

<b>Agency Premium Combo</b> <i>(Wholesale Only)</i>	<b>FIRST MORTGAGE</b>		<b>SECOND MORTGAGE</b>	
	<u>Fixed</u> 17130C—30 year 17125C—25 year 17120C—20 year 17115C—15 Year 17110C—10 Year  <u>Fixed—High Balance</u> 17130HC—30 Year 17125HC—25 Year 17120HC—25Year 17115HC—15 Year 17110HC—10 Year	<u>ARM</u> 17105/1C—5/1 ARM 17107/1C—7/1 ARM 17110/1C—10/1 ARM  <u>ARM—High Balance</u> 17105/1HC—5/1 ARM 17107/1HC—7/1 ARM 17110/1HC—10/1 ARM	<u>Closed End-Fully Amortized</u> 171102N—10 Year 171152N—15 Year 171202N—20 Year 171252N—25 Year 171302N—30 Year	
<b>When a topic is silent in this document, Western Bancorp will defer to the requirements of the first mortgage based on the AUS provided at the time of submission</b>				
<b>Fixed Rate—Closed End Second SECOND MORTGAGE ELIGIBILITY</b>				
<b>Owner Occupied</b>				
<b>Purchase and Rate and Term</b>				
# of Units	CLTV	Min Fico	DTI	
1	95%	720	35%	
1	90%	720	43%	
1	85%	680	43%	
<ul style="list-style-type: none"> <li>• Minimum Loan Amount— \$ 20,000</li> <li>• Maximum Loan Amount —\$500,000</li> <li>• Maximum Combined loan amount—\$1,136,150</li> <li>• The lower of the first or second mortgage CLTV requirements will determine the maximum allowable CLTV</li> <li>• Second Mortgage Loan amount must be in increments of \$100</li> </ul>				
<b>PRODUCT DESCRIPTION</b>	A fixed rate, closed-end second mortgage product available only in combination with WBC Agency Premium products (FNMA and FHLMC, including high balance) (This second mortgage is <b>not eligible</b> with the WBC Fannie Premium or Freddie Premium Programs)			
Age of Documents	<ul style="list-style-type: none"> <li>• Monthly bank statements must be dated within 45 days of Western Bancorp’s initial application. Quarterly statements must be dated within 90 days of Western Bancorp’s initial application. Verifications of source of funds may be dated up to</li> </ul>			

Age of Documents (Cont.)	<p>120 days before the date of the note</p> <ul style="list-style-type: none"> <li>• All credit reports must be dated within 30 days of underwriting</li> <li>• All credit docs must be dated within 90 days of the note date</li> <li>• Appraisal must be dated within 120 days of the note date</li> <li>• A recertification of value is not allowed.</li> </ul>
AUS	<p><b>First Mortgage</b></p> <ul style="list-style-type: none"> <li>• A Desktop Underwriter (DU) or Loan Product Advisor (LPA) is required on all transactions</li> <li>• Manual Underwriting is required, regardless of AUS Approve/Accept</li> </ul> <p><b>Second Mortgage</b></p> <ul style="list-style-type: none"> <li>• Loan must be manually underwritten and fully documented according to the product and policy guidelines within this document and submitted to DU to receive appropriate fraud alerts and contributory messages</li> <li>• Underwriter may not follow AUS documentation requirements</li> <li>• Both first and second mortgage loan files must be underwritten simultaneously</li> <li>• Transmittal Summary (Form 1008) required for the first mortgage and separate Transmittal Summary (Form 1008) required for the second mortgage</li> </ul> <p style="text-align: center;"><b>Documentation waivers provided by AUS are not be eligible. The more restrictive of Desktop Underwriter/ Loan Product Advisor or these guidelines must be applied</b></p>
Assets	<p>Must comply with Western Bancorp Fannie Mae Premium or Freddie Mac Premium guidelines except as follows:</p> <ul style="list-style-type: none"> <li>• Borrower must contribute at least 5% of their own funds into the purchase transaction</li> <li>• Gifts—Not permitted</li> <li>• Gifts of Equity—Not permitted</li> <li>• VOD as a standalone document is not allowed, regardless of AUS Findings</li> <li>• 1031 Tax Deferred Exchanges-Not Permitted</li> <li>• If the earnest money deposit (EMD) is required for funds to close, verification that the deposit has cleared the account is required. The EMD must be verified by a photocopy of the borrower’s cancelled check (or similar document) and the bank statement must cover the period up to and including the date the check cleared the bank</li> </ul> <p>Reserve Requirements</p> <ul style="list-style-type: none"> <li>• LTV/CLTV &lt;= 90% - 3 months PITIA reserves</li> <li>• LTV/CLTV &gt; 90% - 6 months PITIA reserves</li> <li>• 2 months PITIA reserves required for each additional financed property owned (up to 36 months maximum)</li> <li>• Reserves are calculated based on the combined first and second lien payments</li> <li>• Reserve requirements are inclusive of conforming first mortgage requirements</li> </ul>
Appraisals	<ul style="list-style-type: none"> <li>• Transferred appraisals are not eligible</li> <li>• Field Review is required for properties &gt; 10 acres (when allowed by Management)</li> </ul>

<p>Appraisals (Cont.)</p>	<ul style="list-style-type: none"> <li>• Re-use of an unexpired appraisal from previous transaction is not permitted</li> <li>• Field Review (Form 1032) is required when appraised value ≥ \$1,000,000 and LTV/CLTV &gt; 75%</li> <li>• Property Inspection Waiver (PIW)—Not Eligible</li> </ul> <p>Collateral Desktop Analysis + MLS Sheet (CDA) are required for all loans. CDA must be ordered through Clear Capital</p> <ul style="list-style-type: none"> <li>• If the variance between the appraisal and the CDA ≤ 5%, the appraised value can be used to establish LTV/CLTV</li> <li>• If the variance between the appraisal and the CDA &gt; 5% but ≤ 10%, three options are available:             <ul style="list-style-type: none"> <li>○ the CDA value must be used to establish LTV/CLTV. Max LTV/CLTV is lesser of 70% or program parameters OR</li> <li>○ a BPO and a Clear Capital Value Reconciliation of Three Reports may be performed. The reconciled value determined by Clear Capital will be used to establish LTV/CLTV OR</li> <li>○ a Clear Capital Field Review may be ordered. The lowest value between the original full appraisal, Clear Capital CDA and Clear Capital Field Review will be used to determine LTV/CLTV</li> </ul> </li> <li>• If the variance between the appraisal and the CDA &gt; 10% or the CDA returns an “indeterminate” value, a Clear Capital BPO and a Value Reconciliation of Three Reports must be performed. The reconciled value determined by Clear Capital will be used to establish LTV/CLTV</li> <li>• If the CDA value is greater than the appraised value, the appraised value will be used to establish LTV/CLTV</li> <li>• Recertification of value is not permitted</li> </ul>
<p>Co-Borrowers</p>	<p>Non-occupant Co-borrowers are not permitted</p>
<p>Credit</p>	<p><b>Credit Score</b></p> <ul style="list-style-type: none"> <li>• Minimum Credit Score—refer to Eligibility Matrix on page of one (1) of this document</li> <li>• All borrower must have at least two (2) valid credit score</li> <li>• All borrowers must have a valid SSN—TINs are not acceptable</li> </ul> <p><b>Housing Payment History</b></p> <ul style="list-style-type: none"> <li>• 24 month payment history required (mortgage/rental)</li> <li>• Borrowers living rent free or who are unable to provide third-party verification of prior housing history are ineligible.</li> <li>• 0 x 30 in the past 24 months, all mortgages on all financed properties</li> <li>• First Time Homebuyer – provide rental housing history for previous 24 months</li> <li>• For other real estate owned free and clear, document that prior mortgage was paid in full. Title and credit report must show no judgments or liens for taxes for those properties</li> <li>• Private party VOM/VOR (when applicable) as a standalone document is not permitted</li> </ul> <p><b>Significant Derogatory Credit Events</b></p> <p><b>Bankruptcy (including Consumer Credit Counseling)</b></p> <ul style="list-style-type: none"> <li>• Chapter 7—4 years from discharge date prior to application date</li> <li>• Chapter 13—2 years from discharge date</li> <li>• Consumer Credit Counseling (CCC) —2 years from discharge date</li> <li>• Multiple bankruptcies are not eligible</li> </ul> <p><b>Foreclosure</b></p> <ul style="list-style-type: none"> <li>• 7 years from completion date prior to application date</li> </ul>

Credit (Cont.)	<ul style="list-style-type: none"> <li>• Foreclosure limitations apply to formal foreclosure filings</li> <li>• Multiple foreclosures are not eligible</li> </ul> <p><b>Deed-in-lieu, pre-foreclosure, short sale, NOD, short refinance and modification</b></p> <ul style="list-style-type: none"> <li>• 4 years prior to application date</li> </ul> <p><b>Delinquent property taxes, judgments, charge-offs, tax liens</b></p> <ul style="list-style-type: none"> <li>• Must be paid in full prior to or at closing</li> </ul> <p><b>Student Loans</b></p> <ul style="list-style-type: none"> <li>• Comply with Western Bancorp Fannie Mae or Freddie Mac Premium Program requirements</li> </ul> <p><b>Primary Residence vacated for another Primary Residence, with a pending sale</b></p> <ul style="list-style-type: none"> <li>• PITIA must be included in the DTI, regardless of the existence of a non-contingent, ratified purchase contract</li> </ul> <p><b>NOTE</b>—Reduced waiting periods due to extenuating circumstances not permitted</p>
Debt-to-Income (DTI)	<p>DTI requirement applies to first and second lien</p> <ul style="list-style-type: none"> <li>• 35% DTI for CLTV &gt; 90%</li> <li>• 43% DTI for CLTV &lt;= 90%</li> </ul>
Documentation Requirements	<p>Documentation waivers per AUS—Not Eligible</p>
Eligible Borrowers	<ul style="list-style-type: none"> <li>• US Citizens</li> <li>• Permanent Resident Aliens/Non-Perm, with eligible visa type (see Eligible Visa Types below)             <ul style="list-style-type: none"> <li>▪ Permanent Resident Alien status must be documented with a copy of the borrower(s)' green card (I551)</li> <li>▪ A Non-Permanent Resident Alien must have a valid social security number and evidence they are a lawful non-permanent resident of the United States with one of the following; An acceptable visa, or An acceptable expired visa along with I-797A with detachable I-94, Or EAD card</li> </ul> </li> <li>• Inter vivos “Living” Trust—NOT Eligible</li> <li>• Partnerships, Corporations and LLC’s—Not Eligible</li> <li>• Non-Occupant, Co-Borrower, not permitted</li> <li>• Loans to owners and employees of Correspondent Sellers/Brokers, its affiliates and subsidiaries are eligible with a second signature from Corporate Credit Underwriting Department.</li> </ul>
Eligible Visa Types	<p><b>Eligible Visa Types:</b></p> <ul style="list-style-type: none"> <li>• E-1 Treaty Trader and E-2 Treaty Investor</li> <li>• G Series: (G-1, G-2, G-3, G-4, and G-5)</li> <li>• H-1 (includes H-1B and H-1C), Temporary Worker</li> <li>• L-1, Intra-Company Transferee</li> <li>• TN, NAFTA Visa or TC, NAFTA Visa</li> </ul> <p><b>Ineligible Visa Types:</b></p> <ul style="list-style-type: none"> <li>• A Series (A-1, A-2, A-3)</li> <li>• O-1A; O-1B; O-2</li> </ul>

Eligible Visa Types (Cont.)	If a borrower’s visa will expire within six months of the loan application and the borrower has not changed employers, a copy of the employer’s letter of sponsorship for visa renewal must be provided. If the EAD will expire within 6 months the borrower must show evidence they have applied for an extension or provide a letter from their employer indicating they will continue to sponsor their employment.
Eligible Property Types	<ul style="list-style-type: none"> <li>• 1 Unit—SFR</li> <li>• Condo (must be Fannie Mae/Freddie Mac warrantable)</li> <li>• PUD</li> </ul>
Eligible Transactions	<p><b>Purchase</b></p> <ul style="list-style-type: none"> <li>• 1<sup>st</sup> and 2<sup>nd</sup> must close concurrent with Western Bancorp Agency Premium Product Only</li> <li>• Entire loan amount must be dispersed at closing</li> <li>• Entire loan amount must be used towards down payment</li> </ul> <p><b>Rate/Term Refinance</b></p> <ul style="list-style-type: none"> <li>• 1<sup>st</sup> and 2<sup>nd</sup> must close concurrent with Western Bancorp Agency Premium Product Only</li> <li>• Entire loan amount must be dispersed at closing</li> <li>• Entire loan amount must be used to pay off existing first mortgage and/or existing subordinate lien, plus closing costs and discount points associated with the 1<sup>st</sup> or 2<sup>nd</sup> lien</li> <li>• Cash-out is limited to the first lien only and the lesser of 1% of the principal amount of the new first or \$2000</li> </ul> <p><b>Delayed Financing</b></p> <ul style="list-style-type: none"> <li>• Not permitted</li> </ul> <p><b>Cash-Out</b></p> <ul style="list-style-type: none"> <li>• Not permitted</li> </ul>
Escrow Waivers	Regardless of state requirements, if subject property is located in a flood zone, flood insurance impounds will be required
Hobby Farms	<ul style="list-style-type: none"> <li>• No more than 15% of land can be “income producing” per the appraisal – appraiser must comment</li> <li>• Income derived from subject property must not be reflected on 1040s Schedule F or C</li> <li>• Subject property cannot have significant farming or ranching activity</li> <li>• Appraisal must reflect highest and best use is SFR and comment on marketability</li> <li>• Maximum 10 Acres</li> </ul>
Ineligible Transactions Types	<ul style="list-style-type: none"> <li>• Contract for Deed</li> <li>• Land Contracts</li> <li>• Lease Option to purchase</li> <li>• Repair Escrows (holdbacks)</li> </ul>

Ineligible Property Types	<ul style="list-style-type: none"> <li>• 2-4 Unit Properties</li> <li>• Properties with square footage of less than 700 feet <i>(exception: all comps must be within 100 square feet of the subject)</i></li> <li>• Manufactured Homes</li> <li>• Cooperatives</li> <li>• Condotels</li> <li>• Leasehold Estates</li> <li>• Resale Restrictions excluding “Age Restrictions”</li> <li>• &gt;10 acre parcels</li> <li>• Mixed Use Properties</li> <li>• Mobile Homes</li> </ul>	<ul style="list-style-type: none"> <li>• Timeshares</li> <li>• Unimproved land</li> <li>• Condos currently in litigation</li> <li>• Non-warrantable Condos</li> <li>• Working farms/ranches</li> <li>• Tenancy in Common Agreement (TIC)</li> <li>• Unique Properties (i.e., geodesic domes, log cabins)</li> <li>• Unapproved non-conforming use property (does not include grand fathered use)</li> <li>• Properties with PACE/Hero Assessments</li> </ul>
Manual Underwriting	Required—AUS documentation waivers are not permitted	
Minimum/Maximum Loan Amount	<p>The second lien is limited to:</p> <ul style="list-style-type: none"> <li>• Minimum Loan Amount—\$20,000</li> <li>• Maximum Loan Amount —\$500,000</li> <li>• Maximum Combined loan amount—\$1,136,150</li> <li>• Loan amount must be in increments of \$100</li> </ul>	
Non-Arm’s Length Transaction	Not Eligible	
Occupancy	Primary residence – 1 Unit Only	
Property Flipping	Prior sale within 90 days—Not Eligible	
Purchase Contract	<p>WBC will not accept re-negotiated purchase agreements that increase the sales price after the original appraisal has been completed if the appraised value is higher than the contracted sales prices provided to the appraiser, and the new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and the only change to the purchase agreement is an increase in sale price.</p> <p>If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the LTV will be based on the lower of the original purchase price or the appraised value, unless:</p> <ul style="list-style-type: none"> <li>▪ Re-negotiation of only seller paid closing costs and/or pre-pays when seller paid closing costs/pre-pays are common and customary of the market and supported by the comparable sales. or</li> <li>▪ An amended purchase agreement for new construction property is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changes, an updated appraisal must be obtained to verify the value of the modification/changes</li> </ul>	
Recently Listed Subject	Property must be off the market 6 months from the date of the application to be eligible	
Rent Back	Maximum 30 days	

Reserves	<ul style="list-style-type: none"> <li>• LTV/CLTV &lt;= 90%—3 months PITIA reserves</li> <li>• LTV/CLTV &gt; 90%—6 months PITIA reserves</li> <li>• 2 months PITIA reserves required for each additional financed property owned (up to 36 months maximum)</li> <li>• Reserves are calculated based on the combined first and second lien payments</li> <li>• Reserve requirements are inclusive of conforming first mortgage requirements</li> </ul>
Seasoning	<ul style="list-style-type: none"> <li>• Purchase—purchase money liens paid off at closing must be at least 120 days old</li> <li>• Properties that have been owned less than 12 months from the date of the initial application, the LTV/CLTV is based on the lower of the purchase price or appraised value. The original purchase price must be documented</li> <li>• If an existing subordinate lien will be paid off at closing, it must have either been used in whole to acquire the subject property to be considered a “No Cash” out refinance.</li> </ul>
Significant Derogatory Credit	<ul style="list-style-type: none"> <li>• All transactions require an AUS Approve/Accept decision regardless of which timeframe for derogatory credit is met</li> </ul>
Tax Transcripts (Income Validation)	<ul style="list-style-type: none"> <li>• Two (2) most recent personal tax return transcripts are required for all loans borrowers, whose income is used to qualify</li> <li>• Business tax transcripts are required, when applicable</li> </ul>
Title Insurance	Full ALTA title policy with expanded coverage that insures both the first lien and second lien positions is required
Prior Approval	Prior Approval required for 1 <sup>st</sup> and 2 <sup>nd</sup> lien
Principal Curtailment	Not Permitted
Qualifying Rate	<p>Fixed Rate First Mortgage</p> <ul style="list-style-type: none"> <li>• Qualify using the fully amortized fixed payment</li> </ul> <p>ARM First Mortgage</p> <ul style="list-style-type: none"> <li>• Qualify at the higher of the fully indexed rate or the initial note rate plus the periodic adjustment</li> </ul> <p>Qualifying Rate on the Second Lien</p> <ul style="list-style-type: none"> <li>• Qualify using the fully amortized fixed payment</li> </ul>

<b>Agency Premium Combo Employment and Income Supplement</b>	
<b>This supplement works in conjunction with the Western Bancorp Fannie Mae and Freddie Mac Overlay and Fact Sheets. The more restrictive of Desktop Underwriter/Loan Product Advisor or these employment and income requirements must be applied</b>	
Base Salary (salary/hourly)	<ul style="list-style-type: none"> <li>• Current paystub covering a 30-day period, reflecting YTD income AND dated no earlier than 30 days prior to the application</li> <li>• Most recent 2 years W2s</li> </ul>
Bonus	<ul style="list-style-type: none"> <li>• Current paystub covering a 30-day period, reflecting YTD income AND dated no earlier than 30 days prior to the application</li> <li>• Most recent 2 years W2 and/or 1099s</li> <li>• Most recent 2 years personal tax returns</li> <li>• Written Verification of Employment (VOE) itemizing commission/bonus</li> <li>• 24 month average of commission/bonus is required</li> <li>• Unreimbursed business expense must be subtracted from income</li> </ul>
Commission	<ul style="list-style-type: none"> <li>• Current paystub covering a 30-day period, reflecting YTD income AND dated no earlier than 30 days prior to the application</li> <li>• Most recent 2 years W2 and/or 1099s</li> <li>• Most recent 2 years personal tax returns</li> <li>• Written Verification of Employment (VOE) itemizing commission/bonus</li> <li>• 24 month average of commission/bonus is required</li> <li>• Unreimbursed business expense must be subtracted from income</li> </ul>
Contract Employment	<p>Must be treated as self-employed and must have a 2-year history of earning this type of income. Because the individual may be released from employment at any time, or as specified in their contract, employment history is key in establishing income stability and the likelihood that it will continue.</p> <p><i>Required Documentation:</i></p> <ul style="list-style-type: none"> <li>• 2 years most recent personal tax returns with all W-2s or 1099's; and</li> <li>• Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing</li> </ul>



Employment by a relative, property seller or Real estate Broker	<ul style="list-style-type: none"> <li>• Current paystub covering a 30-day period, reflecting YTD income AND dated no earlier than 30 days prior to the application</li> <li>• Most recent 2 years W2 and/or 1099s</li> <li>• Most recent 2 years personal tax returns</li> <li>• Verification to support borrower is not an owner of the business</li> </ul>
Extended Absence	<ul style="list-style-type: none"> <li>• Must be employed in current job for 6 months or longer</li> <li>• Document two year work history prior to the absence and W2s to support VOEs</li> </ul>
Employment Gap	Gap of employment in excess of one (1) month, must be explained by the borrower
Military or Military Reserve	<ul style="list-style-type: none"> <li>• Current Leave and Earnings Statement (LES)</li> <li>• Most recent 2 years W2s</li> </ul>
Overtime	<ul style="list-style-type: none"> <li>• Current paystub covering a 30-day period, reflecting YTD income AND dated no earlier than 30 days prior to the application</li> <li>• Written Verification of Employment (VOE) itemizing overtime</li> <li>• Overtime must be calculated using a two (2) year average</li> </ul>
Seasonal Income	<ul style="list-style-type: none"> <li>• Current paystub covering a 30 day period dated no earlier than 30 days prior to the loan application</li> <li>• Most recent two year's W-2s or two years signed personal tax returns with all schedules</li> <li>• Written confirmation from employer that there is a reasonable expectation that borrower will be rehired for the next season</li> </ul>
Secondary Employment	<p>Employed and Self-Employed</p> <ul style="list-style-type: none"> <li>• Document as for primary employment</li> </ul>
Self-Employment	<ul style="list-style-type: none"> <li>• 2 years signed personal income tax returns with all schedules</li> <li>• 2 years fully executed business income tax returns with all schedules</li> <li>• YTD Profit and Loss Statement signed by borrower</li> <li>• Current year Balance Sheet</li> </ul> <p>If prior year tax return has not been filed, provide the following</p> <ul style="list-style-type: none"> <li>• Year-end Profit and Loss Statement signed by the borrower</li> <li>• Year-end Balance Sheet for sole proprietor (Schedule C), and</li> <li>• 1099s and W-2s if applicable</li> <li>• A copy of business/occupational license or other proof that applicant has operated this business for two or more years is required</li> <li>• A verbal verification of employment must be performed within 30 calendar days prior to the note</li> </ul> <p>Loans closing in January and prior to the receipt of W-2s may use the prior year's year-end paystub. For borrowers using 1099s, evidence of receipt of 1099 income must be provided</p>

Self-Employment (Cont.)	<p>If percentage of ownership is not shown on tax returns, obtain the information from the corporation's account with evidence that borrower has the right to compensation</p> <p>Self-employment income &gt;= 1 year &lt; 2 years—Not Eligible</p>
Temporary Leave Income	Not Eligible
Tip Income	<ul style="list-style-type: none"> <li>• Current paystub covering a 30-day period, reflecting YTD income AND dated no earlier than 30 days prior to the application</li> <li>• Most recent 2 years W2s</li> </ul>
Union Member	<ul style="list-style-type: none"> <li>• Written Verification of Employment (VOE) and current paystub covering a 30-day period dated no earlier than 30 days prior to the loan application</li> <li>• Current paystub from current employer and final paystub from each employer worked during the current year, if multiple employers</li> <li>• Most current two years W-2s from all employers</li> <li>• Most current two years fully executed personal tax returns with all schedules</li> </ul>
Alimony and Child Support	<p>12 month documentation of receipt of income is required</p> <ul style="list-style-type: none"> <li>• Cancelled checks and/or deposit slips</li> </ul> <p>Confirm income will continue for three (3) years with one of the following documents:</p> <ul style="list-style-type: none"> <li>• Divorce decree</li> <li>• Separation agreement</li> <li>• Court order</li> <li>• Voluntary payment agreement</li> </ul>
Automobile Allowance/Expense Account Payments	<ul style="list-style-type: none"> <li>• Personal Tax Returns and IRS 2106 for previous two years</li> <li>• Employer verification that payments will continue</li> <li>• Only the amount by which the borrower's auto allowance or expense account payments exceed the borrower's monthly expenditures for the automobile may be added to the borrower's monthly income</li> </ul> <p>The following must be treated as recurring debt</p> <ul style="list-style-type: none"> <li>• Monthly car payment, and any loss resulting from the difference between actual expenditures and the expense account allowance</li> <li>• If the borrower does not report the allowance on Form 2106 or Schedule C the full amount of the allowance is added to the borrower's monthly income and the full amount of the lease or financing expenditure is added to the borrower's total monthly obligations</li> </ul>
Boarder Income	Not Permitted
Capital gains	<ul style="list-style-type: none"> <li>• Most current two years signed personal tax returns with all schedules</li> <li>• Verify sufficient assets to continue generating similar earnings for next three years</li> <li>• Capital gains income calculation must be a two year average</li> </ul>

Employer Differential Payments	Not Permitted
Income Derived from Severance and Lump Sum Retirement Package or Retirement Accounts	<p>Max 70% LTV/CLTV</p> <p>Asset restrictions</p> <ul style="list-style-type: none"> <li>Owned by one or more borrowers</li> <li>Liquid and unrestricted with no penalties</li> <li>Distribution letter from employer and verification of deposit</li> <li>Document with recent statement</li> <li>401K, IRA SEP-IRA eligible if distribution is not yet set up or being received but is not enough to qualify</li> <li>Stocks, bonds, mutual funds – use 70% of value remaining after cost of transaction</li> </ul> <p>Net Documented Assets are equal to sum of eligible assets minus funds used for closing or reserves minus 30% of remaining value of stocks, bonds, or mutual funds</p> <ul style="list-style-type: none"> <li>Divide Net Documented Assets by 360 to calculate income</li> </ul>
Foster Care	<ul style="list-style-type: none"> <li>Verify two year history under a recognized state or county sponsored program</li> <li>Letter from organization verifying income, or</li> <li>Deposit slips/bank statements,</li> <li>If income received for less than two years but more than one year, income cannot exceed 30% of gross income</li> </ul>
Housing or Parsonage Allowance	<p>Income must be reported as wage, parsonage, or honorarium income on filed returns to be considered for qualification. Income cannot be documented solely with a VOE. If the parsonage or honorarium income is not reported on the filed returns, but is reflected in box 14 of the W2 or box 3 of the 1099, the income can be used for qualifying purposes if the borrower provides the IRS Form 4361, Application for Exemption from Self-Employed Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners that is marked approved and is signed by a director with the IRS.</p> <p>Allowance may not be used to offset the monthly housing payment</p> <p>Other Requirements:</p> <ul style="list-style-type: none"> <li>Written VOE or letter from employer and paystubs reflecting the amount of the housing allowance and terms paid</li> <li>Evidence of 12 months receipt of housing allowance</li> </ul>
Interest and Dividend	<p>Verify two year history supported by one of the following:</p> <ul style="list-style-type: none"> <li>Most recent two year’s signed personal income tax returns with all schedules, or</li> </ul> <p>Interest and dividend income calculation must be a two year average using the year-to-date earnings. Underwriter must confirm funds used for down payment does not negatively affect income</p>

Long Term Disability	Disability policy or statement from benefits payer, insurance company or employer to determine disability benefits disability payments and if there is a contractually established termination date
Non-Taxable Income	<ul style="list-style-type: none"> <li>• Verify and document that source of income is non-taxable (award letters, policy agreements, account statements, etc.)</li> <li>• Income may be grossed-up if needed to qualify</li> <li>• Use the tax rate used to calculate the borrower’s last year’s income tax</li> <li>• If borrower is not required to file a Federal tax return, the tax rate to use is 25%</li> </ul>
Notes Receivable	<ul style="list-style-type: none"> <li>• Copy of Note to verify 3 year continuance</li> <li>• Fully executed personal tax returns with all schedules</li> </ul> <p>Evidence of receipt for last 12 months can be documented with the following items:</p> <ul style="list-style-type: none"> <li>• Deposit slips or receipts</li> <li>• Cancelled checks</li> <li>• Bank statements</li> </ul>
Projected Income	Not Permitted
Public Assistance	Not Permitted
Rental Income	<p><b>Rental Income on Other Real Estate Owned</b></p> <ul style="list-style-type: none"> <li>• Most recent two years signed personal income tax returns, including Schedule E and current 12 month lease</li> <li>• Leases can only be substituted when the requirements shown under Partial or No Rental Income on Tax Returns section below             <ul style="list-style-type: none"> <li>○ Partial or No Rental Income on Tax Returns</li> <li>○ Property acquired during or subsequent to the most recent tax filing year, obtain the HUD-1 or Closing Disclosure to confirm the purchase date and one of the following:                 <ul style="list-style-type: none"> <li>○ Schedule E showing the partial year rental income and expenses; or lease agreement, if the property was acquired subsequent to the last tax filing year.</li> <li>○ Rental property was out of service for an extended period, Schedule E must support the unit being out of service for all or a part of the year. The costs associated with a significant renovation should be reflected as Repairs and support the amount of time the unit was out of service. Fair Rental Days on Schedule E is the number of days the unit was in service, which should reflect a reduction in accordance with the time spent off the market during renovation.</li> </ul> </li> </ul> </li> </ul> <p><b>Calculating Rental Income</b></p> <p>When Schedule E of the tax returns is used to calculate rental income, depreciation, interest, taxes and insurance should be added back to the cash flow. If the property was in service:</p> <ul style="list-style-type: none"> <li>○ For the entire tax year, the rental income must be averaged for 12 months.</li> </ul>

Rental Income (Cont.)	<ul style="list-style-type: none"> <li>○ For less than the full year, the rental income must be averaged over the number of months the property was used as a rental unit.</li> <li>○ When current lease agreements are used, calculate the rental income by multiplying the gross rent by 75%.</li> </ul> <p><b>Treatment of Rental Income (or Loss)</b></p> <ul style="list-style-type: none"> <li>○ If monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income.</li> <li>○ If monthly qualifying rental income minus the full PITIA is negative, it must be added to the borrower's total monthly obligations.</li> <li>○ The full PITIA for the rental property is factored into the amount of rental income (or loss); therefore it should not be counted as a monthly obligation.</li> </ul>
Rental Income (recently converted primary residence)	<p><b>Investment Property</b>                  If the borrower is converting a primary residence to an investment property, rental income on that property can only be used if</p> <ul style="list-style-type: none"> <li>○ The borrower is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance</li> </ul> <p>Loan file must contain the following documentation:</p> <ul style="list-style-type: none"> <li>○ Fully executed 12 month lease agreement, security deposit from the tenant, and bank statement showing the deposited security funds,</li> <li>○ Lease must be arm's length – a lease signed by a family member is not permitted</li> <li>○ Single Family Comparable Rent Schedule (Fannie Mae Form1007/Freddie Mac Form 1000), and</li> <li>○ Operating Income Statement (Freddie Mac Form 998)</li> <li>○ Net rental income is 75% of the gross rent</li> </ul> <p>OR if the borrower has at least 25% equity in the property, the loan file must contain the following documentation:</p> <ul style="list-style-type: none"> <li>○ a drive-by appraisal Form 2055 (no more than 6 months old), or comparing the unpaid principal balance to the original sales price of the property</li> <li>○ If the resulting equity is less than 25% equity, rental income cannot be used.</li> <li>○ 25% or greater equity, rental income can be used as follows                         <ul style="list-style-type: none"> <li>▪ Fully executed 12 month lease agreement, security deposit from the tenant, and bank statement showing the deposited security funds,</li> <li>▪ Lease must be arm's length – a lease signed by a family member is not permitted</li> <li>▪ Single Family Comparable Rent Schedule (Fannie Mae Form1007/Freddie Mac Form 1000), and</li> <li>▪ Operating Income Statement (Freddie Mac Form 998)</li> <li>▪ Net rental income is 75% of the gross rent</li> </ul> </li> </ul>
Retirement/Pension/Government Annuity/IRA	Verification of at least 6 months of receipt and confirmation income will continue for at least 3 years required. Document with one of the following: <ul style="list-style-type: none"> <li>● Award letter or verification from former employer</li> <li>● Most recent fully executed personal tax returns with all schedules</li> </ul>

Royalty Payments	<ul style="list-style-type: none"> <li>• Most recent signed personal tax returns with all schedules</li> <li>• Fully executed royalty contract, agreement or statement confirming amount, frequency and duration of the income</li> </ul>
Social Security	Social Security Administration Award Letter required
Teachers	<p>A current year-to-date pay stub dated within 30 days of application may not be available. Income structure must be determined before calculating qualifying income.</p> <p>If the borrower is on a pay schedule of less than 12 months, a copy of their employment contract with the school district may be used in lieu of a current pay stub. Contract must be valid and non-expired.</p> <p>Required Documentation:</p> <ul style="list-style-type: none"> <li>• Most recent YTD pay stub documenting at least 30 days of income (if not available provide all the following): <ul style="list-style-type: none"> <li>▪ copy of Employment contract with the School District AND 2 years most recent W-2s (regardless of DU)</li> </ul> </li> </ul>
Trust	<ul style="list-style-type: none"> <li>• Trust agreement or trustee letter confirming amount of the trust, frequency of distribution, duration of payments</li> <li>• Confirm trust funds used for down payment does not negatively affect income</li> <li>• Regular receipt of trust income for past 12 months must be documented</li> <li>• Confirm that income will continue for at least 3 years</li> </ul>
Unemployment	<ul style="list-style-type: none"> <li>• Borrower must be employed at the time of closing</li> <li>• Document receipt during last 24 months</li> <li>• Most recent two year's signed personal tax returns with all schedules</li> <li>• Must be reported on tax returns</li> <li>• Must be associated with seasonal layoffs</li> </ul>
VA Benefits	<ul style="list-style-type: none"> <li>• Letter or distribution form from the Veteran's Administration</li> <li>• Education benefits are not acceptable</li> </ul>