08/20/2026

TRADITIONAL VOE PROGRAM

UNDERWRITING GUIDELINE

LENDER YOU CAN TRUST

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1 Introduction

1.1 Underwriting Philosophy

Mortgage Mac ("MTGMAC") originates loans to borrowers on one- to four-family properties. This section describes the underwriting philosophy and general underwriting guidelines applied to all mortgages during the origination process. MTGMAC reserves the right to modify these underwriting guidelines.

The soundness of a loan is dependent on the applicant's ability to repay the debt, verifiable credit history, and the market value of the property. All property values are supported by appraisal reports completed by appraisers that are licensed or certified in the state where the property is located.

All loans are reviewed by authorized underwriters to ensure the loan file documentation complies with Federal and State regulations, and that all loans are approved or denied based on the underwriting standards and guidelines set forth in this Guide.

Each loan is individually underwritten with professional judgment. MTGMAC's underwriting objective is to remain uninfluenced until the loan analysis is complete, at which a definite decision is rendered. The applicant's past and present payment history, employment and income, assets, liabilities, and property value are all critical factors considered during the underwriting review process. All loans are reviewed for accuracy, credit discrepancies, income contradictions, and misrepresentations during the underwriting process. The loan package must be documented as required for the loan program, and must contain sufficient information to render a knowledgeable decision.

1.2 Fair Lending and Fair Credit Reporting Act (FCRA) Notices

It is illegal to discriminate against credit applicants on the basis of race, color, religion, sex, marital status, national origin, ancestry; as well as the conditions, characteristics, or trends in the neighborhood or geographic area surrounding a housing accommodation. MTGMAC is committed to treating all mortgage applicants in a fair and responsible manner in accordance with all applicable federal, state and local fair lending laws and regulations. We expect our approved originators to be equally diligent in conducting their lending in accordance with all applicable fair lending laws and regulations.

The Fair Credit Reporting Act (FCRA) requires that when an application is denied on the basis of information provided by a consumer reporting agency, the applicant must be given notice identifying the consumer reporting agency and include a statement of the applicant's rights under FCRA. If the lender has approved the request and MTGMAC has denied it, the Statement of Denial will be sent directly to the applicant by MTGMAC.

1.3 Ability to Repay

MTGMAC is a prime & non-prime mortgage lender that makes loans consistent with the ATR and generally considered to be non-qualified mortgages. MTGMAC. currently has a Full Documentation program that is consistent with the requirements under ATR to utilize "Third-party record[s]" to document income "reasonably and [make a] good faith determination".

Under the eight-point test of ATR, the "Basis for Determination" under § 1026.43(c)(2)(i) is required to consider "[t]he consumer's current or reasonably expected income or assets".

> **OFFICIAL INTERPRETATION TO 43(b)(13)(i):**
> REVIEWED RECORD.
> "Under § 1026.43(b)(13)(i), a third-party record includes a document or other record prepared by the consumer, the creditor, the mortgage broker, or the creditor's or mortgage broker's agent, if the record is reviewed by an appropriate third party. For example, a profit-and-loss statement

prepared by a self-employed consumer and reviewed by a third-party accountant is a third-party record under § 1026.43(b)(13)(i). In contrast, a profit-and-loss statement prepared by a self-employed consumer and reviewed by the consumer's non-accountant spouse is not a third-party record under § 1026.43(b)(13)(i)."

Whereas § 1026.43(c)(1) requires the consideration of ATR to be make a "good faith determination", MTGMAC finds that this Program is compliant under:

OFFICIAL INTERPRETATION TO § 1026.43(c)(1)

(C) REPAYMENT ABILITY

(1) GENERAL REQUIREMENT. A creditor shall not make a loan that is a covered transaction unless the creditor makes a reasonable and good faith determination at or before consummation that the consumer will have a reasonable ability to repay the loan according to its terms.

WAGE-EARNER

"QUALIFIED USING EMPLOYER'S WRITTEN VERIFICATION OF EMPLOYMENT (FORM 1005)"

Under the eight-point test of ATR, the "Basis for Determination" under § 1026.43(c)(2)(i) is required to consider "[t]he consumer's current or reasonably expected income or assets".

Specifically, a VOE is a document consistent with § 1026.43(c)(4)(v).

(4) VERIFICATION OF INCOME OR ASSETS.

(v) Records from the consumer's employer or a third party that obtained information from the employer;

Separately, the Applicant's employer meets the definition of a Third-Party Record in § 1026.43(b)(13)(i):

(b) DEFINITIONS. FOR PURPOSES OF THIS SECTION:

(13) THIRD-PARTY RECORD MEANS:

(i) A document or other record prepared or reviewed by an appropriate person other than the consumer, the creditor, or the mortgage broker, as defined in § 1026.36(a)(2), or an agent of the creditor or mortgage broker.

OFFICIAL INTERPRETATION TO 1026.43(b)(13)(i):

REVIEWED RECORD.

A VOE form, executed and prepared by the Applicant's employer would confirm, as a third-party record, a specific individual consumer's income and also carry a statement as to the current employment status. Said employment status can be supplemented via a Verbal Verification of Employment ("VVOE"), which may not be in writing under § 1026.43(c)(2)(ii):

"For purposes of paragraph (c)(2)(ii) of this section,

(C) REPAYMENT ABILITY

(2) BASIS FOR DETERMINATION.

(ii) If the creditor relies on income from the consumer's employment in determining repayment ability, the consumer's current employment status; a creditor may verify a consumer's employment status orally if the creditor prepares a record of the information obtained orally."

1.4 Underwriting

All loans must be manually underwritten.

1.5 Program Highlights

- Wage-Earner are qualified using employer's Written Verification of Employment (Form 1005)
- Assets must be traditionally documented
- Minimum to maximum loan amount of $150,000 to $4,000,000
- Credit scores as low as 660

1.6 Maximum Fees

MTGMAC will not purchase any loan where the total combined Lender Fees and Broker Fees exceed 5.00% of the gross loan amount for loan requests or the maximum allowed under applicable state laws and predatory lending practices. Non-grossed up third-party fees are not included.

2 Program Matrix

< TVOE >

PURCHASE & RATE/TERM REFINANCE			
PRIMARY RESIDENCE & 2ND HOME			
Property Type	Max. Loan amount	Max. LTV/CLTV/HCLTV	Min. FICO
1-4 Units	$1,500,000	80%	660
	$2,000,000	80%	680
	$2,000,000	75%	660
	$3,000,000	75%	700
	$3,000,000	70%	680
	$3,500,000	70%	700
	$4,000,000	70%	700
INVESTMENT PROPERTY			
Property Type	Max. Loan amount	Max. LTV/CLTV/HCLTV	Min. FICO
1-4 Units	$1,250,000	75%	680
	$1,250,000	70%	660
	$2,000,000	75%	680
	$2,000,000	70%	660
	$3,000,000	60%	700

CASH-OUT REFINANCE				
PRIMARY RESIDENCE & 2ND HOME				
Property Type	Max. Loan amount	Max. LTV/CLTV/HCLTV	Min. FICO	Max Cash-Out
1-4 Units	$1,500,000	75%	660	Unlimited
	$2,000,000	75%	680	Unlimited
	$2,000,000	70%	660	Unlimited
	$3,000,000	70%	680	Unlimited
INVESTMENT PROPERTY				
Property Type	Max. Loan amount	Max. LTV/CLTV/HCLTV	Min. FICO	Max Cash-Out
1-4 Units	$1,500,000	75%	680	Unlimited
	$1,500,000	70%	660	Unlimited
	$2,000,000	75%	720	Unlimited
	$2,000,000	70%	680	Unlimited
	$2,500,000	65%	660	Unlimited
	$3,000,000	50%	700	Unlimited

- Minimum to maximum loan amount of $150,000 to $4,000,000
- Max Loan amount for Second Home is $2,500,000
- Non-Warrantable Condos are not permitted

< TVOE 2 >

PRIMARY RESIDENCE & 2ND HOME			
PURCHASE & RATE/TERM			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1-4 Units	$1,500,000	80	700
	$1,500,000	75	660
	$2,500,000	70	660
	$3,000,000	70	680
CASH-OUT REFINANCE			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1-4 Units	$1,000,000	70	660
	$1,500,000	75	700
	$1,500,000	70	680
	$2,500,000	65	660
	$3,000,000	65	680

- The following lists are ineligible:
  - Borrower Citizenship: Borrowers with DACA designation
  - Co-borrowers: Non-occupant co-borrowers on cash-out refinance transactions
  - Investment Properties: Any Investment Property transactions
  - Credit:
    - Charge-offs and/or Collection accounts exceeding $2,500
    - Use of alternative credit tradelines
  - Assets:
    - Gift funds used for reserves
    - Unsourced large deposits
  - Zoning: Properties with non-residential zoning

< TVOE 3 >

PURCHASE & RATE/TERM			
PRIMARY RESIDENCE			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1-4 Units	$1,000,000	80	660
	$1,500,000	80	680
	$1,500,000	75	660
	$2,000,000	75	660
	$2,000,000	80	700
	$2,500,000	70	660
	$2,500,000	75	700
	$2,500,000	80	720
	$3,000,000	70	700
	$3,000,000	75	720
SECOND HOME			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1 Unit	$1,000,000	80	660
	$1,500,000	75	660
	$1,500,000	80	680
	$2,000,000	70	660
	$2,000,000	75	680
	$2,000,000	80	700
	$2,500,000	65	660
	$2,500,000	70	680
	$2,500,000	75	700
	$3,000,000	70	700
INVESTMENT PROPERTY			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1-4 Units	$1,000,000	80	660
	$1,500,000	75	660
	$1,500,000	80	680
	$2,000,000	80	700
	$2,000,000	75	680
	$2,000,000	70	660
	$2,500,000	70	680
	$2,500,000	75	700
	$2,500,000	65	660
	$3,000,000	70	700

CASH-OUT REFINANCE			
PRIMARY RESIDENCE			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1-4 Units	$1,000,000	75	700
	$1,000,000	80	740
	$1,500,000	70	660
	$1,500,000	75	700
	$2,000,000	60	660
	$2,000,000	65	680
	$2,000,000	70	700
	$2,000,000	75	740
	$2,500,000	60	680
	$2,500,000	65	700
	$2,500,000	70	720
	$3,000,000	60	700
	$3,000,000	65	720
SECOND HOME			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1 Unit	$1,000,000	75	700
	$1,500,000	70	660
	$1,500,000	75	720
	$2,000,000	60	660
	$2,000,000	65	680
	$2,000,000	70	720
	$2,500,000	65	700
	$3,000,000	60	700
INVESTMENT PROPERTY			
Property Type	Max. Loan Amount	Max. LTV	Min. FICO
1-4 Units	$1,000,000	75	700
	$1,500,000	70	660
	$1,500,000	75	720
	$2,000,000	60	660
	$2,000,000	65	680
	$2,000,000	70	700
	$2,500,000	65	700
	$3,000,000	60	700

* LTV<=60%: Unlimited Cash-Out
* LTV >60%: $750k MAX
* Minimum Loan Amount: $150,000
* 0x30x12 is eligible only
* Non-Perm is not eligible for Cash-out
* Non-Arm's Length Transaction is not allowed
* Non-occupant co-borrower eligible for Purchase and Rate/Term Refinance.
* Tenants in Common Vesting is not permitted

3 Eligible Products

- 40 Year Fully Amortizing Fixed Rate
- 30 Year Fully Amortizing Fixed Rate
- 5/6 Fully Amortizing SOFR ARM
- 7/6 Fully Amortizing SOFR ARM
- 7/6 Interest-Only

4 ARM Information

FULLY AMORTIZING

Qualifying Ratios are based on PITI payment with the principal and interest payments amortized over the loan term.

- 7/6 SOFR:
  - Qualifying rate: Qualify borrower(s) at the greater of the fully-indexed rate or Note Rate
  - INDEX: 30-Day Avg SOFR
  - MARGIN: 4.000
  - CAPS: 5/1/5

- 5/6 SOFR:
  - Qualifying rate: Qualify borrower(s) at the greater of the fully-indexed rate or Note Rate
  - INDEX: 30-Day Avg SOFR
  - MARGIN: 5.000
  - CAPS: 2/1/5

INTEREST-ONLY

- Qualifying Ratios are based on the PITI payment with the principal and interest payments amortized over the amortization term.
- 10 Year Interest-Only Period followed by 20 Year Amortization

5 Subordinate Financing

Purchase loans with new subordinate financing are permitted.

Secondary financing must be institutional. And MTGMAC will review, using reasonable underwriting policies and procedures, whether the borrower has applied for other credit transactions using the same collateral. If there are any transactions, such as secondary financing, using the dwelling as collateral, 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 that the line of credit is past its draw period.

6 Temporary Buydowns

Temporary interest rate buydowns are not permitted.

7 Borrower Eligibility

7.1 Eligible Borrowers

- U.S. Citizen / Permanent Resident Alien
  - All US citizens and Permanent Resident Aliens are eligible provided that the borrower must be a natural person.
- Non-Permanent Resident Alien
  - Non-Permanent Resident Aliens must have an EAD card with a minimum of 90 days remaining at the time of funding. EAD card(s) with 30-89 days remaining will require evidence of the extension application. EAD card(s) with less than 30 days remaining without renewed status is not eligible.
- First-Time Homebuyer

  First Time Home Buyer is defined as a borrower who had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. There is no prior rental requirement. However, if the borrower has rent or mortgage history, it must meet credit requirements.

  Refer to Section 12.6 Housing Payment History

- Non-occupant Co-borrower

  Non-occupant co-borrowers are credit applicants on a principal residence transaction who
  - do not occupy the subject property;
  - may or may not have an ownership interest in the subject property as indicated on the title;
  - sign the mortgage or deed of trust note;
  - have joint liability for the note with the borrower(s); and
  - do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate agent.

  non-occupant co-borrowers are permitted on purchase, limited cash-out and cash-out refinance transactions.

7.2 Ineligible borrowers

- Foreign NationalsApplicants possessing diplomatic immunity
- Borrowers from OFAC sanctioned countries
- Politically exposed borrowers
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list

7.3 Co-signers

An occupant co-borrower (who is obligated on the note) who does not have an ownership interest (not an owner of record on title) is permitted.

7.4 Trusts

Revocable Living Trusts are a permitted borrower if the trust complies with Fannie Mae or Freddie Mac criteria. Irrevocable trusts are not eligible.

- Title insurance policy must state that title to the security property is vested in the trustee(s) of the inter vivos revocable trust
- The title insurance policy may not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust
- Title to the security property is vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust

7.5 Non-Arm's Length Transactions

A non-arm's length purchase transaction occurs when there is a direct relationship or business affiliation (family, employer, employee, etc.) between the borrower and the third parties of the transaction (including but not limited to the seller, the real estate broker, the loan originator, the builder, the appraiser, the closing agent, etc.). Non-arm's length transactions generally carry a higher risk and must be carefully analyzed for concealed credits, cash paid outside of escrow, double escrows, and/or other unacceptable lending criteria. The down payment must be fully sourced and adequately documented.

Common risk factors of the loan associated with this type of transaction include:

- Lack of equity or down payment;
- Purchase prices that do not represent the actual value of the property;
- Financial bailouts or attempts to hide poor credit;
- occupancy concerns;
- Financing of unsold builder inventory, especially in soft real estate markets.

MTGMAC allows non-arm's length transactions for existing real estate purchases unless expressly prohibited in certain scenarios, such as delayed financing, Straw purchase, Bailout, Short Sale, Foreclosure Sale, and Pre-foreclosure sale. MTGMAC does not accept newly constructed homes secured by second homes or investment properties as collateral.

- Primary residence, second homes and investment properties are permitted.

If the property is a newly constructed property, and the borrower has a relationship or business affiliation (any ownership interest or any employment) with the builder, developer, or seller of the property, the loan must be secured by a primary residence

Non-Arm's Length Transaction: Family Sale – 12-month mortgage history from the seller is required to confirm the transaction is not a foreclosure bailout.
Non-Arm's Length Transaction: Gift or Gift of Equity are not allowed on Second home or Investment properties.

7.6 Power of Attorney

A power of attorney is allowed per FNMA guidelines (See FNMA B8-5-06).

Except as otherwise required by applicable law, or unless they are the borrower's relative (or a person who is a fiancé, fiancée, or domestic partner of the borrower), none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- The lender
- Any affiliate of the lender
- Any employee of the lender or any other affiliate of the lender
- The loan originator
- The employer of the loan originator
- Any employee of the employer of the loan originator
- The title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate
- Any real estate agent that has a financial interest in the transaction or any person affiliated with such real estate agent

Power of Attorney is not allowed for Investment Properties and/or Cash-Out Transactions.

8 Occupancy

8.1 Types

Occupancy is determined in accordance with the borrower's intent at the time of loan closing. The following occupancy types are permitted subject to LTV and FICO restrictions:

- Primary Residence
- Second Home
- Non-Owner Occupied

Refer to the applicable program eligibility matrix for the specific guidelines in Section 2.

Shared equity arrangements, where there is both an owner-occupant and an owner non-occupant investor, are not eligible.
Multi-Units are ineligible for Second Home

8.2 Primary Residence Classification – Buying for Parent or Child

For loan amounts up to $650,000, MTGMAC will classify the loan as a primary residence when the subject property is purchased by the borrower for their parent or adult child in the following limited instances:

- Borrower is buying for their parent who is unable to work or does not have sufficient income to qualify
- Borrower is buying for their adult child who is physically handicapped or developmentally disabled, and the child is unable to work or does not have sufficient income to qualify

8.3 Documentation

Occupancy must be consistent with and supported by documentation in the file. When circumstances arise that raise questions about the borrowers' intent to occupy the property as a primary residence, the originator should confirm occupancy and include the confirmation in the file. Circumstances that

raise questions include:

- Borrower is employed a long distance from the intended primary residence
- The size of the proposed residence is inconsistent with the size of the borrower's family and number of dependents
- Borrower already owns a primary residence near the subject property and is intending to retain it (as a rental or second home) rather than sell it
- The proposed primary residence is near the existing primary residence but the new residence is not worth materially more than, or is worth less than, the existing residence
- Borrower is currently purchasing another property, or has done so in the last 12 months
- Borrower is in the business of "flipping" homes

The occupancy indicated on the borrower's signed application is sufficient to document that the borrower intends to occupy the property as a primary residence. Occupancy as primary residence should occur within 60 days of closing

8.4 Occupancy Conversions

When a borrower purchases a new property, this may cause the occupancy of an existing owned property ("departure residence") to change. There are legitimate reasons that lead to an occupancy change for a departure residence, but misrepresentations regarding intent to occupy present elevated risk. Most often, misrepresentation involves the misstated intent to convert a departure residence to a rental and occupy the new property as a primary residence.

Because of the elevated risk, MTGMAC applies the restrictions described below when a departure residence will be or recently converted to a rental or second home.

For the purpose of this policy, a recent conversion which occurred within the last 60-days must show a signed lease agreement and a bank statement showing the deposit of the security check and/or rental payment(s).

8.5 Pending Sale of Current Residence

If the departure residence is pending sale rather than being converted, then the following requirements must be satisfied:

- The PITIA on the departure residence must be included in the qualifying ratios unless there is either:
  - An executed sales contract with financing contingencies removed
  - An executed buyout agreement as part of an employer relocation plan (the program qualifying for the relocation discount as defined in Section 9.6) where the employer/ relocation company are responsible for the outstanding mortgages on the property pending sale

9 Purpose

9.1 Purchase

Refer to Section 7.5 for purchase restrictions related to non-arm's length transactions.

9.2 Rate and Term Refinance

To qualify for a rate and term refinance, the following requirements must be satisfied:

- One of the following requirements must be satisfied:
  - At least one borrower on the new loan must be on title. If the property is primary residence or second home, the borrower on title must have resided in the subject property for 6 or more

months immediately preceding the application date (if the property was purchased within 6 months, 6 months seasoning may be waived)
  - At least one borrower on the new loan must have inherited the property or legally awarded the property through divorce, separation, or dissolution of a domestic partnership
- Cash back to the borrower is limited to the lesser of $5,000 or 2% of the new loan amount. The borrower may not have taken cash-out (similarly defined) within the last 6 months of the new loan closing date (via either a first or subordinate lien).
- The new loan proceeds may only be used for one or more of the following reasons:
  - Paying off the existing first lien
  - Paying off subordinate liens used entirely to purchase the property
  - Paying off non-purchase-money subordinate liens seasoned for at least 12 months prior to the loan application date and for HELOC with total draws during the 12 months preceding the application date not in excess of $3,000
  - Paying an individual who has been a joint owner for at least 12 months prior to the application date for their interest in the property pursuant to a written agreement such as divorce, separation, dissolution, of domestic partnership, and etc. (12-month requirement does not apply in the case of inheritance)
  - Paying reasonable and customary financing costs/closing costs/prepaids (consistent with the GSE's definition of permissible expenses)
  - Paying off Property Assessed Clean energy (PACE) obligations. A PACE obligation includes any energy retrofit obligation used to finance energy conservation improvements that is repaid through a property tax assessment
- The following requirements of Section 14.2.3 must also be satisfied:
  - The subject property may not currently be listed For Sale, and must have been taken off the market on or before the application date
  - If the subject property was listed For Sale within 6 months prior to the application date, the documentation must include a signed statement from the borrowers indicating their intent to retain the property

9.3 Cash-Out Refinance

Any refinance that does not meet the rate and term refinance requirements will be considered a cash-out for guideline interpretation purposes. The following requirements must also be satisfied:

- The subject property may not have been listed For Sale in the last 6 months prior to the application date, and the documentation must include a signed statement from the borrowers indicating their intent to retain the property.
- The property must have been purchased by the borrower at least six months prior to the loan Note date for new financing except on delayed financing guidelines.

9.4 Delayed Purchase Refinance Loans

Defined as the refinance of a property purchased by the borrower with cash within 6 months of loan application. Transaction is eligible if it meets the following criteria:

- Underwritten as a Cash Out Refinance
- Obtain HUD-1 from original purchase

9.5 Texas Refinance Loans

All refinance loans in Texas will be evaluated against the criteria outlined in our Conventional Underwriting Guidelines. Texas Refinances section to determine if the loan must be originated under the requirements of Section 50(a)(6) of the Texas Constitution. Texas refinance loans that must close under Section 50(a)(6) requirements are not eligible.

9.6 Corporate Relocation

MTGMAC does not have any special guidelines applicable to borrowers with employer assisted relocations. Standard underwriting guidelines apply.

MTGMAC may offer a borrower participating in an employer-sponsored corporate relocation program a pricing benefit (refer to the rate card for details) provided all of the following conditions are satisfied:

- The borrower is a new or transferred employee purchasing a primary residence.
- The borrower is participating in a formal program sponsored by the borrower's employer (or agent) evidenced by a copy of the relocation agreement and/or other documentation detailing the nature and amount of the employer's contribution.
- The employer's contribution must be used for closing costs (on property being purchased and/or sold), discount points, below-market bridge-loan financing, ongoing subsidy payments related to cost differences, moving expenses, or other expenses related to the relocation.

Refer to Section 8.5 Pending Sale of Current Residence for additional details on qualifying a borrower participating in an employer-sponsored corporate relocation program.

9.7 Construction to Permanent

Ineligible

10 Income Documentation and Calculations

10.1 General and Form 4506 Requirements

This section of the guidelines describes minimum income documentation requirements.

Qualifying income should reasonably be expected to continue for a minimum of three years. Income that is not expected to continue for a minimum of three years will not be considered. The documentation required to determine the amount of income that can be relied upon varies according to the income type and materiality, the applicant's ownership interest in the income source, and other factors described in the guideline sections that follow.

Originators do not need to document a 3-year continuance for the following types of income:

- Base salary
- Bonus, overtime, commission or tip income
- Corporate retirement or pension
- Long-term disability
- Interest and dividend income unless evidence exists that the related assets will be depleted
- Part time, second job, or seasonal income
- Rental income
- Social security, VA, or other governmental retirement or annuity

10.1.1 Income Stability

Income trending is a relevant consideration for borrowers with fixed or variable income. If the trend

is stable or increasing, the calculated income should be utilized. If the income was declining but has since stabilized, the lower current level should be used. If the income continues to decline, but may not be stable, further analysis must be conducted to document the appropriate income, if any, to be utilized.

10.1.2 Form 4506

A complete and signed IRS Form 4506-C is NOT required.

10.2 Alimony or Child Support

10.2.1 Alimony and Child Support Received

- A copy of the final court approved Divorce Decree (separation agreement or other written agreement/court decree) containing the amount and duration. The income must continue for a minimum of 3 years (check for limitations on duration such as the ages of children)
- Evidence of regular receipt for the last 6 months (inconsistent or sporadic payments may not be included as income)
- Calculation: Utilize the current payment amount

10.2.2 Alimony and Child Support Paid

- Alimony paid is considered a debt (refer to Section 13.1)
- Child support paid is considered a debt (refer to Section 13.1)
- The monthly amount of the paid alimony and/or paid child support may not be deducted from the income when calculating the debt ratio

10.3 Bonus or Overtime

- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment, and assets are stated and verified. Documentation may not be more than 90 days from the date the note is signed.
- Borrowers must have two years consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.4 Commission

A minimum history of 2 years of commission income is required and the following documents must be obtained:

- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment, and assets are stated and verified. Documentation may not be more than 90 days from date note is signed.
- Borrowers must have two years of consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.5 Disability

- Copy of award letter or current disability statement
  - If amount and duration are not disclosed in awards letter, a copy of the disability policy may be required.
  - If the benefits have a defined expiration date (not long-term disability), verify that the remaining term is at least 3 years from the date of the mortgage application.
- Calculation:
  - If higher short-term disability payment will fall to lower long-term payment during the next 3 years, use the lower long-term payment for qualifying purposes. Otherwise use the current payment. If disability income will not continue for 3 years, it cannot be included in income.

10.6 Hourly

- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment and assets are stated and verified. Documentation may not be more than 90 days from date note is signed.
- Borrowers must have two years consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.7 Overtime

- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment and assets are stated and verified. Documentation may not be more than 90 days from date note is signed.
- Borrowers must have two years consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.8 Part-Time

- Minimum 24-month total history (multiple employers).
- Written VOE (Form 1005) completed in full by employer verifying most recent two years.
- Income, employment and assets are stated and verified. Documentation may not be more than 90 days from date note is signed.

- Borrowers must have two years consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.9 Rental

10.9.1 Rental Property Other Than Subject Property

- Fully executed lease agreement AND
- Calculation: 75% of gross rent less PITI and HOA dues

10.9.2 Subject Property is Rental Property

- Purchase: Use 75% of market rent from an appraisal

- Refinance: Use the lessor of 75% of rent from a fully executed lease agreement or an appraisal including market rent analysis
- Calculation: 75% of gross rent less PITI and HOA dues

10.10 Retirement, Government Annuity and Pension

- Copies of retirement award letters or current statements AND
- Copies of borrower's 2 most recent bank statements showing deposits
- Calculation: Use the current amount

10.11 Salaried

- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment, and assets are stated and verified. Documentation may not be more than 90 days from the date the note is signed.
- Borrowers must have two years of consistent employment with the same employer or in the same industry.
- Calculation:
  - Use the base salary (semi-monthly, bi-weekly, or hourly rate as supported by YTD) from WVOE. Examples:
    - Semi-monthly: Semi-monthly amount multiplied by 2 equals monthly income.
    - Bi-weekly: Bi-weekly amount multiplied by 26 divided by 12 equals monthly income.
    - Teacher paid for 9 months: Monthly amount multiplied by 9 months divided by 12 months equals monthly qualifying income.

10.12 Secondary Employment (Second Job)

- Minimum 24-month total history (multiple employers)
- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment and assets are stated and verified. Documentation may not be more than 90 days from date note is signed.
- Borrowers must have two years of consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.13 Social Security

- Copy of the award letter or Social Security Benefit Statement AND
- Most recent bank statement reflecting proof of current receipt
- Calculation: Use current amount from documentation

10.14 Tips

- Minimum 24-month total history (multiple employers).
- Written VOE (Form 1005) completed in full by the employer verifying most recent two-year income history.
- Income, employment, and assets are stated and verified. Documentation may not be more than 90 days from date note is signed.

- Borrowers must have two years of consistent employment with the same employer or in the same industry.
- Calculation: Develop a 2-year average of the income.

10.15 Ineligible Sources of Income

- Income types described above that cannot be documented
- Auto Allowance
- Boarder income
- Capital Gains
- Employment Offers and Compensation Increases
- Employment by a family member
- Expense account payments
- Foreign Income
- Foster Care
- Future income
- Interest and Dividend
- Military
- Mortgage Credit Certificate (MCC)
- Mortgage Differential Payments
- Note Receivable
- Public Assistance (Including Housing Choice Voucher – Section 8)
- Retained earnings
- Retirement Asset Liquidation (Fund Income)
- Reverse Mortgage Income
- Royalty Payments
- Seasonal
- Second Home rental income
- Trailing Co-borrower
- Temporary Leave
- Trust
- Unemployment Benefits
- Unverifiable sources
- VA Benefits

10.16 Verbal Verification of Employment

Income must be verbally verified within:

- 10 days prior to the note date (or the date a construction-to-permanent loan is converted to permanent financing) for employment income (including military personnel); AND

The phone number used to verify employment income should be obtained independently and the conversation should be documented (including source of the phone number, date of employment verification, name/title of person confirming employment, and name/title of person completing verification). A third-party vendor such as the Work Number is an acceptable source of verification.

11 Asset Documentation and Calculations

Funds required to close the loan (down payment, closing costs, prepaids) and for reserves must meet requirements. The minimum borrower contribution requirement must be fulfilled by the borrower's own funds. The remaining funds may come from additional eligible sources.

11.1 Evaluating Large Deposits

The source of a large deposit does not need to be documented if the eligible assets on file are from U.S. banks or brokerage accounts, unless the deposits are clearly identified as originating from a financing firm or new loan proceeds.

11.2 Min. Borrower Contribution Requirement

A minimum borrower contribution from the borrower's own funds is not required.

11.3 Eligible Assets

Business assets: provided the borrower owns 50% or more ownership of the business and removal of the assets will not impair the ability of the business to continue operating. Asset balances must be verified by depository or other asset statements (as described below). A CPA or accountant letter explaining use of the funds will not have a negative impact on the business will be required (not required if borrower owns Sch C business and provides personal bank statement for the asset requirement).

Depository balances (checking, savings, CDs, etc.): Verified via a VOD or 1 month bank statements. If the lender is also the depository for a borrower's account, the lender may verify funds using a printout or other alternative verification produced directly from the lender's system. The current balance may be used regardless of the average balance amount, provided that the eligible assets via VOD are held with U.S. banks or brokerage accounts.

Earnest Money Deposit: the source does not need to be verified if sufficient borrower contributions and funds to close are verified separately.

Investment balances (stocks, bonds, mutual funds, savings bonds, etc.): Verified via a VOD or statements covering a minimum of 2 months.

Proceeds from the sale of assets other than real estate owned: Verified by a bill of sale, documentation of receipt of funds and evidence that the sales price was supported by the market value.

Proceeds from the sale of real estate owned: Verified via HUD1 or Closing Document

Trust funds: Verified by documentation from the trustee

Tax (Income) refunds (either federal or state): Evidenced by copy of return showing refund amount, copy of check and proof of increase in deposit balances

Gifts of Equity in the subject property: Provided if the property seller is related to the borrower by blood, marriage, adoption or legal guardianship

Gifts of Funds:

- A signed gift letter from a donor who is either related to the borrower by blood, marriage, adoption or legal guardianship; or can document an established relationship with the borrower (domestic partner or future spouse); OR

- A borrower signed letter of explanation along with either a copy of the wedding invitation or marriage license to support receipt of wedding gift funds; and such funds are verified as being on deposit within 60-days of the wedding or marriage license date
- 100% Gift funds are allowed for closing costs, down payments and reserves

Cryptocurrency: Cryptocurrency is an eligible source of funds for down payment, closing costs and reserves. For down payment and closing cost purposes, funds must be liquidated and deposited into the borrower's bank account prior to use. For reserve requirements, 70% of the current balance may be applied.

Interested Party Contributions: Provided they are within the maximums permitted in Section 11.5.

11.4 Ineligible Assets

The following are ineligible assets (sources of funds):

- Advances against future earnings
- Bridge loans
- Cash on Hand
- Employer Assistance
- Gifts requiring repayment
- Grant Funds
- Individual Development Account
- Loans against assets or unsecured loans where proceeds do not meet 90 days seasoning requirement
- Pledged assets in lieu of down payment (an asset transferred to the lender for the purpose of securing debt and retained by the lender until payoff)
- Pooled or Community Savings Accounts
- Property seller funds dispersed indirectly via third parties in a way intended to circumvent requirements related to assets, interested party contributions, etc.
- Secondary Financing
- Sweat Equity
- Uniform Transfers to Minor Act (UTMA)
- Foreign asset or funds from borrowers' offshore accounts

11.5 Interested Party Contributions and Abatements

Interested parties are parties involved in the transaction such as the builder, seller, realtor, etc.

Contributions from these parties are limited so they do not inflate the property value.
Interested party contributions cannot exceed 6% of the lower of the sales price or appraised value.

Interested party contributions must be identified in the sales contract and evaluated by the appraiser in the appraisal report to determine the impact, if any, on value. Unplanned buydowns arising just before closing and paid by the seller/builder to allow the borrower to maintain an interest rate after rates rise are considered contributions.

Amounts in excess of the limit must be deducted dollar-for-dollar from the sales price for purposes of calculating the LTV to determine eligibility:

- Non-monetary sales incentives must be deducted dollar-for-dollar from the sales price for purposes of calculating the LTV to determine eligibility
- Lender funded transaction costs are not considered contributions unless the lender is affiliated with an interested party

11.6 Reserve Requirements

The minimum reserve requirements are specified in the applicable product eligibility matrix. Amounts to cover principal and interest based on qualifying rate should be included in the calculation. Additional reserves are required as follows:

Primary & 2nd Home:

- LTV <=75% and Loan balance <= $1M: No reserves
- LTV > 75% or Loan balance > $1M: 4 months P&I

Investment:

- <= $1,000,000: 6 months P&I
- >$1,000,000<=$2,000,000: 9 months P&I
- >$2,000,000: 12 months P&I

No Additional reserves for each financed property (other than subject)

Note: Cash out net proceeds can be used for reserve requirement

12 Credit Reports and Scores

12.1 Traditional Credit Requirements

A credit report is required for every borrower based on data provided by the national credit repositories. Reported information cannot be changed but duplicate information may be deleted. Credit information must be developed by combining data from at least two of the national repositories (Experian, Equifax and TransUnion) as follows:

- A two or three-repository merged in-file credit report
- A Residential Mortgage Credit Report (RMCR)
- Two FICO scores

12.2 Non-Traditional Credit

Borrowers must have an acceptable U.S. credit history meeting the Traditional Credit Requirements described above. Non-traditional credit, non-traditional credit reports, foreign credit reports, and borrowers without a credit history or credit score are not eligible.

12.3 Foreign Credit

Refer to Non-Traditional Credit requirements above.

12.4 Representative FICO Score for Underwriting

Each borrower's individual representative FICO score is determined by taking the middle of three or lower of two FICO scores. The representative FICO for the loan that must be used for underwriting is the lowest of the representative FICO scores among the borrowers.

12.5 Minimum FICO Score

The minimum FICO score is described on the applicable program matrix in Section 2.

12.6 Minimum Tradeline Requirements

• Min: 2 reporting 24-months w/activity in last 12- months or 3 reporting 12-months w/recent activity

• Self-reported tradelines, such as utility or VOR can be used to satisfy minimum tradeline requirements, but at least 1 tradeline from the credit report must be used to meet the minimum requirements.

• If any one of the borrowers has three (3) credit scores, the minimum tradeline requirement is waived

12.7 Housing Payment History

- Mortgage / Rental Lates – 1x30 during the past 12 months.
- Rental History: Rental history must be evidenced by canceled checks OR a Verification of Rent (VOR, which may be a private VOR) on a Fannie Mae acceptable form (waived if borrower owns a separate investment property with more than 12 months of rating).
- VOR covering the most recent 12 months of rental history can be used as one valid tradeline with compensating factors presented in file.
- Borrowers owning free and clear properties: If a borrower does not have a current mortgage payment (i.e. free and clear), no housing payment history is required to be documented.
- Rent-Free: Even if there were no rental payments made within 12 months, the Borrower may qualify if there is documentation proving that the Borrower has not been required to pay rent for 12 months. The letter can be provided by ① the owner of the property or ② main lessee of the property (The lease agreement is required)

12.8 Payment of Derogatory Amounts

▪ Collection/Non-mortgage Charge off: Each account equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing.

▪ Disputed Accounts: If the account's balance is over $0 or the account is classified as derogatory credit, a credit supplement confirming no disputed account with zero balance is required.

If the borrower has sufficient reserve assets, this requirement is waived.

12.9 Derogatory Event Seasoning

- Bankruptcy (Ch. 7, 11 and 13): None in the last four (4) years
- Foreclosure: None in the last seven (7) years
- Short Sale or Deed-In-Lieu: None in the last two (2) years
- Loan Modification: None as long as no mortgage late in the last 24 months
- Consumer Credit Counseling: Credit must be re-established following completion (similar to above 3 trade lines rule except 24 months and no delinquencies are required)

12.10 Credit Inquiries

The borrower needs to address all inquiries to their credit within 120 days of the credit pull date, unless a corresponding new tradeline is evidenced on the credit bureau. In the event any new debt was incurred since the original credit pull date, details of the new obligation must be obtained and the monthly payment must be included in the debt to income ratio. Acceptable documentation would include a recent statement or a credit supplement.

12.11 Fraud Alert Messages on Credit Reports

All fraud alert messages appearing on the credit report must be satisfactorily addressed to ensure that the information presented on the loan application is true and correct. The borrower must be contacted at the phone number provided on the credit report, and the conversation must be documented in the file.

13 Liabilities and Ratios

13.1 General Requirements

The income and debts of the applicants should be utilized to calculate qualifying ratios. Income should be documented and calculated as described in Section 10. Liabilities should be determined in accordance with the credit report requirements described in Section 12 .

Note: The monthly amount of the paid alimony and/or paid child support (with greater than 10 payments remaining) may not be deducted from the income when calculating the debt ratio.

All debts for which the borrowers are obligated should be included in the debt ratio calculations with the following exceptions:

Installment payments (including child support and alimony) where it has been documented that 10 or fewer payments remain (but lease payments must be included regardless of the number of remaining payments).

Court-Ordered Assignment of Debt: When the borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement), the debt should not be counted as a recurring debt obligation unless the primary obligor has a history of being delinquent in making payments on the debt. For the purposes of this guideline, a history of being delinquent is defined as any one or more of the following: a) currently 30+ days past-due, or b) one or more 60+ days past-due or two or more 30+ days past- due in the last 12 months.

Borrower has cosigned for a loan: When the borrower has an outstanding debt that was co-signed, the debt should not be counted as a recurring debt obligation if the borrower can document that the primary obligor has been making payments on the debt for at least 12 months and the primary obligor does not have a history of being delinquent as defined above.

Student loans payments for loans with payment deferment. The payment amount must be determined in the manner described in Section 13.2 for student loans.

A future obligation to make reverse mortgage payments on a property being vacated and retained bythe borrower.

13.2 Qualifying Payment Amounts

The following qualifying payments should be utilized unless the Underwriter has determined it is more appropriate to use a higher amount:

Installment Debts: Current payment amount

Lease Payments: Current lease payment amount must be included regardless of the number of remaining payments

Student Loans: Use payment from Credit report if shown. Otherwise, 1% should be utilized.

Student Loan Debt Paid by Others: Monthly payments for student loan debt(s) may be excluded when calculating the debt ratio if all the following are met:

- The monthly payment on the student loan debt is paid by:
  - **Someone other than the borrower ("Payer")**, provided the borrower provides evidence that the student loan debt payer has been making the student loan payments in a timely manner for the most recent 12-months (cancelled checks, etc.);

  OR

  - **Employer**, provided:
  - Borrower provides evidence that their employer is making the student loan payments on their behalf per an employment contract or other written documentation indicating the amount and duration of the payments approved for the Borrower; and
  - The documentation evidences that the employer student loan debt payments will continue for a minimum of 3 years;

  AND

- Student loan payments must be current and have never been 30 or more days delinquent;
- Student loan debt payer or employer may not be an interested party to the transaction; and
- The monthly amount of the payer or employer paid student loan debt may not be included as qualifying income. Only the monthly amount of the student loan debt that is paid by the payer or employer may be deducted from the monthly debt when calculating the debt ratio. If the borrower's monthly student loan debt is higher than the monthly amount paid by the payer or employer, then the differential or the remaining balance must be included in the borrower's monthly debt when calculating the debt ratio

Revolving and Open-End Credit: Amount listed on the credit report or 5% of the outstanding balance.

New Mortgage Payment:

- Initial fixed term <= 5 Years: Fully amortizing payment calculated using the greater of the fully indexed rate or the initial note rate plus 2%; including property taxes, insurance (hazard and flood) and HOA dues.
- All Others: Fully amortizing payment calculated using the initial note rate; including property taxes, insurance (hazard and flood) and HOA dues.

Conversion of Property to Rental or Second Home; or pending sale of current primary residence or second home: Refer to Section 8.4.

Bridge Loans: Borrower must still qualify with the included mortgage payments on the current home (PITIA plus Bridge loan payments).

Alimony, Child Support and separate Maintenance:
If the borrower:

- Discloses specific payments for alimony, child support, or separate maintenance in the liabilities section of the application; or
- Discloses in the declaration that "yes" they are obligated to make such payments; or
- Submits tax returns deducting alimony payments; or
- Has provided some documentation that should cause an underwriter to believe alimony, child support, or maintenance obligations may be present,

Then MTGMAC requires written documentation supporting the payment. Without such disclosure (even if the borrower is separated with dependents or unmarried with dependents), MTGMAC does not require written documentation. If the borrower declares that the payment is voluntary or that no written agreement exists (perhaps no such agreement has yet been finalized), then no payment needs to be included.

13.3 Debt-To-Income (DTI) Ratios

Maximum DTI ratios are 49.99%.

13.4 Payment Shock

There is no payment shock requirement.

14 Underwriting the Property

14.1 Eligible Property Types

14.1.1 Single Family/PUD

Properties where ownership includes the lot under the dwelling fall into this category. The category includes detached, semi-detached and attached units.

14.1.2 Condominiums

Properties where ownership excludes the lot under the dwelling fall into this category.

Detached site condominiums (similar to a regular condominium except the units are detached) are underwritten as detached single-family properties.

Non-Warrantable Condominiums are eligible for financing, provided they meet the following criteria:

- Completion: All legal phases and common areas of the project must be 100% complete. A minimum of 50% of units must be sold or under contract.
- Review Standards: A full project review must be conducted to ensure the development does not contain any ineligible characteristics
- Agency Alignment: Except for the non-warrantable status, projects should generally align with standard agency eligibility and safety requirements

Condo Project in 'Delivery Restriction' status in CPM is eligible for financing, provided the subject transaction fully complies with the specific parameters noted in the CPM 'Comments' sections and all other requirements are met.

14.1.3 Two-Four (2-4) Units

Two-four unit properties must meet agency requirements.

14.1.4 Acreage

The property should not exceed 10 acres, and the amount of acreage must be typical for the area and supported with comparable of similar lot size.

14.1.5 Multiple parcels

Refer to FNMA Selling Guide for additional requirements.

14.1.6 Zoning

The property must be a legally permissible use of the land, and there may not be any governmental restrictions or regulations prohibiting reconstruction or maintenance of the property.

14.1.7 Accessory Dwelling Unit (ADU)

- Multi-Unit Properties (2 to 3 units): These properties may include ADUs, as long as the total count of units (primary structure plus ADUs) does not exceed four.
- Single Unit Properties (SFR): Eligibility is extended to one-unit properties that feature up to 3 separate ADUs.

14.1.8 Unpermitted Additions

The appraiser must comment on the quality and appearance of the work and any impact the addition might have on the market value of the subject property. Refer to FNMA Selling Guide for additional requirements.

14.1.9 Properties with Solar Panels

Refer to FNMA Selling Guide for additional requirements

14.2 Property Condition

14.2.1 General Requirements

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations needed to remedy the deficiency. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional.

The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to ensure that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to ensure that the necessary alterations or repairs have been completed prior to closing.

An "as is" valuation is acceptable providing any existing conditions are minor and do not affect the safety, soundness, or structural integrity of the property: the appraiser's value opinion reflects these conditions.

14.2.2 Natural Disasters

Natural disasters caused by floods, hurricanes, tornados, earthquakes, forest fires, or other catastrophes may impact the property's condition and value. If the disaster occurs prior to the appraisal, the impact, if any, of the disaster must be reflected in the value conclusion. When the disaster occurs following the appraisal but prior to loan closing and issuing of insurance, the lender must take prudent and reasonable actions to determine whether the condition of the property was affected by the disaster and those actions and conclusions must be documented in the file. Lenders must warrant that the property has no damage affecting safety, soundness, structural integrity, or

property value. If the property has damage affecting any of these things, the property must be repaired prior to the issuance of the mortgage insurance.

14.2.3 Properties Listed or Previously Listed For Sale

For refinance transactions, properties may not currently be listed For Sale and must have been taken off the market on or before the application date.

- **Rate and term refinance transactions**: If the subject property was listed For Sale within the 6 months prior to the application date, the documentation must include a signed statement from the borrowers indicating their intent to retain the property.
- **Cash-out refinance transactions**: The subject property may not have been listed For Sale in the last 6 months.

14.3 Ineligible Property Types

- Apartment/hotel conversions that do not satisfy agency eligibility and project requirements
- Condotels
- Cooperative properties
- Berm, dome, earth, geothermal, log and straw bale homes
- Float Homes
- Houseboats
- Kiddie condominiums (condominium projects made up of student housing)
- Land (including improved or unimproved lots)
- Located outside of the 50 states and the District of Columbia
- Log homes
- Lot loans
- Manufactured Homes
- Mobile homes
- Mixed-use properties
- Properties exceeding 10 acres
- Properties not appraised as residential
- Properties not primarily residential in nature (farms, ranches, orchards, vineyards, etc.)
- Properties not suitable for year-round occupancy
- Property of a type that is potentially eligible but fails to meet the specific requirements above
- Properties operated as a hotel
- Properties with resale restrictions
- Timeshares
- Unique properties where marketability in the local market cannot be established

14.4 Eligible Ownership Types

14.4.1 Fee Simple Estate

Absolute exclusive ownership in perpetuity with greatest rights of possession, use, and disposition.

14.4.2 Leasehold Estates

Properties located on leasehold land are eligible provided all of the following requirements are met:

- Agency requirements must be met
- There must be an established market for leaseholds in the area and the comparable properties in the appraisal must include at least three leasehold properties
- Increases in the ground rent, if any, must occur according to a pre-determined schedule, in accordance with a cost-of-living or similar index, or in accordance with a reappraisal process

with reasonable limitations

- The leasehold term must exceed the term of the mortgage by at least 5 years
- Community Land Trusts (CLTs) satisfying the above criteria are eligible. CLTs are developed by nonprofit organizations or public entities to create and preserve long-term affordable housing.

  The CLT sells the home, retains ownership of the land, and provides an affordable below-market ground lease to the buyer. Provisions of the ground lease typically guarantee continued use of the property for low and moderate-income borrowers via restrictions affecting resale of the property improvements. Because the buyer is paying a subsidized price, the sales price is not an indicator of market value – therefore the LTV ratio must be determined by dividing the loan amount by the appraised value of the improvements and leasehold interest. The appraisal must be prepared in accordance with applicable GSE requirements.

14.5 Max. Number of Financed Properties

- MTGMAC generally accepts any number of financed properties regardless of occupancy type if the total ATR factor with considering all real estate owned is within the allowable range.
- MTGMAC will finance with a maximum unpaid principal balance of $5,000,000 for the same borrower. Joint ownership in residential real estate is considered the same as total ownership and is subject to the same restriction.

14.6 Property Flips

Property flipping is generally the process of purchasing an existing property and reselling it immediately for a profit. Property flipping itself is not illegal unless it involves fraud or misrepresentation, which can lead to predatory transactions. The property is often acquired at a discount, then refinanced or resold to an uninformed buyer at an inflated price within a short period of time. Appraisal reports used in property flipping schemes should be carefully reviewed as they may contain inflated property values or sales prices, or inadequate analysis of the sale or transfer history of comparable properties.

Not all purchase/rapid resale transactions are considered real estate flips. Examples of purchases that result in legitimate rapid resale transactions include and not limited to:

- Sales of property by employers or relocation agencies in connection with employee relocations;
- Sales of property by GSE, state or federally chartered financial institution, mortgage insurer, or federal, state or local government agency;
- Sales of property that acquired by the seller as a result of an inheritance, divorce, or legal settlement;
- Properties that were purchased through a distressed sale and made substantial renovations to the property and is now selling for a profit. The renovations should be documented and verified.

As new property valuations are made for purchase and refinance transactions, the MTGMAC underwriter will analyze and review as below to reduce the likelihood of fraud or misrepresentation. The acceptance of property flip is based on the level of overall risk level of the collateral and the legitimate nature of transaction, and it is determined by the underwriter.

- MTGMAC verifies and documents in the loan file that the seller of the property in a purchase transaction (or the borrower in a refinance transaction) is the owner of the property based on publicly available information. Acceptable documentation includes an appraisal report, a recent tax bill or tax

assessment notice, a title report or a commitment to issue a title report, or a real estate sales history report.

- MTGMAC analyzes the following for both purchase and refinance transactions: (1) the current offering or listing of the subject property, (2) the current ownership of the subject property, and (3) the sale or transfer history of the subject property and comparable properties.
- MTGMAC analyzes sales price trends in relation to the history of sales of the subject property and confirms the appraiser's opinion of value to ensure that the value is reasonable and representative of the market.

*See section 17.6 HPML for additional requirements for Property Flipping with HPML, especially if it is a resale transaction within 180 days.

14.7 Appraisal Types

MTGMAC requires a traditional full appraisal with an interior inspection. Exterior only appraisals or evaluations, property inspection waivers, AVMs, or BPOs are not permitted.

Appraisals should include all required photos, exhibits, and addendums and be on one of the following acceptable forms:

- Uniform Residential Appraisal Report: (Fannie Mae 1004 / Freddie Mac 70)
- Individual Condominium Unit Appraisal Report: (Fannie Mae 1073 / Freddie Mac 465)
- Individual Cooperative Interest Appraisal Report: (Fannie Mae 2090)
- Small Residential Income Property Appraisal Report (Fannie Mae 1025 / Freddie Mac 72)
- Appraisal Update or Completion Certificate (Fannie Mae 1004D / Freddie Mac 442) The appraisal update must be in compliance with:
  - Uniform Standards of Professional Appraisal Practice (USPAP)
  - Federal Housing Finance Agency (FHFA) Appraisal Independence Requirements (AIR)

Note: FHA appraisals are acceptable provided they are on the Fannie Mae/Freddie Mac acceptable forms noted above.

14.8 Appraisal Requirements

In order to ensure a reliable valuation of the underlying property, a thorough appraisal framework is required which includes at minimum at least one Appraisal and one additional valuation tool.

Appraisal Requirements: The appraisal report must not be more than 180 days old on the date of the note. An appraisal update is allowed on appraisals older than 120 days, but not older than 180 days. All appraisals must meet the Uniform Appraisal Dataset requirements determined by Fannie Mae (as modified by Fannie Mae from time to time).

- One appraisal required for all loans <= $2,000,000
- Two appraisals required for all loans > $2,000,000

For principal residences where the price reflected in the buyer's purchase agreement is higher than the amount listed below compared to the seller's acquisition price, a second appraisal will be required.

The amounts are as follows:

- More than a 10% increase if the seller acquired the property in the past 90 days;
- More than a 20% price increase if the seller acquired the property in the past 91 to 180 days
- See the CFPB TILA HPML Appraisal Rule for exemptions from this requirement.

14.9 Transferred Appraisals

MTGMAC accepts transferred appraisal reports if they comply with comply with Appraiser Independence Requirements (AIR).

14.10 Third Party Appraisal Review

- The seller must order an appraisal desk review product for each loan from a vendor listed on the Approved Appraisal Desk Review Vendors.
  - CDA report from Clear Capital
  - ARR from ProTeck
  - ARA from Computershare
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the desk review produces a value in excess of a 5% negative variance to the appraised value, the loan is not eligible for purchase; provided, the seller has the option to then ask the MTGMAC to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 5% negative variance to the appraised value, then the loan will remain ineligible for purchase.
- All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.

14.11 Home Equity Combined Loan-to-Value (HCLTV)

The HCLTV is calculated by adding the first lien amount to the combined total of the junior liens. (adding the outstanding balance of loans, the remaining balance of lines in repayment without ability to make new draws, and the greater of the line amount or outstanding balance for lines of credit that are active where the borrower continues to have the ability to make new draws). When a junior lien is present, payment must be included when calculating the qualifying ratios, and the HCLTV must not exceed program guidelines.

14.12 Value Seasoning

If the subject property was acquired within few months measured from the property acquisition date (Recorded date) to the subject transaction Note date, the lower of the current appraised value or the previous purchase price is used to determine LTV/CLTV.

- Limited Cash-out Refinance: within 6 months
- Cash-out Refinance: within 12 months

14.13 Loan Amount

The maximum loan amount is contained in the applicable product eligibility matrix.

14.14 Insurance Requirements

14.14.1 Flood Insurance

Flood insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

14.14.2 Hazard Insurance

Hazard insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

14.14.3 Title Insurance

Title insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

15 Legal and Regulatory Requirements

Loans must be originated in accordance with applicable federal, state, and local laws and regulations.

16 Age of Documentation

- Income/Asset/Credit report must be dated within 90 days from closing
- Appraisal/prelim report must be dated within 120 days from closing

17 Additional Requirements

17.1 Escrow Waivers

- Property tax and insurance escrows may be waived.
- Individual state laws may supersede this requirement.
- Investment & FICO <720: tax and insurance must be impounded

17.2 Escrow Holdback

Escrow Holdback is not eligible.

17.3 Assumable

Adjustable Rate Notes – May be assumable based upon the note, in general Fannie Mae Notes contain an assumable clause. In any case, the verbiage in the Note and Closing Disclosure must match.

17.4 Prepayment Penalty (Investment Only)

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

- Declining structures that do not exceed 5% and do not drop below 1% in the five years. For example: (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 prepayment charge will be charged in effect to a full Payment or one or more partial Payments, and the total of all such Prepayment in any 12-month period exceeds twenty percent (20%) of the original Principal amount of the loan. Prepayment charge amount will be in an amount equal to:

- Five (5) percent of the portion of such prepayment if paid during the first year from the execution date of the Note
- Four (4) percent of the portion of such prepayment if paid during the second year from the execution date of the Note
- Three (3) percent of the portion of such prepayment if paid during the third year from the execution date of the Note
- Two (2) percent of the portion of such prepayment if paid during the fourth year from the execution date of the Note
- One (1) percent of the portion of such prepayment if paid during the fifth year from the execution date of the Note

The following state restriction apply:

- Not Eligible: DE, DC, IL, KS, MI, MN, NC, NJ, SC, WV
- CO & TX: Cash Out not permitted, Maximum rate 12%
- OH: 1-2 unis are not eligible
- HI: ARM is not permitted
- LA: 3 Yr Max
- PA: For Calendar Year 2025, Minimum Loan Amount $329,411
- MD & VA: Minimum loan amount: $75,000

17.5 Section 32: High-Cost Loans

High-cost loans (Section 32) as defined by applicable state and/or local regulations are not permitted.

17.6 Section 35: Higher Priced Mortgage Loan (HPML)

HPML only applies to principal residences.

MTGMAC will purchase loans that are defined as HPML only if all of the requirements listed below are met along with applicable product guidelines;

- QM Points and Fees audit must pass
- Escrows/Impounds are required for property taxes and homeowner's insurance (including flood insurance)
- All federal and state guidelines are met

Use the FFIEC Rate Spread Calculator to help determine Higher Priced Mortgage Loan (HPML) status: https://www.ffiec.gov/ratespread/newcalc.aspx

The calculator requires: Lock-In Date, APR, and the fixed term of the mortgage (in years).

A loan is "higher priced" if:

- It is a first-lien mortgage (other than a jumbo loan) with an Annual Percentage Rate (APR) that exceeds the published Average Prime Offer Rate (APOR) at the time the APR is set (lock date) by ≥ 1.5 percentage points
- It is a first-lien jumbo loan with an APR that exceeds the APOR at the time the APR is set (lock date) by ≥ 2.5 percentage points

Resale transaction within 180 days with HPML is eligible if a second appraisal report is received as the TILA HPML Appraisal Rule. The two appraisal reports must be performed by different certified or licensed appraisers. The acceptance of such a loan is based on the overall risk level of the collateral and the legitimate nature of the transaction, which is determined by the underwriter. The appraisal value used for eligibility will be based on the lower of the two appraisal reports.

For principal residences where the price reflected in the buyer's purchase agreement is higher than the amount listed below compared to the seller's acquisition price, a second appraisal will be required.

The amounts are as follows:

- More than a 10% increase if the seller acquired the property in the past 90 days;
- More than a 20% price increase if the seller acquired the property in the past 91 to 180 days
- See the CFPB TILA HPML Appraisal Rule for exemptions from this requirement.

17.7 State Restrictions

Refer to eligible states at https://www.mtgmac.com/tpo_offices.html

- TX: Texas refinance loans that must close under Section 50(a)(6) requirements are not eligible

- CT, FL, IL & NJ: Maximum LTV/CLTV limited to 85% for purchase and 80% for rate/term and cash-out transactions. Maximum Loan amount is limited to $2,000,000

17.8 Early Pay Off (EPO's)

Full Premium Recapture upon loan payoff within the first 6 months following the loan funding date.

17.9 Early Payment Default (EPD)

If any of the first four (4) monthly payments due after the loan sale date becomes delinquent MTGMAC considers this an Early Payment Default (EPD). EPD loans are subject to be repurchased by the Client pursuant to the Mortgage Loan Purchase Agreement

17.10 Legal Documentation

Available Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan documentation. In the case when Fannie Mae doesn't offer current documentation such as interest only, a document vendor should be utilized for forms.

17.11 Fraud Prevention

All loans are underwritten with fraud prevention and detection as part of the lending decision process. The following fraud prevention requirements are used for all transactions as applicable which include but are not limited to:

- Internal Fraud Prevention Tools (CoreLogicTM or FraudGuard® Reports).
- Ineligible Party List search requirements.
- Verbal Verification of Employment requirements.
- MERS search prior to closing.
- Internal settlement agent and title company approval process.

- Soft-pull credit report in compliance with Fannie Mae's LQI to determine if the borrower may have taken out new credit prior to closing.
- Originators are required to originate loans in compliance with all applicable federal, state, and local laws, rules, and regulations, including the USPAP and the FACT Act.

The Fraud Report is reviewed by the Underwriter at initial approval and again prior to issuing a clear to close if the report is more than 30 days old. All variances noted on the Fraud report must be reviewed and mitigated with comments and supporting documentation, if necessary, before the final clear to close can be issued.

Clearing Variances on Fraud Report: Underwriters must note how they mitigated the Moderate and High Risk Variances on the Fraud report by making notes on the report. Supporting documentation should be included in file before the final clear to close be issued.

FraudGuard® scores above 800 from CoreLogicTM require management review and approval by the Underwriting Manager in order to proceed with the loan.

Underwriters to confirm by reviewing the Fraud Tools, if any of the companies or individuals involved in the origination, underwriting, or servicing of the mortgage transaction are on any of the following lists:

- General Services Administration (GSA) Excluded Party List
- HUD Limited Denial of Participation List (LDP List)
- OFAC List
- Freddie Mac Exclusionary List

Regardless of the reason or the scope for the party being excluded, any party to the transaction included on either list will result in the loan being ineligible for delivery.

17.12 Pre-Funding Audit

MTGMAC strongly recommends but does not require that lender's implement a pre- funding audit process (such as those prescribed by Fannie Mae and Freddie Mac) to improve loan origination quality.