or TPOs are **NOT** eligible<br>o Title taken as a business entity<br>o Borrowers with diplomatic immunity, "foreign politically exposed" borrowers<br>o Foreign Nationals, Non-Resident Aliens, Non-Permanent Resident Aliens<br>▪ **See also** First Time Homebuyer Loan Amount Restrictions and Identity of Interest and Non-Arms-Length Transactions<br>▪ **Eligible Title Vesting**<br>o Individuals<br>o Joint Tenants<br>o Tenants in Common<br>o Revocable Trusts, where individual Borrower(s) execute both the Note and Security Instrument |

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| **Cash-Out Refinance Definition and Requirements** | ▪ **Rate and Term Refinance Maximum Cash to Borrower**: Maximum cash to borrower allowed for a Rate and Term refinance transaction is $2,000.<br>▪ **Payoff of Unseasoned Liens**: Payoff of liens seasoned less than 12 months at time of Loan application, or HELOCs with a draw in excess of $2,000 in the 12 months preceding the Loan application date are considered "cash-out," unless the lien being paid off was used to acquire subject property. Seller must provide documentation covering relevant time period. (Seasoning may be measured from the HUD 1 closing date when loan was acquired, mortgage rating or other acceptable documentation in the loan file).<br>▪ **HELOC Payoff**: If a HELOC being paid off is seasoned >12 months and has had no draws within 12 months >$2K and the new loan is less than $2,000 cash to borrower, then the new loan can be considered rate and term, whether or not the second being paid off was used for purchase money.<br>▪ **Seasoning and Eligibility for Cash Out:** Cash-out refinance not allowed unless there is ≥ six (6) months seasoning of **all** existing liens on subject property **and** 6 months of subject property ownership by borrower(s), except as allowed per *Fannie Mae Selling Guide B2-1.2-03, Delayed Financing Exception* guidelines,.<br>▪ **Continuity of Obligation**: Borrower(s) must meet Fannie Mae Continuity of Obligations requirements, Fannie Mae *Selling Guide B2-1.2.04*.<br>▪ **Rural Property LTV Restrictions:** For cash-out refinance transactions, the maximum LTV/CLTV/HCLTV for rural properties (as indicated on the appraisal) is reduced by 5%.<br>▪ **Maximum cash out = $250,000.** |

<table>
<tr><td rowspan="3">Condominiums</td><td colspan="3">
▪ In addition to the requirements in this Program Guide and the Seller Guide, condominium projects must meet Fannie Mae eligibility requirements.<br>
▪ Fannie Mae condominium reviews utilized must have been completed within 180 days of Note date.<br>
▪ Refer to the Condo and PUD Review Requirements section below.<br>
▪ Condo Project Exposure Limits<br>
○ Lender limits its project exposure for the number of units serviced by Lender to the greater of one (1) unit or 25 percent of the units in a project.<br>
○ Lender limits the number of units serviced by Lender for any single borrower to the greater of one (1) unit or 10 percent of the units in a project<br>
○ No single entity (individual, investor group, partnership or corporation) may have ownership exceeding 10% of the project.
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<tr><td colspan="3">Ineligible Condo Project Types (See also Property Eligibility)</td></tr>
<tr><td>
▪ Fannie Mae ineligible (non-warrantable) condo projects<br>
▪ Condo projects with any units less than 400 square feet (and subject unit must be ≥650 square feet)<br>
▪ Co-op projects<br>
▪ Commercial or business use exceeds 20% of total square footage of buildings in project
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▪ Condo projects with unacceptable litigation, arbitration or mediation (Seller Guide Section and Fannie Mae)<br>
▪ Projects that share facilities with a hotel or motel, such as maid service, management desk, bellman, etc.<br>
▪ Condo projects that permit or offer the rental of units for terms of 30 days or less<br>
▪ Condotels / Hotel Condos<br>
▪ Condo projects that restrict owner’s liability to occupy the unit<br>
▪ Conversions from hotels or motels
</td><td>
▪ Newly converted, non-gut rehabilitation condo projects<br>
▪ Ownership concentration may not exceed the requirements in the section above (single entity 10%).<br>
▪ New condo projects where seller concessions are being offered in excess of Fannie Mae eligibility policy<br>
▪ Multi-dwelling unit condos<br>
▪ Transactions where sales concessions are not disclosed on the HUD-1
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<tr><td rowspan="3">Condo and PUD Review Requirements</td><td colspan="3">Condo and PUD Review Requirements</td></tr>
<tr><td>Acceptable Condo Review Types</td><td>Ineligible Condo Review Types</td><td>PUD Review Requirements</td></tr>
<tr><td>
▪ Fannie Mae Lender Full Review with CPM Review Eligibility Certification or<br>
▪ Fannie Mae Project Eligibility Review Service (PERS),<br>
▪ or<br>
▪ Fannie Mae unexpired Final or Conditional Approval 1028, if posted on Fannie Mae website and meets Type T requirements
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▪ Fannie Mae Limited Review (other than detached units and 2-4 unit projects)<br>
▪ Fannie Mae Lender Full Review without CPM
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▪ Attached PUD: Lender Full Review meeting Fannie Mae guidelines<br>
▪ Detached PUD: Treat as SFR, no review required
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| **Credit, Credit Report, Credit Score and Trade Line Requirements** | ▪ **Residential Mortgage Credit Report** (RMCR) or traditional tri-merge is required for all borrowers.<br>▪ **Number of Credit Scores:** Each borrower, including those with no income used to qualify, must have a valid social security number and generate a traditional credit score from at least two of these repositories: Experian, Equifax, and TransUnion. See the Program Matrix for minimum credit score requirements.<br>▪ **Qualifying score** for each borrower is the middle of 3 scores or the lower of 2 scores, as applicable. Qualifying score for the loan is the lowest qualifying score of any borrower.<br>▪ **Depth of credit history:** For each borrower *whose income is used to qualify*<br>    o Minimum of 3 open trade lines that show a 24 month history for each trade line is required (one of the 3 must be an installment or mortgage), 2 of which must be reporting activity within the past 6 months, OR<br>    o Minimum of 8 satisfactory trade lines must be reported in total, of which 1 is for a mortgage, with a minimum of 1 *open* trade line reporting over the past 12 months, or more<br>    o Borrower must have at a minimum 7 years of established credit history.<br>▪ **The following are not acceptable** to be counted as trade lines: "non-traditional" credit, loans in deferment period, accounts discharged through bankruptcy, authorized user accounts, judgments, charge-offs, collection accounts, foreclosures, deed-in-lieu of foreclosure, short sales or pre-foreclosure sales.<br>▪ Written explanation for all inquiries within 90 days is required. |
| **Credit - Housing Payment History (Mortgage or Rent)** | ▪ **Housing Payment History:** Borrower(s) must have a complete, most recent, 24 months rental and/or mortgage payment history documented in the loan file. A minimum 24-month history of the borrower's mortgage and/or rental payment history must be provided as evidenced by a credit report, 24 months of cancelled checks, or an institutional VOM/VOR covering 24 months. A private VOM/VOR is only allowed if 18 months canceled checks or bank statements are also provided.<br>▪ **No 30 day late payments in the past 24 months** on any rent payment or on any mortgage on ANY real estate owned by any borrower on the transaction.<br>▪ **Mortgages** must either be on the credit report or have the most recent 24 month's payment history (or as long as the property owned, if owned less than 24 months) documented to meet program requirements<br>    o Documented by cancelled checks or evidence of electronic transfers if a private party loan (VOM alone is not sufficient), or<br>    o Documented by cancelled checks, evidence of electronic transfers, or through an official statement produced by the lender, if a loan from an institutional lender.<br>▪ **Rental history** for 24 months or the portion of the last 24 months in which the borrower was renting (12 months minimum for FTHB) must be evidenced by:<br>    o for the most recent 12 months, either: (a) an Institutional VOR, or (b) cancelled checks or evidence of electronic transfers<br>    o for months 13-24, either: (a) an institutional VOR, or (b) cancelled checks or evidence of electronic transfers, or (c) private party VOR, which is only acceptable if not from a family member or interested party to the subject transaction |

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| **Credit, Derogatory Credit Events and Tradelines** | ▪ No bankruptcy, foreclosure, deed-in-lieu of foreclosure, short sale or modifications on any property within the last 7 years from the application date.<br>▪ If any of the borrower's accounts are showing past due payments, those accounts must be brought current prior to Loan close, and a credit supplement or other documentation showing that the accounts were current prior to loan close must be provided in the loan file.<br>▪ All delinquent credit obligations that have the potential to affect the subject Mortgage Loan's lien position or diminish borrower's equity in the subject property must be paid off at or before closing, including without limitation all delinquent taxes, tax liens, judgments, and mechanics' or materialmen's liens.<br>▪ In addition, all non-lien charge-off and collection accounts exceeding $1,000 (either individually or in aggregate) must be paid off.<br>▪ No Authorized User Accounts will be used to satisfy minimum tradeline or FICO requirements |
| **Deed Restrictions** | ▪ Properties subject to resale deed restrictions, other than an acceptable Age-Related Deed Restriction on a one-unit Property for Borrower's principal residence that meets Agency guidelines are not eligible. |
| **Departure Residence Policy Conversion of Primary Residence to Rental Property, Second Home, or Pending Sale** | ▪ Rental income from properties converted from the borrower(s) principal residence to an investment property borrower is not allowed. The borrower must qualify with both payments. |
| **Electronic Signatures** | ▪ Only the initial 1003 and initial regulatory disclosures may be signed by the Borrowers electronically. |
| **Escrow Holdbacks** | ▪ Pending escrow holdbacks are NOT eligible. |
| **First Time Homebuyers (FTHB) Loan Amount Restrictions, Payment Shock** | ▪ **First Time Homebuyer (FTHB) maximum loan amount is $1,250,000**.<br>▪ Occupancy must be Primary Residence only.<br>▪ One unit properties only.<br>▪ See Reserve Requirements Calculation Table.<br>▪ A First Time Homebuyer transaction is one where **no** occupant borrower has had an ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the Mortgaged Premises:<br>▪ First time homebuyers must have an acceptable rental payment history for at least 12 months<br>▪ Payment shock standards apply to FTHB and borrowers with less than 5 years job history and/or consistent earned income.<br>▪ **Payment shock**: Cannot exceed 250% over the borrower's current rental payment. Example**:**<br>o Current rental payment = $1,000 per month<br>o Current rent X 2.5 (250%) = $2,500 maximum increase (shock)<br>▪ *Maximum increase ($2,500) + $1,000 current rental payment = $3,500 maximum new payment* |

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| **HPML and High Cost Loans** | ▪ **High Cost**: Loans exceeding any applicable federal, state or municipal High Cost limits are not eligible for purchase by Lender<br>▪ **HPML**: Higher-Priced Mortgage Loans (HPML) are not eligible for purchase in this program. |
| **Identity of Interest and Non Arms- Length Transactions** | ▪ Loans for transactions with identity of interest or non-arm's length characteristics are not eligible.<br>▪ Examples of these types of transactions (not a complete list) include: sales of properties between family members or business associates OR involving a business entity and individual who is an officer or principal OR involving the builder/developer of the property and an employee or affiliate OR made in conjunction with any transaction involving an assignment of the sales contract.<br>▪ **Gifts of equity** are not allowed.<br><br>Note: Loans to owners and employees of the correspondent, its affiliates and subsidiaries or TPOs are **NOT** eligible. |
| **Income: DTI Calculations, Return to Employment, Newly Self-Employed** | ▪ **Guidelines**: Use Fannie Mae guidelines only when this Program Guide is silent.<br>▪ **Maximum back-end DTI for all loans is 42.00%**.<br>▪ **Non-Occupant, Co-Borrower DTI**:<br>    o Occupant borrower(s) must by themselves qualify at 42.00% DTI maximum<br>    o Maximum DTI must not exceed 42% when considering all occupant and non-occupant co-borrowers<br>▪ **Qualifying Interest Rate** –Note rate<br>▪ **Tax Returns:** For standards relating to the age of tax returns, see *Fannie Mae Selling Guide B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns*<br>▪ **Full Income Documentation is required. For most income types, this would include**:<br>    o Employed Borrowers: Most Recent Paystub including year-to-date earnings (covering minimum of 30 days) and two years W2's. If a Request for Verification of Employment, Form 1005 is used, the file must also include a current pay stub for the most recent 30 day period and the most recent year's W-2. If tax returns are required, they must be **signed and dated.**<br>    o Self-employed Borrowers (where borrower has 25% or more ownership interest) must provide the following documentation:<br>    o Signed, dated individual tax returns, with all applicable tax schedules for the most recent two years;<br>    o For a corporation, "S" corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules;<br>    o Year to date profit and loss (P&L) statement and balance sheet.<br>▪ **In addition, Verbal Verification of Employment required for all borrowers and must be completed**:<br>    o Within 10 calendar days prior to the closing date for employment income<br>    o Within 30 calendar days prior to the closing date for self-employment income (VVOE for Self Employed income should include verification of a phone listing and address for the borrower's business AND verification through a third party such as a CPA, regulatory agency or applicable licensing bureau. If contact is made verbally, the loan file must be documented to identify both the source of the information obtained and the name & title of the person who obtained the information.<br>▪ **Rental Income Calculation**:<br>    o If the property was acquired subsequent to the most recent tax filing year, a signed lease agreement should be used to calculate qualifying rental income.<br>    o Rental income should be calculated using the 1040 tax return (Schedule E) information. |

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| | ○ In the event rental income is reporting for only 1 year, a 12 month average of the rental income can be used.<br>○ If the rental property has been owned by the borrower for equal to or more than two years, the rental income should be calculated using 1040 tax return (Schedule E) information averaged for the last 24 months. If the rental income declined in the most recent tax return then a 12 month average of the prior year rental income should be used.<br>○ Per Appendix Q, a current lease agreement is always required to verify that the property will continue to be rented.<br>○ Rental income from properties converted from the borrower(s) principal residence to an investment property borrower is not allowed. The borrower must qualify with both payments.<br>○ Gaps of employment exceeding one month must be explained<br>▪ **Bonus and Overtime**<br>○ The borrower must have a two year history of receiving this type of income for consideration.<br>▪ **Commission Income**<br>○ Must be averaged over the previous 2 years and tax returns must be provided.<br>▪ **Return to Employment**<br>○ After returning from an extended absence from employment of six months or more, the borrower must be employed a minimum of 12 months in the current job to use the income for qualifying.<br>○ Note: *A state or federally protected leave is not considered to be an extended absence from employment.* |
| **Income: DTI Calculations, Return to Employment, Newly Self-Employed** | ▪ **Duration of Self-Employment**<br>○ Self-employment income must be documented with tax returns reflecting two full years of the current business activity in order for the income to be used for qualifying.<br>○ Net losses from self-employment must be deducted from qualifying income regardless of the longevity of the business activity, unless the business producing the losses is documented to be discontinued.<br>▪ **Social Security Income**<br>○ Social Security income must be verified by a Social Security Administration benefit verification letter.<br>▪ **MCCs**: Mortgage Credit Certificates (MCCs) are not allowed for income qualifying<br>○ Cash out may not be used to pay down debt to qualify for the loan<br>○ Borrowers cannot pay down revolving debt within 90 days of the credit report in order to qualify for the loan nor pay down installment debt to<br>○ 10 payments or less to exclude payment from DTI calculations. Revolving and installment debt can be excluded from calculations if the accounts are closed and proof is provided.<br>▪ **Unreimbursed Business Expenses**<br>○ Expenses must be subtracted from gross income. |

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| **Income: Ineligible Income** | **Ineligible Sources of Income**<br>▪ Depletion of assets<br>▪ Educational benefits, such as VA benefits or scholarships<br>▪ Lump sum payments such as inheritances or lawsuit settlements (may be verified as assets to close)<br>▪ Payments that are received for purchase or reimbursement of specified items<br>▪ Retained earnings<br>▪ Reverse Mortgage Loan proceeds<br>▪ Secondary income that will continue for less than three years<br>▪ Taxable forms of income that the borrower does not declare on federal income tax returns<br>▪ Unverifiable income<br>▪ Value of a company furnished automobile<br>▪ Value of employment benefit packages that are not received as cash wages<br>▪ Lump sum payments of lottery earnings that are not ongoing<br>▪ Non-borrower spouse income<br>▪ Student loans/grants<br>▪ Allowance income (for example, an allowance received from a family member)<br>▪ Stock options<br>▪ Room and board received for the borrower's principal residence.<br>▪ Severance Pay<br>▪ Trailing wage earner income<br>▪ Projected Income<br>▪ Foreign income |
| **Occupancy Types** | ▪ Primary Residence: An owner occupied primary residence is a property that the occupant borrower(s) intends to occupy as his or her principal residence, at or quickly following the closing of the loan, and for a major portion of the year on an ongoing basis.<br>▪ Second Home: follow standards in *Fannie Mae Selling Guide Section B.2.1*., and:<br>  o Second home property must be a reasonable distance away from the borrowers' principal residence, and<br>  o Borrower may not own any other properties near the second home, and<br>  o Second home must not be subject to any agreement that give a management firm control over occupancy. |
| **Power of Attorney** | ▪ All Powers of Attorney must receive investor approval. Allow 2-3 business days for review.<br>▪ No Powers of Attorney allowed on loans to Trusts or on cash-out refinances. |
| **Property Quality and Condition** | ▪ Properties with ratings of C5, C6 or Q6 are not allowed unless the issues that caused the ratings are cured prior to loan delivery and acceptable documentation is provided by the appraiser. Escrow Holdbacks are not permitted. |

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| **Property Eligibility Ineligible Property Types and Property Uses** | **The following property types are ineligible:** (Also see Ineligible Condo Project Types in this Program Guide)<br>▪ Properties with less than 650 square feet of habitable living space<br>▪ Properties with acreage greater than 10 acres<br>▪ Co-ops<br>▪ Log homes<br>▪ Dome homes and other exotic or non-traditional types of structures<br>▪ Assisted living or board and care facilities<br>▪ Manufactured homes and mobile homes<br>▪ Assisted Living Facilities<br>▪ Unimproved properties (land loans)<br>▪ Mixed use properties<br>▪ Unique Properties<br>▪ Properties used for commercial purposes<br>▪ Properties lacking kitchen and full bathroom facilities<br>▪ Properties sold at auction by the builder, developer, or construction lender are not eligible.<br>▪ Foreclosed properties located in a state where a redemption period is allowed (allowed in some states for both Tax Sales and Judicial Foreclosures) until: The redemption period has expired AND the foreclosure sale had been confirmed AND clear and marketable title can be obtained.<br>▪ Factory built housing<br>▪ Projects in current or pending litigation<br>▪ Properties on privately owned and maintained streets require a private road maintenance agreement, except for properties in California. If the property is located within a state, other than California, that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required as long as the statutory provisions provided in the file.<br>▪ Hawaii properties in lava zones 1 and 2<br>▪ Houseboats<br>▪ Properties located on Indian (Native American) tribal or Trust land, or "Indian Leased Land"<br>▪ Bed & breakfast<br>▪ Working farms, hobby farms or ranches<br>▪ Boarding houses<br>▪ Properties with an illegal use under the regulations<br>▪ Ineligible condominiums and condotels<br>▪ Leaseholds |

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| **Property Flipping, Purchase Contract Assignments** | ▪ If the Purchase Contract has been assigned to buyer from a previous purchaser, then the loan is not eligible for sale to Lender.<br>▪ If prior sale of subject property occurred within 90 days, then the loan is only eligible if:<br>○ 1. Property seller is Relocation Agency, or 2. Property seller obtained property through Foreclosure or Deed in Lieu, or 3. Property Seller obtained property through Inheritance or Divorce.<br>○ Subject transaction must be for a primary residence only<br>○ Transaction meets requirements that apply to "*Properties Recently Listed for Sale*" below<br>○ All requirements for properties re-sold within 180 days are met (directly following here).<br>▪ If there has been a sale or ownership transfer of the subject property within the previous 180 days :<br>○ All loans with identity of interest or non-arms-length characteristics are not eligible for sale to Lender under this program.<br>○ If 10% or more value increase from the prior sale, Seller's choice of either a Second Appraisal from a different appraisal company (same AMC OK) OR a Clear Capital Collateral Desktop Analysis - CA (CDA) (i.e., the CDA version without MLS data) is required and additional restrictions apply. If the CDA option is chosen and the CDA value is more than 10% below the original appraisal(s), additional BPO and value reconciliation requirements apply. See *Appraisal Requirements* and *Appraisal Review and Second Appraisals* sections above. If a Second Appraisal is obtained, use the lower of the two values.<br>▪ THE APPRAISAL(s) MUST SPECIFICALLY ADDRESS THE PRIOR SALE AND JUSTIFY THE PRICE INCREASE |
| **Properties Recently Listed for Sale** | ▪ Properties listed for sale in the 6 months (180 days) prior to application date are not eligible. Proof of the cancelled listing as well as a current search of the multiple listing service must be provided. |
| **Refinance Benefit to Borrower** | ▪ Loans are not eligible if there is evidence of churning and/or the transaction does not result in a tangible net Benefit to Borrower.<br>▪ A "Tangible Net Benefit to Borrower" worksheet in each refinance transaction Mortgage Loan file (or in Colorado, purchase). If a particular form is required by the state or local area that the subject property is located in, that form should be used. If there is no such requirement, an equivalent form is acceptable. |
| **State and Geographic Restrictions** | **Loans with the following locations are not eligible:**<br>▪ Multiple (2-4) unit properties in the state of New Jersey.<br>▪ Loans that are Texas A6 or have ever been an A6 transaction.<br>▪ Loans secured by properties located on Indian (Native American) tribal land or Indian Trust Land or Restricted Land, and/or properties for which borrower has a leasehold interest in same, are not eligible. See Property Eligibility. |

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| **Subordinate Financing** | ▪ CLTV/HCLTV thresholds shown in the product matrix above may not be exceeded.<br>▪ Secondary liens must have terms and characteristics that are Fannie Mae eligible. They also must not permit negative amortization or contain a balloon feature or a prepayment restriction/penalty.<br>▪ For HELOCs, the **entire credit line limit** based on the Note must be used to calculate the HCLTV and determine program eligibility. If a credit line is reduced **without** a permanent modification of the original Note, then the entire original line limit must be used to calculate the HCLTV. Follow Fannie Mae for calculating CLTV, HCLTV and qualifying payment.<br>▪ For existing subordinate second liens, a certified copy of the executed subordination agreement **and** a copy of the Note must be delivered with the Mortgage Loan file.<br>▪ For new subordinate liens, a copy of the Note and a certified copy of the security instrument indicating that it is recording subordinate to the new first lien are required.<br>▪ **HELOC Payment Calculation**: If the subordinate financing on the subject property is a HELOC, the monthly payment must be calculated based on the current rate of the total line amount, even if the HELOC has a $0 balance. |
| **Tax Transcripts** | ▪ A *tax transcript* must be obtained for each tax year covered by the income documentation used to qualify the Borrower(s). If not yet available, loan file must contain a copy of an IRS or vendor document showing that no transcript is available. Income variations in the current year's income > 15% from the most recent tax transcript must be adequately explained. |
| **Trusts** | ▪ Revocable Inter Vivos "Living" trusts acceptable to Lender only.<br>▪ No Illinois Land Trusts or other trust types.<br>▪ Documents for loans where title is taken in a trust cannot be signed with a Power of Attorney. .<br>▪ For Inter Vivos Revocable Trusts, all loans must meet the requirements in *Fannie Mae B2-2-05 Inter Vivos Revocable Trusts* and *Fannie Mae B8-5-02 Inter Vivos Revocable Trust Mortgage Documentation and Signature Requirements,* which among other things requires that the individuals establishing the Trust ("borrowers") must sign as both individuals and Trustees. |

**Reserve Requirement Calculation Table**

| **RESERVE REQUIREMENT CALCULATION TABLE** (7/28/2014) | | | |
|---|---|---|---|
| **Step 1- Calculate Subject Property Reserves** | | | |
| **Subject Property** | **Occupancy** | **Loan Amount, in Million Dollars** | **Number of Months Subject Property PITIA Reserves Required (1)** |
| **1 Unit** | Primary | ≤ 1 | 9 (12 if first time homebuyer) |
| | | >1 - 2 | 12 |
| | Second Home | ≤ 1 | 12 |
| | | >1 - 2 | 24 |
| **2 Unit** | Primary Residence | ≤ 1 | 12 |
| | | >1 - 1.5 | 18 |
| | | >1.5 - 2 | 24 |

**Step 2 – Calculate Additional Reserves for Departure Residence Scenario**

1. Is the borrower converting their current residence to a second home or investment property, or
2. Is the borrower's current residence pending sale and will not close prior to or concurrently with subject transaction?
3. If yes to 1 or 2 reserve requirement = 6 months PITIA, using the greater of: (a) the PITIA of the current residence, and (b) the PITIA of the new/subject property.

**Step 3 – Calculate Additional Reserves for Multiple Financed Properties Owned**

1. Does the borrower have additional financed, 1-4 unit, residential, second home and/or investment properties?
2. If yes, reserve requirement = 6 months of the PITIA of each additional financed property owned (Reminder: Maximum 4 financed 1-4 unit properties owned including subject transaction, see **Borrower Eligibility**)

**Step 4 – Calculate Total Reserves Required**

Add the reserve requirement calculations from **Step 1** Subject Property, **Step 2** Departure Residence Scenario, and **Step 3** Multiple Properties Owned, to determine total reserves required.

**(1)** Based on **Qualifying Payment**

**Eligible reserve sources**- Follow Fannie Mae Selling Guide *Section B3-4*, except that Gifts may not be used to meet reserve requirements.