HIBAL Anywhere

Effective: 08/08/2018

Revisions in Red

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1. GENERAL INFORMATION

This Guide describes Western Bancorp's HIBAL Anywhere program eligibility and underwriting requirements. In addition to program eligibility and prudent underwriting, Western Bancorp requires all loans meet the ATR/QM rules established by the CFPB in accordance with Appendix Q.

The ATR rule requires that the originator make a reasonable, good-faith determination before or when the loan is consummated and that the lender documents the consumer has a reasonable ability to repay the loan.

A. ELIGIBILITY

- Wholesale and Non-Delegated Correspondent Eligible
- Minimum loan amounts: $1 over conforming county loan limit

Fixed Rate and ARM Eligibility Matrix						
Primary Residence						
Purchase						
Property Type	Max LTV/HCLTV (4)	Max Loan Amount	Min FICO	Max DTI (1)	Months Reserves(1)	
1 Unit	90%(2)(3)(8)(9)	$679,650	720	40	18	
	85%(2)(3)(8)(9)		720	40	18	
	80%		700	43	6	
	75%		700	43	9	
2 Unit	80%	$870,225	700	43	6	
	75%		700	43	6	
Rate and Term						
Property Type	Max LTV/HCLTV (4)(7)	Max Loan Amount	Min FICO	Max DTI	Months Reserves(1)	
1 Unit	80%	$679,650	700	43	6	
	75%		700	43	6	
Cash Out						
Property Type	Max LTV/HCLTV (4)(7)	Max Loan Amount	Min FICO	Max DTI	Months Reserves (1)	Max Cash Out
1 Unit	75%	$679,650	700	43	6	$300,000
	65%		700	43	6	$500,000
	55%		720	43	12	Unlimited
2 Unit	75%	$870,225	700	43	6	$300,000
	65%		700	43	6	$500,000
Second Home						
Purchase and Rate and Term						
Property Type	Max LTV/HCLTV (4)	Max Loan Amount	Mini FICO	Max DTI	Months Reserves(1)	
1 Unit	80%	$679,650	700	40	12	
Cash Out						
Property Type	Max LTV/HCLTV	Max Loan Amount	Mini FICO	Max DTI	Months Reserves (1)	Max Cash Out
1 Unit	60%	$679,650	740	40	12	$250,000

Investment Property					
Purchase and Rate and Term					
Property Type	Max LTV/HCLTV (5)(6)	Max Loan Amount	Mini FICO	Max DTI	Months Reserves(1)
1 Unit	60%	$679,650	740	38%	18

(1) Additional reserves will be required for additional properties owned, see Reserves Requirements and Eligible Sources section of the guidelines for further information
(2) Non-Perm, Resident Alien—Not Eligible
(3) 30 Year, FRM Only
(4) Hi-Rise Condos: Max LTV/CLTV is 75%
(5) Investment Condos: Reduce maximum LTV/CLTV by 5%
(6) Investment Property: Not eligible for First Time Home Buyers
(7) Texas 50(a)(6) is not permitted
(8) Non-Permanent Resident Aliens are not eligible for financing on LTV’s > 80%.
(9) First Time Home Buyers are not eligible for LTV’s > 80% (applies to all parties).

2. GENERAL REQUIREMENTS

AUS may reflect Approve/Ineligible. AUS must indicate the only reason for the Ineligible finding is due to the loan amount exceeding the County loan limits.

All Borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

A. ELIGIBLE BORROWERS

All borrowers must be on title at closing and are limited to 4 per loan.

1. Borrower

The borrower is the individual obligated to repay the loan secured by the mortgaged premises. The borrower should be of legal age per local/state jurisdiction. He/she should be able to enter into a binding contract.

2. Co-Borrower

The co-borrower, or joint applicant, who has applied with the borrower for joint credit. The co-borrower will take title to the mortgaged premises and will sign the Note and Security Instrument.

3. First Time Homebuyers

First time homebuyers are defined as an occupant borrower who has not had an ownership interest (sole or joint) in a residential property during the three (3) year period preceding the application date. *First time home buyers are not eligible for LTV's in excess of 80%.*

4. Permanent Resident Alien

Individuals granted the privilege of residing permanently in the U.S. Also includes refugees and others seeking political asylum. Documentation is commonly referred to as a 'Green Card'. Permanent Resident Aliens are eligible for financing on this program.

5. Non-permanent Resident Alien

Individuals seeking temporary entry to the U.S. for a specific purpose, business or pleasure, students, etc. Borrowers residing in the U.S. on a non-permanent basis are eligible for financing on this program under the following terms:

- Primary Residence only

- Borrowers with diplomatic immunity are ineligible
- 80% LTV/CLTV Maximum
- 1-2 units

Provided the Borrower(s) can document and support all of the following:

- The borrower(s) must have a minimum of 2 years residency and employment history in the U.S, documented by 2 years most recent personal tax returns.
- The borrower(s) must document a history of VISA renewals with no reason to believe employment will cease. If no history of renewal is present, then full renewal or employer sponsorship letter indicating intention to renew is required.
- Must have an unexpired passport from their Country of citizenship containing INS Form I-94, which must be stamped “Employment Authorized”.
- An Employment Authorization Card, along with a copy of the Petition for Non-Immigrant Worker (Form I-140) must be documented in the loan file.

Acceptable Visa Classifications:

- A Series (A-1, A-2, A-3)
- E Series (E-1, E-2)
- Treaty Trader G Series (G-1, G-2, G-3, G-4, G-5)
- H-1 (include H-1B and H-1C)
- Temporary Worker L-1
- Intra-Company Transferee TN
- NAFTA Visa

6. Revocable Living Trusts

An inter vivos revocable trust is a trust that an individual creates during their lifetime, becomes effective during their lifetime, and can be changed or canceled at any time for any reason, during their lifetime. Please see the Western Bancorp Trust Checklist and Trust Vesting Procedure to determine eligibility.

7. Non-Occupant Co-Borrowers

Non-Occupant Co-Borrowers are eligible provided the non-occupant borrower meets the following requirements:

- Does/will not occupy the subject property as a principal residence,
- Must be an immediate relative (spouse, child, other dependent, or any other individual who is related to the borrower through blood, marriage adoption, or legal guardianship, or fiancé or domestic partner); proof of relationship is required,
- Must sign the mortgage or deed of trust,
- Must not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker,
- Maximum LTV/CLTV 75%,

- Property must be occupied as primary residence by primary borrower,
- 1 unit properties only,
- Fixed Rate Mortgage Only,
- Cash-Out not permitted,
- Occupying borrower must have documented income equal to 51% of the required PITI and the maximum DTI for the loan is 40%

B. INELIGIBLE BORROWERS

1. Diplomatic Immunity

Applicants possessing diplomatic immunity or are “foreign politically exposed” are ineligible for financing on this program.

2. Non-Individual Legal Entities

Loans with title or interest held in various forms/legal entities such as Life Estates, Non-Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible for financing on this program.

3. Foreign Nationals

Foreign Nationals or Non-Resident Aliens are not eligible for financing on this program.

4. Inter Vivos Non-Revocable Trust

An inter vivos non-revocable trust is a trust that an individual creates during their lifetime which is no longer revocable.

Western Bancorp will not accept inter vivos non-revocable trusts as an eligible borrower.

C. OCCUPANCY

1. Primary Residence

A primary residence is where the borrower lives the majority of the year. The residence is occupied by the primary wage-earner; it is in a location relatively convenient to the principal place of employment; and it is the address of record for items such as voter registration, federal income tax reporting, licensing and similar functions.

The borrower must occupy the subject within 30 days of closing.

2. Second Home

A second home is a 1-unit property, including PUDs and condos that the borrower will occupy for a portion of the year.

The property generally is located in a vacation or resort area, but not always, and must be suitable for year round use. A second home should not be in the same local market as the borrower's primary residence. Additional second homes or investment properties cannot be owned in the same area as the subject property.

There is no specific mileage requirement regarding the distance between a second home and primary residence, but it should make sense that the subject is a second home. Additionally, 2-4 unit properties are not eligible. The borrower should retain exclusive control over the property and not give a management company control.

3. Investment Property

Investment properties are not occupied by the borrower on either a full or part time basis and are properties in which the borrower may receive rental income for. See Rental Income section for information on qualifying with rental income.

D. PURCHASE TRANSACTIONS

A purchase transaction allows the borrower to use the proceeds of the loan to finance the purchase of a property. The borrower should not be on title to the property prior to the loan closing. The transaction must follow minimum down payment and interested party contribution requirements.

1. Identity of Interest Transactions

An identity of interest transaction includes both non-arm's length and at-interest transactions.

A non-arm's length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. Common types of non-arm's length transactions include:

- Family Sales

- Property in an Estate
- Employer/Employee sales
- Flip transactions
- Sale between a tenant and a landlord

An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Common types of at-interest transactions include:

- Builder also acting as Realtor/Broker
- Realtor/Broker selling own property
- Realtor/Broker acting as listing/selling agent as well as the mortgage broker

Identity of interest transactions are not eligible on this program unless they meet one of the following:

- Purchase of subject property from Landlord if borrower has been occupying the subject for a minimum of 12 months and can document a satisfactory 24 month housing payment history with no indication of seller bail out.
- Family Sales where borrower has been residing in the subject property for a minimum of 12 months and a satisfactory 24 month housing payment history can be documented along with a satisfactory 24 month mortgage rating from seller.
- Property sellers are representing themselves as agents in the real estate transaction.
- Buyer/Borrowers are representing themselves as agents in the real estate transaction.
- Realtor/Broker acting as listing/selling agent as well as the mortgage broker.

2. Flip Transactions

Property flipping is the process of purchasing new or existing construction properties with the intention of quickly reselling the properties for a profit. Western Bancorp must carefully evaluate all transactions that involve a rapid resale of the property (up to 180 days), paying particular attention to the market value of the property and the borrowers' motivation to purchase the property and verify it is not an identity of interest transaction. See Identity of Interest Transaction section of this guide for further information.

Flip or Rapid Resale of Property Within 90 Days of Prior Sale Date

If the subject property had a prior sale within 90 days of the purchase contract date to the subject transaction, the current transaction is ineligible except in the following situations:

- Property was acquired by a relocation agency in connection with the relocation of an employee, and is being resold to someone who is not an employee or affiliate of the original employee’s company
- Resale by a lender when the property was acquired through foreclosure or deed in lieu of foreclosure
- Resale of a property obtained through an inheritance or as part of the property settlement in a divorce
- Allowed without restriction using lower of the sellers original purchase price or current appraised value

Flip or Rapid Resale Between 91 and 180 Days of Prior Sale Date

If the subject property had a prior sale more than 90 days but less than 180 days prior to the purchase contract date of the subject the transaction and the sales price of the subject transaction exceeds the prior sale price by 20% or more are not eligible.

3. Property Seller Status and Assignment of Purchase Contracts

If there has been an assignment of the purchase contract to someone other than the property seller or buyer originally named in the contract, the transaction in ineligible.

In all cases, the property seller for the subject transaction must be the owner of record for the subject at the time the purchase contract was executed.

Buyers may be added and removed from the purchase contract, as long as one original buyer remains.

4. Down Payment Assistance Programs

First Mortgage Loans originated in conjunction with Affordable or Community Second Programs are not allowed.

5. Renegotiated Sales Contracts

Western Bancorp 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 price 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 sales price

If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:

- Re-negotiation of only seller paid closing costs and/or pre-paids where seller paid closing costs/pre-paids are common and customary for the market and supported by the comparable, or
- 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 changed, an updated appraisal must be obtained to verify the value of the modifications.

6. Rent Back

Max rent back to the seller is 60 days after closing for a primary residence transaction.

E. REFINANCE TRANSACTIONS

All refinance transactions must meet the requirements below.

A new appraisal will be required for all transactions regardless of the date of the original appraisal.

Additionally, refinance transaction must have a Net Tangible Benefit Worksheet that is supported by documentation such as the note on the existing lien, payment coupon, etc.

Continuity of obligation must be met on all refinance transactions. Continuity of obligation occurs on a refinance when:

At least one of the borrower(s) (or members of the LLC) on the existing mortgage is also a borrower/member on the new refinance transaction secured by the subject property. When an existing Mortgage will be satisfied as a result of a refinance transaction, the following requirements must be met:

- At least one borrower on the refinance mortgage held title to for the most recent 6 month period and the mortgage file contains documentation evidencing that the borrower, either:
  - Has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 6-month period; OR
  - Is a Related Person to a Borrower on the Mortgage being refinanced;
- At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises by a court in the case of divorce, separation or dissolution of a domestic partnership.

Limited Eligibility Parameters	
Months on Title	**Eligibility Requirements**
< 6 months	Ineligible
≥ 6 months < 24 months	Limited to 50% LTV/CLTV/HCLTV
≥ 24 months	No additional restrictions

1. Rate and Term

A rate and term refinance allows the borrower to pay off the existing mortgage with the proceeds of a new loan secured by the same property. The new loan could lower the interest rate or shorten the term. A rate and term refinance allows for minimal cash back to the borrower.

The following are generally considered to be a Rate and Term Refinance if the transaction meets the following criteria:

- The subject property must not have been listed for sale in the 6 month preceding the loan application.
- For properties owned less than six (6) months, the LTV will be based off of the lower of the original purchase price or the current appraised value as measured from the settlement date to the new loans consummation date.
- For properties owned greater than six (6) months, the LTV will be based off of the current appraised value as measured from the settlement date to the new loans consummation date.
- Pay off of the current 1st and 2nd liens. All Jr. Liens that will be paid off through the new transaction must be seasoned for 12 months or the transaction will be considered cash-out.
- Standard loan fees (e.g., closing costs on the new mortgage, pre-paids, such as interest, taxes, insurance, etc.; and points) may be included in the refinance transaction.
- The payoff of a seasoned (12 months) HELOC that has had no draws in excess of $2,000 in the past 12 months. Must be documented with a transaction history or 12 months statements.
- Incidental cash to the borrower is allowed not to exceed the lessor of 2% or $2,000 the loan amount
- Inherited properties are eligible with 12 months ownership history.
- Buyout of a Co-Owners Interest: Refinance to buy out another party's interest in subject property is allowed subject to:
    - Documentation that all parties have jointly owned and occupied subject property for the 12 months prior to application date (exception for inheritance), and

- A signed, written agreement stating the terms of the property transfer and disposition of funds (such as a divorce decree).
- Cash received by the Borrower must not exceed the lesser of 2% or $2,000 of the principal amount of the new loan.
- A pricing exception from Secondary will be required to price this as a Rate and term refinance under the Equity Buy-out guidelines.

2. Delayed Refinances

Borrowers who purchased the subject property without financing within the past 90 days (measured from the date on which the property was purchased to the application date of the new mortgage loan) are eligible for a cash-out refinance if the loan file meets Fannie Mae's Delayed Purchase requirements.

3. Cash Out

A cash-out refinance transaction allows the borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner obtain a mortgage on a property that is currently owned free and clear.

The borrower can receive funds at closing as long as they do not exceed the program requirements as referenced in the Eligibility Matrix. The cash out limitation can be waived when the previous transaction was a purchase transaction and the proceeds for the subject loan will be used to pay off or pay down a pledged asset or retirement account loan used to purchase the subject property.

Cash-out refinance transactions must meet the following requirements:

- Any refinance transaction not meeting the requirements for a rate-term refinance is to be considered a cash-out refinance.
- Continuity of obligation must be demonstrated.
- At least one borrower must have been on title to the property for 6 months at the time of application.
- A detailed letter of explanation regarding the use of the cash out must be provided for cash in hand, in excess of $50K, underwriter may use discretion for amounts lower than $50K.
- Inherited properties are eligible with 12 months ownership history.
- Properties listed for sale in the last 12 months are ineligible for cash out.

F. MULTIPLE PROPERTIES FINANCED

Borrower(s) may own a total of six (6) financed 1-4 unit properties, including the subject property. Borrowers are limited to ownership interest in one unit in any one project or subdivision. Commercial properties and 5+ unit properties are excluded from the maximum financed property count.

- Partial or joint ownership is considered the same as total ownership in the property.
- Ownership applies to financed properties owned by the borrower, including any properties the borrower owns outside of the United States
- A borrower who is obligated on a mortgage, regardless of whether they hold title to the property is included in this limitation
- Properties are subject to this limitation even if they are held in title by a corporation or S Corp, if the financing is in the name of the borrower

Additional reserves are required for each additional financed property owned. See the <u>Reserves Requirements</u> section of this guide for further information.

G. PRODUCTS OFFERED

1. Eligible Products

The following conforming balance products are eligible:

Eligible Products
30 Year Fixed – Fully Amortizing
15 Year Fixed – Fully Amortizing
5/1 ARM – Fully Amortizing
7/1 ARM – Fully Amortizing
10/1 ARM – Fully Amortizing

2. ARM Attributes

ARM Attributes			
Product	**Margin**	**Caps**	**Index**
5/1 ARM – Fully Amortizing	2.25	2/2/5	LIBOR
7/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR
10/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR

3. Ineligible Products/Attributes

Loans with the following attributes are not eligible for purchase:

- Interest Only
- Negative Amortization Graduated Payments
- Temporary Buy downs
- Balloon Payments
- Higher Priced Mortgage Loans (HPML)
- Higher Priced Covered Transaction Loans (HPCT – QM with Rebuttable Presumption)
- Non-Standard to Standard Refinance Transactions exempt from ATR rules

H. AGE OF DOCUMENTS

Information used to make the credit decision must be current. The maximum age of documents at closing is noted below.

Acceptable Age of Documents		
Document Type	**Existing Property**	**New Construction**
Credit Documents	90 days old	90 days old
Appraisal	120 days old	120 days old

I. UNDERWRITING DOCUMENTATION

The application package must contain acceptable documentation to support the underwriting decision. When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided.

1. Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between the lender and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.

Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Standalone verifications (VOE/VOD/VOM/VOR) are not allowed and must be supported by additional documentation.

J. CREDIT

1. Credit Report Requirements

A Residential Mortgage Credit Report or traditional tri-merge with applicable credit report supplements from all three repositories is required for all borrowers. All reports must also include FACT Act messages and at least one repository fraud alert product such as Hawk, FACS+ or SafeScan. All alerts must be resolved.

Frozen credit is not acceptable. If a borrower “un-freezes” their credit after the initial report is run, a new credit report meeting all requirements must be obtained and used for underwriting.

2. Credit Score Requirements

Minimum of two FICO scores are required.

The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Empirica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score”.

The term “Underwriting Score” refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle, lower, and the lowest" credit score selection methodology, which is equivalent to Fannie Mae's "Representative Credit Score", Freddie Mac's "Indicator Score", and Non-Conforming Jumbo “Representative FICO Score”.

3. Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score:

- If there are three valid credit scores for a borrower, the middle score of the three scores is used.

- If there are three valid credit scores for a borrower but two of the scores are the same, the lower of the two scores is used.
- If two of the three scores are the same, choose the middle of the three scores.

Examples:

  - 700, **680**, 680 = 680
  - 700, **700**, 680 = 700

After selecting the appropriate credit score for each borrower, the Underwriting Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Underwriting Score.
- When there is only one borrower, the selected credit score for that borrower is also the Underwriting Score.

4. Trade line Requirements

All borrowers contributing qualifying income to the loan must meet the following tradeline requirements as defined below.

Option 1:

Each borrower must have a minimum of 3 open, tradelines active in the last 12 months. Two of the tradelines must be rated for a minimum of 12 months and at least one tradeline must be rated for 24 months.

Option 2:

Two open tradelines are acceptable for purchase transactions where the borrowers have a 24 month mortgage or installment history in the past 5 years.

Option 3:

The above minimum tradeline requirements are not required if the borrower meets all of the following:

- A minimum of 5 non-disputed trade lines, all paid as agreed
- One of the 5 trade lines is a non-disputed mortgage or installment
- At least one tradeline has been open and reporting for the past 12 months
- A minimum 5 year established credit history
- All 5 of the non-disputed tradelines must be reported within the last 5 years

Co –borrowers who do not meet the tradeline requirements, must meet the following:

- The borrower must meet the tradeline requirements above
- Co-borrower who does not meet the tradeline requirement must not have any major derogatory credit in the last 24 months,
- Co-borrower who does not meet the tradeline requirement must not have more than $1,000 in aggregated balance(s) in judgments, collections, and or charge-offs
- Co-borrower who does not meet the tradeline requirement must pay any open judgment, collection and/or charge-off at closing.

The following are not acceptable to be included in the minimum trade line requirement:

- Foreign credit
- Authorized user accounts
- “non-traditional” credit
- Loans in deferment
- Adverse credit (accounts, discharged through bankruptcy, collection accounts, charge offs, foreclosures, etc.)

5. Housing Payment History

The occupant borrower(s) must have a complete, most recent 24 months rental and/or mortgage history in order to be eligible for this program.

No 30 day late payments in the past 24 months are allowed on any rent payment or mortgage credit on any real estate owned by any borrower on the transaction. Mortgage credit is defined as payment history on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, HELOCs. Liens secured by mobile homes and manufactured homes are considered mortgage debt, even if reported as installment loans.

For Mortgage payment history if the liens are not reflected on the credit report they will need to be verified with a VOM. If the liens is held by a private party a standalone VOM is not sufficient and must be supported by cancelled checks.

For rental payment history A VOR will be required. If the VOR is completed by a private party a standalone VOM is not sufficient and must be supported by cancelled checks.

If any of the borrowers are currently living rent free, the following requirements must be met:

1. Borrower must be residing with a relative
2. Executed letter from relative confirming the borrower lives rent free
3. Additional 3 months liquid reserves are required to offset payment shock

6. Limited or No Traditional Credit History

Loans with limited or no traditional credit history are not eligible for this program. See Tradeline Requirements section of this guide for further information.

7. Minor Derogatory Consumer Credit and Past Due Accounts

Minor derogatory consumer credit in the past 24 months preceding the application date will be considered on a case by case basis. Credit may not reflect more than 1X30 for non-mortgage account (revolving and installment) in the 12 months preceding the application date. All derogatory account events that have occurred in the last 12 months must be explained in writing by the borrower.

If any of the borrower's accounts are showing past due payments, those accounts must be brought current prior to closing. A credit supplement will be required as verification.

8. Disputed Accounts

Disputed accounts must be resolved prior to closing or meet Fannie Mae AUS requirements.

9. Judgments, Garnishments, Liens, and Potential Liens

All delinquent credit obligations that have the potential to affect the subject lien's first position or diminish the borrower's equity in the property must be paid off prior to Western Bancorp issuing loan documents, including, but not limited to:

- Delinquent income taxes
- Delinquent property taxes
- Tax liens
- Judgments
- Garnishments
- Mechanics' or materialmen's liens

Verification of the funds used to satisfy these obligations must be documented in the file. The documentation of the pay off or satisfaction must be provided. No payment plans or subordination is allowed.

10. Non-title Charge-Offs and Collections

All non-title charge-offs and collection accounts exceeding $250 individually, or $1000 in aggregate must be paid off. Documentation of pay off or satisfaction must be provided. Additionally, borrowers with a history of collection accounts should be required to pay off derogatory accounts.

11. Public Records

No public records are permitted in the 24 month period preceding the application date.

12. Bankruptcy

A bankruptcy offers an individual a chance to start fresh by forgiving debts that simply can't be paid while offering creditors a chance to obtain some measure of repayment based on what assets are available.

13. Deed-in-Lieu of Foreclosure, Short Sale, and Charge-Off of a Mortgage

A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as "Forfeit deed-in-lieu of foreclosure."

A short sale is the sale of a property for less than the total amount necessary to satisfy the mortgage obligation. A short sale occurs when the borrower cannot sell the property for the full amount of their indebtedness and the lender accepts a payoff of less than the total amount owed on the mortgage, if accepting less would reduce the loss the lender would have incurred if the property had been foreclosed upon.

A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of "9."

14. Foreclosure

Foreclosure is a specific legal process in which a lender attempts to recover the balance of a loan from a borrower who has stopped making payments to the lender by forcing the sale of the asset used as the collateral for the loan.

When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

15. Restructured (Modified) Mortgage

A short refinance or a restructured loan occurs when the terms of the original transaction have been changed resulting in absolute forgiveness of debt or a restructure of debt through modification or the origination of a new loan that results in:

- Forgiveness of a portion of principal and/or interest on either the 1st or 2nd mortgage, or
- Application of a principal curtailment by or on behalf of the investor to stimulate principal forgiveness, or
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage, or
- Conversion of any portion of the original mortgage debt from secured debt to unsecured debt

16. Significant Derogatory Credit Waiting Periods

Significant Derogatory Credit Waiting Periods	
Derogatory Event	**Waiting Period Requirements** Measured from Event Date to Application Date
Bankruptcy – Chapter 7 or 11	7 years from discharge/dismissal
Bankruptcy – Chapter 13	7 years from discharge/dismissal
Multiple Bankruptcy Filings	None Allowed
Foreclosure	None Allowed
Deed-in-Lieu of Foreclosure, Short Sale, or Charge off of Mortgage Account	7 years from event
Restructured (modified) Mortgage	7 year seasoning with satisfactory recent 24 month payment history

K. LONG TERM DEBT

1. Pay Down or Pay Off of Debt

Paying off revolving debt to qualify is allowed; paying down revolving debt is not allowed. If debts are being paid off, the source of funds must be documented and verified, and the account must be closed prior to consummation. Revolving debt may be paid off and closed at closing, on a rate and term refinance if all funds used to pay off debts are borrowers own seasoned funds. Cash out proceeds may be used to pay off debt at closing, with satisfactory documentation that all accounts were closed prior to consummation. If an installment debt is paid off at closing, the creditor must provide a payoff statement which must be reflected as the payoff amount on the Closing Disclosure and escrow must provide evidence that the account has been requested to be closed.

Note: Gift funds are not allowed to be used to pay off debt to qualify.

2. Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the borrower's long-term debt and ratio calculation. If the credit report does not reflect a payment on a currently reporting liability, and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10.00 or 5% of the outstanding balance.

3. Open 30 Day Accounts

For open 30 day accounts, liquid assets must be verified to cover the balance above and beyond funds required for closing and reserves and no payment will be included in the DTI.

4. Loans Secured by Retirement Accounts

Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt. Must provide copy of the asset statement to verify the balance is sufficient to cover the loan.

5. Open-End Lines of Credit (HELOCS)

If secured by the subject property a monthly payment must be calculated based on 1% of the total line amount, regardless of the current balance.

Note: An exception may be allowed if the file contains documentation that shows the borrower cannot take additional draws and or is in repayment at a fully amortized, fully indexed payment.

If secured by other real estate owned, the borrower may be qualified using the payment on the credit report, if the payment is not on the credit report, then either the payment documented on the billing statement or the payment as calculated using the original HELOC Agreement.

6**. Deferred Payment Accounts**

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratios. When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided.

Examples of acceptable documentation include but are not limited to:

- Direct verification from the creditor.
- Copy of the installment loan agreement.

Note: a credit supplement is acceptable documentation

6. Deferred Student Loans

For all student loans, whether deferred, in forbearance, or in repayment, either of the following may be used as the borrower's recurring monthly debt obligation:

- 1% of the outstanding balance;
- or the actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation provided by the borrower)

7. Contingent Liabilities

Contingent liabilities are debts that the borrower is not currently required to pay but may be required to pay in the future (e.g. co-signed loans, court ordered payments, previous residence sold through assumption of mortgage with no release of liability).

Co-Signed Loans:

The monthly payment on a co-signed loan may be excluded from long term debt only with evidence of timely payments being made by someone other than the borrowers. Copies of canceled checks for the last 12 months are required. Must provide a copy of the note to determine the party paying the loan is obligated on the note.

Assumption with No Release of Liability:

The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:

- Copy of documents transferring ownership of the property;
- The assumption agreement executed by the transferee; and
- Evidence that the mortgage is current.

Court Order:

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:

- Copy of the court order or divorce decree.
- For mortgage debt, a copy of the documents transferring ownership of the property; or
- If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

8. Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leases to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

9. Other Real Estate Owned

Irrespective of whether income is being used to qualify for each property owned by the borrower provide documentation of the mortgage payment, taxes, insurance and HOA dues if applicable to calculate the PITIA. This documentation is required regardless if the property expenses are reflected on the Schedule E of the borrower's tax returns. If a property is owner free and clear a property provide and transaction history will be required to verify there are no outstanding liens.

L. DOWN PAYMENT AND ELIGIBLE SOURCES

Full asset documentation is required for both funds to close and reserves. For most asset types, the most recent two months bank statements with all pages will be required. Any time there is a large deposit (25% of qualifying income) it must be sourced. Stand Alone VODs are not acceptable and must be supported by 2 months bank statements.

1. Bank/Financial Institution Accounts

Individual and joint bank accounts, Certificates of Deposit, Money Market Funds are eligible for use for down payment and closing costs. Accounts must be documented with the most recent two months bank statements with all pages.

2. Publicly Traded Stocks, Bonds, Mutual Funds

A copy of the account statement for the most recent 60 days is required; proof of liquidation is required provided that the existence of these accounts is fully documented.

When the asset is needed to complete the transaction the following must be verified:

- The borrower's ownership of the asset
- The value of the asset at the time of sale or liquidation; and
- The borrower's actual receipt of funds realized from the sale or liquidation

3. Personal Gifts

Gift funds are permitted on primary residence transactions only with the following restrictions:

- Primary residence only
- The borrower(s) must have a minimum of 5% of own funds available, (but may elect not to use own funds for the transaction if sufficient gift funds are available).
- Gift funds cannot be counted towards reserve requirements

Acceptable Donors

Acceptable donors from family members, as defined by FNMA are allowed.

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

Documentation Requirements

Gifts must be evidenced by a letter signed and dated by the donor, called a Gift Letter. The Gift Letter must:

- Specify the dollar amount of the gift;
- Specify the date the funds were transferred, depository name and account number;
- Include the donor's statement that no repayment is expected; and
- Indicate the donor's name, address, telephone number, and relationship to the borrower

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

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

Verifying Donor Availability of Funds and Transfer of Gift Funds

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

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

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

4. Bridge Loans

Bridge loans are an eligible source of funds for down payment and closing costs. The loan must be included in the borrower's liabilities and be fully paper-trailed. A copy of the note must be provided. If no payment is required an interest only payment based on the contract rate must be included in the borrower's ratios.

Bridge loans cannot be cross-collateralized against the subject property.

5. Business Funds

Business funds may be used for down payment and closing costs if the borrower is 100% owner of the business and provides the following documentation:

- Cash flow analysis is required using 3 months business bank statements to determine no adverse impact of withdrawal, the Underwriter at their discretion may require additional months' worth of bank statements to sufficiently determine the cash flow impact on the business.

6. Life Insurance

The cash value of a life insurance policy can be used for down payment and closing costs. The amount used to qualify must be confirmed with a written statement from the life insurance company specifying the net cash value and receipt of the funds must be verified.

7. Loans Secured By Financial Assets

Loans secured by financial assets (life insurance policies, 401(k)s, IRAs, stocks, bonds, etc.) can be used for down payment and closing costs. The payment of this type of loan is not required to be included in the borrower's debt ratio provided the applicable loan agreement shows the borrower's financial assets as collateral. Proof of receipt of the funds is required.

8. Retirement Accounts

Vested funds held in a qualified retirement account are an eligible source of funds. The most recent 2 months or quarterly statement is required as well as proof the funds were withdrawn.

9. Notes Receivable

Notes receivable or the repayment of a loan can be used for down payment and closing costs. The written agreement between the borrower and the loan recipient, proof the funds were withdrawn from the borrower's account, and verification funds were withdrawn from the loan recipient's account and deposited to the borrower's account must be verified.

10. Trust Accounts

Trust accounts where the borrower is the beneficiary are acceptable if the borrower is the beneficiary and the borrower's immediate access to the funds is verified by an institutional trustee or the trust agreement.

11. Ineligible Sources of Funds for Down Payment

The following asset types are ineligible for this program and cannot be used to meet the borrower's funds to close:

- Custodial Accounts – accounts where the borrower is not the beneficiary, such as a custodial account
- Donated Funds – typically from a church, municipality, or non-profit
- Pooled funds – typically from a relative or domestic partner who resides with the borrower
- Individual Development Accounts

- Employer Assistance Programs – including salary advances
- Real Estate Commissions – including when the borrower is the listing agent on the subject transaction
- Rent Credit, Option to Purchase, or Trade Equity
- Cash Advances on Credit Cards
- Signature Loans
- Unsecured Financing
- Cash for which the source cannot be verified
- Sweat Equity – contribution to the construction or rehabilitation of the property in the form of labor or services
- Reverse Mortgage Proceeds
- Seller Real Estate Tax Credit
- Foreign Assets
- Pension funds (unless the pension documentation expressly allows use for purchasing real estate)
- Funds donated by the seller, builder, real estate agent or any other party no related to the borrower to satisfy down payment requirements

M. RESERVE REQUIREMENTS AND ELIGIBLE SOURCES

Reserves requirements for all transactions are reflected in the Eligibility Matrix. All Reserves must be fully documented and come from an eligible source. For most asset types, the most recent two months bank statements with all pages will be required. Any time there is a large deposit (25% or more of qualifying income) it must be sourced.

Additional reserves are required for multiple financed properties owned by the borrower and departing residences that are pending sale or will be converted to a second home or investment property.

Requirements for additional reserves in excess of the reserves reflected on the Eligibility Matrix are as follows:

- 2 additional months PITIA reserves are required on all other 1-4 unit financed properties owned in addition to the reserves required per the eligibility matrix.

1. Liquid Reserves

Liquid reserves are funds the borrower has after down payment and all closing costs that are readily available to the borrower and can easily be converted into cash. For purposes for this program, liquid reserves include:

- Funds in a bank/financial institution – individual, joint or trust if the borrower has full access
- Certificate of Deposit/Money Market Funds

- Stocks/Bonds/Mutual Funds – 70% of the documented value can be used for reserves
- Vested Retirement Accounts – 60% of the vested amount can be used for reserves if the borrower is under 59 ½ years in age. If over 59 ½ years in age, 70% of the vested amount can be used for reserves. Terms and conditions of withdrawal must verify the borrower has access to the funds.
- Trust accounts – the borrower be the beneficiary and the their immediate access to the funds must be verified by an institutional trustee or the trust agreement
- Proceeds from the sale of real estate may be used as reserves if deposited into borrowers sourced and verified liquid asset account prior to consummation.

Note: If the borrower has any outstanding obligations secured by the asset it must be deducted from the value of asset to determine the amount to be used in qualifying.

2. Ineligible Sources of Reserves

The follow assets types are ineligible to meet the borrowers reserve requirements:

- Business Funds
- Gift Funds
- Bridge Loans
- 1031 Exchange Funds – tax deferred exchange proceeds
- Custodial Accounts – accounts where the borrower is not the beneficiary, such as a custodial account
- Gifts of Equity
- Donated Funds – typically from a church, municipality, or non-profit
- Pooled funds – typically from a relative or domestic partner who resides with the borrower
- Employer Assistance Programs – including salary advances
- Individual Development Accounts
- Real Estate Commissions – including when the borrower is the listing agent on the subject transaction
- Rent Credit, Option to Purchase, or Trade Equity
- Cash Advances on Credit Cards
- Signature Loans
- Unsecured Financing
- Cash for which the source cannot be verified
- Sweat Equity – contribution to the construction or rehabilitation of the property in the form of labor or services
- Reverse Mortgage Proceeds
- Seller Real Estate Tax Credit
- Foreign Assets
- Pension funds (unless Pension documents expressly allow withdrawal for primary residence financial hardship)
- Funds donated by the seller, builder, real estate agent or any other party no related to the borrower to satisfy down payment requirements

- Loan secured by other real estate
- Qualified Tuition Plans (529 Plans)
- Cash-Out proceeds
- Funds that have not been vested or cannot be withdrawn other than with the owner's retirement, employment termination or death

N. SUBORDINATE FINANCING

Existing subordinate financing must meet Fannie Mae requirements.

New subordinate financing is permitted, provided it meets all of the following requirements:

- The repayment terms of subordinate financing must provide for regular payments that cover at least the interest due so that negative amortization will not occur and must come from an institutional lender. The terms of the subordinate financing should require interest at a market rate the repayment terms for subordinate financing must provide for a fixed payment amount. The subordinate financing must be recorded and clearly subordinate to the first mortgage.
- The maximum LTV/TLTV/CLTV may not exceed the guideline limits for the product and occupancy type shown in Eligibility Matrix.
- The monthly payment for the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s). If a HELOC, the monthly payment must be calculated based the total line amount, regardless of the current balance as indicated in the HELOC Agreement.
- Even if a credit line has been reduced with a permanent modification of the original note, the entire original line amount must be used to calculate the CLTV/HCLTV
- Negative amortization is not allowed; schedules payments must be sufficient to cover at least the interest due
- Equity share or shared appreciation is not allowed

Ineligible types of subordinate financing include:

- Subordinate liens through a Community Second Mortgage/Down Payment Assistance program
- Subordinate mortgages held by the property seller
- Tax and judgment liens
- Subordinate mortgages subject to an interest rate buy-down plan
- Subordinate financing that allows for negative amortization, contain a balloon feather or a prepayment penalty
- Subordinate mortgages that have wraparound terms

O. QUALIFYING RATIOS

Debt ratios are calculations used to determine whether the borrower will be able to meet expenses involved in home ownership. There are two ratios to assess the borrower's eligibility: housing-to-income ratio and debt-to-income ratio. Max debt ratios are as follows:

Qualifying Ratios	
Occupancy	**Max DTI**
Owner Occupied	43%
Second Home	40%
Investment	38%

P. HOUSING-TO-INCOME RATIO

The monthly housing expense includes the following:

- Principal and interest for the mortgage that is secured by the borrower's principal residence
- Monthly amounts for:
  - Subordinate financing on the subject (If a HELOC, a monthly payment must be calculated based on 1% of the total line amount, regardless of the current balance)
  - Hazard insurance (cost estimators from the insuring company is required in the event that the Hazard insurance does not cover the loan amount)
  - Real estate taxes
  - Mortgage insurance premiums
- When applicable:
  - Homeowners association dues
  - Optional credit insurance
  - Monthly cooperative fees
  - Leasehold payments
  - Special assessments
  - Flood insurance fees (Flood insurance must comply with HFIAA including the escrow requirement)
  - Tax abatements

Q. DEBT-TO-INCOME RATIO

Monthly debt-to-income ratio is the sum of the monthly housing-to-income ratio plus the following:

- Payments on revolving debt
- Installment debt with more than 10 months remaining
- Monthly PITIA for any additional properties owned by the borrower including second homes and investment properties that are non-income producing
- If rental income is not used to qualify the subject investment property: PITIA plus operating expenses
- Current real estate and taxes on properties owned free and clear
- Child support, alimony and separate maintenances with more than 10 months remaining

R. QUALIFYING RATE

Qualifying Rates	
Program	**Qualification Rate**
30 year fixed	Note Rate
15 year fixed	Note Rate
5/1 ARM	Greater of the fully indexed rate or the note rate plus 2%
7/1 ARM	Note Rate
10/1 ARM	Note Rate

S. MAXIMUM ALLOWABLE CONTRIBUTIONS

The maximum allowable contributions from interested parties based on the lesser of the purchase price or appraised value are:

Maximum Allowable Contributions		
Property Type	**LTV/ CLTV**	**Maximum Contribution**
Primary Residence	All	3%
Second Home	All	1%
Investment	All	1%

Note: Seller contributions for HOA dues must be paid directly to the Association.

HUD-1 review:

- To ensure that all fees, disbursements and charges reflected on the settlement statement were fully disclosed in the purchase agreement and available to the appraiser for consideration in determination of the property's market value, review of both the borrower's and seller's side of the HUD-1 is essential.
- Disbursements on the seller side of the HUD-1 to the borrower or an entity controlled by the borrower, or to a company owned by the seller, require additional consideration.
- Real estate commissions must include all commissions on page two of the HUD-1 *(700 series section),* as well as any non-lien related disbursements such as:
    - Marketing expenses;
    - Administration fees;
    - Finder's fees;
    - Referral fees;
    - Consulting fees; or
    - Assignment of sale fees.
- Any combination of the above disbursements exceeding 8% of the sales price must be treated as a sales concession and deducted dollar-for-dollar from the sales price for purposes of calculating the LTV/TLTV/CLTV.

T. EVALUATING INCOME

1. Stable Monthly Income

Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the Borrower, it must be determined that both the source and the amount of the income are stable. A two-year history of receiving income is required in order for the income to be considered stable and used for qualifying.

2. Tax Transcripts

IRS 4506-T is required to be signed and executed during the origination process, and 1040 transcripts obtained for the most recent two years. The transcripts must match the income documentation in the file.

3. Employment Income

To be considered for qualifying purposes, base pay, bonus, overtime and commission income must have been received for a minimum of two years with the same employer or in the same industry. Regardless of whether employment gaps are present in the borrowers work history, they must be employed with their current employer for a minimum of 3 months at the time of loan closing.

Gaps of employment exceeding 180 days require borrower to be at current employer for no less than 6 months at the time of loan closing and borrower must document a prior 2 year employment history prior to gap. Borrower must provide fully executed letter of explanation addressing all gaps exceeding 30 days.

Variable Income

A two year history of all variable income is required. A level, upward or previously declining but stabilized trend in earnings must be established. If the trend is declining, additional documentation to support the income is stable will be required.

Employment Income Documentation Requirements

At minimum, employment income must be supported by all of the following as they apply.

Paystubs

Most recent year-to-date paystubs covering 30 consecutive days of earnings are required on all wage earners (W2), which includes self-employed borrowers and must meet the following requirements:

- Provide evidence of all income being used to qualify
- Must include gross earnings for the current period and years to date earnings for the most recent 30-day period

- Be dated no earlier than 30 days prior to the date of the loan application
- If the borrower is paid hourly, the number of hours must be noted on the paystub

Note, the paystub requirement is not met if the employer does not provide computer generated or typed paystubs. When the paystub requirement is not met, the most recent year's income tax returns and a written VOE, completed in its entirety is required.

W-2s

The most recent 2 years W2s, clearly identifying the borrowers as the employee and the employer name are required for each source of employment income.

Written VOE

If bonus, overtime, and/or commission income are being used to qualify a written VOE is required to confirm ongoing employment and earnings. Each source of income must be broken out separately and be likely to continue in order to be considered stable income.

Note, a WVOE may not be used in lieu of the most recent 30 days paystubs or two years W2s and may not be used as a standalone document for purposes of verifying the borrower income and employment.

Verbal Verification of Employment

A verbal verification of employment to confirm the borrower's current employment status is required for each borrower. The VVOE must be dated within 10 days of the note date and contain the following information:

- Date of Contact
- Borrower's date of employment, employment status and job title
- Name, phone number, and title of the individual contacted at the entity, and entity name
- Name and title of associate contacting the employer

Employment by Relatives or Transaction Participants

If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transactions, the borrower is considered self-employed unless the following documentation can be provided:

- Borrower's most recent two years signed tax returns supporting no owner ship interest
- A letter from the business accountant verifying the borrower does not have 25% or more ownership interest (and stating the actual ownership interest) or a signed copy of the corporate tax returns showing the borrower's ownership percentage as less than 25%

4. Other Employment Income Requirements

Other employment income is acceptable for qualification if it meets the specifications for the income type below:

Non-Taxable Income

If income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of non-taxable income that may be added to the borrower's income cannot exceed the appropriate tax rate for the income amount. If the borrowers are not required to file tax returns the income can be grossed up by 25%.

Part-Time and Second Jobs

A borrower should have a minimum of a two years uninterrupted history on all part-time, second, or multiple jobs in order to include the income in qualification. Follow documentation types for the specific type of second job (employment income or self-employed income).

Seasonal Income

Seasonal part-time or seasonal second job employment may be acceptable if the borrower has worked in the same job for the most recent two years. All of the following must be provided:

- Most recent paystubs (if applicable)
- Most recent two years W2s
- Written confirmation from the borrower's employer that there is reasonable expectation that the borrower will be re-hired for the next season

Teachers

Annual salary must be verified and stipends or supplemental income must be documented as regular and continuous.

Borrowers with a contract for their first year of employment who have started work but have not received a paystub must provide all of the following:

- Copy of contract
- WVOE
- VVOE

Teachers obtaining financing during the summer months when income is not being received must be documented with the following:

- Final paystub from the previous school year and a written VOE or a copy of the contract confirming number of months the borrower is paid.

Income will be qualified based on the income received on the final paystub from the previous school year.

Tip Income

Tip income is an acceptable source of qualifying income if it has been received for the past 2 years and is supported by paystubs and W2s.

Unemployment Benefits

Unemployment benefits, such as those received by seasonal workers, must have been received for the past two years and be predictable and likely to continue for the three years from the date of the application. Income must be documented with the most recent two years signed tax returns with all schedules and the income must be clearly associated with seasonal layoffs and expected to reoccur.

Union Members

For union workers a VVOE confirming the borrower is in good standing with the union is required. If the union cannot provide confirmation, a VVOE with the present employer is required as well as all of the following:

- Current paystub(s) from the present employer
- If there has been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings
- Most recent 2 years W2s from all employers
- Most recent 2 years personal tax returns with all schedules

5. Employment Gaps/Re-Entering the Workforce

All employment gaps over 30 days in the past two years must be explained. For borrowers who are re-entering the workforce after an extended absence (6 months) may be considered stable if the following requirements are met:

- The borrower has been employed in his or her current job for 6 months or more
- A two year work history prior to the absence from the workforce is documented

6. Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by state law or the borrower's employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long term benefits must be used as qualifying income.

If the borrower will return to work prior to when the first mortgage payment will be due regular income can be used to qualify.

If the borrower will return to work after the first mortgage payment is due use the lesser of the leave income or pre-leave regular employment income to qualify.

7. Ineligible Employment Related Income

The following employment related income sources are not eligible to be used in qualification:

- Stock Options
- Foreign income filed on foreign tax returns (foreign income filed on a US return is acceptable)
- Future / Projected income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Stock options
- Taxable forms of employment income not declared on the borrower's personal tax returns
- Trailing co-borrower income
- Unverifiable income
- Restricted Stock Units (RSUs)

8. Self-Employment Income

A borrower is considered self-employed if any of the following conditions are met

- If the borrower has 25% or more ownership interest in a business
- Borrowers who file an IRS for Schedule C or Schedule F
- Borrowers who receive a 1099

Evidence that the borrower has at least a consecutive two year history of self-employment operating the same business in the same general location is required to demonstrate sufficient stability for the income from that business to be considered in qualifying

Net losses from self-employment and non-employer related sources must be deducted from qualifying income regardless of the longevity of the business activity, unless the business or activity producing the losses is documented to be discontinued.

9. Self-Employment Income Documentation Requirements

At minimum, self-employment income must be supported by all of the following as they apply.

Personal Tax Returns

Most recent two years of signed and dated tax returns with all pages, schedules, and attachments are required for all borrower who are self-employed.

Business Tax Returns

Most recent two years of signed and dated business returns with all pages, schedules, and attachments are required if the borrower owns more than 25% of the business. Business returns will not be required if all the following is met:

- Tax returns support a positive income trend for Self-employment income over the last two years, and the income was not used in qualifying.

P&L and Balance Sheet

Signed Year-to-date Profit and Loss Statements and Balance Sheets are required on all self-employed businesses regardless of whether or not income is used to qualify. If tax returns from the most recent tax year are not yet available, and additional year end P&L and Balance Sheet will be required for each business.

The year-to-date P&L and Balance Sheet must cover at least the period ending in the most recent quarter at the note date.

VVOE

For each business the borrower owns, a Self-Employed Confirmation of Employment is required to confirm the existence of the business through a third-party source dated within 30 days of the note date and must meet all the following requirements:

- Verification of the existence of the borrower's business from a third party, such as a CPA, regulatory agency, or applicable licensing bureau
- Verify the listing and address for the borrower's business using a telephone book, the internet, or directory assistance.

10. Other Income Requirements

Other income can be used for qualification purposes.

Child Support, Alimony or Maintenance Income

In order to be used as income, child support, alimony or maintenance payments must reasonably be expected to continue for at least a three year period. The following documentation is required:

- Copy of the final divorce decree, legal separation agreement or court order; and
- Copies of court records, bank statements or canceled checks evidencing a 12 months receipt of regular payments.

Capital Gains

Capital gains can be used in qualification if the borrower has a minimum 2 year history of receipt and assets are documented to generate ongoing income at the level used to qualify for a least a three year period.

Dividend and Interest Income

Dividend and interest income can be used in qualification if the borrower has a 2 year history of receipt and 3 years continuance can be documented. Subtract any funds used for the cash investment prior to calculating the income level or continuance.

Non-Taxable Income

If income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of non-taxable income that may be added to the borrower's income cannot exceed the appropriate tax rate for the income amount. If the borrowers are not required to file tax returns the income can be grossed up 25%.

Notes Receivable

Notes receivable is an acceptable source of qualifying income if the borrower has a two year history of receipt and is the income will continue for a three year period. The following documentation must be provided:

- Copy of the Note
- Most recent two years tax returns with all schedules reflecting the receipt of the income
- Bank statements showing regular deposit of the funds

Retirement, Pension and Annuity Income

All retirement, pension and annuity, income requires three years continuance. Evidence of continuance need not be documented for corporate, government, VA, or military pension. The borrower must have unrestricted access without penalty to all accounts. The income must be documented with one of the following:

- Copy of the award letter or letters from the organization providing the income
- Federal Tax Returns reflecting receipt of the income

IRA Distributions

All IRA distribution income requires three years continuance. The borrower must have unrestricted access without penalty to all accounts. The income must be documented with the following:

- The most recent 2 months or quarterly IRA account statement is required to document balance sufficient to support withdrawal (using 70% of balance) at regular IRA distribution payment amount for a minimum of three years from application date
- Proof of current receipt with distribution letter or most recent two years tax returns with all schedules reflecting the receipt of the income

Social Security Income

Social Security income for retirement or long term disability will not have a defined expiration date and can be expected to continue. However, if the income is not for retirement or long-term disability, 3 years continuance will need to be documented in order to use the income to qualify. Social Security income must be documented with the following:

- Copy of the award letter or letters from the organization providing the income

If this income is non-taxable, as reflected on the borrower's personal tax returns refer to the Non-Taxable Income section of this guide for further information on grossing up the income for qualification.

Trust Income

Income from trusts may be used if constant payments will continue for at least the first three years of the mortgage term as evidenced by trust income documentation.

Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:

- Amount of the trust;
- Frequency of distribution; and
- Duration of payments

Trust account funds may be used for the required cash investment if the consumer provides adequate documentation that the withdrawal of funds will not negatively affect income. The consumer may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

Rental Income from Other Real Estate Owned

Rental income from other properties owned, except for departing residences, should be calculated from the 1040 tax return Schedule E and must be supported by a fully executed current lease. In instances when leases are "rolled over" to month-to-month, evidence of current receipt for the most recent month of the income must be provided.

In cases where the investment property was acquired subsequent to the most recent tax filings year signed lease can be used to calculate the qualifying rental income.

Conversion of Current Principal Residence

If the borrower is converting a current principal residence to an investment property, sufficient equity (see table below) in the existing principal residence must be verified with a drive-by (Form 2055) or full appraisal (Form 1004) to determine the qualifying impact of the current principal residence's PITIA on the borrowers DTI ratios.

To confirm leasing the newly converted property or unit (for a two- to four-unit property) the file must contain the following:

- Fully executed lease agreement
- Security deposit from the tenant supporting terms of the lease agreement, and
- Bank statement showing the deposited security funds
- Comparable Rental Form 1007 (lesser of lease or market rents will be used to qualify):

Western Bancorp must calculate the net rental income and qualify the borrower according to the following requirements: **Conversion of Principal Residence**		
If the current principal residence is…	And the documented equity in the current principal residence is…	Then you can use…
A One Unit Property	≥25%	75% of the gross rental income as per the lease
	<25%	No Rental Income will be allowed
A 2-4 Unit Property	≥25%	75% of the gross rental income as per the lease for the unit the borrower occupied. Rents for the remaining units will be calculated off Schedule E
	<25%	No Rental Income will be allowed for the unit the borrower occupied. Rents for the remaining units will be calculated off Schedule E

11. Rental Income from Non Owner Occupied Subject Property

If the subject property is a non-owner occupied investment, rental income can only be used if all of the following criteria can be met for the appropriate transaction type as defined below:

Purchase Transactions

- Fully executed lease agreement covering no less than a 1 year from close of escrow,
- Copy of tenants cancelled security deposit and first month's rent check,
- Evidence tenants security deposit and first month's rent check was deposited into a sourced borrower account,
- Letter from selling agent and borrower verifying no previous relationship to tenant (income from a non-arm's length relationship source, is not allowed)
- 1007 to support comparable market rents,
- Income will be qualified using the lessor of 75% of the lease amount or 75% of the market rent on the 1007

Refinance Transactions

- Rental income from an investment property on a refinance transaction should be calculated from the 1040 tax return Schedule E and must be supported by a fully executed current lease. In instances when leases are "rolled over" to month-to-month, evidence of current receipt for the most recent month of the income must be provided.

In cases where the investment property was acquired subsequent to the most recent tax filing year, a signed lease along with satisfactory evidence to support receipt of rental income for the most recent prior 3 months can be used to calculate the qualifying rental income at 75% of the gross documented rents.

12. Ineligible Self-Employment or Other Income

The following self-employment and other income sources are not eligible to be used in qualification:

- Restricted Stock Units (RSUs)
- Stock Options
- Foreign income (foreign income filed on a US return is acceptable)
- Future income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Taxable forms of employment income not declared on the borrower's personal tax returns
- Trailing co-borrower income
- Unverifiable income
- Boarder income (unless supported by most recent 2 years tax returns and proof of current receipt)

- Mortgage credit certificates
- Income derived from gambling
- Lump sum payments of lottery earnings, inheritances, or lawsuit settlements that are not on-going (for at least three years)
- Non-incidental income derived from farming/agricultural use of land

U. PROPERTY TYPES

1. Eligible Properties

All properties must be complete with no repairs required at close of escrow, per the appraiser. Underwriter may at their discretion deem repairs necessary for the health, safety and or marketability of the subject property.

- One Unit SFRs & Site Condo's (Site Condo's: Refer to FNMA Guidelines)
- PUDs & Townhouse
- FNMA Warrantable Condos with lender full review and CPM approval
- 2 Unit properties (primary residence only)

2. Ineligible Properties

The following property types are ineligible:

- Manufactured Homes
- Properties Zoned for Commercial Use
- Properties with Deed Restrictions
- Co-Ops
- Mobile Homes
- Condos without a lender full review and CPM Approval
- Condotels
- Hotel Condominiums
- Timeshares
- Working Farms or Ranches
- Unimproved Land
- Property currently in litigation
- Land Trusts
- Condition Rating of C5/C6 or a Quality Rating of Q6
- Properties with less than 550 square feet of habitable space
- Log Homes
- Dome Homes
- Earthships
- Mixed Use Properties
- Assisted living facilities
- House boats
- Land loans

- Leasehold estates
- 3-4 unit properties
- Properties with greater than 20 acres
- Properties sold at auction by the builder, developer, or construction lender
- Property used for commercial purposes
- Modular Homes/Factory Built Housing
- Agricultural zoned
- Properties with outbuildings which may be construed as agricultural or ranch type use (e.g. barns, horse-stalls, corrals, animal boarding facilities, etc.)
- Unique Properties
- Incomplete properties

3. Solar

Western Bancorp will finance properties with solar panels. If the property owner is the owner of the solar panels, and is not the only source of power (the property must maintain access to an alternate source of electric power that meets community standards) no further requirements apply.

If the solar panels are leased from or owned by a third party under a purchase power agreement or other similar arrangement, the following requirements apply (where to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property
- The property must maintain access to an alternate source of electric power that meets community standards
- The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:
  - Provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - Have a production guarantee that compensates the borrower on a prorated basis in the even the solar panels fail to meet the energy output required for in the lease for that period.

  Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio

- The lease or power purchase agreement must indicate that:
  - Any damage that occurs as a result of the installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original condition, and
  - The owner of the solar panels agrees not to be the named loss payee on the property owner’s insurance policy covering the residential structure the panels are attached to, and
  - In the event of foreclosure, the lender or assignee has the discretion to
    - Terminate the lease/agreement and require the third party owner to remove the equipment

    - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party, or
    - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner
  - Any exception to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with FNMA requirement in section B7-2-05 of the seller guide.

4. Deed or Re-Sell Restricted Properties

Properties with Deed or Re-Sell Restrictions are ineligible on this program.

V. RENT LOSS INSURANCE

Rent loss insurance covering at least six months' rent is required for 2 unit primary residence properties, when rental income from the subject property is used to qualify the borrower.

3. APPRAISAL STANDARDS

A. LENDER STANDARDS

All appraisals must comply with and conform to all applicable regulations and standards including but not limited to USPAP, FIRREA, AIR and HVCC Compliance.

The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. "Re-addressed appraisals" or appraisal reports that are altered by the appraiser to replace any references to the original client with the lender's name are not acceptable. Additionally, the borrower, property seller, real estate agent or other interested party are not allowed to select an appraiser from an approved appraiser list.

Effective internal controls should require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter should not directly report to someone involved in loan production. Western Bancorp's underwriting review will include confirming the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision. Any exceptions or red flags should be escalated accordingly.

1. Transferred Appraisals

Western Bancorp will not accept transferred appraisals, regardless of any written assurance or certification.

B. APPRAISAL REQUIREMENTS

Appraisals must include at least 3 comparable sales closed within 12 months prior to the effective date of the appraisal. Condos require 2 comparable sales from projects other than the subject project and 2 comparable sales from the subject project.

C. PROPERTIES AFFECTED BY DISASTERS

The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual and or Public Assistance due to a federal government disaster declaration.

1. **Effective Date of Disaster Policy**

The disaster-area policy becomes effective as of the incident period end date for the disaster/event. FEMA publishes the incident period along with the declaration date once the area is presidentially declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

- Disaster Incident Period:
    - Begin Date: January 15
    - End Date: January 17
- Disaster Declaration Date: February 2
- Effective Date for Disaster Procedures: January 17

Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.

2. **Appraisal and Re-Inspection Requirements**

To ensure the property value has not been impacted by the disaster, a post disaster property re-inspection is required.

3. **Appraisal performed on or before disaster incident end date**

Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. The appraiser must provide the following commentary/evidence:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post disaster inspection report, with photos of interior, exterior, and neighborhood.

4. **Standard Appraisal Performed After Incident Period End Date for Disaster**

Appraisal must include written certification by the appraiser that:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.
- The appraisal must include a minimum of three comparable sales, post-disaster.

  Please note that FEMA makes updates to their state lists, so Sellers should closely monitor FEMA's online reference at http://www.fema.gov/news/disasters.fema.

5. Declining Markets

If the appraisal indicates that the subject property is located within a declining market, a 5% LTV reduction will be required. Additionally, the appraisal must reflect the following:

1. At least two (2) comparable sales must be within ninety (90) days of the date of the appraisal, with at least one (1) from the subject's property's immediate neighborhood. If there are no comparable sales from the subject's immediate neighborhood that occurred within the last ninety (90) days, then the appraiser may use a sale that occurred within the last six (6) months and provide comments on why no recent sales were available, as well as current sales trends in the area.

2. Days on market must be verified and reported by the appraiser for each comparable supporting the appraiser's estimate of marketing time as reflected on the first page of the report.