Non-Prime DSCR Guidelines

12-26-2022

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HMAC HOME MORTGAGE ALLIANCE CORPORATION
MAKING A *DIFFERENCE* IN HOMEOWNERSHIP

Click Link Below to View Matrix at Homemac.com

- Investor Non-Prime Matrix

Program rates and parameters are subject to change without notice.

HMAC NON PRIME MORTGAGE PROGRAMS

The NON PRIME Non-QM programs series offer loans with features beyond the criteria established for Qualified Mortgages. Features include alternative income documentation for self-employed borrowers, interest only, and loan qualification for investment properties using the subject property cash flow. Non-QM loans submitted to Home Mortgage Alliance Corporation (HMAC) must meet the criteria of the current published Eligibility Guide as of the file submission date for review.

Eligible Products

The following loan products are eligible for purchase by Home Mortgage Alliance Corporation (HMAC):

PRODUCT	QUALIFYING RATE*	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
5/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	2/1/5
7/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	5/1/5
7/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	5/1/5
7/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	5/1/5
10/6 ARM	Higher of Fully indexed or Note Rate	360	NA	360	30-day avg SOFR	5/1/5
10/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	5/1/5
10/6 ARM I/O	Higher of Fully indexed or Note Rate	480	120	360	30-day avg SOFR	5/1/5
15 YR FIXED	Note Rate	180	NA	180	NA	NA
30 YR FIXED	Note Rate	360	NA	360	NA	NA
30 YR FIXED I/O	Note Rate	360	120	240	NA	NA
40 YR FIXED I/O	Note Rate	480	120	360	NA	NA

*When DSCR documentation type is selected, all ARM products may use the note rate for qualifying.

Additional ARM Criteria			
Adjustment Reset Period	**Lookback Period**	**Margin**	**Floor**
6-months	45-days	See Rate Sheet	Margin

Qualifying Payment

The qualifying payment is based upon the principal and interest payment along with 1/12th of the annual real estate taxes, property insurance, any other insurance, and any association dues.

The qualifying payment is based on the amortization term. For interest-only loans, using standard or Alt documentation, this is the remaining term after expiration of the interest-only period. Single asset DSCR loans secured by 1-4 unit properties can be qualified using the interest only payment (ITIA).

Interest-Only Restrictions

NO RATIO DSCR	FOREIGN NATIONAL
Investment	**2nd Home and Investment**
Minimum Credit Score: 660	Eligible – no restrictions
Maximum LTV/CLTV: 70%	

Loan Amounts

NO RATIO DSCR	FOREIGN NATIONAL
Minimum: $150,000	Minimum: $150,000
Maximum: $3,000,000	Maximum: $2,000,000

Minimum Credit Score

NO RATIO DSCR	FOREIGN NATIONAL
660	680 US Credit or Foreign Credit

Solar Panel Requirements

Properties with Solar Panels
The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- Borrower-owned panels,
- Leasing agreements,
- Separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- Power purchase agreements

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible for delivery if the PACE loan is not paid in full prior to or at closing.

Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan.

The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

The following sections summarize some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

Scenario 1 – Solar Panel(s) Affixed to Real Estate
If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records.

The lender must:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement that reflects the terms of the secured loan;
- ***Not*** include payment in the DTI if the payment under power purchase agreement is calculated solely based on the energy produced.
- Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and
- Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records.

Note: If a UCC fixture filing is in the land records as a priority senior to the mortgage loan, it must be subordinated.

Scenario 2 – Solar Panel(s) Not Affixed to Real Estate
Financed and collateralized – the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.

The lender must:
- Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, and any UCC financing statement, related promissory note or related security agreement);
- ***Not*** include payment in the DTI if the payment under power purchase agreement is calculated solely based on the energy produced.
- Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt;
- Not include the panels in the LTV ratio calculation; and
- Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement of any UCC financing statement treat the panels as personal property not affixed to the home.

Private Mortgage Insurance (PMI)

Private Mortgage Insurance (PMI) is not required on any Non QM loan eligible for sale to Home Mortgage Alliance Corporation (HMAC).

Note and Security Instrument Forms

For consumer loan transactions, the current version of the Uniform Residential Loan Application (URLA) should be used. For business purpose loan transactions, the lender may utilize the URLA or similar lender application.

Available Fannie Mae® security instruments, notes, riders/addenda, and special purpose documents can be used for owner-occupied or investment property loan documentation. The Fannie Mae® forms are available at https://singlefamily.fanniemae.com/selling-and-servicing-guide-forms-and-communications. In instances when Fannie Mae® doesn't offer current documentation (e.g., interest only), a document vendor, such as Doc Magic or Ellie Mae should be used to obtain forms.

For business purpose loans (Investment Property Only), Home Mortgage Alliance Corporation (HMAC) offers a business purpose document set consisting of: Note, Loan Agreement, Personal Guaranty, and Prepayment Rider. These documents can be accessed via the Home Mortgage Alliance Corporation (HMAC) website: www.Home Mortgage Alliance Corporation (HMAC)mortgage.com. The use of this business purpose document set or a similar commercial style closing documents is required for cross-collateral loans.

Age of Document Requirements

Credit Review Documentation

The following documents may not be more than 90 days old at closing (the date the Note is signed):

- Income verification / pay stubs
- Mortgage /rental verification
- Asset documents / bank statements
- Credit Report

The following documents may not be more than 120 days old at closing (the date the Note is signed):

- Title commitment / preliminary report / binder

Any credit review documents exceeding these timeframes must be updated.

Appraisal

Residential Appraisals (1-4 units): The appraisal must be dated within 365 days of the Note date. Recertification of value required if the report would exceed 120 days of the Note Date. See complete appraisal requirements in Section 5.5.1.1 – Appraisal Requirements.

Clarification

It may be necessary for the applicant to explain or clarify information provided on the application or for a third-party to clarify information provided on a verification request form. This should be completed in writing and included in the underwriting file.

Loan Seasoning

Loans seasoned beyond the second scheduled payment date due from the borrower are ineligible. Home Mortgage Alliance Corporation (HMAC) may, at its sole discretion, make exceptions regarding loan seasoning.

Borrower Eligibility

Residency

US Citizen

Eligible without guideline restrictions.

Permanent Resident Alien

An alien admitted to the Home Mortgage Alliance Corporation (HMAC)d States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the Home Mortgage Alliance Corporation (HMAC)d States.

- Acceptable evidence of permanent residency include the following:
  - Alien Registration Receipt Card I-551 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

Non-Permanent Resident Alien

An individual admitted to the Home Mortgage Alliance Corporation (HMAC)d States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the Home Mortgage Alliance Corporation (HMAC)d States.

- Legal Status Documentation
  - Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, R-1, TN NAFTA.
  - Visa must be current. If the visa will expire within six (6) months following the close date, additional documentation is required: evidence that the proper extension steps have been followed per the U.S. Citizenship and Immigration Services (USCIS) website, along with proof

of payment receipt and proof that the extension was done in the timeframe required by USCIS.

- When applicable, a valid Employment Authorization Document (EAD) is required for US employment if borrower is not sponsored by a current employer. If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the unexpired EAD. The EAD documentation is acceptable up to 540 days if an automatic extension has been granted. If the borrower filed a Form I-765 renewal application on or after May 4, 2022, USCIS will send them a Form I-797C Notice of Action receipt notice that has information regarding the up to 540-day automatic extension. If the borrower is eligible for the automatic extension, this receipt notice, together with the expired EAD (and the borrower's unexpired Form I-94, if the borrower is an H-4, E, or L-2 dependent spouse, including E-1S, E-2S, E-3S and L-2S class of admission codes) will serve as acceptable proof of employment authorization and/or EAD validity during the up to 540-day automatic extension period. See the related USCIS link for further information:
  https://www.uscis.gov/eadautoextend

- Guideline restrictions:
  - Standard or Alt Documentation limited to 24 months only. Maximum LTV/CLTV limited to 80%
  - DSCR Documentation (Investment Only): Maximum LTV/CLTV 70%
  - Non-occupant co-borrowers are not allowed.
  - Gift funds are not allowed.
  - US credit requirements detailed under the Credit of this guide should be used.

Foreign National

A Foreign National is: a non-resident alien who is not authorized to live or work in the U.S. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. They may not purchase property intended for use as a primary residence. .

Foreign Nationals are eligible under the following matrices:

- Foreign National (second home or investment properties)

Citizens of the following countries are not eligible under the Foreign National product or any other product:

- Russia
- Belarus

Foreign Residency

A foreign national borrower must evidence their primary residence for the country issuing their Passport. Foreign National borrowers may not occupy the subject property as a primary residence.

- A complete loan application (Form 1003) is required on all loan files reflecting the borrowers address for their primary residence in their country of origin.
- The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.
- Borrower to provide a third-party document with an address that matches the primary residence on the application e.g., lease agreement, utility bill, financial statement.
- The Borrower Contact Consent Form is required.

Automatic Payment Authorization (ACH)

Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers. Funds must be from a U.S. Bank. The executed (ACH) enrollment form must be included in the closed loan submission package. The (ACH) enrollment form must include the bank routing number, account number, and account type. Borrowers may select a date within the grace period stated on the Note.

Foreign National Program Specific Documentation Requirements

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport (including photograph) and
    - Copy of the borrower's valid and unexpired visa (including photograph) OR an I-797 form with valid extension dates and I-94, or
    - Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Participating countries can be found at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html The credit file should be documented with a current print-out of the participating countries, with the borrowers country of origin highlighted.
    - Citizens of Canada traveling to the Home Mortgage Alliance Corporation (HMAC)d States do not require a nonimmigrant visa.
- A list of nonimmigrant Visa types is located on the U.S. Department of State web site https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-

categories.html If a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements still apply.

- All parties (Borrower's and Seller's) involved on the transaction must be screened through exclusionary lists, and must be cleared through OFAC's SND list. A search of Specially Designated Nationals & Blocked Persons list may be completed via US Department of Treasury: http://sdnsearch.ofac.treas.gov/.
- Borrowers from OFAC sanctioned countries are ineligible http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm
- Documents signed by Borrowers outside of the Home Mortgage Alliance Corporation (HMAC)d States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention: https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-your-document/apostille-requirements.html

  Model Apostille forms can be found on the following link:

  https://www.hcch.net/en/instruments/specialised-sections/apostille

- Power of Attorney (POA) is not allowed.

Qualifying U.S. Credit

- For foreign national borrowers with a valid Social Security number, a credit report should be obtained. Requirements found in the Credit section of this guide apply.
- Restrictions when qualifying with U.S. credit:
  - Minimum Credit Score: 680
  - Non-Occupant Co-Borrowers not allowed
  - Second Home or investment property only

Qualifying Foreign Credit

- Foreign national borrowers without qualifying U.S. credit (Including borrowers without a valid Social Security number and borrowers with or without an Individual Tax Identification Number) must provide evidence of two (2) open tradelines reporting for two (2) years with activity in the most recent 12 months. No derogatory credit history is permitted within the 2-year history under review. ANY combination of the following is acceptable to arrive at the tradeline requirement:

- Tradelines evidenced via a U.S. credit report; AND/OR
- Alternative Tradelines consisting of two of the following:
  - Credit Reference letter(s) from a verified financial institutions in the borrower's country of origin
    - A reference letter must be from an internationally known financial institution.
    - Each letter of reference must state the type and length of the relationship, how the account is held, payment amount, outstanding balance and status of account including a minimum 12-month payment history.
    - A single reference source may provide verification of multiple accounts. Individual account detail must be provided.
    - The letter must mention the borrower by name.
    - Name, title & contact information of the person signing the letter must be included.
    - Currency must be converted to U.S. Dollars and signed and dated by certified translator.
    - All documents must be translated into English.
  - Credit Card Statements – minimum of twelve (12) recent credit card statements reflecting a timely payment history.

- Guideline restrictions: Qualifying Foreign Credit
  - Maximum LTV/CLTV: 70%
  - Standard Doc (Second Home or Investment)
  - DSCR (Investment property only)
  - Non-Occupant Co-Borrowers not allowed

Housing History

A housing history for the borrower's primary residence is not required. Refinance transactions (including cash out) require the most recent 12-month housing history for the subject property.

Foreign National Income

- Borrowers with US sourced income must comply with all Standard Documentation guidelines.
- Foreign National Salaried/Wage Earners qualifying on Non-US income sources can be documented using one of the following methods:
  - A letter from employer on company letter head providing current monthly salary, YTD earnings and total earnings for the past 2-years. Letter from employer must be on company

letterhead, including address and company web address, Employer to be independently verified (LexisNexis, D&B, Google, other). All docs must be translated by an independent certified translator.

- Foreign National Self-Employed borrowers qualifying using non-US income sources:
  - Must be self-employed for a minimum of 2 years evidenced by a letter from the borrower's CPA or local equivalent (the "Accountant") on Accountant letterhead. The letter must include income figures for each of the last 2 years and YTD income. A business license (where required) and organization documents should be provided; and
  - A copy of the Accountant's current license is required. The Business & Accountant must be independently verified; and
  - All documents must be translated by an independent certified translator. OR
  - Two (2) years tax returns from the borrowers country of residence, along with a YTD P&L statement
- Asset Utilization is eligible for Foreign National borrowers. Assets must be seasoned a minimum of three (3) months in a U.S. financial institution. See 5.3.11 Alt Doc - Asset Utilization for complete requirements.
- Income from countries sanctioned by OFAC is not allowed.
- Care must be taken in assessing income from a non-US sources. If income is declining or inconsistent, and cannot be isolated to a non-recurring instance, then the lowest annual income should be used.

Foreign National Assets

RESERVES

Twelve (12) months of reserves are required. Reserves may be reduced to six (6) months with a 5% LTV reduction.

ASSETS HELD IN FOREIGN ACCOUNTS

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing.

- Documenting Assets Held in Foreign Accounts:
  - Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.

- A copy of the most recent statement of that account.
- See the 5.2.2 - Asset Documentation section of this guide for eligible sources and types of assets.

GIFT FUNDS

Gift funds are not allowed.

Non-Occupant Co-Borrowers

- Non-occupant borrowers are credit applicants on a principal residence transaction who do not occupy the subject property.
- When non-occupant income used a 5% LTV reduction from program maximum required.
- The Non-occupant borrower's income is limited to Standard Documentation only.
- Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower Certification similar to the form this example of a Non-Occupant Co-Borrower Certification in this guide.
- Occupying borrower(s) must have a DTI ratio of 60% or less. This excludes the income/debts of non-occupant borrower(s).
- Cash out transactions not allowed.
- The non-occupant co-borrower must be included on title of the subject property.

First-Time Home Buyers

An individual is to be considered a first-time home buyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the application date of the security property. Note: An individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first-time homebuyer transactions:

- Primary residence only.
- Minimum 680 credit score.
- DTI may not exceed 45%.
- Minimum six (6) months of reserves.
- 12-month rental history is required, reflecting 0x30.

Ineligible Borrowers

- Irrevocable Trust
- Land Trust
- Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from US jurisdiction
- Not-for-profit entity

Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.

Title Vesting and Ownership

Ownership may be fee simple or leasehold title. For more information regarding leaseholds, see Section 5.5.6

Title must be in the borrower's name (Owner-occupied property) at the time of application for refinance transactions.

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter vivos revocable trust
  - Illinois land trusts

Ineligible forms of vesting are:

- Land trusts
- Blind trusts
- IRAs

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae® requirements should be followed to the extent this section is silent.

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if two (2) or more)

- An institutional trustee that customarily performs trust functions in, and is authorized to act as trustee under the laws of, the applicable state

The trustee must have the power to hold the title, and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.

The following documentation is required:

- If the trust was created under California law, a fully executed Certificate of Trust under Section 18100.5 of the California Probate Code.
- If the trust was created under the laws of a state other than California:
  - Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all the following:
    - The trust is revocable.
    - The borrower is the settler of the trust and the beneficiary of the trust.
    - The trust assets may be used as collateral for a loan.
    - The trustee is:
      - Duly qualified under applicable law to serve as trustee
      - The borrower
      - The settler
      - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets

Limited Liability Companies, Partnerships, Corporations, and S Corporations (each, an “Entity”) in accordance with the requirements listed below:

To vest a loan in an Entity, the following requirements must be met:

- Restricted to investment properties only.
- Purpose and activities are limited to ownership and management of real property.
- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) owners or members.
- Personal guaranties (full recourse) must be provided by all members of the entity. A Personal Guaranty form is available on the Home Mortgage Alliance Corporation (HMAC) website: www.Home Mortgage Alliance Corporation (HMAC)mortgage.com.
- Each Entity member providing a personal guaranty (full recourse) must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guaranty needs to be reflected on the 1003 loan application. The

application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

- No Correspondent Seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.
- The following Entity documentation must be provided:
  - Limited Liability Company
    - Entity Articles of Organization or Partnership
    - Certificate of Good Standing or equivalent
    - Foreign LLC Certificate of Good Standing or equivalent if entity not formed in subject property state
    - Certificate of Authorization for the person executing all documents on behalf of the Entity. The authorization may be determined in an Operating Agreement or other corporate documents. If not, a Borrowing Certificate is required.
      - Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)
    - Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
    - Tax Identification Number (Employer Identification Number - EIN)
      - Single Member LLC may use EIN or the guarantor social security number
      - All multi-member LLCs must have an EIN
  - Corporation
    - Filed Certificate/Articles of Incorporation (and all amendments)
    - By-Laws (and all amendments)
    - Certificate of Good Standing (Issued by the Secretary of State (SOS) where the Corporation is incorporated)
    - Tax Identification Number (EIN)
    - Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
    - Receipt of current year franchise tax payment or clear search
  - Partnership
    - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
    - Partnership Agreement (and all amendments)
    - Certificate of Good Standing (Issued by the SOS where the partnership is registered)
    - Tax Identification Number (EIN)
    - Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual by all members of the Entity:
  - Loan Application (Fannie Mae® Form 1003)
    - Completed for each individual member of the Entity.
    - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the LLC name.
    - Signed by Individuals
  - Personal Guaranty
    - Completed for each individual member of the entity.
    - The guaranty should be executed at loan closing and dated the same date as the Note.
    - Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge. See Spousal Consent Form.
- Signed by the authorized signer for the entity:
  - Disclosures (e.g., GFE, TIL, ECOA)
  - Any state or federally required settlement statement
  - Note, Deed of Trust/Mortgage, and all Riders

Examples - Signature Requirements

[Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing Member, Member, etc.).

SAMPLE 1:

Borrower: JJ Investors, LLC by James Johnson, Single Member of LLC

Note, Security Instrument, and all Riders:

Signature Block

JJ INVESTORS, LLC a [_____] limited liability company

James Johnson

By: James Johnson

Title: [Authorized Signatory]

SAMPLE 2:

Borrower: JJ Investors, LLC, by James Johnson and Jane Nelson, two Members of LLC;

Both Members are Authorized Signatories of LLC.

Note, Security Instrument, and all Riders:

Signature Block

JJ INVESTORS, LLC a [_____] limited liability company

James Johnson,

By: James Johnson

Title: [Authorized Signatory]

and

JJ INVESTORS, LLC a [_____] limited liability company

Jane Nelson

By: Jane Nelson

Title: [Authorized Signatory]

Power of Attorney

A limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction;
- It is recorded with the Mortgage/Deed of Trust;
- It contains an expiration date;
- It is used to execute only the final loan documents; and
- The Borrower who executed the POA signed the initial 1003, and
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.
- Not eligible for cash-out transactions or with Foreign National borrowers.

Occupancy Types

- Primary Residence – A primary residence is a property that the borrower occupies as his or her principal residence. May also be referred to as owner-occupied.
- Second Home – A second home is a property occupied by the borrower for some portion of the year. The following criteria applies:
  - Restricted to one-unit dwellings

  - Must be suitable for year-round occupancy
  - The borrower must have exclusive control over the property. Cannot be subject to any agreements giving control over occupancy to a management firm, rental pools, or timeshare arrangement.
- Investment Property – An investment property is owned but not occupied by the borrower.

Borrower Statement Of Occupancy

The borrower must acknowledge the intended purpose of the subject property ("Primary Residence", "Second Home", or "Investment") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Occupancy Certification of this guide.

Underwriters must address any red flags that may indicate the property is not intended exclusively for investment purposes. Common occupancy red flags include:

- Subject property value exceeds the value of the borrower's primary residence.
- The borrower is currently renting his/her primary residence.
- Subject property could reasonably function as a second home.

Borrower Statement of Business Purpose (Investment Property)

All Investor Occupancy transactions require the borrower to acknowledge the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose form in this guide. Home Mortgage Alliance Corporation (HMAC) reserves the right to decline any loan that may indicate the property is not intended exclusively for investment purposes.

Common occupancy red flags include, but are not limited to:

- Subject property value significantly exceeds the value of the borrower's primary residence.
- The borrower is a first-time homebuyer and currently living rent free or renting his/her primary residence.
- Subject property could reasonably function as a second home.
- Borrower documents show subject property as current residence.

Transaction Types

Eligible Transactions

Purchase (04/25/2022)

- Proceeds from the transaction are used to finance the acquisition of the subject property.
- LTV/CLTV is based upon the lesser of the sales price or appraised value.
- Assignment of contract or finder's fees reflected on the purchase contract are not eligible to be included in the sales contract price or associated with the LTV/CLTV calculation.
- The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following:
  - The purchase contract cannot be expired
  - Borrower as the purchaser of the property
  - Seller as the vested owner on title
  - Correct sales price
  - Amount of down payment
  - Closing dates
  - Concessions and seller contributions

Rate/Term Refinance

Proceeds from the transaction are used to:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
  - Closed-end loan, at least 12 months of seasoning has occurred.
  - HELOC, at least 12 months of seasoning has occurred, and total draws over the past 12 months are less than $2,000. (For business purpose transactions, any draw over the life of the loan may not have been used for personal use. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).
- Buy out a co-owner pursuant to an agreement.
- Pay off an installment land contract executed more than 12 months from the loan application date.

Other considerations:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.
- If the subject property was acquired greater than six (6) months from application date, the appraised value will be used to determine LTV/CLTV. If the property was acquired less than or equal to six (6) months from the application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) will be used to determine LTV/CLTV. The purchase settlement statement and any invoices for materials/labor will be required.

Refinance of a previous loan that provided cash out, as measured from the previous note date to the application date, and is seasoned less than 12 months, will be considered a cash out refinance.

Cash-Out

- A refinance that does not meet the definition of a rate/term transaction is considered cash-out.
- See Loan/LTV Matrices for maximum cash-out amounts and restrictions.
- A mortgage secured by a property currently owned free and clear is considered cash-out.
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.
- Cash-out eligible to satisfy the reserve requirements.
- Loans not eligible for cash-out:
  - Primary Residence or Second Home properties listed for sale in the past six (6) months.
  - Investment properties listed for sale in the past six (6) months, unless a three (3) year prepay penalty, per requirements in Section 4.4.7 Prepayment Penalty are met.
  - There has been a prior cash-out transaction within the past six (6) months
  - Payoff of a Land Contract/Contract for Deed.
  - Non-Owner Occupied investment property transactions (Investor DSCR) when proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property.

- Cash-Out Seasoning is defined as the time difference between application date of the new loan and the property acquisition date.
  - A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out.
  - For properties owned 12 months or longer, the LTV/CLV is based upon the appraised value.
  - If the cash-out seasoning is less than 12 months, but greater than 6 months, the transaction property value is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
  - Cash-out seasoning of six (6) months or less is allowed with the following restriction:

- The Seller has documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
- documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

Delayed Financing

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.
  - The original purchase transaction was an arms-length transaction.
  - The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
  - The preliminary title search or report must confirm that there are no existing liens on the subject property
  - The transaction is considered cash-out, cash-out pricing adjustors apply
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

Listing Seasoning

For all cash-out refinances:

- **Primary/Second Home:** Properties previously listed for sale must be seasoned at least six (6) months from the listing contract expiration date to the loan application date.
- **Investment Properties:** A listing expiration of less than six (6) months is permitted with a prepayment penalty. If a property is listed for sale, the listing must be cancelled prior to the note date.

Non-Arm's Length Transactions

Non-Arm's Length Transaction

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property builder, developer, or seller. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales, and flip transactions.

When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property.

A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required, as well as the payment history pattern (verification of the Seller's mortgage (VOM)).

Eligible Non-Arm's Length Transactions

- Renter(s) purchasing from landlord.
  - 24 months of cancelled checks to prove timely payments are required.
  - A verification of rent (VOR) is not acceptable.
- Purchase between family members.
  - Full Documentation only.
  - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD.
  - Must provide a 12-month mortgage history on the existing mortgage securing the subject property, confirming the Family Sale is not a foreclosure bailout.

Non-Arm's-Length Restrictions

- Primary residences only.
- Borrower to provide verification of earnest money deposit.
- Maximum LTV/CLTV of 80%.
- For-Sale-By-Owner (FSBO) transactions must be arm's-length.
- Employer to employee sales or transfers are not allowed.
- Property trades between buyer and Seller are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.

Interested Party Contributions (Seller Concessions)

Owner Occupied

- Maximum contribution:
  - 6% for LTVs $\leq$ 80%
  - 4% for LTV > 80%

Non-Owner Occupied

- May not exceed 3%

All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state, and local law.

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.

Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

Escrows - Impound Accounts

Escrow funds/impound accounts are required to be established for all HPML loans purchased by Home Mortgage Alliance Corporation (HMAC). Escrows may be established for funds collected by the seller, originator or servicer as required to be paid under the security instrument. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, water/sewer taxes and ground rents.

Escrow funds/impound accounts can be waived, with the exception of Flood Insurance Premium, for non-HPML loans or exempt business purpose loans when the following requirements are met:

- LTV less than 80%
- Minimum decision credit score of 720
- Minimum 12-months of reserves
- Pricing adjustment may apply, see rate sheet.

Secondary Financing

Secondary financing must be institutional. Sellers must employ reasonable underwriting policies and procedures designed to determine whether the borrower has applied for another credit transaction secured by the same dwelling. Existing secondary financing must be subordinated and recorded or refinanced. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation showing the line of credit is past its draw period.

Prepayment Penalty

Investment Property Only

Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note. The following prepayment structures may be used:

- Six months of interest - The prepayment charge will be equal to 6 months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period.
- A fixed percentage of no less than 3% - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.
- Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) - The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.

See rate sheet for further detail. The prepayment penalty can be disclosed within the body of the Note or in a separate rider.

The following state restrictions apply:

- Prepayment penalties are not allowed in AK, KS, MI, MN, NM, OH, and RI.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania - Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2022 the amount is $278,204.
- Only declining prepayment penalty structures are allowed in MS.

Credit

Credit Reports

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

- The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

Gap credit Reporting

A gap credit or Undisclosed Debt Monitoring report is required no more than 10 days prior to loan closing or any time after closing. Any new debt must be included in determining the DTI ratio. Business purpose DSCR transactions excluded from this requirement.

Fraud Check

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All borrowers must be included in the fraud analysis performed by an automated fraud and data check vendor solution (i.e., Fraud Guard, CoreLogic, DataVerify, TransUnion TLOxp, LexisNexis: SmartLinx, Instant ID, or other industry recognized fraud and data vendor). A copy of the findings report from the vendor must be provided in the loan file with all “high” alerts, or “red flags” addressed and/or cleared by the seller (lender).

Sellers may clear “high” alerts or “red flags” directly through the vendor solution or with an attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report. Home Mortgage Alliance Corporation (HMAC) may request additional documentation to address high fraud risk.

Fraud Reports for loans secured by multiple properties (Cross Collateral) do not need to reference every property, all other requirements apply.

Credit Inquiries

Creditor must obtain verification from borrower in the form of a signed statement attesting that their current obligations are accurate. Additionally, any credit inquiries listed on the report within 90 days of the report date must be explained, DSCR transaction excluded. If new credit was extended, borrowers must provide documentation on the current balance and payment. If no credit was extended, borrower must state the purpose of the inquiry. Sellers must inform borrowers that they are obligated to inform the Seller of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

Housing History

A 12-month housing payment (mortgage or rental) history is required for all Home Mortgage Alliance Corporation (HMAC) programs. A borrower's combined mortgage or rental history is used for program or grade eligibility.

Mortgage Verification

A 12-month mortgage history is required for all financed properties owned by the borrower (with the exception of the DSCR program – See Housing History - DSCR for Housing History requirements).

Current means the borrower has made all mortgage payments up to and including the month prior to the note date. If the credit report does not reflect the current payment history, one of the following additional documents is required:

- A loan payment history from the servicer or third-party verification service,
- A payoff statement (for mortgages being refinanced),
- The latest mortgage account statement from the borrower, or
- A verification of mortgage.

For properties owned free and clear, a property profile report or similar document showing no liens against the property should be included in the credit file. Any balloon notes with an expired maturity date exceeding 30 days requires an extension to avoid being counted as delinquent.

If a borrower's mortgage history is not reported on the credit report, a VOM must be provided. Any VOM completed by a private-party Seller, or any non-institutional lender must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, mortgage statements including payment history, etc.).

In addition, if the subject transaction is secured by a non-institutional lender, the mortgage payoff statement should be reviewed to determine that no late fees or delinquent interest is included in the payoff amount. For properties owned free and clear, a property profile report or similar document showing no lien against the property should be provided in the credit file.

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

Rental Verification

A 12-month rental history is required for all Home Mortgage Alliance Corporation (HMAC) programs when the borrower is renting their current primary residence. The following documents are required:

- A verification of rent (VOR)
  - A third-party VOR is required for any file when the borrower is currently renting.
  - Any VOR completed by a private party or any non-institutional landlord must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, rental statements including payment history, etc.).

Living Rent-Free

Borrowers who live rent-free or without a complete 12-month housing history are allowed, with the following restrictions:

- DTI may not exceed 43%
- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear are not considered living rent-free.
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.

Departure Residence

- If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:
  - The executed sales contract for the current residence, and
  - Confirmation that any financing contingencies have been cleared.
- If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with all the following:
  - Market Rent Analysis, Single Family Comparable Rent Schedule (Fannie Mae® Form 1007)
  - Copy of a current lease
  - Evidence of proof of receipt of damage deposit and first month's rent.

Consumer Credit

Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installments must be included in the borrower's debt-to-income (DTI) ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full or prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Lease Payments

Lease payments must be considered as recurring monthly debt obligations and included in DTI ratio calculation. This is 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.

Student Loans

If a monthly student loan payment is provided on the credit report, the Seller may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the Seller 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 Seller must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the Seller may calculate:

- a payment equal to 1% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or
- a fully amortizing payment using the documented loan repayment terms.

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 Seller 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.

Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment, as stated on the credit report or current account statement, should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the DTI ratio calculation.

Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a minimum payment amount, the Seller must use 5% of the outstanding balance to be included in the DTI ratio calculation.

Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Any non-mortgage account can be no more than 30 days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing.

All mortgage accounts must be current at application and remain paid as agreed through closing.

Open 30-day Charge Accounts

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.

Timeshares

Timeshare obligations will be treated as a consumer installment loan.

Business Debt

A business debt is a financial obligation of a business but may also be the responsibility of the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio. 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 to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt:

- Most recent six (6) months of cancelled checks drawn against the business account
- Tax returns reflecting the business expense deduction
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than six (6) months old, the payment must be included in the DTI ratio.

Contingent Liability on Cosigned Obligations (Debt Paid by Others)

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:

- Car loan
- Student loan
- Mortgage
- Any other obligation

If the Seller obtains proof that the borrower is not the party who is repaying the debt, the Seller may exclude the debt. In order to exclude debts from the borrower's DTI ratio, the Seller 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.

Consumer Credit Charge-Offs and Collections

Delinquent credit, such as charge-offs of non-mortgage accounts and collections, have the potential to affect loan position or diminish borrower equity.

- Individual collection and non-mortgage charge-off accounts equal to or greater than $250, and accounts that total more than $2,000, must be paid in full prior to or at closing. See below for exception.
- Medical collections may remain open with a max cumulative balance of $10,000.
- A second mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination, based on the charge-off date.
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented.
- For DSCR transactions, charge-offs and collections can be ignored unless title impacted.

Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of the following:

- Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). If a payment amount is not known, 5% of the balance may be used as the payment.
- Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements.

Consumer Credit Counseling Services

Borrower enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12 months have elapsed on the plan, and evidence of timely payments for the most recent 12 months is provided. The CCCS Administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

A monthly CCCS plan payment must be included in the DTI calculation.

Judgment or Liens

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

Income Tax Liens

All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:

- The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed).
- A minimum of two (2) payments has been made under the plan with all payments made on time and the account is current. 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.
- The maximum payment required under the plan is included in the DTI calculation.
- The balance of the lien, or repayment plan, must be included when determining the maximum CLTV for the program.
- Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property.

Disputed Accounts

When the credit report contains tradelines disputed by the borrower, the credit file should be documented with a credit supplement showing the account(s) have been resolved. If the disputed account balance is $250 or less, the payment can be included in the total debt calculation and the account can remain in dispute. The total aggregate balance of accounts in dispute remaining unresolved can't exceed $2,000.

Bankruptcy History

Recent bankruptcies are not allowed. All bankruptcies must be settled a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

Foreclosure Seasoning

Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details. The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

Short Sale / Deed-in-Lieu Seasoning

Short Sales and Deeds-in-Lieu of Foreclosures must be completed a minimum of twelve (12) months. Specific programs may have longer periods, see Product Matrices for details.

In the case of a short sale/deed-in-lieu which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the short sale/deed-in-lieu completion date.

Forbearance, Modification, or Deferrals

Forbearance, loan modifications, or deferrals (including COVID-19 related events) are treated as a short sale / deed-in-lieu for eligibility and pricing purposes. Any loan payment history that appears to reflect the above may require additional documentation, such as canceled checks or bank statements to show payments were made.

Credit Score

Loan eligibility is based upon the representative credit score, also referred to as the Decision Credit score. A valid Decision Credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. To determine a borrower(s) credit score, use the lower of two (2) or middle of (3) credit scores.

For a loan file with one borrower, that borrower's score is the decision credit score.

For loan files with multiple borrowers:

- Standard and Alt Documentation: The borrower with the higher monthly income is considered the primary borrower and their credit score can be used as the Decision Credit Score. When both borrowers are self-employed and jointly own the business, use the lowest score amongst the borrowers as the decision credit score.
- Asset Utilization and DSCR Documentation Options: Use lowest score amongst all borrowers who will be on the loan as the decision credit score.

Tradelines

Standard Tradelines

NON PRIME NO RATIO – DSCR: For each borrower who has three (3) credit scores, the minimum tradeline requirement is waived (all borrowers must be evaluated individually). Each borrower with less than three (3) credit scores must meet the minimum tradeline requirements outlined below.

The **minimum tradeline requirements** are as follows:

- At least three (3) tradelines reporting for a minimum of 12 months, with activity in the last 12 months, or
- At least two (2) tradelines reporting for a minimum of 24 months, with activity in the last 12 months.

Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the below requirements:

- No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history.
- At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months.
- The borrower has an established credit history for at least eight (8) years.
- Tradelines with recent serious adverse history are not acceptable
- Student loans can be counted in credit depth as long as they are in repayment and not being deferred

The following are not acceptable to be counted as tradelines:

- "non-traditional" credit as defined by Fannie Mae®
- self-reported tradeline
- any liabilities in deferment status
- accounts discharged through bankruptcy
- authorized user accounts
- charge-offs
- collection accounts
- foreclosures
- deed-in-lieu of foreclosure
- short sales
- pre-foreclosure sales

Obligations Not Appearing On Credit Report

Housing and Mortgage-related Obligations

Housing and mortgage-related obligations include property taxes, insurance premiums, and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. All properties owned by the borrower must be fully documented in this regard on the Schedule of Real Estate Owned (REO) section of the Form 1003 loan application. These obligations must be verified (subject to the program criteria) using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, or information obtained from a valid and legally executed contract.

Current Debt Obligations, Alimony, and Child Support

A Seller may use a credit report to verify a borrower's current debt obligations, unless the Seller has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae® guidelines.

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement - and those payments must continue to be made 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. For alimony obligations, the Seller 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 calculation of the DTI ratio. If the Seller exercises this option, a copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

Assets

THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE STATED.

Asset Requirements

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per the program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 90-days of the loan note date.

Asset Documentation

The following may be used as asset documentation for down payment, closing costs, and reserves. See applicable Loan/LTV matrix for minimum reserve requirement.

- Account statements (e.g., checking, savings, share, or brokerage accounts)
    - Statements must include the following:
        - Name of financial institution

        - Reflect borrower as the account holder (Funds held jointly with a non-borrowing spouse are considered 100% of the borrower's funds)
        - Account number
        - Statement date
        - Time period covered by the statement
        - Available balance in U.S. dollar denomination
    - Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either http://www.xe.com or the Wall Street Journal conversion table.
- Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
- Verification of Deposit completed by the verifying financial institution (Fannie Mae® Form 1006).

Large deposits on any of the above asset documentation must be sourced. Large deposits are defined as any single deposit that represents more than 50% of the borrower's qualifying monthly income. Large deposits do not need to be sourced on Investor Solution – DSCR loans.

- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets.
- Business accounts may be considered for assets. The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.
- Cash Value of Life Insurance - 100% of the cash surrender value less any loans may be considered for assets.
- Non-regulated Financial Assets
    - Crypto Currency – Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion.
        - Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
        - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30-days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

The following are not acceptable as asset documentation:

- Non-vested or restricted stock accounts
- Cash-on-hand
- Sweat equity

- Gift or Grant funds which must be repaid
- Down payment assistance programs
- Unsecured loans or cash advances

Reserves

- Home Mortgage Alliance Corporation (HMAC) loan program requires minimum reserves as outlined on the Home Mortgage Alliance Corporation (HMAC) Loan\LTV matrices.
- Net proceeds from a cash-out transaction maybe used to meet reserve requirements.
- Reserve requirements are waived for Rate-And-Term Refinance transactions (Applies to loans under Prime Ascent, Credit Ascent and Investor Solutions secured by a 1-4 unit property) when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. Waiver not eligible for DTI greater than 50%. For an Interest Only loan, the reduction is based on the amortizing payment used for loan qualification.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

Gift Funds

Unless otherwise specified, Gift Funds are acceptable if ONE of the following applies:

For Investment properties, a minimum of 10% of the down payment must be made by the borrower from their own funds.

Eligible Donors and Documentation

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- a fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

Documentation Requirements

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

Verifying Donor Availability of Funds and Transfer of Gift Funds

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account and reflected on the most recent bank statement. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Second Homes. Must meet all other guidelines for Gift Funds.

Income

Income Analysis

THE FOLLOWING APPLY TO ALL INCOME DOCUMENTATION OPTIONS UNLESS OTHERWISE STATED IN THE SPECIFIC SECTION OF THE GUIDELINES.

Employment/Income Verification

- A minimum two (2) year employment history is required to be documented on the loan application (1003). When the borrower has less than a two-year history of employment, the Seller should document positive factors to offset the shorter employment history, such as education or training.
- Any gaps in employment that span one or more months must be explained.
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.
- The following are common business structures:
  - Sole proprietorship
  - Limit Liability Company (LLC)
  - Partnerships
  - S-Corporation
  - Corporation
- If any borrower is no longer employed in the position disclosed on the Form 1003 at the Home Mortgage Alliance Corporation (HMAC) purchase date, Home Mortgage Alliance Corporation (HMAC) will not purchase the loan.

Stability of Income

- Stable monthly income is the borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three (3) years. The Seller must determine that both the source and the amount of the income are stable.
- A two-year employment history is required for the income to be considered stable and used for qualifying.
- When the borrower has less than a two-year history of receiving income, the Seller must provide a written analysis to justify the stability of the income used to qualify the borrower.
- While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.

Earnings Trends

Year-to-date (YTD) income amounts must be compared to prior years' earnings using the borrower's W-2 forms, signed federal income tax returns, or bank statements. The earnings trends are addressed as follows:

- Stable or increasing: The income amounts will be averaged.
- Declining but stable: If the 24-month earnings trend shows a decline in borrower income, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income should be used.
- Declining: If the trend is declining, the income is not eligible.

Debt-to-Income (DTI) Ratio

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to Home Mortgage Alliance Corporation (HMAC) guidelines and the inclusion of all income and liability expenses. See the most recent program matrix for applicable details.

The DTI ratio consists of two components:

1. Total monthly debt obligations, which includes the qualifying payment for the subject property mortgage loan and other long-term and significant short-term monthly debts.
2. Total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage.

The subject property mortgage loan is defined as the borrower's housing payment and includes PITIA and/or principal and interest on any subordinate lien financing.

The property taxes, Homeowner's Insurance (HOI), Flood Insurance, and HOA dues of a primary residence that is owned free and clear will be considered in the borrower's housing history determination and must remain current throughout the transaction.

The maximum DTI ratio for all income documentation types is 50%. A DTI of up to 55% is allowed in some cases for a primary residence, with 24-months of income documentation, and with a minimum residual income of $3,500. See the Product Matrices for specific program restrictions.

Documentation Options

Standard and Alt Doc income documentation options are available. In addition to wage/salary income, Standard documentation includes various other types of income. See 5.3.5.4 - Other Sources of Income for documentation requirements. Income should be calculated and documented according to Home Mortgage Alliance Corporation (HMAC) guidelines. If a specific source of income is not referenced in the Home Mortgage Alliance Corporation (HMAC) Guide, the Fannie Mae® guidelines for that income source may be used.

IRS Form 4506-C

A signed copy of IRS Form 4506-C is required in every standard documentation credit file. See specific income documentation type if transcripts are required.
If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:

- A copy of the IRS rejection with a code of "Unable to Process" or "Limitation"
- Proof of identification theft, as evidenced by one (1) of the following:
    - Proof that the identification theft was reported to and received by the IRS (IRS Form 14039).
    - A copy of the notification from the IRS alerting the taxpayer to possible identification theft.
- In addition to one (1) of the documents above, if applicable, a Tax Transcript showing fraudulent information.
- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's personal tax return (Form 1040). Validation of prior tax year's income (The income for the current year must be in line with prior years.

Taxpayer First Act

The Taxpayer First Act includes a provision that persons receiving tax return information must obtain the express permission of taxpayers prior to disclosing that tax return information to any other person. "Tax return information" is defined under the IRS Code, 26 U.S.C. § 6103.

Therefore, if a Seller or servicer obtains tax return information during the origination or servicing of a mortgage loan, the Seller or servicer must obtain express consent from the taxpayer to be able to share the tax information with another party. Such sharing would extend to actual or potential owners of the loan, such as Home Mortgage Alliance Corporation (HMAC) or any other loan participant.

To ensure compliance with the law, the Taxpayer Consent Form has been created. To comply, the Seller must include either the Home Mortgage Alliance Corporation (HMAC) version or their own version of the document in all loan files that include tax returns.

Standard Documentation

The Standard Income Documentation option is available to borrowers who meet the requirements listed below. This documentation option is available to borrowers who have experienced recent credit events and allows for higher LTVs for borrowers with clean payment histories.

Restrictions

- See the Home Mortgage Alliance Corporation (HMAC) Matrices for maximum LTV/CLTV and DTI.
- A minimum credit score of (see matrix).

Standard Documentation (24 months)

- The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or
- Employment documentation provided by a 3rd party – (The Work Number®)
- When tax returns are required, as in the case of investment property ownership, the most recent one (1) or two (2) years of tax returns should be provided. The definition of "most recent" is the last return scheduled to have been filed with the IRS. Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected.

- **For self-employed borrowers**, the following are required:

- Tax transcripts for the most recent one (1) or two (2) years. In certain cases, tax returns will be required as transcripts will not provide the detail required to establish eligible qualifying income for the borrower.
  Or
- The most recent one (1) or two (2) years of tax returns (including evidence of filing). If applicable, both personal and business (including all K-1s and schedules), signed and dated by each borrower.
  - Evidence of filing may include one of the following:
    - IRS Form 8879 e-File Signature Authorization for the provider that prepared the return, or
    - E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS.
    - If evidence of filing is not provided, tax transcripts are required.
- If the borrower pays themselves wage income, a YTD paystub must be included in the file.
- If the tax return date exceeds 90 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date and two (2) business checking account statements for the two (2) most recent months reflected on the P&L. The P&L may be either: prepared by a 3rd party or prepared by the borrower. If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying income is determined from the tax returns;

the P&L is used to determine the stability of that income. The bank statements for the two (2) most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the prior year(s) tax returns.

Employment Status

In all cases, the borrower's current employment status is required. Employment status can be established as follows:

Wage/salary borrowers:

- A YTD paystub dated within 30 days of Note date, or
- A verbal VOE dated no more than 10 calendar days prior to Note date. Sellers may use any type of verification form. The VOE should include the following data:
  - Borrower name
  - Loan ID number
  - Current position
  - Verification that borrower's employment is currently active
  - Employer name/company name
  - Employer contact name and title
  - Name of individual who completed the VOE
  - Business phone number must be independently verified, or
- A verification via e-mail exchange with the borrower's current employer dated no more than 10 calendar days prior to Note date. Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:
  - Work e-mail address of the individual contacted at the employer
  - Borrower name
  - Current position
  - Current employment status

Self-Employed Borrowers:

- If the most recent tax return in the file is dated within 90-days of the note date, no additional verification required.
- If the tax return exceeds 90-days of the note date, a YTD Profit & Loss Statement (P&L) dated within 90 days of note date, along with the two most recent months of bank statements.

- If the tax return exceeds 90-days of the note date, a YTD Profit & Loss Statement (P&L) dated within 90 days of note date, along with the two most recent months of bank statements.

Other Sources of Income

Alimony or Child Support

Alimony or child support income is allowed with third-party documentation evidencing receipt of at least six (6) months. Document the support will continue for at least three (3) years by one of the following:

- Copy of final divorce decree or final separation agreement describing the payment terms.
- Any other type of written legal agreement or court decree describing the payment terms.

Auto Allowance

The borrower must have received payments for at least two (2) years. Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations.

Capital Gains

Capital Gains income must be averaged over two (2) years and documented with the following:

- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D.
- Third-party documentation to evidence that additional assets may be sold to support the qualifying income.
- The third-party documentation must evidence the capital gain income will continue for a minimum of three (3) years.

Capital losses do not have to be considered.

Disability Income – Long Term

Generally, long-term disability will not have a defined expiration date and should be expected to continue. Obtain a copy of the borrower's disability policy or benefits statement to verify the following:

- eligibility for the benefits,
- amount and frequency of payments, current proof of receipt,
- and if there is a contractually established termination or modification date.

Employed by a Relative

Income for borrowers who are employed by a relative must be verified using Standard Documentation for two (2) years, including the following:

- Federal income tax returns for the most recent two (2) years
- W-2s for the most recent two (2) years
- Paystub(s) covering the most recent 30-day period.

Clarification of the potential ownership of family-owned businesses by the borrowers may also be required. A borrower may be an officer of a family-operated business, but not an owner. Verification of a borrower's status should be provided by written confirmation obtained from a CPA or legal counsel.

Employment Offers or Contracts

For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date.

Foreign Income

Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if they provide copies of the following:

- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.

Foster Care Income

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Document that the borrower has received foster care income for a minimum one-year period.
- Qualifying income is based upon the current amount received.

Housing/Parsonage Income

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24 months and the allowance is likely to continue for the next three (3) years. The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.

- The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

Interest/Dividends

Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the 4.2.0 - Age of Document Requirements section.

- Document a two-year history of the income, as verified by copies of the borrower's federal income tax returns.
- Develop an average of the income received for the most recent two (2) years.
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

Non-Taxable Income

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the seller may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

Notes Receivable Income

Note receivable income may be used for qualifying income subject to the following:

- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months using either cancelled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

Pension, Retirement, Annuity

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage Note. In addition, the borrower must have unrestricted access to the accounts without penalty. Document regular and continued receipt of the income with the following:

- Pension/Social Security/VA
  - Award letter(s) from the organizations providing the income,
  - Two prior years 1099-R will be acceptable in lieu of award letter,
  - 30-days current proof of receipt
- 401K/Keogh/IRA
  - Account Statement(s) reflecting available balance for withdrawals.
  - Two prior years 1099-R forms,
  - One-month proof of current receipt.
  - Income will be averaged based upon withdrawals over the past 24-months.

Rental Income

Rental income may be used for qualifying income subject to the following documentation requirements:

- Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E. Leases are required for properties where rental income is being used to qualify and the property was acquired during or subsequent to the most recent tax filing year or the rental property was out of service for an extended period. For commercial properties a copy of the lease or rent roll is required
- Proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property
- Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 2 months or the time period after the lease expired
- A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITIA to arrive at the rental income/loss used for qualifying
- Commercial properties owned on schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial
- Application of Rental Income:
  - Secondary Residence
    - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
    - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

- Investment Property
  - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
  - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
  - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
  - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

Restricted Stock Units

Restricted stock units (RSUs) are issued to an employee through a vesting plan and distribution schedule. RSUs give an employee interest in company stock but have no tangible value until vesting is complete. The RSUs are assigned a fair market value when they vest and are considered ordinal income with a portion of the shares withheld to pay income taxes upon vesting. The employee receives the remaining shares and can sell them at their discretion. Restricted stock options may be used as qualifying income when all the following requirements are met:

- Income has been consistently received for the prior two (2) years and is verified it will continue for three (3) years.
- RSU income is calculated using the past two (2) year average.
- If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.

- Borrower must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement showing continuance of RSU income.
- Evidence of the payouts of RSUs for the past two (2) years. Acceptable verification includes any of the following:
  - Tax returns for the last two (2) years, reflecting RSU income.
  - Year-end paystubs reflecting the RSU payout.

- An employer-provided statement paired with a brokerage or bank statement, showing the transfer of shares or funds, that includes the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower.

Royalty Income

- Obtain copies of the following:
  - Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
  - The borrower's most recent signed federal income tax return, including IRS Form 1040 and Schedule E.
- Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note.

Teacher Income

Teachers are paid on a 9-month, 10-month, or 12-month basis. The pay structure should be determined before calculating the monthly income. If unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

Tip Income

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e., waitperson, taxi driver, etc.). Tip income should be received for at least two (2) years. Documentation will be based upon the documentation type selected (12 or 24 months). Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time-period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

Trust Income

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments:

- Trustee statement evidencing borrower is a beneficiary and income will continue for three (3) years.
- If the borrower creates the trust as trustee, the assets within the trust must be verified with 3rd party documentation (i.e., bank statements). Income will be calculated using asset utilization methodology.
- Unless this income is received monthly, documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return.

Unemployment Benefit Income

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction). The income can be used to qualify with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

VA Benefits

Document the borrower's receipt of Veteran Administration (VA) benefits with a letter or distribution form from the VA, along with a one-month proof of receipt. Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. (Verification is not required for VA retirement or long-term disability benefits.) Education benefits are not acceptable income because they are offset by education expenses.

Variable – Overtime/Bonus/Commission

Variable earnings must be averaged over the most recent two (2) years and documented with the following:

- Most recent year-to-date pay stub reflecting the variable earnings;
- W-2 forms covering the most recent 2-year pay period;
- A completed Written Verification of Employment - Fannie Mae® Form 1005 detailing base, overtime, commission, or bonus earnings.

Variable income earned less than two years may be considered with a minimum 2-year history of receiving variable in the same line of work. Variable income earned for less than one year may not be used for qualifying income.

Ineligible Income Sources

- Boarder income
- Educational benefits
- Gambling winnings
- Cannabis (see below)
- Mortgage Credit Certificates
- Mortgage Differential Payments
- Refunds of federal, state, or local taxes

Guidelines for income derived from cannabis:

- Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing, etc. is not allowed regardless of percentage of company ownership.
- Income from borrowers who are wage earners in the industry are allowed.

Alt Doc - Asset Utilization

Asset Utilization may be used as the sole source of income for loan qualification or to supplement other income sources. When used to supplement other income sources, the minimum asset requirements under qualification method are waived.

Restrictions

- See Home Mortgage Alliance Corporation (HMAC)'s Matrices for the max LTV
- Non-occupant co-borrowers not allowed
- Max 43% DTI
- Minimum 680 credit score
- Gift funds not eligible

Asset Utilization Qualifying Method

Debt Ratio Calculation: Minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84. Maximum DTI 43%.

Asset Utilization Income Documentation

- All individuals listed on the asset account(s) must be on the Note and Mortgage;
- Assets considered for this program must be verified with most recent three (3) monthly account statements, quarterly statement, or a VOD;
- Assets must be seasoned 120-days;
- Income other than Asset Utilization must be documented in accordance with the Prime Ascent program.

Assets Eligible for Depletion

Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin of the funds:

- 100% of Checking, Savings, and Money Market Accounts;
- 70% of Stocks, Bonds, and Mutual Funds;
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½);
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.

Eligible trust assets include:

- Assets held in a revocable trust where the trustee to the trust is the borrower.
- Assets in an irrevocable trust where the borrower is the beneficiary and the borrower has immediate access to the assets of the trust.

- Based upon the asset held in the trust, the above asset percentages apply.

Assets Ineligible for Depletion

- Equity in Real Estate;
- Privately traded or restricted/non-vested stocks;
- Any asset which produces income already included in the income calculation:
- Any assets held in the name of a business;
- Assets held in an irrevocable trust where the beneficiary of the trust is not the borrower;
- Assets held in a charitable giving trust, donor advised fund, or similar entity where the intended beneficiary is not the borrower.

Debt Service Coverage (Investment Property)

Debt Service Coverage Ratio transactions are available to experienced investors purchasing or refinancing investment properties for business purposes. The typical borrower is expected to have a history of managing income-producing rental properties or has a significant equity down payment in a purchase transaction. The borrower is required to execute a Borrower Certification of Business Purpose and an Occupancy Certification. For examples of these forms, see the following links: Borrower Certification of Business Purpose / Occupancy Certification.

DSCR transactions are considered business purpose loans and monthly cash flow is used to determine a DSCR ratio. A DSCR ratio greater than 1.00 reflects a positive monthly cash flow and a DSCR ratio less than 1.00 reflects a negative monthly cash flow but is typically offset by the value of the property securing the loan.

1-4 Family Residential Property

Property Income Analysis

Gross monthly rents are used to determine the DSCR. Gross rents are the lower of the actual rents from lease agreement(s) or market rents from either Fannie Mae® Form 1007 or Form 1025 in the case of a multi-family property. The 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser is required on all DSCR transactions. Properties used exclusively for short-term rentals are permitted; see short-term rental requirements below.

Rent Documentation Requirements

Long Term Rental

- Fannie Mae® Form 1007 or Form 1025 in the case of a multi-family property.
  - When the actual rents on the 1007/1025 are lower than the market rent, the actual rents will be used.
  - A lease agreement and most recent two months proof of receipt (cash payments not allowed). The monthly rent from the lease will be used to determine DSCR in all cases when one is provided.
- Purchase Transactions
  - Rents determined by FNMA Form 1007 or 1025 reflecting long term market rents. If subject property currently tenant occupied, the 1007 or 1025 must include the current monthly rent.
  - Vacant or unleased properties are allowed.
- Refinance Transactions
  - Rents determined by FNMA Form 1007 or 1025 reflecting long term market rents, and
  - Lease agreement, if lease converted month to month, then provide most recent two (2) months proof of receipt.
  - Vacant or unleased properties are allowed, and the maximum LTV allowed is reduced by 5%.

- DSCR Calculation
  - Debt Service Coverage Ratio is the Monthly Gross Rents divided by the PITIA of the subject property. See the Verus Eligibility Matrix for required Debt Service Coverage Ratios.
  - Gross rents divided by PITIA = DSCR

Short Term Rental (e.g., AirBnB, VRBO, Flipkey)

Short term rentals are properties which are leased on a nightly, weekly, monthly, or seasonal basis.

- Short Term Rental Income – Purchase and Refinance Transactions
  - A 5% LTV reduction applies to all transactions using short term rental income when the DSCR is >= 1.00. When the DSCR is < 1.00, the sub-1.00 DSCR Eligibility Matrix must be used.
  - DSCR calculation:
    - Monthly gross rents based upon a 12-month average to account for seasonality required.
    - Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
    - (Gross Rents * .80) divided by PITIA = DSCR.
- Any of the following methods may be used to determine gross monthly rental income:
  - A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents. A most recent 12-month rental history statement from the 3rd party rental/management service.
    - The statement must identify the subject property/unit, rents collected for the previous 12-months, and all vendor management fees. The rental income will exclude all vendor or management fees.
  - The most recent 12-month bank statements from the borrower evidencing short term rental deposits. Borrower must provide rental records for the subject property to support monthly deposits.
  - AIRDNA Rentalizer and Overview reports must meet the following requirements:
    - Rentalizer
      - Only allowed for purchase transaction
      - Forecast Period must cover 12 months from the Note date
      - The occupancy rate must be > 65%
      - Must have six (6) comparison properties
      - Must be within two (2) miles of subject property
      - Must be similar in size, room count, amenities, availability, and occupancy
    - Overview report

- Market grade by zip code
- Must be B or greater
- Income calculation
  - Annual revenue / 12

Debt Service Coverage Ratio (DSCR)

Debt Service Coverage Ratio is the Monthly Gross Income divided by the PITIA (or ITIA for interest-only loans) of the subject property. See the Home Mortgage Alliance Corporation (HMAC)'s Eligibility matrix for required Debt Service Coverage Ratios.

Example: Debt Service Coverage Ratio

Single Family Purchase Money Transaction
Monthly PITIA = $650
Estimated Monthly Market Rent (Fannie Mae® Form 1007) = $850
Existing Lease Monthly Rent = Not Available
Use Market Rent of $850 *(Estimated Monthly Market Rent when a lease is not available for a purchase transaction)*.
Gross Rents **($850)** ÷ PITIA **($650)** = **DSCR (1.30)**

Borrower Experience

Experienced Investor

- An experienced investor is an individual borrower having a history of owning and managing commercial or non-owner occupied residential real estate for at least one (1) year in the last three (3) years. For files with more than one borrower, only one borrower must meet the definition.
- Experience can be documented by one of the following:
  - Complete the REO schedule on the 1003 loan application, or
  - Provide a property profile report, or
  - Other 3rd party documentation

First-Time Investor

First Time Investors are eligible subject to the following restrictions:

- Minimum credit score: 680
- Maximum LTV: 60%
- No mortgage late payments during the past thirty-six (36) months.

- Minimum of 36-months seasoning from any credit event
- Cash-out transactions not eligible
- First time homebuyers not eligible

Housing History – DSCR

Housing history for the DSCR Doc type is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. The documentation requirements under Section 5.1.4 – Housing History should be followed for verification.

Housing History

- Any housing event reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility.
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required.

Restrictions

- See the Home Mortgage Alliance Corporation (HMAC)'s Matrices for the maximum LTV/CLTV.
- If the loan amount is < $150,000 the minimum DSCR is 1.50.
- Minimum credit score of 660.
- No rural properties maximum 2-acres.
- Gift funds permitted after a minimum 10% borrower contribution
- The borrower may not occupy the subject property at any time.
- Cash-out on an investment property where loan proceeds are used for consumer purpose.

Borrower Application (04/25/2022)

- The borrower information section of the loan application (i.e., Fannie Mae Form 1003) should be completed.
- The borrower's contact information must be provided on the loan application (i.e., Fannie Mae Form 1003).
- No proof of borrower income is required.

Default Event

If a loan payment is delinquent for 60 days, Home Mortgage Alliance Corporation (HMAC) Mortgage loan servicer will enforce the following provision from the 1-4 Family Rider (Fannie Mae® Form 3170): Paragraph "G" - Assignment of Leases.

Property Eligibility

Appraisals

Appraisal Requirements 1-4 Unit Residential

Home Mortgage Alliance Corporation (HMAC) reserves the right to review all valuation reports and determine if the subject property value is supported.

Appraisers must meet all industry standards and be State Certified. State Licensed Appraisers and Trainees are not permitted. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae® guidelines, including Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value. Home Mortgage Alliance Corporation (HMAC) reserves the right to restrict the use of any specific appraiser and/or appraisal management company at its discretion.

Sellers are responsible for reviewing the appraisal report for accuracy, completeness, and its assessment of the marketability of the subject property. The Seller needs to determine that the subject property provides acceptable collateral for the loan. For guidance in the manual review of an appraisal report, see the Appraisal Review Guide.

The age and price of the subject property should fall within the age and price range of properties in the subject neighborhood. Comparable properties should be selected from the same neighborhood when possible. Selection of a comparable outside the subject neighborhood should be addressed within the report. For condominiums, at least one comparable should be from outside the subject project. Ideally, comparable sales should be within six months of the report date. Older comparable sales that are the best indicator of value should be addressed in comments by the appraiser.

A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report - Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report - Fannie Mae®/Freddie Mac Forms 1025/72
- Individual Condominium Unit Appraisal Report - Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report - Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule - Fannie Mae®/Freddie Mac Forms 1007/1000

Sellers must order appraisals using one of two processes. The appraisal must either be ordered through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR), or via the correspondent's own AIR-compliant process.

Appraiser License and Certification

The appraisal report forms identify the appraiser as the individual who:

- Performed the analysis, and
- Prepared and signed the original report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee.

An unlicensed or uncertified appraiser, or trainee (or some other similar classification) may perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, they must sign the left side of the appraisal certification as the Appraiser if:

- They are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
- The right side of the appraiser certification is signed by that supervisory appraiser, and
- It is acceptable under state law.

Appraisal Age

The appraisal should be dated no more than 365 days prior to the Note date.

When an appraisal report will be more than 120 days old on the date of the Note, 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 seller 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 seller may proceed with the loan in process without requiring any additional fieldwork.

Not eligible for Home Mortgage Alliance Corporation (HMAC) purchase: Properties for which the appraisal indicates condition ratings of C5 or C6, or a quality rating of Q6, as determined under the Uniform Appraisal Dataset (UAD) guidelines. Home Mortgage Alliance Corporation (HMAC) will consider purchase if the issue has been corrected prior to loan funding and with proper documentation.

Second Appraisal

A second appraisal is required when any of the following conditions exist:

- The loan balance exceeds $2,000,000 for either a single property loan or the allocated loan balance of a property within a cross-collateral loan.
    - (2^{nd} appraisal not required when Form 71A Multifamily or a commercial narrative report utilized).
- The transaction is a flip as defined in the Property Flipping section of this guide.
- As required under the Appraisal Review Products section of this guide.

When a second appraisal is provided, the transaction's "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different company and appraiser than the first appraisal.

Appraisal Evaluation

Neighborhood Analysis

- Neighborhood boundaries should be described using the four (4) cardinal directions, streets, waterways, other geographic features, and natural boundaries that define the separation of one neighborhood from another.
- Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.
- Factors that affect value and marketability should be mentioned in as much detail as possible - e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

Existing Construction

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is." These items must be reflected in the appraiser's opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or

plumbing fixtures. In such cases, the Seller must obtain a certificate of completion from the appraiser before the mortgage is delivered to Home Mortgage Alliance Corporation (HMAC).

Subject Section

The appraiser is required to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal. If the answer is 'No,' the data source(s)

used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- Offering price(s)
- Offering date(s)
- Data source(s) used
- For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

Actual and Effective Ages

There is no restriction on the actual age of the dwelling. Older dwellings that meet general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood. The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or might have a specific physical problem. In such cases, the Seller should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser adjusts for the "Year Built," he or she must explain those adjustments.

Accessory Units

Home Mortgage Alliance Corporation (HMAC) will purchase a one-unit property with an accessory unit. An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is defined as a one-unit property.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
- For properties located in California, if zoning (current or grandfathered) permits an accessory unit, the rental income may be included, subject to the following:
    - Appraisal reflects the accessory is legal and the appraisal report includes at least one comp with an accessory unit.
    - Refinance – The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of a current lease with two (2) months proof of current receipt.

Outbuildings

A Seller must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

TYPE OF OUTBUILDING	SUITABILITY
Minimal outbuildings, such as small barns or stables, that have relatively insignificant value in relation to the total appraised value of the subject property	The appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal building	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals	The presence of the outbuildings may indicate that the property is agricultural in nature. The Seller must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

Transfer of Appraisal

A transferred appraisal report is acceptable provided the report meets the lenders appraisal requirements for independence.

2-8 Mixed Use Properties

Commercial use limited to retail or office space. Residential or commercial zoning acceptable.

- General Purpose Commercial Forms (i.e., GP Commercial Summary Form available from CoreLogic a la mode)
- A full interior inspection with photos is required for all units.
- Commercial space must not exceed 49% of the total building area.
- The sales comparison approach should be used as the appraised value.

Appraisal attachments required (Applies to Residential and Mixed use):

- Rent Roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Plot plan or survey
- Appraiser qualifications

Property Condition

- No fair or poor ratings
- No environmental issues (Storage or use of hazardous material i.e., Dry Cleaners, Laundromat)
- No health or safety issues (As noted by appraiser, i.e., broken windows, stairs)
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance, (i.e., Foundation, roof, electrical, plumbing)

Appraisal Review Requirements

Appraisal Review Products 1-4 Residential Property

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an "as is" value for the subject property (the "Appraisal Review Value") as of the date of the subject loan transaction.

For files requiring an appraisal review product, three (3) options are available:

- The Seller may submit the appraisal report to Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR).
- An enhanced desk review product from one of the following choices:
  - ARR from Pro Teck
  - CDA from Clear Capital
  - ARA from Computershare
- A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.

If the CU® or LCA score exceeds 2.5 or the enhanced desk review product (ARR, CDA, or ARA) reflects a value more than 10% below the appraised value or cannot provide a validation, the next option would be either a field review or a second appraisal. These must be from a different appraisal company and appraiser than the original appraisal.

Minimum Property Requirements

MINIMUM SQUARE FOOTAGE	
Single Family 700 sq. ft.	Condominium 500. ft.

ll properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

Personal Property

Any personal property transferred with a real property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV.

Escrow Holdbacks

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase. Home Mortgage Alliance Corporation (HMAC) will not acquire any loan with an escrow holdback.

Declining Markets

If the trend of property values is downward, a “Declining Market” exists. This requires a 5% LTV reduction from the regular LTV matrix for LTVs greater than 70%.

Property Types

Eligibile Properties

- Single Family Detached
- Single Family Attached
- 2-4 Unit residential properties
- 2-4 Mixed Use (DSCR only)
    - 2-3 Units: Max 1 commercial Unit
    - 4 Units: Max 2 commercial Units
- Condominium
- Modular homes
- Properties of 20 acres or less
- Leaseholds (in areas where leaseholds are common)

Ineligible Properties

- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Agricultural properties (including farms, ranches, or orchards)
- Manufactured or Mobile homes
- Co-op/timeshare hotels
- Cooperative share loans
- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Native American Land (Reservations)
- Log homes
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Fractional ownership
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana
- Rural property:
    - A property is classified as rural if:
        - The appraiser indicates in the neighborhood section of the report a rural location; or
        - The following two (2) conditions exist:

- The property is located on a gravel road and
- Two of the three comparable properties are more than 5 miles from the subject property.

Acreage Limitations

- A maximum of 20 acres (DSCR transactions limited to 2 acres)
- No truncating allowed

State Eligibility

Nationwide - excluding Nevada, New York, Utah, Vermont, Puerto Rico, Guam, and the US Virgin Islands

Texas Home Equity Loans 50(a)(6)

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All loans must comply with the requirements listed in the Texas Constitution. Sellers should not rely on Home Mortgage Alliance Corporation (HMAC) categorization of refinance loans for purposes of determining whether compliance with the provisions of Texas Constitution Section 50(a)(6) is required. Sellers should consult with their counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a specific transaction.

New York – CEMA

Consolidation, Extension, and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the State of New York. Attorney's experienced in reviewing and preparing CEMA documentation should be utilized. See specific requirements under 2.1.2.1 CEMA Documentation.

Property Flipping

A property is considered a "flip" if either of the following are true:

- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement.
- The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower's purchase agreement.

If the property is a "flip" as defined above, the following additional requirements apply:

- A second appraisal must be obtained.

- If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the borrower in compliance with the federal HPML requirements.
- The second appraisal must be dated prior to the loan consummation/note date.
- The property Seller on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable.

Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the Seller's title policy.

The Seller must provide documentation and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease).

Home Mortgage Alliance Corporation (HMAC) Exposure – Borrower Limitations

Home Mortgage Alliance Corporation (HMAC)'s exposure to a single borrower shall not exceed $5,000,000 in current unpaid principal balance (UPB) or ten (10) loans.

Disaster Areas

Sellers are responsible for identifying geographic areas impacted by disasters and taking appropriate steps to ensure the subject property has not been adversely affected. The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at www.fema.gov/disasters. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed.

Appraisals Completed Prior to Disaster

An exterior inspection of the subject property, performed by the original appraiser, if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.
- An Inspection Report must include new photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to purchase.

Appraisals Completed After Disaster Event

- The appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage noted in the original report must be repaired and re-inspected prior to purchase.

Disaster Event Occurs After Closing But Prior to Loan Purchase

A loan is ineligible for purchase until an inspection is obtained using one of the following options:

- A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report (DAR) from Pro Teck may be used. Any indication of damage reflected on the report will require a re-inspection by the appraiser.
- The appraiser may perform an inspection (Fannie Mae® Form 1004D) and comment on the event and certify that there has been no change to the value.

The guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

Condominiums

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

- All Loans secured by condominium projects require a completed Homeowners Association (HOA) questionnaire (except for loans secured by site condominiums).

- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

    - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
    - The project has deficiencies, defects, substantial damage, or deferred maintenance that
        - is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
        - the improvements need substantial repairs and rehabilitation, including many major components; or
        - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.
- Home Mortgage Alliance Corporation (HMAC) will not purchase loans secured by units in any condo project identified by FNMA as "Unavailable" by Condo Project Manager (CPM), with the exception of a condo hotel.
- See the current Loan/LTV matrix for maximum LTV/CLTVs and loan amounts.
- Home Mortgage Alliance Corporation (HMAC) project exposure maximum shall be $5,000,000 or 20% of the total units in the project, whichever is lower.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV.
- Two- to four-unit condominium projects will not require a project review provided the following are met:
    - The project is not a condo hotel, houseboat, or timeshare or segmented-ownership project.
    - The priority of common expense assessments applies.
    - The standard insurance requirements apply.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
- Commercial space allowed up to 50% of project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.
- Single entity ownership allowed up to 20% of the project.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and

potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.

- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Seller must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

Established Projects

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
- All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

New Projects

- 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied.
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only.

Condominium Hotels

- Condominium Hotel – (a.k.a. Condo Hotel, Condotel)
    - Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
    - A project that includes registration services and offers rentals of units on a daily, weekly, or monthly basis.
    - Occupancy Type: Primary, Second Home, or Investment.
    - Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
    - Maximum LTV/CLTV (may vary by product – see Loan/LTV matrix):

    - Purchase: 75% (65% for Foreign National program)
    - R/T and Cash-Out: 65%
  - Maximum Loan Amount: $1.5 million
  - Minimum Loan Balance: $150,000
  - Minimum square footage: 500
  - Fully functioning kitchen – define as full-size appliances including a refrigerator and stove/oven
  - Bedroom required

Ineligible Projects

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
  - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
  - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.

Condominium Insurance Requirements

Coverage

- Borrower must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

Fidelity of Employee Dishonesty Insurance for Condominiums

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least sum of three months of assessments on all units in the project is required.

HO-6

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

Deductible

The maximum deductible amount must be no greater than 5% of the face amount of the policy.

Flood Insurance

- The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
  - Building Coverage must equal the lesser of:
    - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
    - The total number of units in the condominium building times $250,000
- Contents Coverage must equal the lesser of:
  - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
  - The maximum amount of contents coverage sold by the NFIP for a condominium building.