



Tip: To find specific information for a product, Press Ctrl+F (or use "Find" from the Edit Menu) and then search for the information or topic you are looking for. If you don't find the topic the first time, try variations, different terms or less words

FANNIE MAE HOMESTYLE RENOVATION STANDARD AND HIGH BALANCE

15, 20, 25 and 30 Year Fixed Rate⁵

LTV ⁴	CLTV ⁴	Purpose ⁴	Units ⁴	Occupancy ⁴	Credit Score ^{3,4}	DTI Ratio ⁴
97 ¹	97 ¹	Purch, R&T ¹	1 ¹	O/O ¹	620 ¹	50
95	95	Purch, R&T	1	O/O	620	
85	85	Purch, R&T	2	O/O	620	
75	75	Purch, R&T	3-4	O/O	620	
90	90	Purch, R&T	1	SH ⁴	620	
85 ²	85	Purch	1	N/O/O ⁴	620 ^{2,3}	
80	80	Purch	1	N/O/O ⁴	620	
75	75	R&T	1	N/O/O ⁴	620	

1. See **97% Financing** section below for additional requirements, only available on standard balance 30 year fixed rate products
2. N/O/O Purchase >80% LTV: MI providers may have restrictions (credit score, reserves, etc.) – check with MI provider for specific requirements; Lender Paid MI option not allowed for N/O/O transactions
3. With DU, second homes or investment properties with 7-10 financed properties must have a 720 credit score
4. If the LTV is > 80% review Mortgage Insurance section for specific MI company requirements
5. 10 and 20 Year Fixed not allowed for high balance

**Please note, review of the Renovation specific documentation is required.
Loan Officer must have completed Renovation Certification via PRMG's LMS.**

Reach out to Renovation@prmg.net with any questions on this product

PRODUCT NAME	<p>Standard Product Codes:</p> <ul style="list-style-type: none"> • HomeStyle Renovation 15 Year Fixed • HomeStyle Renovation 20 Year Fixed • HomeStyle Renovation 25 Year Fixed • HomeStyle Renovation 30 Year Fixed • HomeStyle Renovation High Balance 15 Year Fixed • HomeStyle Renovation High Balance 25 Year Fixed • HomeStyle Renovation High Balance 30 Year Fixed
ALLOWABLE ORIGATION CHANNELS	<ul style="list-style-type: none"> • Retail
LOAN OFFICER CERTIFICATION REQUIREMENTS	<ul style="list-style-type: none"> • Loan Officer must complete Renovation certification program (currently via PRMG's LMS) to be authorized to originate this product, or will be required to refer loan to AFS division for origination. • Reach out to Renovation@prmg.net for information on this requirement or for questions on the certification process
COVID-19 ADDITIONAL REQUIREMENT	<ul style="list-style-type: none"> • Please refer to COVID-19 Informational document for guidance pertaining to topics such as Income/VVOE, Title/Recording, Appraisals. Until further notice the guidance in the informational document supersedes the information provided in the product profiles • http://www.eprmg.net/ResourceCenter/COVID-19FAQs.pdf
HOMESTYLE RENOVATION OVERVIEW	<ul style="list-style-type: none"> • HomeStyle Renovation Loans are a conventional product for home improvement projects. The program is similar in process and function as the Standard FHA 203(k) loan. • There is no minimum amount required for HomeStyle project, however the cost of the renovation is limited to 75% of the lesser of acquisition plus renovation costs or the "as-completed" appraised value. The HomeStyle program is offered on second homes and investment properties in addition to owner occupied homes. • The Fannie Mae HomeStyle Renovation product enables borrowers to finance either the purchase or refinance of a home AND the cost of its renovation through a single mortgage. • Repairs or improvements must be completed within twelve (12) months of closing date. Extensions of up to 15 months will be permitted due to extenuating circumstances beyond the borrower's control. • Information form Fannie Mae on the HomeStyle product can be found at the following link: https://www.fanniemae.com/singlefamily/homestyle-renovation
AGENCY LINKS	<ul style="list-style-type: none"> • In addition to any Product Profile requirements, you must always meet the published Agency guidelines. If published Agency guidelines are more restrictive then what is allowed in the Product Profile, you must always defer to Agency Guidelines. • All PRMG staff can access all end Agency guidelines though AllRegs Online at http://allregs.elliemae.com. Instructions on how PRMG staff can access the AllRegs service is available in the Resource Center. • Use the following link to access the Fannie Mae website, and from there, access to their guidelines: https://www.efanniemae.com/home/index.jsp or • https://www.fanniemae.com/content/guide/selling/index.html • The following link provides access the Fannie Mae Seller Guide through All Regs: • http://www.allregs.com/tpl/public/fnma_freesiteconv_tll.aspx
MINIMUM LOAN AMOUNT	<ul style="list-style-type: none"> • Refer to PRMG's "Eligible States" list for states currently available for business <p>Standard Balance</p> <ul style="list-style-type: none"> • \$40,000

	<p>High Balance All States, except AK and HI:</p> <ul style="list-style-type: none"> • 1 Unit: \$647,201 • 2 Unit: \$828,701 • 3 Unit: \$1,001,651 • 4 Unit: \$1,244,851 <p>AK and HI:</p> <ul style="list-style-type: none"> • 1 Unit: N/A (no high balance areas) • 2 Unit: N/A (no high balance areas) • 3 Unit: N/A (no high balance areas) • 4 Unit: N/A (no high balance areas)
<p>MAXIMUM LOAN AMOUNT</p>	<ul style="list-style-type: none"> • Refer to PRMG’s “Eligible States” list for states currently available for business <p>Standard Balance: All States, except AK and HI:</p> <ul style="list-style-type: none"> • 1 Unit: \$647,200 • 2 Unit: \$828,700 • 3 Unit: \$1,001,650 • 4 Unit: \$1,244,850 <p>AK and HI</p> <ul style="list-style-type: none"> • 1 Unit: \$970,800 • 2 Unit: \$1,243,050 • 3 Unit: \$1,502,475 • 4 Unit: \$1,867,275 <p>High Balance:</p> <ul style="list-style-type: none"> • Maximum Fannie/Freddie Limits for all counties can be found here. Select Fannie/Freddie for Limit Type option and appropriate Calendar Year (CY): https://entp.hud.gov/idapp/html/hicostlook.cfm <i>or at this link:</i> https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx • Maximum Loan Amounts are county specific, not to exceed the following (note, high balance loan amounts are not available in all counties/states): <p>All States, except AK and HI:</p> <ul style="list-style-type: none"> • 1 Unit: \$970,800 • 2 Unit: \$1,243,050 • 3 Unit: \$1,502,475 • 4 Unit: \$1,867,275 <p>AK and HI:</p> <ul style="list-style-type: none"> • 1 Unit: N/A (no high balance areas) • 2 Unit: N/A (no high balance areas) • 3 Unit: N/A (no high balance areas) • 4 Unit: N/A (no high balance areas)
<p>GEOGRAPHIC RESTRICTIONS</p>	<ul style="list-style-type: none"> • Please refer to PRMG’s “Eligible States” list, which can be found at this link: http://www.eprmg.net/guidelines/Eligible%20States.pdf • See State Specific Requirements in Resource Center for state specific information • If the property is in Texas, please refer to the addendum at the end of this product profile. • Texas Section 50(a)(6) and Texas Section 50(a)(4) loans are not eligible • Properties located in Illinois in the counties of Cook, Kane, Peoria or Will requires copies of the following to be closely reviewed: (1) A copy of the Certificate of

	<p>Compliance with the counseling requirements or the Certificate of Exemption, if the lender or transaction is exempt and (2) A copy of Title Commitment free from any exceptions related to the anti-predatory lending database requirements.</p> <ul style="list-style-type: none"> • For Nebraska cash out transactions, if the credit or title commitment reflects an alimony/child support judgment/lien, the following is required: subject property mortgage must be in first lien position and title commitment must clearly state that the alimony/child support lien is in subordinate position to the new mortgage. A copy of the subordination agreement or court order must be provided. This requirement is because under the Uniform Interstate Family Support Act, orders for payment of alimony/child support in Nebraska automatically create liens and could impact a first lien position on a cash-out refinance transaction. • For properties in West Virginia: maximum DTI for all purchase and refinance transactions is 50% • For Kansas (KS) primary residences, when an appraisal is not obtained, a property valuation determined by one of the following three (3) methods is required: (1) Most recent tax assessment value by county; (2) 2055 Drive-by Appraisal Report (not allowed with appraisal waivers); or (3) AVM. If LTV exceeds 100% based on the valuation, the LTV must be acceptable to the product and a Kansas High Loan-to-Value Notice must be provided to borrower not less than three (3) days prior to closing and a copy must be retained in file. A free copy of appraisal valuation must be provided to borrower, if applicable.
97% FINANCING	<ul style="list-style-type: none"> • Applies to LTV/CLTV/HCLTVs >95% • Standard balance loan amounts only • Fixed rate products only • At least one Borrower on the loan must have a credit score. • Non-Occupant co-borrowers not allowed (LTV limited to 95% with non-occupant co-borrower) • Purchase Transactions: <ul style="list-style-type: none"> • At least one borrower must be a first time home-buyer, which is defined as having no ownership in a property in the last three years • Rate/Term Transactions: <ul style="list-style-type: none"> • Property must be currently Fannie Mae Owned <ul style="list-style-type: none"> • Must inform DU that Fannie Mae owns the existing mortgage by indicating "Fannie Mae" in the Owner of Existing Mortgage field on the online loan application. • Information can be verified by: the current servicer (if the lender is not the servicer), Fannie Mae's Loan Lookup tool (www.fanniemae.com) or any other source as confirmed by the lender • See Mortgage Insurance section for MI requirements (>95% LTV allowed with Radian, Essent, Arch MI, National MI (NMI), MGIC, and Enact (Genworth))
COMPLIANCE REQUIREMENTS	<ul style="list-style-type: none"> • For wholesale loans, initial disclosures must be done by PRMG (brokered disclosed files not allowed) • All Clear to Close (CTC) conditions must be cleared before issuing CD • Compliance Department must complete final review of file for compliance acceptance prior to funding. Please send email with loan number and borrower requesting review to Compliancegroup@prmg.net
RENOVATION DOCUMENTATION REVIEW REQUIREMENTS	<ul style="list-style-type: none"> • If the Renovation team did not assist in documentation collection and review, please email renovation@prmg.net with loan number and request for review.
ELIGIBLE REPAIRS	<ul style="list-style-type: none"> • There are no required improvements or restrictions on the types of renovations. However, renovations must be permanently affixed to the real property.

	<ul style="list-style-type: none"> • Generally, improvements should be permanently affixed to the real property (either dwelling or land), excluding certain appliances installed with kitchen and utility room remodels. The Borrower may use HomeStyle Renovation to purchase appliances as part of an overall remodeling project that includes substantial changes or upgrades to the rooms in which the appliances are placed. (Free-standing appliance not allowed to be included in Texas) • HomeStyle Renovation may be used to complete the final work on a newly built home when the home is at least 90% complete. The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Such work may include installation of buyer-selected items such as flooring, cabinets, kitchen appliances, fixtures, and trim. • HomeStyle Renovation may be used to construct various outdoor buildings and structures when allowed by local zoning regulations. • These buildings or structures must be in compliance with any applicable building codes for the local area. Examples of acceptable structures include, but are not limited to, accessory units, garages, recreation rooms, and swimming pools. • See below for requirements for pools
Pool Repairs	<ul style="list-style-type: none"> • Projects consisting of only a pool installation may follow reduced requirements: • Reduced documentation is only applicable when the project consists only of a pool, pool decking, and/or any fencing or netting immediately surrounding the pool. • The lesser of \$15,000 or 25% of the total project cost may be advanced at closing for material cost for items not yet paid for. • All work to be performed must be fully described, bids are not required to separate labor and material cost. • Permits must still be obtained and referenced, an itemized listing of all permits when required (check local code departments). • Draw will be funded in its entirety and not withhold 10% of the draw. • Final Inspection required by licensed appraiser (1004D) prior to release of Holdback Funds
INELIGIBLE REPAIRS	<ul style="list-style-type: none"> • “Do It Yourself” or self-help repairs (Borrower completed repairs or acting as the General Contractor) are not permitted. • HomeStyle Renovation may not be used for complete tear-down and reconstruction of the dwelling. • Any renovation that would take greater than nine (9) months to complete. • For purchase transactions, renovation(s) that exceeds 75% of the purchase price plus renovation costs (the Total Acquisition Price). • For refinance transactions, renovation(s) that exceeds 75% of the “as completed” appraised value. • Conversions are not permitted. Exceptions are allowed for downward conversions (e.g., 2 Unit converted into a 1 Unit), when ALL permits are in place prior to closing when required (check local code departments).
GENERAL CONTRACTOR REQUIREMENTS	<ul style="list-style-type: none"> • Construction/Repair Bids with non-structural repairs under \$35,000 may be completed by a general contractor or renovation consultant • Self-help or “Do It Yourself” is not allowed, and the Borrower may not act as the General Contractor. • Borrower must choose their own contractor. • Licensed contractors or subcontractors must be used when licensing is required per state or local regulations for the specific trade or type of renovation being completed. • There is generally one General Contractor overseeing the project. Borrowers cannot hire multiple contractors and oversee the project themselves. Must hire one General

	<p>Contractor to oversee the work.</p> <ul style="list-style-type: none"> • One General Contractor and 1-2 large specialty contractors, (such as a well and septic or paving contractor) are also allowed for large cost items that the General Contractor may not want to put on his/her contract to be reimbursed later. • Contractors must meet all state and jurisdictional requirements. • General Contractor Documentation Requirements: <ul style="list-style-type: none"> • Profile/resume • References • Proof of licensing, if required by municipality or state • Liability insurance coverage with a preferred minimum of \$1 million in coverage • Worker’s Compensation insurance, when required • <u>Homestyle Renovation - Builder’s Risk:</u> <ul style="list-style-type: none"> • Not required if the Homeowner’s coverage remains intact during the construction period. • HO-3 or HO-5 policies do not satisfy Builder’s Risk Insurance requirements. • May be required if the property will be vacant during the time of renovations to cover theft or vandalism. • Must be disclosed to the agent that the renovation loan is fully disbursed. • May be paid by the Borrower or the Contractor. • If paid by the Borrower, it must be disclosed as a separate line item to be paid at closing. • Insurance premium may not be included in escrow impounds. • Specific Homeowner’s insurance quote is required to determine PITI and escrow impounds.
CONTINGENCY RESERVE	<ul style="list-style-type: none"> • Contingency Reserves must equal a minimum of 10% of the total costs of the repairs and renovation work and must be established and funded for all transactions. • The reserve of 15% is needed if no utilities are on. • The reserve may be increased to 15% if a larger reserve is needed. • The reserve may be considered as part of the total renovation costs, or the Borrower may fund it separately. Unused contingency funds, unless they were received directly from the Borrower, must be used to reduce the outstanding balance of the loan after all work has been completed and the certification of completion has been documented on the Appraisal Update and/or Completion Report (Form 1004D). • The Borrower may use the remaining contingency reserve funds for making improvements or repairs that are permanently affixed to the real property and add value to the property provided: <ul style="list-style-type: none"> • Prior written approval is obtained from investor; • The investor warrants the work scheduled and described in the plans and specification was completed, and the contingency reserve funds have already been reduced by any cost overruns; and • Investor must ensure <ul style="list-style-type: none"> • Reserve funds used for additional improvements or repairs were used to improve the real property, and • The file is documented with paid receipts for the additional improvements or repairs from the Borrower’s own funds.
ALLOWABLE FEES AND COSTS DISBURSED AT CLOSING	<ul style="list-style-type: none"> • The following fees/costs may be disbursed at closing: <ul style="list-style-type: none"> • With paid receipts or invoices: <ul style="list-style-type: none"> • Prepaid architectural or engineering fees • Prepaid Consultant fees • Permit fees (permits must be obtained before work commences) • Draw Management Fee (Greater of 1.5% of renovation cost or \$500)

	<ul style="list-style-type: none"> • “Allowable Costs Released at Closing” form to be used to identify which costs and fees have been disbursed at closing.
DISCLOSURES	<ul style="list-style-type: none"> • Disclosures must be sent to Renovation team for review prior to sending them to the borrower. Send an email to Renovation@prmg.net with the borrower name/loan number requesting review of the disclosures for a Renovation product.
FEES	<ul style="list-style-type: none"> • Architectural Fee: Varies per loan, according to architect’s fee schedule. • Engineering Fee: Varies per loan, according to engineer’s fee schedule. • Consultant Fee: Varies, according to Consultant’s fee schedule. • Inspection Fees (payable to PRMG): \$165 each • Title Update Fee(s): \$95 flat for all states, except OH and VA. In OH and VA, \$95 times number of draws. • Permits: Varies, according to municipality’s fee schedule. • Draw Management Fee (payable to PRMG): \$500
BID REQUIREMENTS	<ul style="list-style-type: none"> • Fully describe the work being performed and provide the itemized cost estimate with labor and materials broken out. • Provide an indication of when various jobs or stages of completion will be scheduled (start and completion dates). • Bid must be in the Borrower’s name and reference the subject property address. • Bid must reference the Contractor’s name, contact information, and license number when required.
REQUIRED HOMESTYLE PROGRAM DOCUMENTS	<ul style="list-style-type: none"> • DocMagic must be used for Disclosures and Final Documents • The Renovation Contact and Loan Agreement must meet all requirements as outlined in the Fannie Mae selling guide. • <u>Approval Documents:</u> <ul style="list-style-type: none"> • Maximum Mortgage Worksheet (Form 1035, 2018-02) <ul style="list-style-type: none"> • Draw Management Fee is \$500. • Contractor Profile Form (or equivalent), or Contractor Profile Report (FNMA Form 1202) • Contractor Acceptance Checklist (or equivalent) • Rehabilitation Loan Permit Certification form • HomeStyle Renovation 2018 Consumer Tips (FNMA Form 1204, 2018-02) • Multistate Renovation Contract (FNMA Form 3730) • <u>Closing Documents (must be pulled from Doc Magic):</u> <ul style="list-style-type: none"> • Multistate Renovation Loan Agreement (FNMA Form 3731) • Multistate Renovation Loan Rider to Security Instrument (FNMA Form 3737) • Multistate Renovation Loan Investor Rider to Security Instrument (FNMA Form 3738)
HUD CONSULTANT	<ul style="list-style-type: none"> • A Consultant must be used on all HomeStyle transactions with hard costs over \$35,000 or any structural repairs being done. • PRMG can select the Consultant from the HUD Consultant Roster, or use a certified General Contractor, renovation Consultant, or architect, with preference given to a HUD Consultant. • Construction/Repair bids greater than \$35,000 or any work that includes structural repairs must be completed by a HUD Consultant
DRAW DISBURSEMENTS	<ul style="list-style-type: none"> • At closing, PRMG may include in the wire amount a material draw of no more than \$15,000, with a \$10,000 cap on hard costs and a \$5,000 cap on soft costs, not to exceed 50% of the total upfront material costs. Costs will be reviewed and approved by the underwriter, PRMG’s Renovation team and the investor in their pre-close review. Funds for material costs that are disbursed at funding must be included in one of the following: contractor to indicate on the bid or Specification of Repairs (SOR) what materials they are requesting funds for; OR Contractor to submit Letter

	<p>of Explanation indicating what material funds are being requested; OR Lender to provide Lender’s Certification on what material funds were disbursed at closing; OR utilize PRMG’s Homestyle Materials Disbursement Form, signed by the Contractor (available in the Resource Center).</p> <ul style="list-style-type: none"> • For additional draws, inspections must occur before escrow draws are made to ensure work is being completed in accordance with plans and specifications. • Funds are released to the Borrower and contractor only when any given renovation work has been completed per Fannie Mae Selling Guide, section B5-3.2-04, HomeStyle Renovation Mortgages: Costs and Escrow Accounts. • Contractor to identify number of draws needed, payable upon completion of work. Inspection fees should account for the number of draws required by contractor. • A ten percent (10%) holdback will apply to all progress, or interim, draws. • Final draw will be paid-in-full, and will include all previously withheld ten percent (10%) holdbacks, along with any outstanding contingency requests or change orders. • Consultant or appraiser inspects property to identify the percentage of work complete to date for each draw request. Appraiser or Consultant may complete final inspection. • All checks must be made payable to the Borrower(s) and contractor.
PAYMENT RESERVE	<ul style="list-style-type: none"> • An escrow for mortgage payments (PITI) that will become due during the renovation period generally may be included as part of the total renovation costs for a principal residence property if the property cannot be occupied during the renovation period. • Maximum PITI to be held in escrow is six (6) months.
PERMITS	<ul style="list-style-type: none"> • Permit costs vary as determined by the local municipality and must be documented. Print-outs from the municipality’s website, confirming permit costs, are acceptable. • Building permits for all aspects of the renovation project must be in place prior to the acquisition/ delivery of materials and commencement of work and before the release of any escrow funds. • Unpermitted work may result in fines and penalties to the Borrower and may not be reimbursed from the renovation escrow account. • If permits are not required by the local jurisdiction, a certification or other documentation stating no permits are required for the project must be obtained in lieu of the permit. • Utilize Rehabilitation Loan Permit Certification form to validate permits required or substantiate permits are not required.
INVESTOR REVIEW OF HOMESTYLE LOAN	<ul style="list-style-type: none"> • The investor must perform a construction and loan review prior to docs/closing. • Underwriter to submit information to investor for review • After underwriting, renovation documentation may have to be submitted by underwriter to investor for final renovation documentation approval. Contact renovation@prmg.net for details on current requirements.
INELIGIBLE TRANSACTIONS	<ul style="list-style-type: none"> • Any transaction with a Community Seconds Mortgage, excluding Home Possible Advantage. • MyCommunityMortgage®/HomeReady™. • Refi Plus™. • DU Refi Plus™. • Any Housing Finance Agency transaction. • HomePath or Homepath® Renovation Program. • Mortgage Credit Certificate (MCC). • Community Land Trust. • Loans secured by properties with resale deed restrictions (except age related restrictions). • Loans with assigned purchase contracts.

	<ul style="list-style-type: none"> • Freddie Mac Relief Refinance® Mortgage. • Ohio property originated under any reduced document program. • Island of Hawaii property in Lava Zones 1 or 2.
<p>DOCUMENTATION</p>	<ul style="list-style-type: none"> • See COVID-19 Overlay section for additional requirements. • Full/Alt Doc • Verifications and similar documents used for qualifying (such as a VOE, VOD or VOM) must be independently obtained/authenticated, and should never be handled by a party to the transaction (including but not limited to the borrower, realtor, loan officer, seller, etc.) The verifications/document should be ordered/requested by a processor (or similar) and must be sent directly to the third-party who is providing the verification and be returned directly from the same independent third-party. The documents must not pass through the hands of a party to the transaction. If an Underwriters or other team member sees a red flag to indicate a document was not independently obtained, additional diligence must be used to confirm the validity of the documents. • Not eligible for Day 1 Certainty • When all income used to qualify a loan for the borrower is made up exclusively of wage earner income reported on a W2 and/or non-grossed up fixed income reported on a 1099 (i.e., social security or VA benefits) transcripts are not required, unless full tax returns are required for the borrower by the AUS (i.e., borrower employed by family members). If multiple borrowers are qualifying on the loan, but the tax returns are not filed jointly, and one borrower requires full returns, but the other borrowers are qualified exclusively on W2 and/or fixed income then no transcripts are required for the W2/fixed income borrower and 1040 transcripts are required for the self-employed borrower/borrower requiring full returns. When using this option, there can also be no tax returns included in the loan file (including if tax returns are required to be reviewed by the PRMG underwriter for MCC Approval or other purpose). If the borrower earns other income that is used to qualify that would be able to be validated with 1040 transcripts (i.e, rental income from tax returns, etc.) then 1040 transcripts are required to validate that income. A completed and executable (signed) 4506-C must be submitted with the loan file. For the borrowers where transcripts are not required, be sure to select the W2/1099 option only when completing the 4506-C. Do not mark the 1040 or Record of Account option. • When tax returns are required for a borrower or when borrower’s qualifying income is not made up of W2 or is using grossed up fixed income reported on a 1099, validated 1040 tax transcripts are required if borrower’s income is utilized as a source of repayment. If multiple borrowers are qualifying but the tax returns are not filed jointly (when one borrower requires full returns), then it is acceptable to provide no transcripts for the salaried/fixed income borrower and 1040 transcripts for the self-employed borrower/borrower requiring the tax returns. • For Fannie Mae (DU) loans: For a borrower who is qualified using either (1) base pay, (2) bonus, (3) overtime, or (4) commission income, then unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower’s qualifying income, or added to monthly liabilities. This applies regardless of whether unreimbursed employee business expenses are identified on tax returns (IRS Form 2106) or tax transcripts received from the IRS. Union dues and other voluntary deductions identified on the borrower’s paystub do not need to be deducted from the borrower’s income or treated as a liability. • When required, transcripts must be provided for the number of years of income documentation required to be in the loan file, in accordance with the AUS findings and/or Agency requirements. Tax transcripts are required to support the income used to qualify the borrower. The purpose of the 4506-C is to verify the income

	<p>reported is accurate.</p> <ul style="list-style-type: none"> • Stamped tax returns not allowed, tax transcripts must be provided when required • Tax transcripts must come to lender directly from the IRS or through a third party vendor ordered/obtained by lender • Number of years self-employed/business tax returns is allowed per DU findings (one year acceptable if findings allow for it) • When business tax returns are required by AUS, business income is used to qualify or business income is used to offset a loss on personal tax returns or is included in the loan file, a separate IRS Form 4506-C must be executed (but not processed and must allow enough time to be executed post-closing after delivery to investor) for each business for the required number of years of income documented, for each self-employed borrower on the loan transaction. Allowable signatures (per IRS): 1120/1120S: Borrower must sign name with title and only the following titles are acceptable: President, Vice President, CEO, CFO, Owner, 1065: Borrower must sign name with title and only the following titles are acceptable: General Partner, Limited Partner, Partner, Managing Member, Member • When an extension for business tax returns has been filed for the most recent tax year the IRS Form 7004 and the IRS Form 4506-C transcripts confirming “No Transcripts Available” for the applicable tax year are required. The IRS form 4868 will continue to be required for extensions filed for personal tax returns. • W2 transcripts are allowed to take the place of a W2 when there is a reasonable explanation as to why they cannot be provided and Fannie Mae’s requirements are met, as outlined in sections B3-3.1-02, Standards for Employment Documentation of Fannie Mae’s Seller Guide. • Preliminary Title policy must be no more than 90 days when the note is signed • All documentation used in qualifying the borrower must be legible and if not in English, will require a full written translation of the entire documentation into English.
<p>FULL/ALT DOC</p>	<ul style="list-style-type: none"> • Standard FNMA full documentation may be provided • For non-self-employed borrowers: Verbal VOE is required to be completed no more than 10 days prior to the note date for wet funding states and escrow states. If the Verbal VOE is completed more than 10 days prior to the funding date, another Verbal VOE should be completed 10 days prior to funding date for escrow states. • For self-employed borrowers: No more than 120 calendar days prior to note date, verify the existence of the borrower’s business from a third party that may include a CPA letter (cannot be vague, must state length of time doing taxes and be signed by CPA), regulatory agency, or appropriate licensing bureau; OR verify a phone listing and address for the borrower’s business through resources such as the telephone book, directory assistance, internet, or contact the appropriate licensing bureau. Verification may not be made verbally, and a certification by PRMG indicating the information was verified is not allowed. Documentation from the source used to verify the information must be obtained and in the file. Internet sites such as 411.com, Chamber of Commerce sites and Manta.com where they allow the business owner to add their own information are not acceptable. Also single source verifications, such as from superpages.com, yellowpages.com and searchbug.com are not allowed. If <u>all</u> other methods of obtaining third party verification have been exhausted, the borrower can provide letters from three clients indicating the type of service performed, length of time of business relationship, frequency of service, payment arrangements, etc. and support the income with current bank statements, deposits, etc. The underwriter must thoroughly investigate that the business, income and proof of business is legitimate. • For borrowers in the military, a military Leave and Earnings Statement dated within

	<p>30 days prior to the note date is acceptable in lieu of a verbal verification of employment</p> <ul style="list-style-type: none"> • For borrowers with employment contracts, borrowers must begin employment prior to loan closing and a paystub must be obtained from the borrower that includes sufficient information to support income used to qualify the borrower, unless using Employment Contract option (see section below for requirements) • Amended tax returns must have been filed at least sixty (60) days prior to the earliest of the purchase agreement, initial credit report date, or mortgage application date, unless the changes made are non-material to the amount of income claimed, and qualification for the mortgage loan. When using the amended returns if filed within sixty (60) days to the earliest of the purchase agreement, initial credit report date, or mortgage application date, or after, the Underwriter must provide justification and commentary regarding its use, including that borrower does not require use of amended income for qualification. Regardless of when the amended returns were filed, due diligence must be exercised with close examination of the original, and amended returns, to determine if the use of the amended return is warranted and the following documentation should be reviewed when income from the amended return is required: A letter of explanation regarding the reason for the re-filing; evidence of filing (must be validated with a record of account (4506-C results); copy of the original 1040; any extensions filed, and evidence of payment of the taxes due, and the ability to pay, if the check has not yet cancelled. A payment plan is not allowed for amended returns. • Paystubs must be dated no earlier than 30 days prior to the initial loan application date. • Paystubs must be computer generated (typed) and clearly identify the borrower as the employee, the employer' name and all necessary information to calculate income, including gross year-to-date earnings, base salary with pay period specified, and must clearly specify the employer's name. Handwritten pay stubs are acceptable if a written VOE completed in its entirety is provided. • IRS W-2 forms must computer generated (typed) and clearly identify the Borrower, Borrower's address, social security number and employer's name. • Requires standard income documentation per Fannie Mae guidelines for child support, alimony and separate maintenance payments or retirement income when using that income to qualify. • Tax transcripts are allowed to take the place of a tax returns when they are required as long as you are meeting Fannie Mae's requirements, as outlined in sections B3-3.1-06 and B3-3.2-01 of Fannie Mae's Seller Guide. • Self-employed borrowers must provide at least page 1 and 2 of tax returns • If AUS allows for VOD only (no bank statements), allowed for owner occupied and second home transactions only. Investment properties must also provide bank statements. • A signed IRS 4506-C is required at application and at closing. • Letter of explanation for all inquiries in the past 90 days is required • Photo ID not required for file • Provide a written analysis of the income used to qualify the borrower on the Transmittal Summary or like document(s) in the file. An Income Analysis must be completed for self-employed borrowers.
FANNIE MAE'S DAY 1 CERTAINTY	<ul style="list-style-type: none"> • Not allowed
DOCUMENT EXPIRATIONS	<ul style="list-style-type: none"> • Credit documentation must not be more than 120 days old from the note date • Residential appraisal reports must be dated no more than 12 months prior to the note date but if over 120 days from note date, update within 120 days of note date is

	<p>required.</p> <ul style="list-style-type: none"> • Preliminary Title policy must be no more than 90 days when the note is signed • Bank statements cannot be dated more than 45 days prior to the date of the loan application • Paystubs must be dated no earlier than 30 days prior to the initial loan application date
AUTOMATED UNDERWRITING	<ul style="list-style-type: none"> • This product must use DU for the findings • The last AUS finding, which must match the terms of the loan, must be in the loan file. For all loans, the first submission to the AUS must occur prior to the note date (it cannot be the same as the note date.) • There are no restrictions on loans being switched from LPA to DU. An Accept/Eligible from the other AUS that it was submitted through is NOT required. This product requires a DU approval. • For loans that are initially submitted to Fannie Mae’s Desktop Underwriter (DU) but are then changed to be underwritten and delivered with a Freddie Mac Loan Product Advisor (LPA), the DU case file ID needs to be removed from system so that the Fannie Mae’s information is not delivered in the automated upload (Uniform Closing Dataset (UCD)). Conversely, if the loan starts as Freddie Mac LPA and gets changed to Fannie Mae DU, the Freddie Mac data should be removed. For instance in the Transmittal Summary screen, the Risk Assessment should be updated so that if LPA is used the AUS Recommendation and DU Case ID should be removed and should reflect the LPA recommendation and AUS Key # and vice versa. As a reminder, this product must use DU.
DESKTOP UNDERWRITER® (DU)	<ul style="list-style-type: none"> • Must receive an Approve/Eligible determination. • All conditions outlined in the Findings Report must be satisfied. • If DU returns findings for RefiNow and loan is being underwritten as a standard limited cash out refinance (rate/term) and not a Refi Now, must instruct DU to underwrite a loan casefile that may be eligible as RefiNow as a standard limited cash out refinance. To flag the loan as a standard LCOR, must complete the following in FT360: Go to the 1003 URLA – Lender input form. Scroll down to the Loan Features section and select the check box for “Other” (Field URLA.X242) and enter Standard LCOR in the description to opt out of RefiNow. When this is completed, the loan casefile will not be underwritten as RefiNow. If using the RefiNow option, must use the RefiNow product code/product profile.
LOAN PRODUCT ADVISOR (LPA)	<ul style="list-style-type: none"> • Not allowed • Formerly known as Loan Prospector (LP)
PROPRIETARY U/W ENGINE	<ul style="list-style-type: none"> • N/A
MANUAL UNDERWRITING	<ul style="list-style-type: none"> • Not Allowed.
DU EARLY CHECK	<ul style="list-style-type: none"> • Fannie Mae’s EarlyCheck must be run at final loan approval/clear to close, and all findings must be review to ensure accuracy and all fatal errors must be corrected.
ELIGIBLE PROPERTY TYPES	<ul style="list-style-type: none"> • Single Family Residence • Modular Homes • 1-4 Units (attached and detached) • Warrantable Condos Attached and Detached (see section below) • PUDs Attached and Detached
INELIGIBLE PROPERTY TYPES	<ul style="list-style-type: none"> • Hawaii properties in lava zones 1 and 2 • Hawaii Homeland Leasehold properties • Leaseholds • Mobile homes • Manufactured Homes

- Log Homes
- Condo Conversions
- Historical properties
- Mixed-Use properties
- Condotels
- Properties with deed restrictions (except Age Restricted Properties, see section below)
- Mixed-Use (see below for properties with business use per tax returns or appraisal)
- Co-ops
- Geodesic dome
- Earth or Geothermal homes
- Community Land Trusts
- Non-Warrantable Condos
- PUD hotel/motel/resort type projects
- Condominium hotel/motel/resort type projects
- Properties in a flood zone that do not participate in the National Flood Insurance Program
- Land Trusts (including Illinois Land Trust)
- Working farm, ranch, or orchard
- Assisted Living/Group Homes
- Houseboats
- Investment Securities
- Properties not suitable for year-round occupancy
- Property without full utilities installed to meet all local health and safety standards
- Property used for commercial or industrial purposes
- Tax-sheltered syndicate
- Timeshares
- Unimproved land
- Common Interest Apartments
- Properties that do not meet local health and safety standards
- Multi-family dwellings over 4 units
- Commercial properties
- Properties currently in litigation
- Properties rated with Condition Rating of C5/C6 or Quality Rating of Q6
- Indian land (leased or fee simple)
- vacant land or land development properties
- properties that are not readily accessible by roads that meet local standards
- on-frame modular construction
- units in condo or co-op hotels
- boarding houses
- bed and breakfast properties
- Short-Term Rentals such as Air BNB:
 - Owner Occupied 1 Unit: Allowed when a separate room/unit in the borrowers primary residence is listed on AirBNB, as long as it meets all agency property eligibility requirements. If the room/unit is determined to be an ADU/Accessory unit (has a kitchen/bathroom/separate entrance independent of the primary dwelling), then ADU requirements would need to be met. Must meet all local ordinances/laws and must be of legal use. Any income generated from the separate room/unit may not be used in qualifying.
 - 2-4 Units or NOO: Allowed. If using rental income to qualify, must meet all

	<p>agency property eligibility, and rental income requirements for short-term rentals.</p> <ul style="list-style-type: none"> • Properties that have a Property Assessed Clean Energy (PACE) loan are not eligible (such as the Home Energy Renovation Opportunity (HERO) Program) unless the lien will subordinate via a subordination agreement where the lien is no longer part of the property taxes that can take first lien priority (note, the HERO subordination agreement does not provide for this and is not eligible) and meets all Agency requirements • Builder Model Leaseback when used as leasing office/commercial space • Properties with Manufactured Home Accessory Dwelling Units
DEED RESTRICTED PROPERTIES	<ul style="list-style-type: none"> • "55 and Older" restricted properties only • Primary residence, second home or non-owner occupied properties allowed • 1-2 units only (1 unit only for second home) • Full appraisal required
PROPERTIES WITH BUSINESS USE	<ul style="list-style-type: none"> • Dwellings that the borrower occupies as a principal residence that has any business in the home as indicated on the tax return or appraisal may be eligible with the following restrictions: <ul style="list-style-type: none"> • The business use is a home office only and not a commercial type of business or a business with clientele that visits the home office • Room layout must be residential in nature and be appraised as a residential real estate • The business use of the property represents a legal, permissible use of the property under the local zoning requirements. • May not be considered a multi-use property per Fannie Mae
PRIVATE TRANSFER FEE COVENANTS	<ul style="list-style-type: none"> • A Private Transfer Fee, as defined by FHFA, is a fee that may be attached to real property by the owner or another private party - frequently the property developer - and provide for a transfer fee to be paid to an identified third party - such as a developer or its trustee - upon each resale of the property. The fee typically is stated as a fixed amount or as a percentage of the sales price, and often exists for a period of 99 years. • Private transfer fees paid to the following to benefit the property are eligible: Homeowner Associations, Condominium Associations, Certain tax-exempt organizations that use private transfer fee proceeds to benefit the property. • Any property with unallowable private transfer fee covenants are ineligible if they are encumbered by private transfer fee covenants if those covenants were created on or after February 8, 2011, unless permitted by the Private Transfer Fee Regulation. • See FNMA/FHLMC seller guide for additional information
COMMUNITY DEVELOPMENT DISTRICT (CDD)	<ul style="list-style-type: none"> • Allowed, must meet any agency requirements in regards to special assessment districts
PROPERTIES WITH UNEXPIRED REDEMPTION RIGHTS	<ul style="list-style-type: none"> • Not allowed
PROPERTIES WITH GAS, OIL AND/OR SUBSURFACE MINERAL RIGHTS	<ul style="list-style-type: none"> • Outstanding oil, gas, water, or mineral rights are acceptable if commonly granted by private institutional mortgage investors in the area where the Mortgaged Premises are located, and: • The exercise of such rights will not result in damage to the subject property, or impairment of the use, or marketability of the subject property for residential purposes, and there is no right of surface, or subsurface entry within 200 feet of the

	<p>residential structure, or</p> <ul style="list-style-type: none"> • There is a comprehensive endorsement to the title insurance policy that affirmatively insures the lender against damage, or loss, due to the exercise of such rights.
<p>CONDOS</p>	<ul style="list-style-type: none"> • All conventional loans must meet the requirements outlined in Lender Letter 2021-14, see section below (<i>Lender Letter (LL-2021-14) Regarding Condo Requirements for all Condo Review Types</i>) for additional information. • Project must be Fannie Mae approved project or warrantable under Fannie Mae guidelines. Determine if the project is listed as approved on the FNMA website (full PERS Approval, not conditional) – https://www.fanniemae.com/singlefamily/projecteligibility-review-service. <ul style="list-style-type: none"> • Proposed renovation work must be permissible under the bylaws of the homeowners’ association. • The renovation work is limited to the interior of the unit, including the installation of fire walls in the attic. • Written approval must be documented in the loan file. • Limited review is not permitted. A full review is required (see requirements below) • Investor will only accept new projects that meet the following requirements: <ul style="list-style-type: none"> • 1028/PERS unexpired Final Approval • Required insurance coverage • PRMG Warranty acknowledging unawareness of any change in circumstances since the project approval was issued that would result in the project not meeting Fannie Mae eligibility criteria • The project may not be in litigation. • Insurance allowed per Fannie Mae or Freddie Mac requirements. For Fannie Mae, see Seller Guide Subpart B7; for Freddie Mac, see Seller Guide Section 8202 • For condos properties with an appraisal waiver, additional documentation must be provided to ensure the project is warrantable. For properties eligible for a limited review, this will generally require, at minimum, the PRMG HOA Limited Condominium Review Questionnaire to be completed (which is available on the Resource Center). For properties requiring a full review, a full HOA condo questionnaire as well as additional supporting documentation is needed (see full lender condo review section). Loan file must include total number of units in project and total number of units sold, regardless if review is waived. • The underwriter must complete the PRMG Attached PUD/Condo Warranty Form which can be found in the Resource Center, and that is the only document that should go to the investor. The underwriter should include the project information used for the condo review in the loan file, but it should not be sent to the investor with the closed loan file. Please use the Imaging label “Condo/PUD Review Supporting Documentation (Do not send to investor)” for this information.
<p><i>Lender Letter (LL-2021-14) Regarding Condo Requirements for all Condo Review Types</i></p>	<ul style="list-style-type: none"> • In alignment with Fannie Mae’s Lender Letter 2021-14, PRMG will be requiring the following for any condo project on all conventional loans: <ul style="list-style-type: none"> • Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. The lender must document the loan file with the following: (1) the reason for the special assessment; (2) the total amount assessed and repayment terms; (3) documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and (4) borrower qualification with any outstanding special assessment payment. • Regardless of review type, loans secured by units in any project with a CPM status of “Unavailable” are ineligible (PRMG to verify this through CPM)

	<ul style="list-style-type: none"> • Must meet all additional requirements outlined in Lender Letter, including reviewing to ensure projects do not have significant deferred maintenance and have not received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions (these items would make the project ineligible, regardless of review type) • Link to Lender Letter: https://singlefamily.fanniemae.com/media/29411/display • CPM Status: For any project that was approved by PRMG from a previous transaction, the underwriter must confirm the project status has not been changed to Unavailable in the CPM (for projects approved for the current transaction, that will be part of the approval process.) If it now shows as “Unavailable”, the project is no longer eligible and condoreviews@prmg.net must be notified with the updated information. • Title Report: For any project that was approved by PRMG from a previous transaction, the underwriter must confirm the title report does not contain items recorded against the HOA for deferred maintenance, city/county building code violations, etc. (for projects approved for the current transaction, that review will be part of the approval process.) If the title report reflects those type of items, the project may no longer be eligible and condoreviews@prmg.net must be notified with the updated information.
CPM/Full Lender Reviews	<ul style="list-style-type: none"> • When using a Full Lender Review, LTV/CLTV allowed to product guidelines in all states • Must be used if project has not been approved through PERS • CPM/Full Lender Reviews are only eligible when submitted by the fulfillment center or retail branch to condoreviews@prmg.net with the Condo Review Submission form and required documentation and an approval on the project is issued through Condo Reviews. • Request for CPM/Full Lender condo review should be submitted by the fulfillment center or retail branch when all required documentation has been obtained (loan does not have to be in an underwritten or approved status). • The Condo Review Submission form can be found on the Resource Center or at the following link: http://www.eprmg.net/ResourceCenter/GeneralForms/HOA%20Full%20Lender%20Condo%20Review%20Submission%20Form.pdf • When a CPM/Full Lender Review is used, the following documentation is required: condo review submission form (from Resource Center or above link), condominium questionnaire (from Resource Center, Condo Certs or similar), appraisal of subject unit (can be submitted after condo review is completed, but final project approval will not be issued until appraisal is received), current annual budget, insurance certificate for applicable types and AUS findings (showing approved); For New Construction or New Gut Rehab conversions only: all above listed documentation, copy of Declaration of Condominium including Amendments and Bylaws, presale form (available in the Resource Center)
FANNIE MAE (DU) DETACHED CONDO REVIEW REQUIREMENTS	<ul style="list-style-type: none"> • If the property is a detached condo (site condo) a review is not required
FANNIE MAE (DU) 2-4 CONDO REVIEW REQUIREMENTS	<ul style="list-style-type: none"> • If the property is a 2-4 Unit condo, a review is not required, however the following must always be met: <ul style="list-style-type: none"> • Standard Fannie Mae property eligibility requirements are met as described in Fannie Mae Seller Guide, section B2-3; • the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project • priority of common expense assessments as described Fannie Mae Seller Guide,

	<p>section B4-2.1-01,</p> <ul style="list-style-type: none"> • when an appraisal of the property is obtained, it must meet all applicable appraisal requirements as Fannie Mae Seller Guide, section B4-1 and • insurance requirements Fannie Mae Seller Guide, section B7, Insurance, including all provisions applicable to project in Subpart B7-4, Additional Project Insurance.
NON-WARRANTABLE CONDOS	<ul style="list-style-type: none"> • Not Allowed
CONDO IN MONETARY LITIGATION	<ul style="list-style-type: none"> • Condo projects may not be in litigation
PLANNED UNIT DEVELOPMENTS (PUDS)	<ul style="list-style-type: none"> • Detached PUDs are not subject to project review and information regarding the HOA such as project certs, letters from the HOA (with the exception of letter regarding ownership in regards the common elements, areas/facilities of a project for insurance purposes) must not appear in the file. • Insurance allowed per Fannie Mae requirements, sell Seller Guide Subpart B7 • Attached PUD lender reviews are performed by underwriter • A Lender Review on attached PUDs must be performed and PRMG must confirm that following in the process of the review: <ul style="list-style-type: none"> • The appraisal of the unit meets all appraisal requirements in Fannie Mae Seller Guide Chapter B4-1, Appraisal Requirements. • The individual unit securing the mortgage must be complete (PRMG does not allow for Postponed Improvements.) • The unit securing the mortgage satisfies all Fannie Mae's insurance requirements in Subpart B7, Insurance, including all provisions applicable to PUD projects in Seller Guide Chapter B7-4, Additional Project Insurance. • All PUD projects (attached and detached) must be in compliance with Fannie Mae's policy for priority liens (see B4-2.1-02, Ineligible Projects). • Note: Any unit located in a condo project within a larger PUD project or master association must meet the applicable requirements for condo projects. Attached PUD/Condo Warranty form is available in the Resource Center • Documentation, as determined by underwriter, to verify the attached PUD is warrantable is required and Attached PUD Warranty must be completed (if required by underwriter). • The underwriter must complete the PRMG Attached PUD/Condo Warranty Form which can be found in the Resource Center, and that is the only document that should go to the investor. The underwriter should include the project information used for the condo review in the loan file, but it should not be sent to the investor with the closed loan file. Please use the Imaging label "Condo/PUD Review Supporting Documentation (Do not send to investor)" for this information.
INELIGIBLE PROJECT TYPES PER FANNIE MAE'S SELLER GUIDE	<ul style="list-style-type: none"> • See Fannie Mae Seller Guide for additional information. The below information applies to all attached condo projects. With the exception of Priority of Common Expense Assessments, the restrictions below do not apply to attached or detached PUDs and detached condos. <ul style="list-style-type: none"> • Timeshare, fractional, or segmented ownership projects. • New projects where the seller is offering sale or financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but are not limited to, builder/developer contributions, sales concessions, HOA assessments, or principal and interest payment abatements, and/or contributions not disclosed on the settlement statement. • Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by

	<p>an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable.</p> <ul style="list-style-type: none"> • Projects that are managed and operated as a hotel or motel, even though the units are individually owned. (See Seller Guide for additional detail.) • Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower’s ability to utilize the property. (See Seller Guide for additional detail.) • Projects with property that is not real estate, such as houseboat projects. (See Seller Guide for additional detail.) • Any project that is owned or operated as a continuing care facility. (See Seller Guide for additional detail.) • Projects with non-incidentual business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See Seller Guide for additional detail and exceptions to this policy.) • Projects that do not meet the requirements for live-work projects. (See Seller Guide for additional detail.) • Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. (See Seller Guide for additional detail.) • Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae’s priority lien limitations. (See Fannie Mae Selling Guide Section B4-2.1-01, General Information on Project Standards for additional detail.) • Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project: projects with 5 to 20 units – 2 units; projects with 21 or more units – 20%; (See Seller Guide for additional detail.) • Multi-dwelling unit projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). (See Seller Guide for additional detail.) • The total space that is used for nonresidential or commercial purposes may not exceed 35%. (See Seller Guide for additional detail.)
MAXIMUM ACREAGE	<ul style="list-style-type: none"> • Maximum 40 acres • More than 10 acres require very strong comparables • More than 20 acres requires additional value review and close analysis by the underwriter. • Working farms, commercial operations, or any other income producing properties are not allowed. • The acreage of the subject property must be supported by similar comparables that are limited to strictly residential use. Excess land is unacceptable for inclusion in value (i.e. the subject is considerably larger than typical lots in the neighborhood and the excess is capable of separate use) • The appraiser must consider all acres of the subject property and the comparables must be of similar size.
MULTIPLE PARCELS AND TAX ID NUMBERS	<ul style="list-style-type: none"> • Each parcel must be conveyed in its entirety. • Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example,

	<p>waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.</p> <ul style="list-style-type: none"> • Entire property (including each parcel) must have the same basic zoning (for example; residential, agricultural). • Entire property (both Parcels combined) can only have one dwelling unit (limited nonresidential improvements such as a garage are acceptable). An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable. • The mortgage must be a valid first lien that covers each parcel.
<p>UNPERMITTED ADDITIONS</p>	<ul style="list-style-type: none"> • Allowed; however the unpermitted areas need to be “legalized” as the entire property needs to be legal and meet all code requirements. If an addition was not permitted, the proper permits would need to be obtained and the addition inspected and approved. • The subject addition complies with all Fannie Mae guidelines • The quality of the work is described in the appraisal and deemed acceptable (“workmanlike quality”) by the appraiser; • If the appraiser gives the unpermitted addition value, the appraiser should indicate the following in the appraisal: <ul style="list-style-type: none"> • Non-Permitted additions are typical for the market area and a typical buyer would consider the "unpermitted" additional square footage to be part of the overall square footage of the property. • The appraiser has no reason to believe the addition would not pass inspection for a permit.
<p>ACCESSORY UNITS</p>	<ul style="list-style-type: none"> • One-unit property with an accessory dwelling unit is eligible • Properties with Manufactured Home Accessory Dwelling Units are ineligible • An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property. • If the property contains an accessory unit, the property is eligible under the following conditions: <ul style="list-style-type: none"> • The property is one-unit. • The appraisal report demonstrates that the improvements are typical for the market and provide comparable sales if required by the agency. • For loans with DU approvals, the borrower qualifies for the mortgage without considering any rental income from the accessory unit. • If it is determined that the property contains an accessory dwelling unit that does not comply with zoning, the property is eligible under the following additional conditions: <ul style="list-style-type: none"> • The lender confirms that the existence will not jeopardize any future hazard insurance claim that might need to be filed for the property. • The use conforms to the subject neighborhood and to the market. • The property is appraised based upon its current use. • The appraisal must report that the improvements represent a use that does not comply with zoning. • The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have

	the same non-compliant zoning use.
CONSTRUCTION TO PERMANENT FINANCING	<ul style="list-style-type: none"> • Not allowed
OCCUPANCY	<ul style="list-style-type: none"> • Primary Residence (O/O), Second Homes (SH), Investment Properties (N/O/O).
PRIMARY RESIDENCE	<ul style="list-style-type: none"> • Owner occupied principal residence <ul style="list-style-type: none"> • At least one borrower must occupy the property as their principal residence within 60 days of signing the security instrument and intend to continue occupancy for at least one year. • Disabled Child/Elderly Parent Option <ul style="list-style-type: none"> • Property considered to be principal residence even though the borrower will not be occupying the property allowed with the following scenarios: <ul style="list-style-type: none"> • Parents/legal guardians wanting to provide housing for their physically handicapped or developmentally disabled adult child - If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent is considered the owner/occupant. • Children wanting to provide housing for elderly parents - If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant. • Acceptable documentation must be included in the loan file to support the transaction. This includes, but is not limited to, tax returns for the borrower which show the disabled adult child as a dependent or tax returns of the elderly parent(s) which documents insufficient income to qualify. • The disabled child or elderly parents are not required to be on title or on the mortgage. • “Elderly parents” are defined as parents who are not able to work or have insufficient income to afford a home on their own (no minimum age requirement). • When using the disabled child/elderly parent option, the disabled child or elderly parent must occupy the property as their principal residence within 60 days of the borrowers signing the security instrument and they must intend to continue occupancy for at least one year.
SECOND HOME	<ul style="list-style-type: none"> • Borrowers may not be affiliated with builder or developer of the property. • Must be suitable for year-round occupancy • May not belong to a rental pool • Rental income from the property is allowed to be reflected on the 1040s, as long as the income is not used for qualifying purposes, and all other Agency requirements for second homes are met. • Expenses relating to the borrower’s current primary residence must be used in calculating the borrower’s monthly housing ratio. Documentation of the primary residence housing expense must be provided. This includes borrowers who are currently renting or who own a primary residence.
NON-OWNER OCCUPIED	<ul style="list-style-type: none"> • Borrowers may not be affiliated with builder or developer of the property. • Minimum landlord history allowed per DU results • Rent loss insurance coverage is not required • Expenses relating to the borrower’s current primary residence must be used in calculating the borrower’s monthly housing ratio. Documentation of the primary residence housing expense must be provided. This includes borrowers who are currently renting or who own a primary residence. • All required minimum down payment plus all prepaids, escrow items and reserves are from borrower’s own cash. No gift funds allowed. • See Negative Cash Flow and Landlord Experience Sections for additional information.

ELIGIBLE BORROWERS	<ul style="list-style-type: none"> • U.S. Citizens, Permanent and Non- Permanent Resident Aliens, Non-Occupying Co-Borrowers. • A maximum of 4 borrowers per loan application is allowed. • ITIN (Individual Tax Payer Identification Numbers) are not allowed, must have a social security number • Borrower must take title in individual names, no trusts, etc. allowed • Life estates are not eligible for financing. A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs • Illinois Land Trust Vestings are not eligible • Registered Domestic Partners are treated the same as spouses • The borrower must permanently reside in the United States. In addition, an accurate and successful AUS submission requires the borrower currently reside in the U.S. and have a U.S. address or an APO military address within the U.S. for active deployed military, regardless of citizenship. Adequate documentation must be provided to substantiate such residency in the U.S. • No irrevocable trusts, enhanced life estates (AKA Lady Bird Deed), corporations, LLCs, etc. allowed
PERMANENT RESIDENT ALIENS	<ul style="list-style-type: none"> • Allowed with proof of lawful permanent residence • Must obtain documentation to verify that a non–U.S. citizen borrower is legally present in the United States. • Must make a determination of the non–U.S. citizen’s status based on the circumstances of the individual case, using documentation as deemed appropriate. • Non–U.S. citizen borrower must be legally present in the United States • Borrowers with diplomatic immunity are not eligible • Must have a social security number
NON-PERMANENT RESIDENT ALIENS	<ul style="list-style-type: none"> • Non-permanent residents allowed • Must obtain documentation to verify that a non–U.S. citizen borrower is legally present in the United States. • Must make a determination of the non–U.S. citizen’s status based on the circumstances of the individual case, using documentation as deemed appropriate. • Acceptable documentation of their work authorization is: <ul style="list-style-type: none"> • An unexpired Employment Authorization Document (EAD) by the USCIS, or • An unexpired visa. Eligible types are E-1, G series, H series, or TN. • If the authorization for temporary residency will expire within one year of closing and a prior history of residency status renewals exists, continuation may be assumed. If there are no prior renewals, the likelihood the authorization will be renewed must be determined based on information received from the USCIS. • Non–U.S. citizen borrower must be legally present in the United States • Borrowers with diplomatic immunity are not eligible • Must have a social security number • Borrowers under the Dreamer’s Act or DACA (EAD Code C33) are not eligible. Although, these individuals may have been granted permission to remain in the U.S. for a period of time, DACA does not grant a legal status. PRMG requires all borrowers to document proof of legal residency in the U.S. Additionally, they must follow the applicable guidelines for income (typically 2 year history and likely to continue for 3 years as applicable.) A borrower with DACA status would not be able to meet the borrower eligibility documentation requirements (i.e., green card or meet applicable agency standard guidelines for income) and therefore is not be eligible.
FOREIGN NATIONALS	<ul style="list-style-type: none"> • Not Allowed
NON OCCUPYING CO-	<ul style="list-style-type: none"> • Non-occupant co-borrowers are allowed.

BORROWERS	<ul style="list-style-type: none"> • Maximum LTV/CLTV, and HCLTV is 95%. • No separate calculation of the DTI ratio for the occupying Borrower will be required, as the DTI will be based on the income and liabilities of all borrowers on the mortgage loan.
FIRST TIME HOMEBUYERS	<ul style="list-style-type: none"> • Allowed • For first time homebuyer purchasing an investment property, the full PITI on the subject property must be included in the Borrower's qualifying debt-to-income ratio, and Rental income from the subject property may not be included as qualifying income or as an offset to the PITI, regardless of documentation provided (i.e. 1007, lease agreement, etc.).
NOTARY	<ul style="list-style-type: none"> • The notary cannot have direct financial interest in the loan (which would include loan officer, processor, branch manager, realtor, etc.)
POWER OF ATTORNEY	<ul style="list-style-type: none"> • Power of Attorney must be reviewed and approved by fulfillment center Operation Manager/Funding Manager/Funding Supervisor • Allowed with the following requirements: <ul style="list-style-type: none"> • Allowed for active duty military personnel, military contractors, extenuating circumstances, and documented medical conditions only. • Power of Attorney (POA) must be limited or specific to the transaction • Purchase or rate and term only allowed • Power of Attorney may not be used to sign loan documents if no other borrower executed such documents unless, the Attorney in Fact is a relative or Attorney at Law. • POA can be used only for closing documents • The attorney-in-fact may not be the seller, appraiser, broker, etc. or have any other direct or indirect financial interest in the transaction • A statement that the POA is in full force and effect on the closing date, survives subsequent disability (durable), and has to be revoked in writing, or gives a specific expiration date which survives the closing date • A statement of the borrower's name exactly as it will appear on all closing documents • Notarized signature of borrower (if executed outside the U.S., it must be notarized at a U.S. Embassy or a military installation) • Recorder's stamp, if previously recorded • The attorney-in-fact must execute all closing documents at settlement • Title policy must not contain any exceptions based on use of POA • POA must be recorded along with or immediately prior to the closing documents • If a lender determines a Power of Attorney is required by applicable law (so cannot be restricted by investor requirements), lender must include a written statement explaining use of the Power of Attorney and may also be required to provide supporting documentation. • A written statement that explains the circumstances of the use of the POA must be included in the loan file. • Must met all Agency requirements
LEXIS-NEXIS SEARCH REQUIREMENT	<ul style="list-style-type: none"> • For any of the following transaction types an email request (which includes a screenshot or snip of the loan in the FastTrac pipeline) must be sent to QC to have a LexisNexis search run on involved parties to the transactions to ensure there is no relationship between the buyer and seller. (Not all items listed may be applicable to this product, review product profiles for what is allowed). • Please note, Lexis-Nexis not required in the following cases: <ul style="list-style-type: none"> • When the seller is an investor, such as HUD, FNMA, FHLMC, etc. • When the seller is an REO lender who acquired the subject property by Trustee

	<p>Sale as the Beneficiary.</p> <ul style="list-style-type: none"> • When there is a relationship that is disclosed, such as the borrower and seller being related or a tenant and landlord relationship, and you already know it is acceptable per PRMG guidelines. <ul style="list-style-type: none"> • Property is new construction • LexisNexis is required for: <ul style="list-style-type: none"> • All short sales • All conventional purchase loans using Freddie Mac’s Automated Collateral Evaluation (also known as ACE or an appraisal waiver) • All contractors involved in a renovation loan with PRMG. <ul style="list-style-type: none"> • In addition, LexisNexis can be requested any time an Underwriter feels it will assist with clearing a questionable area in the loan file. It will also provide evidence in FastTrac imaging that the additional due diligence was taken when additional support is necessary to reinforce that a sound underwriting decision has been made.
<p>QC AUDIT REQUIRED</p>	<ul style="list-style-type: none"> • For the Retail, Wholesale, and Non-Delegated Correspondent channels, a QC audit is required if the loan has any of the following high risk characteristics (not all items listed may be applicable to this product, review product profiles for what is allowed): <ul style="list-style-type: none"> • 5-10 financed properties for Second Home and Investment transactions. • All 3-4 unit properties. • All 2-4 unit purchase properties located in the State of New Jersey. • Renovation Loans (203k/Homestyle) - Not Required if credit approval is obtained by investor • When the borrower is currently employed by a party to the transaction or is a part of the transaction. Samples of this are when the borrower is employed by the Mortgage Broker, Settlement Agent, Title Company, Realtor’s Office, the borrower is the Real Estate Agent, is the Settlement Agent, Title Officer, etc. • When the Real Estate Agent is also the Loan Officer on the transaction (Wholesale channel only; not allowed under the Retail channel). Note: Only a few of our products allow this type of relationship. Please check the applicable product profile for your transaction to confirm it is allowed. • Any loan originated through the Wholesale and Non-Delegated Correspondent Channels that has a VOE only as Verification of Employment/income (No paystubs or W-2’s in the loan file) requires a VOE revalidation and a full pre-funding QC audit if any portion of the income verified from that source is not validated through Day 1 Certainty. If all income verified from that source is validated through Day 1 Certainty then the VOE revalidation and pre-funding QC audit are not required. • Any loan originated through the Wholesale and Non-Delegated Correspondent Channels that has a VOD only as Verification of Deposit/Assets (No bank statements in the loan file) requires a VOD revalidation unless all borrower assets verified from that source are validated through Day 1 Certainty. If all borrower assets verified from that source are validated through Day 1 Certainty then the VOD revalidation is not required. • If you receive an error message when attempting to run the loan through DataVerify and there are too many REOs to get a clear report (over 30 REO properties would create this error). • NOTE: The above list applies to credit qualifying and non-PRMG Employee loans only. • For the Delegated Correspondent Channel: <ul style="list-style-type: none"> • A QC Audit is not required unless the Correspondent was put On Watch by the

	<p>Compliance Audit Team and Senior Management</p> <ul style="list-style-type: none"> • VOD & VOE re-verification is still required • LexisNexis Requirements still apply and is still required • QC Requirements subject to change <p>• A QC audit may be required for non-loan level reasons as well, please refer to Loans Requiring Pre-Funding QC Audits document in the Resource Center for complete QC Audit requirements: http://www.eprmg.net/ResourceCenter/QualityControlInformation/LoansRequiringPre-FundingQCAudits.pdf</p>
<p>QC REVALIDATION REQUIRED</p>	<ul style="list-style-type: none"> • A QC validation is required if the loan has any of the following characteristics (not all items listed may be applicable to this product, review product profiles for what is allowed): <ul style="list-style-type: none"> • A revalidation of the VOE (in addition to the audit) is required by the QC Department if the following is used: <ul style="list-style-type: none"> • VOE only used (when allowed by AUS) and not supported by paystub/W2 and • Wholesale and Correspondent channels only (not required for retail channel) • A revalidation of the VOD is required by the QC Department for the if the following is used: <ul style="list-style-type: none"> • VOD only used (when allowed by AUS) and not supported by bank statements and • Wholesale and Correspondent channels only (not required for retail channel) • Note: A Borrower Authorization in name of PRMG may be required to obtain VOD or VOE revalidation if requested by the verifying institution.
<p>INCOME REQUIREMENTS/LIMITS</p>	<ul style="list-style-type: none"> • Underwriter has the discretion when evaluating the loan file to utilize a more conservative approach to income/expenses for qualification purposes based on the circumstances of the loan. • All income sources used to qualify borrowers must be legal at the local, state, and federal level. Any income derived from an activity or source that violates Federal, state, or local laws cannot be considered for loan qualification for both self-employed borrowers and wage earners working for a company. • Fannie Mae requires that if the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of adequate business liquidity to support the withdrawal of earnings is required in order to include that income in the borrower's cash flow. If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the business has adequate liquidity using the Quick (Acid Test) Ratio (for businesses that rely heavily on inventory to generate income) or the Current (Working Capital) Ratio to support the withdrawal of earnings to include the income in the borrower's cash flow and the result of one or greater for either ratio is generally sufficient to confirm adequate business liquidity. The file must contain the underwriter's written analysis and conclusions and, at underwriter's discretion additional documentation (such as a CPA letter or bank account statements) to support the liquidity decision. The analysis must provide enough detail/support so that anyone reviewing the file would come to the same conclusion. See Fannie Mae seller guide for additional guidance. • When required to verify a self-employed borrower's business is solvent in order to use the business income to qualify and the Schedule L on the business tax returns is not completed, additional documentation will be required to support solvency of the business. Documentation may include P&L, balance sheets, business bank statements and business credit report. Specific documentation will be determined

at underwriter's discretion.

- Distributions from an investment (non-employment/non-retirement related) account are not an acceptable source of income but dividends earned from those investment accounts and reported on the 1040s are an acceptable source of income.
- For borrowers with rental income, if a lease agreement is required then the lease agreement must be executed by the landlord and the tenant and all pages of the lease agreement must be included.
- Housing or Parsonage Allowance must be received for 12 months and be likely to continue for the next three years.
- Future income (Employment Contracts) not allowed
- Housing Assistance Payments (HAPs), which are often known as Section 8 Homeowner Vouchers, where a portion of the mortgage payment is paid directly to the borrower/lender as a subsidy for the mortgage payment on the subject property is not allowed.
- Section 8 rents where borrower is paid a rent subsidy for other tenants from the government for the property (either for rents on units 2-4 on subject property or on other rental property) is allowed. Must have documentation of new executed leases, or lease addendums to the new owner and to show that the Section 8 income will transfer to the new owner. Additionally there may be no obligation to the servicer to receive the Section 8 funds. Borrowers must follow standard guideline requirements to determine if rents are allowed to be used for qualifying.
- When the borrower has less than a two-year history of receiving income, the underwriter must provide a written analysis to justify the determination that the income used to qualify the borrower is stable.
- For all subject investment properties and all 2-4 unit primary residences, when rental income is not used to qualify, the gross monthly rental income for each unit must be documented with one of the following:
 - If the property is currently rented: Form 1007, Form 1025, or Current Lease Agreement(s)
 - If the property is not currently rented: an opinion of market rents by the appraiser or borrower to provide the gross monthly rent being charged or to be charged for the property. Monthly rental amounts must be stated separately for each unit. The disclosure from the borrower must be in the form of a written statement from the borrower or an addition to the loan application
- If the borrower is employed by the property seller, real estate broker, relative or a family business, the following documentation must be obtained:
 - Must comply with identity of interest requirements
 - Documentation as required by AUS
 - Borrower's signed and completed personal federal income tax returns for the most recent two year period.
 - A 4506-C must be included in the submission package requesting the most recent 2 years tax transcripts and will be processed for comparison between tax transcripts and income documentation. A 4506-C must be signed at application and at closing.
 - Note: Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable.
- Foreign Income: Foreign income (income generated from non-U.S. sources) may be used only if its stability and continuance can be verified, and is supported by a signed 4506-C and 2 years U.S. Federal Tax Returns along with standard documentation

	<p>required to support income. If the income is paid in a foreign currency the file must contain a printout evidencing the source used for the conversion of the foreign currency into U.S. dollars. The income must also be verified in the same manner as U.S. income sources. Regardless of AUS findings, if foreign income is from business income the business tax returns cannot be waived.</p> <ul style="list-style-type: none"> Income from gambling should be documented with 2 years tax returns, documented YTD earnings (i.e., 1099 or formal receipt from casino and income must be in line with prior gross income), proof of deposit of YTD earnings (i.e., bank checking/savings statements), CPA letter supporting how borrower earns income. Underwriter to exercise caution and carefully review for itemized deduction for gambling losses (typically shown on the 1040 Schedule A). Any reported gambling loss would need to be considered in the income analysis. Tax transcripts should be obtained for each tax year. Underwriter must document rationale for using current income if there is a variance. Gambling winnings/earning may only be used if borrower is a self-employed professional gambler, and self-employed income documentation requirements are followed, (gambling income will typically be filed on a schedule C). Teacher Income: when a borrower is employed as a teacher, the annual salary must be verified. If monthly or weekly base pay is provided, the employer must verify the number of pay periods per year if the payout is not clear or the income must be averaged based on the most recent W-2 over 12 months. 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 a copy of contract, written verification of employment, and verbal verification of employment. Borrowers with a contract for their first year of employment with the school district must be on the job prior to closing. For teacher income paid over a less than 12 month period and obtaining financing during the summer months when income is not being received, provide a final year-end paystub from the school, verbal verification of employment, and copy of the contract indicating that the borrower is paid over a the applicable number of month period. Qualify the borrower based on the income received on the final year-end paystub.
FUTURE INCOME/ EMPLOYMENT CONTRACTS/ EMPLOYMENT OFFERS	<ul style="list-style-type: none"> Not allowed
HOMEBUYER EDUCATION	<ul style="list-style-type: none"> Effective for casefiles submitted to DU, at least one borrower must complete homebuyer education for the following transactions: <ul style="list-style-type: none"> if all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of the loan product or whether the borrowers are first-time home buyers (no change to current requirement); HomeReady purchase transactions when all occupying borrowers are first-time homebuyers, regardless of the LTV ratio; or purchase transactions with LTV, CLTV, or HCLTV ratios greater than 95% when all borrowers are first-time homebuyers.
CREDIT	<ul style="list-style-type: none"> See COVID-19 Overlay section for additional requirements. Use underwriting guidelines as per DU recommendation; with the derogatory credit seasoning as it appears in the Derogatory Credit section in this profile The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted. Must always use Credit Decision Score for pricing. Must use Credit Decision Score for eligibility when a score requirement applies in the scenario (manufactured homes, No MI (Lender Paid MI), 7-10 financed properties, etc.). Credit Decision

Score is the lowest of the scores from all borrowers based on middle of three bureaus, lowest of two bureaus (if only two scores are available), or single score (if only one score is available). Must input value (Credit Decision Score) into the Credit Score for Decision Making field in the Borrower Summary (PRMG) screen in FT360 as well as in the credit score field in OB when pricing.

- If the borrower's credit report contains a FACTA credit alert, the completed Fraud Alert Confirmation form must be in the file (available via Resource Center).
- All borrowers must have a qualifying credit score from at least 1 national repository.
- Borrower must have sufficient credit experience, as determined by underwriter review, to ensure scores are reflective of borrower's credit history
- Use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score for purposes of loan eligibility, pricing improvement, and/or creditworthiness is prohibited. Legitimate scenarios when corrections to a borrower's credit profile are required (e.g., public records information does not belong to the borrower) are acceptable. Corrections to the borrower's credit profile should be made at the credit repository level to ensure the credit score is representative of a borrower's true creditworthiness.
- Non-traditional credit is not allowed
- Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, home equity lines of credit, land without improvements, mobile homes, and manufactured homes are considered mortgage credit, even if reported as an installment loan.
- If the subject property is a restructured (modified) mortgage loan (in which the terms of the original transaction had been changed, resulting in the forgiveness or restructure of debt through a modification or origination of a new loan) it is eligible for a refinance with no additional seasoning requirements.
- MERS search must be run on borrower
- Credit documentation must not be more than 120 days old from the note date
- For disputed accounts, follow DU Results
- In addition to other listed requirements regarding disputed accounts, if a disputed account is a borrower's verified previously delinquent mortgage trade line, which may affect the credit decision of the AUS, information regarding the dispute must be obtained. The underwriter must verify that the AUS is considering the previously delinquent mortgage in the credit decision. If it is unclear if the previously delinquent mortgage is being considered (and based on underwriter discretion, the delinquent mortgage may impact the credit score/AUS decision), the dispute should be removed at the bureau level, credit report re-run to reflect accurate credit message without dispute, and the AUS re-run to include account in the AUS decision. For instance, a zero balance where the last activity is more than 3 years prior to the credit report date may be determined by the underwriter to not require the dispute to be removed
- Borrowers with a housing payment history, including mortgage and/or rental payment history, showing excessive delinquencies (60 day or greater late in the past 12 months) are not eligible.
- Existing mortgages must be current.
- On the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date. Otherwise, the payment history must be updated with a credit supplement, mortgage payment statement, pay off statement, or other documentation approved by the Underwriter to document the mortgage is current at the time of closing.

	<ul style="list-style-type: none"> • If a borrower has purchased or refinanced their current primary residence in the last 12 months and is retaining the residence they are not eligible for a purchase transaction on a new primary residence without a letter for explanation from the borrower, Corporate Underwriting, Underwriting Supervisors, Regional Underwriting Management or Operations Manager review and approval of the circumstances unless the existing lender has agreed to allow the borrower to purchase a new primary residence. • All private non-construction mortgages require cancelled checks or proof of payment for 12 months or for the number of months the mortgage has been open if less than 12 months • Delinquent credit—including taxes, judgments, charged-off accounts (see below for exceptions), tax liens, mechanics’ or materialmen’s liens, and liens that have the potential to affect first lien position or diminish the borrower’s equity—must be paid off at or prior to closing, with the exception of the collection/charged-off accounts as listed below. • If a judgment or tax lien is being paid off and AUS/Agency Guidelines are requiring proof of satisfaction or if it is paid off prior to closing, evidence the judgment is satisfied or the tax lien has been released is required. If the AUS/Agency Guidelines will allow a judgment or tax lien to be paid off with the transaction all AUS/Agency Guidelines must be met (i.e., must be paid through the transaction and funds must be verified and documented). • For past-due collection and charge-off accounts, always comply with AUS requirements. Additionally, accounts that are reported as past-due (not reported as collection accounts) must be brought current. If any lien threatens the first trust deed position it must be satisfied
TRADELINE REQUIREMENTS	<ul style="list-style-type: none"> • Per AUS • Nontraditional credit is not allowed
DEROGATORY CREDIT	<ul style="list-style-type: none"> • Bankruptcy – Chapter 7 or 11: 4 years from discharge or dismissal date to credit report date used in the AUS decision (or loan disbursement date if allowed in AUS findings) • Bankruptcy – Chapter 13: 2 years from discharge date to credit report date used in the AUS decision and 4 years from dismissal date to credit report date used in the AUS decision (or loan disbursement date if allowed in AUS findings) • Multiple Bankruptcy Filings: 5 years from discharge or dismissal date to credit report date used in the AUS decision (or loan disbursement date if allowed in AUS findings) if more than one filing within the past 7 years • If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Documentation must be provided to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy. <ul style="list-style-type: none"> • If the loan casefile receives a Refer with Caution recommendation due to a foreclosure identified by DU as taking place in the last seven years, the account was one discharged through a bankruptcy, and the bankruptcy waiting period requirements have been met, the user may instruct DU to disregard the foreclosure information. This would be done by entering “Confirmed CR FC Incorrect” in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. The user must then document that the mortgage was discharged through the bankruptcy and that the applicable bankruptcy waiting period requirements have been met. • Borrower must provide evidence of mortgage being discharged through bankruptcy, such as the Discharge of Debt document that would be received by

	<p>the borrower from the court and it must show the mortgage included in the discharged debt.</p> <ul style="list-style-type: none"> • Foreclosure: 7 years to credit report date used in the AUS decision (or loan disbursement date if allowed in AUS findings) • Deed-in-Lieu of Foreclosures, Preforeclosure sale and Short Sale: 4 years from to credit report date used in the AUS decision (or loan disbursement date if allowed in AUS findings) with LTV ratios per eligibility matrix • Loan Restructure/Modification in Credit History (Not Subject Property): Eligible with no additional seasoning requirements. • Loan Restructure/Modification (Subject Property): See section below • Extenuating circumstances are not allowed to be used in credit decisions • Borrowers who are on title only to a property (not on the note) that has a major derogatory credit event (i.e. foreclosure) are not subject to seasoning on that event
LDP/GSA REQUIREMENT	<ul style="list-style-type: none"> • All parties involved with and who handle the loan file (see instructions in the Resource Center for additional information) must be checked against HUD’s Limited Denial of Participation (LDP) list at • https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp and the General Services Administration’s (GSA) Excluded Party List at • https://www.sam.gov/portal/public/SAM/ • Any entity noted on either of the LDP and GSA lists must be removed from the transaction or will cause the loan to be ineligible. • The parties to verify include, but are not limited to, Buyers (including AKAs on the credit report), Sellers, Loan Officer, Buyers Agent, Sellers Agent, Escrow Officer, Title Officer, Appraiser, Processor, and Underwriter.
RATIOS	<ul style="list-style-type: none"> • More restrictive of DU or maximum 50% DTI • Blended ratios including non-occupant co-borrower allowed with DU
QUALIFYING	<ul style="list-style-type: none"> • Minnesota Properties: All ARMS qualify at the greater of the product’s qualifying requirement or the loans fully indexed fully amortized rate • Fixed: Qualify at the fully amortized payment (PITIA) at the note rate. • To calculate DTI for loans with subordinate HELOCS (for all properties): If there is a balance, use the payment that is reflected on the credit report. If not shown on the credit report, payments on a HELOC with an outstanding balance may be calculated using the terms of the note (for new financing) or the payment reflected on the borrower’s billing statement. If there is no balance, a payment does not need to be included. If the subject property will have a HELOC that will have a draw taken with the transaction, obtain a copy of the note or other documentation to determine what the payment will be at close and use that for qualifying. • Paying off revolving debt to qualify is allowed. The debt includes any revolving debt (including American Express) that is being paid off and not included in the ratios. Account must be paid in full prior to or at closing and documentation must be provided evidencing repayment. Source of funds must be documented (proceeds on a cash out transaction are acceptable.) Accounts are not required to be closed. • Installment debt may be paid down to qualify, but overall use of credit and credit history must be closely evaluated. • Installment debt with less than 10 months remaining does not need to be included in ratios unless the payment may affect the borrower’s ability to meet their credit obligations after closing, with additional consideration if the borrower has limited or no cash after closing. (Lease payments are not considered installment debt and must be included in the ratios.) • Lease payments must be included in the ratios regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental

housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house. In general, you cannot pay off the lease to qualify and the payment must be included in the ratios. However, an auto lease payment can be omitted from the ratios if it has been paid and closed and there is evidence of the borrower has another vehicle (evidence and documentation to show this must be in the loan file and if the borrower still has the vehicle in their possession the lease is not considered closed and the payment cannot be excluded).

- Deferred Loans: Loans deferred or in forbearance are always included in the loan qualification. If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the borrower's payment letters or forbearance must be obtained to determine the monthly payment used for loan qualification.
- For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must include a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower. If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the following options: (1) If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment. (2) For deferred loans or loans in forbearance, the lender may calculate (a) a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or (b) a fully amortizing payment using the documented loan repayment terms.
- If a credit report shows an asterisk next to the payment, it can be an indication that the payment listed is not the required monthly minimum payment amount, and as such will require supplemental documentation to support a payment of less than 5%. If supporting documentation is not able to be provided, use 5% of the outstanding balance as the borrower's recurring monthly debt obligation
- For non-HELOC loans, when qualifying a borrower that has a non-subject negative amortization or interest only loan, use the payment on the credit report.
- For any additional properties, obtain a recent payment coupon or other documentation to ensure the loan is qualified using the full PITIA.
- When the current housing payment is required for qualifying (for instance, renting primary and the subject is Second/NOO) and is not reported on the credit report, provide third party verification of payment amount to verify the housing expense on the borrower's principal residence. If living rent free, a rent free letter from landlord or person obligated on lease required.
- If the borrower is on a payment plan with the IRS for prior tax years, the underwriter must condition for proof the money owed has been paid in full or verify the borrower has been in a payment plan that has been paid on time for at least 3 months and count the debt in the DTI. There is no requirement for a record of account or other documentation to reflect tax payment status. For the current tax year (most recent tax filing), if the 1040s or other documentation shows the borrower has outstanding tax debt for the current tax year, evidence of payment of the taxes due (or evidence borrower is on a payment plan with at least three months

	<p>payment required to have been made in lieu of full payment as long as the borrower qualifies with the payment in the ratios) is required. If the check to the IRS has not yet cancelled (copy of the uncashed check not required), the file must reflect the borrower's ability to pay (borrower must have enough assets after backing out funds used for transaction and reserves). For Amended Tax Returns or Stamped Tax Return option, see the applicable guidance in the Product Profile for further requirements.</p> <ul style="list-style-type: none"> • Tax liens must be paid off prior to, or at closing, regardless of if the borrower has a satisfactory payment plan and the government will allow subordination of the lien. • At minimum, an interest only payment must be included in the debt ratio for borrowers with a single payment Note. A single payment Note is one in which the loan, including principal and interest, is due in one lump sum payment. A single payment Note would be an unsecured Note which is not tied to the property in any way. Reserves and loan proceeds may not be used to offset payments. • When commercial properties are reflected on the Schedule E they must be documented/treated the same as a residential property for determining rental income, per agency guidelines. If there is mortgage interest reflected on Schedule E, must determine if borrower is personally obligated on the note and if so, obtain a mortgage rating that meets guidelines for mortgage payment history. • If borrower or non-occupant co-borrower will not be occupying the subject property (i.e., borrower on second home or investment property and any non-occupying co-borrower) does not have a current housing expense, because they state they live rent free on the 1003, proof they live rent free must be provided. Acceptable documentation would include, but is not limited to, an LOE from the owner/landlord of the residence where they currently live. • For loans secured by financial assets, evidence the loan is collateralized by the financial asset is required (i.e., 401K statement showing loan) or payment must be included in the ratios. • If a borrower is obligated on a non-mortgage debt—but is not the party who is actually repaying the debt—the lender may exclude the debt from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment, revolving, lease payments, alimony, child support, and separate maintenance. The lender must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party documenting a 12-month satisfactory payment history. There must be no delinquent payments for that debt in order to exclude it from the borrower's debt-to-income ratio. • If borrower is on title (has ownership interest) and is on the note to other properties besides the subject property, follow agency guidelines for co-signed/contingent liabilities/debt paid by others for both the P&I payment as well as the TIA. If the PITIA is excluded because it is paid by another party, the mortgaged property must still be included in the borrower's property count, and the property must be included in the reserve calculation for multiple financed properties. If borrower is just on title, and not obligated on the note for non-subject properties, the TIA does not have to be included in borrower's ratios.
PAYMENT SHOCK	<ul style="list-style-type: none"> • N/A
NET TANGIBLE BENEFIT	<ul style="list-style-type: none"> • A Net Tangible Benefit (NTB) is required on all refinance transactions and must be documented in the file. Unless a specific state NTB form is required, there is an available NTB worksheet as a tab within the Income Calculation Worksheet, which is available in the Resource Center that should be used to document the NTB.
LANDLORD EXPERIENCE	<ul style="list-style-type: none"> • When the property is reflected on the borrower's tax returns, analyze the borrower's

	<p>cash flow and calculate the net rental income (or loss), making sure that depreciation or any interest, taxes, or insurance expenses were added back in the borrower's cash flow analysis.</p> <ul style="list-style-type: none"> • The full PITIA for the rental property must be factored into the amount of the net rental income or loss. • Follow agency requirements for rental income calculations, the below is provided for reference. • For DU transactions, if rental income is used to qualify on the subject property, the monthly income (or loss) must be determined with a Single-Family Comparable Rent Schedule (Form 1007) OR - Small Residential Income Property Appraisal Report (Form 1025). • For DU transactions, CASH FLOW for all subject N/O/O properties and O/O 2-4 unit properties is calculated as follows: • Purchase Transactions: <ul style="list-style-type: none"> • Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s). If the property is not currently rented, lease agreements are not required. Lenders may use market rent supported by Form 1007 or Form 1025, as applicable. • Refinance Transactions: <ul style="list-style-type: none"> • For properties with a history of receiving rental income, Form 1007 or Form 1025, as applicable, and either (1) the borrower's most recent year of signed federal income tax returns, including Schedule E, or (2) copies of the current lease agreement(s) if the borrower can document a qualifying exception as allowed by Fannie Mae's seller guide. • For properties with no history of receiving rental income, Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s). • When the borrower does not have a history of owning rental property, follow the Fannie Mae requirements. • For non-subject properties, document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception as defined in the Fannie Mae seller guide. • See First Time Homebuyer section for requirements for a first time homebuyer purchasing an investment property. 				
NEGATIVE CASH FLOW/ POSITIVE CASH FLOW	<ul style="list-style-type: none"> • Negative Cash Flow from investment properties and from 2-4 unit primary residences must be considered a liability for qualification purposes. • Properties with negative cash flow are closely reviewed to ensure an overall acceptable risk. • Rent loss insurance is not required 				
RENTAL INCOME POLICY	<ul style="list-style-type: none"> • To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing or refinancing (refinancing only applies to new loan casefiles submitted on or after April 1, 2020) a 2-4 unit principal residence or 1-4 unit investment property, the lender must consider the following: <table border="1" data-bbox="451 1724 1516 1944"> <thead> <tr> <th data-bbox="451 1724 984 1766">If the borrower...</th> <th data-bbox="984 1724 1516 1766">Then for qualifying purposes...</th> </tr> </thead> <tbody> <tr> <td data-bbox="451 1766 984 1944"> <ul style="list-style-type: none"> • currently owns a principal residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or </td> <td data-bbox="984 1766 1516 1944"> <ul style="list-style-type: none"> • there is no restriction on the amount of rental income that can be used. </td> </tr> </tbody> </table> 	If the borrower...	Then for qualifying purposes...	<ul style="list-style-type: none"> • currently owns a principal residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or 	<ul style="list-style-type: none"> • there is no restriction on the amount of rental income that can be used.
If the borrower...	Then for qualifying purposes...				
<ul style="list-style-type: none"> • currently owns a principal residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or 	<ul style="list-style-type: none"> • there is no restriction on the amount of rental income that can be used. 				

	<p>documented property management experience</p> <ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has less than one-year history of receiving rental income or documented property management experience 	<ul style="list-style-type: none"> for a principal residence, rental income in an amount not exceeding the PITIA of the subject property can be added to the borrower's gross income, or for an investment property, rental income can only be used to offset the PITIA of the subject property.
<p>CASH RESERVES</p>	<ul style="list-style-type: none"> See COVID-19 Overlay section for additional requirements. O/O: Use underwriting guidelines as per AU findings For DU: Second Home and N/O/O: DU will calculate reserves for the subject property (which could be up to 6 months for a SH and 6 months for a NOO), in addition to the other financed properties which can be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties: <ul style="list-style-type: none"> 2% of the aggregate UPB if the borrower has one to four financed properties, 4% of the aggregate UPB if the borrower has five to six financed properties, or 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only) The aggregate UPB calculation does not include the mortgages and HELOCs that are on (1) the subject property, (2) the borrower's principal residence, (3) properties that are sold or pending sale, and (4) accounts that will be paid by closing (or omitted in DU on the online loan application). If a lender is processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications. Gifts are an allowable source of funds for reserves (not allowed on investment properties) Cash-out proceeds from the subject refinance transaction as not eligible for reserves 	
<p>REQUIRED DOWN PAYMENT/ SOURCE OF FUNDS / ASSETS</p>	<ul style="list-style-type: none"> LTV/CLTV/HCLTV <=80%, primary residence 1-4 units and second homes: a minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift. LTV/CLTV/HCLTV >80% for standard or high balance primary residence 1 unit properties require no minimum borrower contribution required. All funds needed to complete the transaction can come from a gift. LTV/CLTV/HCLTV >80% for high balance or standard balance primary residence 2-4 unit properties or all second homes require there be a 5% minimum overall borrower contribution. All LTVs for non-owner occupied properties require the entire down payment must be from the borrower's own funds (no gifts) Access letter is <u>not</u> required for any accounts where a non-borrowing party is on the account (including a non-borrowing spouse) On non-owner occupied transactions, provided a joint account with a non-borrowing party is an established account and the borrower has unrestricted access, the funds 	

in the account can be used for the transaction even if the joint account owner is not on the loan (the funds will not be considered a gift.) However, any large deposits must be sourced to the borrower.

- Custodial accounts are allowed in accordance with Fannie Mae
- The following are required to document the sale of personal assets for funds to close: the borrower's ownership of the asset, the value of the asset, as determined by an independent and reputable source, the transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser, the borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check. Depending on the significance of the funds in question, the lender may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution.
- All asset sources used to qualify borrowers must be legal at the local, state, and federal level. Any assets derived from an activity or source that violates Federal, state, or local laws cannot be considered for loan qualification for both self-employed borrowers and wage earners working for a company.
- Cash on hand, including cash deposits that are typical for the borrower's line of work, are not allowed to be used for down payment, closing costs and reserves unless they are sourced or seasoned.
- Cryptocurrency, digital currencies or altcoins (i.e. Bitcoins, Litecoin, Ethereum, etc.) may not be included as financial assets for mortgage qualification purposes and is an ineligible source of funds for down payment, closing costs or reserves unless being converted into U.S. currency. To be used as a source of funds for down payment, closing costs, or reserves, cryptocurrency, digital currencies or altcoins must be converted into U.S. currency and be held within a U.S. Financial Institution and verified prior to underwriting final approval. In addition to the verification of U.S. currency, the borrower(s) must be able to provide acceptable documentation for the source of funds used to initially acquire the cryptocurrency prior to the conversion.
- If the borrower's source of funds are from a country included on the OFAC Sanctioned Countries List that is found in the Resource Center, the funds are not eligible for use in the transaction.
- Any allowable fees paid by credit card must comply with Agency requirements, including ensuring the borrower has sufficient verified funds to pay these fees and the amount charged for the fee is included in the borrower's DTI, as appropriate.
- Large deposits must be evaluated when bank statements (typically covering the most recent two months) are used. Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. For refinances, documentation or explanation for large deposits is not required; however, the underwriter remains responsible for ensuring that any borrowed funds, including any related liability, are considered (if using the funds in a refinance transaction you still must confirm they are from an acceptable source). For purchases, If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the underwriter must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the underwriter must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The underwriter must place in the loan file written documentation of the rationale for using the funds.

	<p>Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the underwriter must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the underwriter uses a reduced asset amount, net of the unsourced amount of a large deposit that reduced amount must be used for underwriting purposes. Note: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. Note: If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the underwriter does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed, the underwriter should obtain additional documentation.</p> <ul style="list-style-type: none"> • Sweat equity and cash on hand not allowed • When using foreign assets, funds must be transferred into a U.S. bank/deposit account prior to closing, proof the transferred funds belonged to borrower(s) prior to transfer and verification of the source for large deposits is required • When business funds are used, the following requirements must be met: Assets must be related to the business that the Borrower owns that is documented in the loan file and if borrower is not 100% owner, evidence that borrower has access to use the funds is required; Borrower must be at least 25% owner in the business (to be considered self-employed and eligible to use the assets); Verification of funds in the account is required. (Note: Large deposits that are not in line with business revenue/income stream should be explained and verified.) Regardless of the documentation required for the process type, the underwriter must perform a cash flow analysis based on the tax returns provided, as well as analyzing, at minimum, the most current three month's business bank statements to determine that the withdrawal of funds will not have a detrimental effect on the business. The file must contain the underwriter's written analysis and conclusions and documentation (such as a CPA letter (preferred) or 12 months bank account statements) to support the decision. The cash flow analysis must provide enough detail/support so that anyone reviewing the file would come to the same conclusion. • When wiring assets/funds (either gift funds or the borrowers own funds) for closing, like all assets, they must be appropriately and completely documented. • If the wire is for gift funds and does not show the donor's name and account number then a statement/transaction history documenting the outgoing wire would be needed. The statement/transaction history would need to contain the account owner's information. • Funds that are brought to closing (i.e., cashier's checks or wire) by the borrower must be verified as belonging to the borrower and from the institution that was sourced in the loan file. The funds cannot come for an institution that was not sourced in the loan file.
<p>1031 TAX DEFERRED EXCHANGE</p>	<ul style="list-style-type: none"> • Allowed if the following requirements are met. • Section 1031 of the Internal Revenue Code allows investors to defer payment of state and federal capital gain taxes by exchanging investment property rather than selling investment property. This code section provides a strategy for the deferral of capital gains taxes, which in turn provides a property owner with substantially more proceeds to reinvest in a replacement property. • A tax deferred exchange, therefore, is the process of rolling over funds from one investment property into another, without having access to those funds. In a taxable

sale, the property owner is taxed on any gain realized by the sale of the property. In an exchange; however, the tax is deferred. This section of the IRS code does not apply to primary residences.

- Statement of borrower's equity, calculated as the lower of: (1) Sales price from the sales contract or (2) Gross trade value from the sales contract less the sum of the transfer fees and all lien balances on the currently owned property, and transfer fees on the new property or (3) Appraised value of the borrower's currently owned property plus any new transfer fees on the new property.
- 1031 exchanges to be used towards down payment for investment property purchases only with the following restrictions:
 - Reverse exchanges are not allowed because the borrower is not in title to the property at the time of closing.
 - No Seller provided subordinate financing.
 - The 1031 Exchange cannot be an exchange of a partnership or limited liability corporation interest;
 - The purchaser of the subject property must be eligible for use of the 1031 funds in compliance with IRS requirements.
 - Relinquished property sale must close before or simultaneously with the property acquired;
 - The Loan closing must be handled by a qualified intermediary. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be an agent, attorney, accountant, investment banker or broker. This Exchange Agreement requires the qualified intermediary to acquire and transfer the relinquished property and to acquire and transfer the replacement property. The relinquished property is the property "sold" and the replacement property is the property "acquired".
 - The following documentation is required for both properties in simultaneous closings: Sales contract or escrow instructions, Appraisal, Preliminary title report, Exchange agreement identifying the holder of funds, buyer and seller, expiration date, agreed upon value, closing date, closing costs, conditions of transfer and repairs, if required.
 - All of the following documentation is required for 1031 Exchange transactions occurring prior to the purchase of the new property: Closing Disclosure for both properties, Exchange agreement, Sales contract or escrow instructions for both properties, Verification of funds from the Exchange holder, as well as copies of all closing documents and Purchase Agreement on the relinquished property must be obtained. Settlement Statement, Title Transfer, Both Purchase Agreements (relinquished and replacement properties) must contain appropriate language to identify the 1031 exchange. An example of satisfactory language is:
 - Phase I (Sale): "Buyer is aware that Seller is to perform a 1031 Tax Deferred Exchange. Seller requests Buyer's cooperation in such an exchange and agrees to hold Buyer harmless from any and all claims, liabilities, costs or delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract by the Seller."
 - Phase II (Buy): "Seller is aware that Buyer is to perform a 1031 Tax Deferred Exchange. Buyer requests Seller's cooperation in such an exchange and agrees to hold Seller harmless from any and all claims, liabilities, costs or delays in time resulting from such an exchange. Seller agrees to an assignment of this contract by the Buyer."
- If the transaction does not meet the requirements for a 1031 exchange (for instance is being done as a seller accommodation), it is not eligible under a 1031 exchange

	<p>and must use normal financing</p> <ul style="list-style-type: none"> • Down Payment: Equity from exchange can be used for all or part of the down payment • Reserves: Proceeds from a 1031 tax deferred exchange are not an eligible source of funds for cash reserves. • Information from the IRS on 1031 exchanges can be found at the following link: https://www.irs.gov/uac/like-kind-exchanges-under-irc-code-section-1031
GIFT FUNDS	<ul style="list-style-type: none"> • Donor may be a relative, defined as the borrower’s spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a fiancé, fiancée, or domestic partner. • The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction • Gift letter required and must include: donor’s name and relationship to borrower, donor’s mailing address and telephone number, identify the transaction (property address, borrower’s name), state the amount of the gift, specifically state that the funds are a gift and it does not need to be repaid, and letter must be signed by the donor. • The transfer of the gift funds to the borrower must be documented in one of the following ways: <ul style="list-style-type: none"> • Copy of the donor’s cancelled check and the borrower’s deposit receipt or bank statement; or • Copy of the donor’s withdrawal slip and the borrower’s deposit receipt or bank statement. • If the transferred occurred with certified funds, a letter from the bank that issued the certified check must be provided stating that the funds came from the donors account and the borrower’s deposit receipt or bank statement • Verification of a wire transfer from donor’s account into borrower’s account • If the funds have not been transferred prior to settlement, documentation must be provided that shows that the donor gave the closing agent the gift funds in the form of a certified check, a cashier’s check, other official check or wire, and must be evidenced on the Closing Disclosure. • For any wire transfer of gift funds, a copy of the wire confirmation form also needs to be included and the depository institution where the wire came from must be identified, as well as donor information (name, account number, etc.) The information must match the institution, gift amount and additional information on the gift letter. • Acceptable after a minimum down payment has been made by the borrower from their own resources as required by the transaction, See Required Down Payment/Source of Funds section for when gifts are allowed and requirements for minimum down payment. • Not allowed on non-owner occupied properties • Gifts of equity allowed, see Gifts of Equity section
GIFTS OF EQUITY	<ul style="list-style-type: none"> • A gift of equity is permitted for purchase of a primary residence or second home only. No cash may change hands; instead the seller agrees to donate a portion of the equity in the subject property in lieu of all or a portion of the down payment. Additional equity in the property not gifted in the transaction can go to the seller. All gift policy criteria must be met. • Seller agrees to donate a portion of the equity in the subject property in lieu of all or a portion of the down payment. Additional equity in the property not gifted in the transaction can go to the seller. All gift policy criteria must be met. • A 1004, 1025, or 1073 is required for transactions involving a gift of equity, and the

	<p>appraiser must acknowledge the use of a gift of equity on the appraisal. The subject property sales price must not exceed the market rate as determined by the appraisal. The LTV should be based on the lesser of the purchase price or appraised value. The gift may not be deducted from the sales price before calculating the LTV.</p> <ul style="list-style-type: none"> • To be eligible as a source of funds for down payment, the following requirements must be met: <ul style="list-style-type: none"> • The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. • A signed gift letter and the Closing Disclosure listing the gift of equity. • The gift of equity must be identified in the Sales Contract • The subject property sales price must not exceed the market rate as determined by the appraisal • The gift of equity must be shown as a credit on the Closing Disclosure and the dollar amount of the gift must match the amount on the gift letter.
CONTRIBUTIONS BY AN INTERESTED PARTY	<ul style="list-style-type: none"> • If using some sort of option that provides a lender or realtor credit at closing (i.e., Local Heroes Program, Affinity Program, First Responders Program, or Homes for Heroes Program), a condition (like 3669 or 3721) must be added to the file indicating it is using the program/option, and reflect the amount of the lender or realtor credit on the condition. The credit must also be reflected on CD Page 3 and be within any IPC limits. This credit is not referring to a lender YSP/Rebate credit. • Contributions by an interested party may be used for closing costs, prepaids and other financing costs. <ul style="list-style-type: none"> • Primary Residence and Second Home: <ul style="list-style-type: none"> • 9% of the lesser of the sales price or appraised value for LTV/CLTVs ≤ 75%. • 6% of the lesser of the sales price or appraised value for LTV/CLTVs > 75% and ≤ 90%. • 3% of the lesser of the sales price or appraised value for LTV/CLTVs > 90%. • Investment Property: <ul style="list-style-type: none"> • 2% of the lesser of the sales price or appraised value for all LTV/CLTVs.
DOWN PAYMENT ASSISTANCE	<ul style="list-style-type: none"> • Not allowed
EMPLOYER ASSISTANCE	<ul style="list-style-type: none"> • Not allowed
MORTGAGE CREDIT CERTIFICATES (MCC)	<ul style="list-style-type: none"> • Not allowed
SUBORDINATE FINANCING	<ul style="list-style-type: none"> • Secondary financing must meet FNMA standard secondary financing guidelines. <ul style="list-style-type: none"> • Subordinate financing must not have negative amortization, no wrap around terms, no balloon of less than five years, no maturity of less than five years unless it is fully amortizing, no financing of judgments or tax liens. <ul style="list-style-type: none"> • Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage is acceptable when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile and this must be documented and justified by the underwriter. • A copy of the note must be obtained for subordinating HELOC mortgages • All subordinate financing must provide documentation to show the subordinate financing repayment terms by providing a copy of mortgage deed of trust, note, and proof of the current monthly payment (i.e., current statement). For existing subordinate financing, the subordination agreement is also required. For new subordinate financing, must provide instructions to closing to ensure any subordinate financing records after/behind first lien.

	<ul style="list-style-type: none"> • Seller carrybacks are allowed with the following requirements: <ul style="list-style-type: none"> • Must meet all standard FNMA subordinate financing requirements. • All payments related to secondary financing must be included in the debt ratio. • The lien must be recorded and clearly subordinated. • A copy of the note must be obtained to verify the amount secured against the property. • Regular payments must cover at least the interest at the market rate. If financing provided by the property seller is more than 2% below the current standard rates for second mortgages, it must be considered a sales concession and the subordinate financing amount must be deducted from the sale price or appraised value, whichever is lower. • The subordinate loan cannot have a maturity date or a balloon or call provision of less than five years from the Note date of the new mortgage, unless the junior lien is fully amortizing • The subordinate loan must permit pre-payment at any time without a penalty. • Scheduled payments under the secondary financing must be due on a regular, monthly basis • Shared Equity (such as Unison) not allowed, unless subordinate financing is an approved Affordable Second/Community Second. • Properties that have a Property Assessed Clean Energy (PACE) loan are not eligible (such as the Home Energy Renovation Opportunity (HERO) Program) unless the lien will subordinate via a subordination agreement where the lien is no longer part of the property taxes that can take first lien priority (note, the HERO subordination agreement does not provide for this and is not eligible) and meets all Agency requirements • PRMG Closed End Second not allowed in conjunction with this product.
VALUE FOR LTV/CLTV CALCULATION	<ul style="list-style-type: none"> • See below. • For loans with Fixed/Closed End subordinated financing, CLTV/HCLTV must be calculated using the current unpaid principal balance (UPB). • For loans with HELOC subordinated financing, CLTV/HCLTV must be calculated using the amount designated on the recorded lien (original mortgage/deed of trust or a recorded modification of lien amount.) A statement from the lender agreeing to a reduced line amount is not sufficient unless it is a properly recorded modification agreement. <ul style="list-style-type: none"> • If a HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the modified HELOC amount must be used when calculating the HCLTV. • If the outstanding unpaid principal balance is greater than the permanently modified HELOC, the outstanding unpaid principal balance must be used to calculate the HCLTV. • The loan file must contain evidence that the HELOC has been permanently modified with a copy of the recorded lien (modification agreement).
Purchase Value Requirement	<ul style="list-style-type: none"> • The LTV is determined by dividing the original loan amount by the lesser of the “as completed” appraised value of the property or the sum of the purchase price of the property and the total rehabilitation cost to be called the Total Acquisition Price. • The cost of the renovation is limited to 75% of the lesser of acquisition plus renovation costs or the “as-completed” appraised value.
Rate/Term Value Requirements	<ul style="list-style-type: none"> • The LTV is determined by dividing the original loan amount by the “as completed” appraised value of the property.

	<ul style="list-style-type: none"> • The cost of the renovation is limited to 75% of the “as completed” appraised value of the property • Also known as Limited Cash Out
<p>PURCHASE REQUIREMENTS</p>	<ul style="list-style-type: none"> • If there is evidence that borrower, a member of the borrower’s family or party who has a clearly defined interest in the borrower (i.e., close family friend) previously owned a home being purchased that was a distressed sale (i.e., short sale) or foreclosure by the borrower or borrower’s family member, the borrower may not purchase the property, regardless of the length of time since the distressed sale/foreclosure or the number of owners between the distressed sale/foreclosure and current owner. Bail outs not allowed. • Non-borrowing parties may be on the purchase contract and title. However, additional scrutiny should be taken if there is no relationship to the borrower, as it may present a red flag as to occupancy. • Purchase contract assignment (assignment of the sales contract) not allowed. • Purchase Transaction Seller Rent Backs of the subject property for owner occupied or second home properties are limited to 60 days, must be reflected on the sales contract and Closing Disclosure, and are not counted towards borrowers minimum investment requirements. For condos, not allowed between borrower and developer. • On auction transactions, auction terms must be included as part of the purchase contract provided to the appraiser for review
<p>RATE/TERM REQUIREMENTS</p>	<p>FNMA LIMITED CASH-OUT CAN BE DEFINED AS FOLLOWS:</p> <ul style="list-style-type: none"> • The payoff of the outstanding principal balance of an existing first mortgage; • The payoff of the outstanding principal balance of any existing subordinate mortgage that was used in whole to acquire the subject property; • The financing of closing costs (including prepaid expenses); • Borrower may not receive cash back at closing in any amount (Fannie Mae standard limited cash-out refinance of 2% or \$2,000, whichever is less, is NOT PERMITTED for this product). • This means that those refinance mortgages that involve the refinance of subordinate liens that were not used in whole to purchase the subject property (including home improvement, HELOC and second mortgages obtained for the purpose of taking equity out of the property, even if a portion of the subordinate lien was used to purchase the property) will be considered cash-out refinance mortgages. This requirement includes secondary financing seasoned greater than 12 months. Twelve months seasoning does not cure the “cash-out” classification. • If refinancing a loan that was a refinance of a 1st lien and non-purchase money Second lien, the loan must be seasoned for a minimum of 6 months (disbursement date of existing loan to disbursement date of new loan) old. Otherwise, the loan must be considered a Cash Out refinance • If financing delinquent real estate taxes (60 days or more delinquent) in the loan amount, must be treated as a cash out refinance • There is no specific loan seasoning requirement for a cash out 1st lien being refinanced to a rate and term refinance. • Buyout of a spouse/co-owner may be considered a rate/term if all of the following is met: <ul style="list-style-type: none"> • A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.

	<ul style="list-style-type: none"> • All parties must sign a written agreement (that is “court blessed”) that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. • Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan. • Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. • The party buying out the other party’s interest must be able to qualify for the mortgage pursuant to Fannie Mae’s underwriting guidelines. • If the refinance combines the first with a Non-Purchase Money Second, it will be considered a “Cash-Out Transaction” • Must not disregard the payment history before the date of the court assignment (i.e., divorce decree) • Pay-off of PACE loans cannot be included in a rate/term (limited cash out) refinance even if all agency requirements for payoff of that loan are met that will allow the transaction to be a rate/term (limited cash out) refinance when AUS findings returns an Approve/Ineligible. If all agency requirements are not met for a rate/term refinance (including that the PACE lien was originated prior to 7/6/10), then paying off a PACE loan the new transaction must be considered a cash out refinance. See Fannie Mae B5-3.4-01 for additional information. Note, PRMG does not participate in the HomeStyle Energy for Improvements on Existing Properties. • If the existing non purchase money secondary financing (installment seconds or HELOCS) is subordinated to a new first mortgage and the new first mortgage is originated solely for the purpose and under the guidelines of a Rate/Term refinance (i.e. only paying off the existing first mortgage plus the addition of customary closing costs) then the transaction would be considered a Rate/Term Refinance. Twelve months seasoning does not cure the “cash-out”
CASH OUT REQUIREMENTS	<ul style="list-style-type: none"> • Not allowed
DELAYED FINANCING	<ul style="list-style-type: none"> • Not eligible
SEASONING REQUIREMENTS	<ul style="list-style-type: none"> • See below
RECENTLY DELISTED PROPERTIES	<ul style="list-style-type: none"> • For rate and term refinances, the subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions). • For cash out refinances, the subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions). • Borrower must provide explanation for listing and evidence of listing cancellation is required. • If a primary residence, borrower must provide written confirmation of the intent to occupy
TITLE SEASONING/LOAN SEASONING	<ul style="list-style-type: none"> • For Rate and Term refinances, title must be held in the name of at least one borrower prior to or at the time of disbursement/closing of new loan • For rate and term (limited cash out) refinance transactions, the mortgage being paid off must have a note date no less than thirty days prior to the note date of the new “no cash-out” refinance mortgage, as documented in the loan file (e.g., on the credit

	<p>report or the title commitment)</p> <ul style="list-style-type: none"> • Continuity of obligation no longer applies. DU messaging referencing continuity of obligation may be disregarded until an update is released to remove the requirement.
<p>ANTI-FLIPPING POLICY</p>	<ul style="list-style-type: none"> • Guidance for underwriting flips can be found here: • http://www.eprmg.net/ConfFlips.pdf • The following transactions would not be considered a flip and would not be subject to additional Anti-Flipping Requirements. However that the appraiser must still report and analyze a minimum three-year sales history for the subject property AND if the value has increased by 15% or more in one year or 30% in three years from the original sales price the appraiser must analyze and explain the increase if due to a below market sale, such as a property in foreclosure. If the increase was due improvements, the appraiser must analyze and explain. <ul style="list-style-type: none"> • State and Federally chartered financial institutions and government sponsored enterprises (Fannie and Freddie) • Sales by HUD of its real estate owned • Sales of properties acquired through inheritance – Must document seller’s inheritance of the property • Sales of properties acquired by employers or relocation agencies in connection with relocations of employees (Must provide relocation agreement indicating the seller acquired the property as a result of company transfer of the previous owner). • The property Seller must have taken title to the subject property at least 1 day prior to the contract date on the sale of the property to the applicant. • Property flip transactions are assessed by the seller’s date of acquisition as the date of settlement on the seller’s purchase of that property and the execution of a sales contract to another party. • Any property that is involved in a re-sale that occurred within the last 6 months, must meet the following additional criteria: • PRMG will verify that the property seller on the Purchase Contract is “In Title” and Owner. This can be verified by including a property sales history report, a copy of the deed of conveyance, a copy of the property tax bill, a computer generated print out from the assessor’s website or the title commitment or binder indication legal ownership. For refinances, this would also include a copy of the current mortgage, Deed of Trust, or Contract for Deed. The name of the owner on the title report must match the seller’s name on the purchase contract. <ul style="list-style-type: none"> • If the seller is an entity (LLC, trust, etc.) documentation showing legal registration of the entity such as articles of incorporation with the seal, or a business license. • The borrower(s) can have no affiliation with the entity of any kind. • Since the property seller has not owned the property for 12 months, then a chain of title for the last 12 months is required. Acceptable sources for the chain of title include copies of recorded deeds, tax statements, or a 12-month chain of title on the title commitment. • A transaction where the property has been sold within the last 12 months requires scrutiny to ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are unsupported. • The subject transaction cannot include a transfer of personal property or other special arrangement between buyer and seller. • Non-arm’s length transactions are prohibited. Verification that there is no apparent relationship between the parties to the transaction, either on the current sale or

	<p>previous sale.</p> <ul style="list-style-type: none"> • A full appraisal is required • Appraisals must indicate required sales history information. • The appraiser must report and analyze a minimum three-year sales history for the subject property AND if the value has increased by 15% or more in one year or 30% in three years from the original sales price the appraiser must analyze and explain the increase if due to a below market sale, such as a property in foreclosure. If the increase was due improvements, the appraiser must analyze and explain. • If the property value has increased from the prior sale by more than 20%, additional diligence should be used by the underwriter
<p>CURRENT PROPERTIES PENDING SALE OR PRIMARY RESIDENCES BEING CONVERTED TO SECOND HOMES OR INVESTMENT PROPERTIES</p>	<ul style="list-style-type: none"> • When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is an existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance standard Rental Income Requirements (which may include a copy of the lease and/or other evidence as required by Fannie Mae), Reserve Requirements, and Multiple Loans requirements, as well as another other Agency requirements for qualifying. Rental income from the converted property is eligible, as long as the borrower qualifies using standard rental income documentation, requirements and calculations. There is no equity requirement in the converted property in order to use rental income to qualify <ul style="list-style-type: none"> • an existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or • the borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the lender must comply with the below. • If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan. However, the current principal residence's PITIA does not have to be used in qualifying the borrower as long as the following documentation is provided: <ul style="list-style-type: none"> • the executed sales contract for the current residence, and • confirmation that any financing contingencies have been cleared.

APPRAISAL

- Additional appraisal requirements can be found in the PRMG Appraisal Guidelines which is available in the Resource Center or at the following link
- <http://www.eprmg.net/ResourceCenter/AppraisalForms/PRMG%20Appraisal%20Guidelines.pdf>
- Transferred or Ported appraisals are not permitted
- Traditional appraisal report completed by a state-licensed or state-certified appraiser required on all loans.
- Residential appraisal reports must be dated no more than 12 months prior to the note date. An Appraisal Update is required on all appraisals dated more than 120 days prior to the note date.
- The Update Appraisal Form (1004D) must be used. If the value of the property is less than the original appraised value then a new appraisal will need to be ordered. If the value of the property has not declined, then the loan may process without requiring any additional fieldwork. The appraisal update must occur within the four months that precede the date of the note and mortgage. The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.
- For properties in attached condominium projects, the appraisal must contain two comparable sales from projects outside of the subject's project, in addition to the current comparable sale requirements, as outlined in Fannie Mae Selling Guide, Section B4-1.3-08.
- Appraisal must provide an "as completed" appraised value that estimates the value of the property after completion of the renovation work.
- Appraisal should be ordered when the Borrower or the Seller receives the Contractor's Bid.
- The Contractor's Bid must be attached to the appraisal report.
- Appraisals may be no more than 4 months old as of the date of the Note and Mortgage.
- An "as is" appraisal is not required.
- Freddie Mac's Automated Collateral Evaluation (ACE) is not allowed.
- Appraisals may be reused from prior transactions as allowed by FNMA, which includes, but not limited to, that it is a limited cash out transaction and the borrower and lender/client are the same on both transactions.
- Properties with a condition rating of C5 or C6 in "as is" condition or "subject to repairs" are not acceptable. A quality rating of Q6 is not acceptable.
- Full appraisals required for purchase transactions of REO properties and all purchases of properties whose most recent transaction was a foreclosure sale, apparent adverse physical deficiencies or conditions, apparent adverse environmental conditions and the subject property does not conform to the neighborhood
- For all refinances, if the property has been owned less than 12 months and the appraisal shows a substantial increase in value from the purchase price, the appraiser should ensure that the increase in value is valid.
- The appraiser must report and analyze a minimum three-year sales history for the subject property. The sales history of the subject property and comparable sales will be used to determine if any substantial appreciation or property churning has occurred. If there has been a prior sale of the subject property within three years and there is an increase in value, the appreciation or improvements must be explained. If

	<p>the value has increased by 15% or more in one year or 30% in three years from the original sales price the appraiser must analyze and explain the increase if due to a below market sale, such as a property in foreclosure. If the increase was due improvements, the appraiser must analyze and explain.</p> <ul style="list-style-type: none"> • For properties located in Disaster Areas, please refer to PRMG's Disaster Policy. • If the subject property is a prior foreclosure, the utilities must be operational at the time of the appraisal. • When adjustments are made to the appraisal for the year built, whether they are made for the actual age or the effective age of the subject property, the appraiser must provide an explanation for the adjustments and the condition of the property. • PRMG reserves the right to require additional appraisal reviews/reports at the underwriter's discretion. • Follow agency requirements in regards to addressing appraisal deficiencies. • If property is legal, non-conforming and a rebuild letter is required (see Appraisal Guidelines for requirements), property must be able to be rebuilt to 100%. If a rebuild letter is not required, property is not required to be rebuilt to 100%, but must meet requirements as described in Appraisal Guidelines (found in the Resource Center).
<p>REVIEW/SECOND APPRAISAL</p>	<ul style="list-style-type: none"> • Review appraisals must be completed by a PRMG approved Appraisal Company. • AUS red flag warnings for excessive value (cash-out and limited cash-out refinance) or excessive value with valuation risk (cash-out and limited cash-out refinance) require a desk review • AUS red flag warnings for rapid appreciation or rapid appreciation with valuation risk do not require a desk review • When run through Fannie Mae's Collateral Underwriter, any appraisal with a score of 5 must have, at minimum, a desk review performed
<p>FANNIE MAE'S COLLATERAL UNDERWRITER</p>	<ul style="list-style-type: none"> • For all loans where CU results are returned: <ul style="list-style-type: none"> • CU Findings must be imaged into system • Underwriter must review findings and address any concerns or issues • CU should be used when underwriting the appraisal to take advantage of the analysis tools • Appraisal with a score of 4 or 5 requires underwriter to access the CU system, perform a thorough analysis using the tools within CU and ensure the value is supported. • Appraisal with a score of 5, requires, at minimum, a Collateral Desktop Analysis (CDA) from Clear Capital (CDA can be ordered through the Reggora appraisal ordering system) to support value. If a CDA is not available, a desk review can be obtained in lieu of the CDA. • A score of 4 may require additional value support. At underwriter discretion, to support the value a Collateral Desktop Analysis (CDA) from Clear Capital (CDA can be ordered through the Reggora appraisal ordering system) or if a CDA is not available, a desk review can be obtained in lieu of the CDA. • Fannie Mae's CU site can be accessed at the following link: • https://www.fanniemae.com/singlefamily/collateral-underwriter • For all loans where CU results are not returned (returns a score of 999), determine if the Freddie Mac SSRs returned a score of 1-5. If the Freddie Mac SSRs were returned with a score of 1-5, review the loan in Freddie Mac's Loan Collateral Advisor. If both Fannie Mae and Freddie Mac do not return a score and the LTV is over 80% and there are valuation concerns, escalate to Underwriting Supervisor/Manager for consideration of additional valuation product. If both Fannie Mae and Freddie Mac do not return a score and the LTV is 80% or lower, underwriter must use due

	diligence on appraisal review.
PROPERTY INSPECTION WAIVER (PIW)	<ul style="list-style-type: none"> • Not allowed
SALES CONTRACT CHANGES	<ul style="list-style-type: none"> • Purchase agreements renegotiated after the completion of the appraisal that increase the sales price are only acceptable under the following circumstances: <ul style="list-style-type: none"> • The sales price adjustment is due to price overruns that impact the tangible value of the property on new construction. An updated appraisal must be obtained to verify the value of the modifications. • A renegotiation of only seller paid closing costs and/or prepaids occurs where seller paid closing cost/prepaids are common and customary for the market and supported by comparables. • Changes in the purchase contract resulting from renegotiating terms of sale will require additional review and consideration by the appraiser.
TOTAL FINANCING ≥ \$1MM	<ul style="list-style-type: none"> • No additional restrictions
IDENTITY OF INTEREST	<ul style="list-style-type: none"> • 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 (selling/listing agent and mortgage broker, for example). At-interest transactions carry increased risk due to the greater vested interest in the transaction by one of the parties. Examples of at-interest transactions include (but are not limited to): Builder also acting as Realtor/broker; Realtor/broker selling own property; Realtor/broker acting as listing/selling agent as well the mortgage broker • At-interest transactions are not allowed on second home and investment property
NON-ARM'S LENGTH TRANSACTIONS	<ul style="list-style-type: none"> • A non-arm's length transaction occurs when a personal or business relationship exists between the borrowers and the builder or seller. For example: <ul style="list-style-type: none"> • Family sales or transfers • Corporate sales or transfers • Mortgagors employed in the real estate or construction trade who are involved in the construction, financing or sale of the subject property • Mortgagors employed in the real estate or construction trade who are involved in the construction, financing or sale of the subject property • Some transactions involving principals/sellers/other vendors (such as, an appraiser, settlement agent, title company, etc.) who are involved in the lending process of the subject property. • Sales between landlord/tenant • Property flips are not allowed • Non-arm's length transactions with family members (or acceptable gift donors) are generally acceptable if the following requirements are met: <ul style="list-style-type: none"> • The family member is the borrower's spouse, child, parent, or any other individual related to the borrowers by blood, adoption, or legal guardianship • An executed purchase agreement between the purchaser and the family member is in the file • The source and ownership of funds for the down payment, closing costs, and reserves are well documented. • The appraised value of the property is well supported, particularly any gifts of equity or gifts of more than 20% of the LTV. • If the loan is a non-arm's length transaction, the relationship must be disclosed on the purchase contract. Purchase contract must be closely reviewed. • Purchase may not be a short sale

	<ul style="list-style-type: none"> • Borrower must provide a copy of the canceled earnest money check to verify payment to the Seller. • For all non-arm's length transactions with personal relationships (i.e., family sales, etc.), a payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be obtained and show no pattern of delinquency within the past 12 months. (does not apply to identity of interest/at-interest transactions) • For all non-arm's length transactions with non-personal relationships (i.e., corporate sales, landlord-tenant, etc.), underwriter must review the property profile (to confirm no NOD), ensure there is a clean title, review the payoff demand, etc. to make sure it does not appear the transaction is a distressed sale that could be considered a bail out • Full documentation is required for income, employment and assets • Full appraisal is required, regardless of AU findings • The appraiser must be informed of the non-arm's length transaction and address whether or not the market value has been affected by the relationship of the parties. • Appraiser must verify last sale date and sales price of the subject property, and must provide recent listing and/or marketing materials. • The real estate agent for the subject property may act as the loan officer for the borrowers purchasing the same subject property, however extra diligence must be exercised. • Allowed all owner occupied properties, • Not allowed with second home and non-owner occupied properties. • Transactions cannot be for bail-out purposes • For purchases, Title must not evidence a foreclosure or Notice of Default. • For refinances, if the borrower has been on title less than 6 months from the date of application, the payoff demand from the purchase transaction must reflect the mortgage was current at the time the borrower purchased the property.
INELIGIBLE INTERESTED PARTIES TRANSACTIONS	<ul style="list-style-type: none"> • Borrower is purchasing a property from a builder who is also taking the borrower's existing residence as trade for equity or may be purchasing the borrower's existing residence. • Any type of transaction where the builder, property seller, and/or any party currently on title is a company owned by the borrower. • When the seller is the builder, if a borrower is related to and/or affiliated with the builder, property seller, or on title as a registered agent, sales agent, partner or employee.
BORROWERS EMPLOYED BY PARTY TO TRANSACTION OR IS A PART OF THE TRANSACTION	<ul style="list-style-type: none"> • Extra diligence should be exercised • The relationship should be disclosed • The borrower cannot be involved in the processing or origination of the loan • QC Audit required
REAL ESTATE AGENT ALSO LOAN OFFICER/BROKER	<ul style="list-style-type: none"> • Not allowed
MORTGAGE INSURANCE	<ul style="list-style-type: none"> • Loans with LTVs above 80% require mortgage insurance. • Delegated MI approval is allowed, certain restriction apply, see Delegated Mortgage Insurance section below for requirements • For 3-4 units >80% LTV, must use Enact (Genworth), MGIC, Radian, or Arch • For all borrower paid mortgage insurance: Acceptable mortgage insurers are Radian, Essent, Arch MI, National MI (NMI), and Enact (Genworth) except for specific scenarios below <ul style="list-style-type: none"> • Enact (Genworth): https://new.mortgageinsurance.genworth.com/rate-express?orgId=8VMJ

- Radian: <http://www.radian.biz>
- Essent: www.essent.us
- National MI (NMI): <https://www.nationalmi.com/>
- Arch MI: <https://mi.archcapgroup.com/>
- MGIC: <https://www.mgic.com/>
- When using Essent, investment properties must have greater of at least six months reserves or reserves as outlined in Cash Reserves section.
- LTV >95% allowed with Radian, Enact (Genworth), MGIC, Arch MI, National MI (NMI), and Essent.
- Standard coverage is required
- Monthly Borrower Paid allowed (Select “Deferred Monthly”/”Zero Monthly”)
- Borrower Paid Single Premium is allowed (any portion of the MI premium paid by the borrower must be included the QM fee calculations but portion paid by seller, lender or other interested party would be excluded from QM calculations)
- Seller Paid Single Premium allowed (portion paid by seller would not be included in QM calculations)
- Split Premium MI is not allowed
- Level coverage required (declining coverage not allowed)
- Custom and reduced MI is not allowed
- Financed MI is not allowed
- Lender Paid MI is not allowed
- Mortgage Insurance commitments are issued with a commitment term of 120 days. Coverage must be activated (i.e. loans must be certified) by reporting the loan closing date and/or payment of the initial premium prior to the commitment expiration date (this process is handled by PRMG). Commitment expiration dates cannot be extended.

LTV	≤ 20 Year Fixed	> 20 Year Fixed or ARM
95.01% - 97.0%	35%	35% (no ARMs allowed)
90.01% - 95.0%	25%	30%
85.01% - 90.0%	12%	25%
80.01% - 85.0%	6%	12%

- Automatic Cancellation Requirements for Borrower Paid MI:
 - **DU Loans 1 Unit OO or SH:** The earlier of (1) the date the mortgage balance is first scheduled to reach 78% of the original value; or (2) the month following the mid-point of the amortization period
 - **DU Loans 2-4 Unit OO or NOO:** The month following the mid-point of the amortization period

Delegated Mortgage Insurance

- The following loan scenarios are ineligible for delegated MI and must be sent to the MI company for prior approval (not all items listed may be applicable to this product, review product profiles for what is allowed):
 - Loans that require a manual underwrite by the MI company
 - Housing Authority Products
 - Non-traditional credit/no-score
- At Underwriter’s discretion, the loan may be submitted to MI company for prior approval, however Underwriting Supervisor or Underwriting Manager must approve prior approval as well
- Underwriter to order delegated MI through FT360 and confirm MI cert is complete and correct
- Underwriter must confirm all requirements of MI company are met using the following guidelines options:
 - Radian: One Underwrite

	<ul style="list-style-type: none"> • http://www.radian.biz/page?name=RatesAndGuidelinesNew • Essent: Clear2Close https://www.essent.us/rates-guidelines • Enact (Genworth): Simply Underwrite https://mortgageinsurance.Enact(Genworth).com/RatesAndGuidelines/Guidelines.aspx • National MI: True Guide https://www.nationalmi.com/guidelines-summary/ • Arch MI: Underwriting Manual https://mi.archcapgroup.com/Guidelines • NMI: https://www.nationalmi.com/guidelines-summary/ • MGIC Go!: https://www.mgic.com/underwriting/guide-summaries
PROPERTY INSURANCE	<ul style="list-style-type: none"> • Hazard Insurance coverage must equal 100% of the insurable value of the improvements, as established by the property insurer; OR the unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value (total appraised value minus the estimated site value) of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained. • 5% of the dwelling coverage is the maximum deductible • For refinances transactions, all insurance policies must have, at minimum, an expiration date after the first payment date as shown on the note. • Acceptable Proof of Flood Insurance: <ul style="list-style-type: none"> • Copy of Flood Insurance Policy • Copy of Declaration Page • Copy of the application for flood insurance with a paid receipt for the first year’s premium or if paid at closing, premium reflected on the HUD • Flood policies and applications provided for closing must indicate the flood zone of the property. This zone must match our flood determination provider’s zone. Otherwise, evidence that the borrower’s zone is “grandfathered” must be provided. If the improvements are in a split zone (partially in and partially out) the policy must be rated for the more hazardous zone. • Flood insurance is required if there is knowledge that the property is exposed to flood risks, even if the property is located in a community that does not have FEMA flood maps. • For flood insurance, the maximum deductible cannot exceed \$5,000, unless restricted by state requirement. • For hazard insurance, properties in an attached condominium and attached PUD project (including 2-4 unit projects) require 100 percent of the insurable replacement cost coverage for the complete condominium (interior and exterior of the condominium).The HO-6 policy must be sufficient to repair the interior of the condominium unit, including any additions, improvements and betterments to its original condition in the event of a loss. If the HOA Master Policy does not provide coverage for the interiors of the project units, an HO-6 (or its equivalent) Policy for the individual unit is required. An HO-6 policy should have replacement cost coverage, and if the policy does not reflect the coverage amount, then the amount of coverage should be determined by the insurer. • If the homeowners association owns the common elements, areas/facilities of a project separately (or holds them in a leasehold estate), insurance on those areas is required to insure that ownership (if there are no common areas owned by HOA a

	<p>letter from them will suffice to prove it is not needed.)</p> <ul style="list-style-type: none"> • <u>Homestyle Renovation - Builder's Risk:</u> <ul style="list-style-type: none"> • Not required if the Homeowner's coverage remains intact during the construction period. • HO-3 or HO-5 policies do not satisfy Builder's Risk Insurance requirements. • May be required if the property will be vacant during the time of renovations to cover theft or vandalism. • Must be disclosed to the agent that the renovation loan is fully disbursed. • May be paid by the Borrower or the Contractor. • If paid by the Borrower, it must be disclosed as a separate line item to be paid at closing. • Insurance premium may not be included in escrow impounds. • Specific Homeowner's insurance quote is required to determine PITI and escrow impounds.
MOLD	<ul style="list-style-type: none"> • Specialized mold remediator must indicate if the scope of the project will or will not require a final, clearance test (i.e., air quality and/or surface testing). • If air quality and/or surface testing is required, the cost of the testing must be included in the contractor's bid and Work Write-Up (if applicable) and must also be disclosed on the LE/CD.
TITLE REQUIREMENTS	<ul style="list-style-type: none"> • PRMG must ensure validity of the first lien on the property. • Interim Draws – Title updates or lien waivers are appropriate, based upon local lien draws. • Final Draws – An endorsement to the title policy extending the effective date through the completion of the renovation and assuring first lien position is required. A lien waiver is not a substitute for an endorsement to the title policy for a final draw.
TITLE INSURANCE REQUIREMENTS FOR CONDOS/PUDS	<ul style="list-style-type: none"> • The Title Insurance policy for Condo and Planned Unit Developments (PUDs) must include coverage that provides protection by: <ul style="list-style-type: none"> • Insuring that the mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a first or second mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date; • Insuring against any impairment or loss of title of PRMG's first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. The title insurance policy must specifically insure against any loss that results from a violation that existed as of the date of the policy; • Insuring that the unit does not encroach on another unit or on any of the common elements, areas or facilities. This policy must also insure that there is no encroachment on the unit by another unit or by any of the common elements, areas or facilities; • Insuring that the mortgage is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes; • Insuring that real estate taxes are assessable and lien able only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole; and • Insuring that the owner of a PUD unit is a member of the homeowners association and that the membership is transferable if the unit is sold.
REPAIR ESCROWS/ ESCROW HOLDBACKS	<ul style="list-style-type: none"> • Not allowed
TEMPORARY BUYDOWNS	<ul style="list-style-type: none"> • Not Allowed
INTEREST ONLY	<ul style="list-style-type: none"> • Not Allowed

PRE-PAYMENT PENALTY	<ul style="list-style-type: none"> • N/A
SECOND LIEN BALLOON	<ul style="list-style-type: none"> • N/A
MULTIPLE LOANS	<ul style="list-style-type: none"> • O/O: No limitations on the number of properties that the borrower can currently be financing • Second Home and N/O/O: Maximum of 10 financed properties, including subject property and principal residence. See section below for additional requirements for any borrower with 5-10 financed properties. This limitation applies to the total number of properties financed and any combination of ownership in 1-4 family properties • This limitation applies to the number of 1-4 unit residential properties where the borrower is personally obligated on the mortgages; applies to the total number of properties financed, includes the borrower's principal residence if it is financed; and is cumulative for all borrowers (though jointly financed properties are only counted once). • Financed commercial property are not include that in the total number of financed properties • PRMG or its investors will only finance up to 4 properties for individual borrowers and up to \$1.5 M aggregate.
5-10 FINANCED PROPERTIES FOR SECOND HOMES AND NON-OWNER OCCUPIED PROPERTIES	<ul style="list-style-type: none"> • Must comply with Fannie Mae requirements for "Multiple Financed Properties for the Same Borrower" • In FT360, must do the following: <ul style="list-style-type: none"> • Select "This is a 5+ Financed Property Loan" found on the Borrower Summary Form under the Disclosures Tab in FT360 Investor Overlay screen • Select 5-10 financed properties when locking in OB • Applies to Second Home and Non-Owner Occupied properties only • Requires DU Approve/Eligible • Requires QC Audit • For DU, the following applies: <ul style="list-style-type: none"> • Only allowed in FT360 • Requires QC Audit • Purchase, Rate/Term and Cash Out allowed • For borrowers with up to six (6) financed properties, there are no additional requirements (for example, standard LTV ratios and minimum credit scores apply), except that the reserves that are outlined in the Cash Reserves section (from the CASH RESERVES section later in the profile) must be met • If the borrower will have seven to ten (7-10) financed properties, must have a minimum credit score of 720 but all other standard eligibility policies (for example LTV ratios) apply, except that the reserves that are outlined in the Cash Reserves section must be met • Note: In order to account for the subject property, DU will add "1" to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties. • Underwriter must ensure all Fannie Mae requirements as outlined in "Multiple Financed Properties for the Same Borrower is met" and DU accurately reflects number of financed properties • Must use the 5-10 Checklist provided by Fannie Mae and available in the Resource Center
RESIDUAL INCOME EVALUATION	<ul style="list-style-type: none"> • Not required
HIGHER PRICED	<ul style="list-style-type: none"> • Allowed within the parameters of Section 35 of CFPB Regulation Z

MORTGAGE LOAN (HPML)	<ul style="list-style-type: none"> • Must comply with all limitations and requirements of HPML loans as described in PRMG’s Compliance Policy regarding HPML-Section 35 loans • Not allowed on 5/1 ARMs • HPML loans must have an escrow account, regardless of LTV • Property inspection waiver not allowed, full appraisal required
REBUTTABLE PRESUMPTION	<ul style="list-style-type: none"> • Rebuttable presumption of compliance is a weaker shield from borrower litigation. To rebut the presumption, the borrower must prove that the lender failed to make a reasonable and good faith determination of the consumer’s repayment ability at the time of consummation of the mortgage. • For all loans meeting Rebuttable Presumption under QM/ATR requirements (Mavent Compliance Audit will flag loan as Rebuttable Presumption) underwriter must ensure the borrower’s repayment ability is fully documented and supported, as required by the agencies.
SECTION 32 / HIGH COST LOAN	<ul style="list-style-type: none"> • Brokers are responsible for identifying loans that are considered high cost loans as defined by federal and/or state laws and/or regulations. High cost loans are not allowed: • Loan is not a high cost loan as defined by Section 32 of the Federal Truth-in-Lending Act; <i>and</i> • Loan is not a high cost loan as defined by applicable state laws and/or regulations.
REAL ESTATE COMMISSIONS	<ul style="list-style-type: none"> • The maximum real estate commission allowed is 8% aggregate.
SERVICING OPTIONS	<ul style="list-style-type: none"> • N/A
ESCROW ACCOUNT	<ul style="list-style-type: none"> • HPML loans must have an escrow account, regardless of LTV • CA: Escrows are required for LTVs ≥ 90% • NM: Escrows are required for LTVs ≥ 80% for Owner Occupied and LTVs >80% for Second Homes or Non-Owner Occupied • Other States: Escrows are required for LTVs > 80%. • Payment of monthly private mortgage insurance must always be escrowed • Escrows may not be waived for the following (unless requiring an escrow account is not permitted by applicable law): <ul style="list-style-type: none"> • Cash-out refinance when delinquent real estate taxes are included in the loan amount • Flood insurance must be impounded (escrowed) for all loans with a note date of 1/1/16 or later if the property is in a Special Flood Hazard Area (SFHA), designated as a flood zone beginning with A or V, regardless of LTV and/or federal exemptions and is required for the life of the loan. It is not required to be impounded if the flood insurance is paid through the condominium association, HOA dues, etc. Additionally, the escrow requirement needs to be stated in the Flood Notice that is provided to the borrower.
UNDERWRITING	<ul style="list-style-type: none"> • All loans must receive an “Approve/Eligible” from DU
ASSUMABILITY	<ul style="list-style-type: none"> • Fixed: Not allowed
INDEX	<ul style="list-style-type: none"> • N/A
MARGIN	<ul style="list-style-type: none"> • N/A
INTEREST RATE CAPS	<ul style="list-style-type: none"> • <u>N/A</u>
INTEREST RATE CHANGES	<ul style="list-style-type: none"> • <u>N/A</u>
MINIMUM FLOOR	<ul style="list-style-type: none"> • <u>N/A</u>
ARM DOCUMENTS	<ul style="list-style-type: none"> • <u>N/A</u>

Texas Addendum

The following guidelines refer to loans in Texas only. If a topic is not addressed in this addendum, the standard Agency guidelines above should be followed. Also, please note that no underwriting exceptions are allowed on properties located in Texas.

PURCHASE	<ul style="list-style-type: none"> • Allowed • Purchase transactions that include subordinate financing subject to Section 50(a)(6) provisions are limited to a maximum LTV/TLTV/CLTV of the lesser of 80% or the maximum allowed by product or loan amount.
RATE/TERM REFINANCE	<ul style="list-style-type: none"> • Proceeds from a rate/term refinance may only pay off the following: <ul style="list-style-type: none"> • 1st liens that are not considered Section (a)(6) and Second liens used entirely for the purchase of the property. • When a prepayment penalty fee is assessed on an existing NON Section 50 (a) (6) loan and is included in the payoff amount, the new loan can be considered a rate/term refinance if the title company agrees and issues a new title policy for the full loan amount (including prepayment penalty fees) • HOA dues may be paid off if the title company requires them to be paid. If the title company does not require them to be paid, the borrower must pay the dues outside of closing, and they must NOT be included in the loan amount. • Proceeds from a rate/term refinance may NOT pay off the following: <ul style="list-style-type: none"> • Any loan that is considered a Section (a) (6) loan • Any loan that the borrower received cash back on • Federal tax debt liens • Liens for delinquent property taxes on the property securing the new loan • Rate/term refinances may NOT receive any cash back to the borrower, even incidental cash. Limited cash out refinances that allow the lesser of 2% of the loan amount or \$2,000 are NOT eligible under the Texas rate/term refinance program. • Incidental cash back to the borrower at Closing is not allowed, including incidental cash back as result of POC fees being refunded to borrower. Additionally, incidental cash back must either be handled by reducing/curtailing principal or reducing the loan amount and having the documents re-drawn. • For owner occupied primary residence Texas loans, if the property was ever refinanced under Section 50(a)(6) (a cash out refinance) every subsequent refinance is considered a Section 50(a)(6) loan it must be processed under the Agency Texas Home Equity program, • Total financed Closing costs are limited to those costs that are reasonable and actually required to close the transaction. Prepaids/escrows can't be financed into the new loan when grossed up in loan payoff. The documents should be redrawn reflecting the new loan amount. POC fees can't be financed into the loan amount. Special title insurance coverage must be obtained when impounds for prepaid expenses* are included in the new loan amount. Note that prepaids can only be included in the new loan amount if netted from the payoff of the existing loan. The following must be included as a Schedule B Exception: Possible defect in lien of the insured mortgage because of the Insured's inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage. * Prepaid expenses are defined as real estate taxes (includes non-delinquent taxes which are due and payable, as well as reserves), hazard insurance premiums, and monthly MI premiums covering any period after the settlement date. • The following P-39 Express Insurance Coverage endorsement is recommend: Company insures the Insured against loss, if any, sustained by the Insured under the terms of this Policy by reason of a final, non-appealable judgment of a court of competent

	<p>jurisdiction that divests the Insured of its interest as Insured because of this right, claim or interest. Company agrees to provide the defense to the Insured in accordance with the terms of this Policy if suit is brought against the Insured to divest the Insured of its interests as Insured because of this right, claim or interest.</p> <ul style="list-style-type: none"> • Certain restrictions apply to Rate/Term refinance transactions that include subordinate liens. These restrictions include: (1) Only one loan subject to Section 50(a)(6) provisions may be secured by the subject property at any given time, regardless of lien position. (2) When the subordinate lien is subject to Section 50(a)(6) provisions, the maximum LTV/TLTV/CLTV is the lesser of 80% or the maximum allowed by product or loan amount. Subordinate liens used entirely to purchase the subject property may be eligible for payoff as a rate/term refinance, subject to the following requirements: (1) The HUD-1 Settlement Statement or Closing Disclosure from the transaction must be provided evidencing all funds were used to purchase the subject property. (2) The commitment for title insurance may not reflect that the loan was originated as a home equity/cash-out Section 50(a)(6) loan. (3) The financing may be paid off, paid down or re-subordinated with the refinance. (4) The borrower may not have received any cash back from the subordinate financing. If the borrower received cash back and the loan is being paid off or paid down, the lien is subject to Section 50(a)(6) provisions and considered a home equity/cash-out transaction, and therefore, ineligible. • Refinance transactions documentation must be provided (commitment for title insurance, mortgage/deed of trust and/or HUD-1 or Closing Disclosure) in each loan package to verify that a home equity/cash-out loan under Section 50(a)(6) has not previously been originated against the subject property. If the purpose of the loan is not clearly identified on the commitment for title insurance, it will be necessary to provide previous mortgage/deed of trust or HUD-1 or Closing Disclosure for each transaction originated on or after 1/1/98 to verify the purpose of the existing Loan.
CASH OUT REFINANCE	<ul style="list-style-type: none"> • Not allowed
ELIGIBLE COSTS	<ul style="list-style-type: none"> • A rate/term refinance of a primary residence may include only the following costs: <ul style="list-style-type: none"> • Pay off of the old loan plus points • Pre-paid items, such as escrow funds and interest (See Additional Documentation section below) • Taxes due • The closing costs, whose total may not exceed 5% of the loan amount, must be deemed “necessary and reasonable”. Closing costs that may be included are noted below: <ul style="list-style-type: none"> • Loan Origination • Tax Service • Recording • Escrow Waiver • Processing • Appraisal • Credit Report • Final Inspection • Underwriting • Application • Survey • Title Insurance Premiums (Lender Policy) • Commitment • Express Mail • Flood Certification • Closing

ADDITIONAL DOCUMENTATION	<ul style="list-style-type: none">• All rate/term refinances require a completed Texas Refinance Worksheet (See Exhibit A)• All rate/term refinances require a completed Borrower Acknowledgement Form (See Exhibit B) when the borrower is receiving a refund check at closing.• If impounds for prepaid expenses are included in the new loan amount, special title insurance coverage must be obtained as a Schedule B Exception.• For rate/term refinances, a copy of the commitment for title insurance, mortgage/deed of trust, Closing Disclosure, or HUD-1 is required in order to verify that a Section 50 (a) (6) loan has not previously been originated against the subject property.
---------------------------------	--

Exhibit A

**TEXAS REFINANCE
Worksheet**

1. Is the loan being refinanced a “low-rate home loan*?” **Y/N**
 - If yes, continue.
 - If no, stop. This worksheet is not required.

2. Did a government or non-profit lender make the “low-rate home loan?” **Y/N**
 - If yes, continue.
 - If no, stop. This worksheet is not required.

3. When was the “low-rate home loan” closed? _____ (Anniversary Date)
 - If the anniversary date is less than seven years, continue.
 - If the anniversary date is equal to or greater than seven years, stop. This worksheet is not required.

4. What was the initial interest rate on the “low-rate home loan?” _____ %
 - A. In the case of a loan with a discounted introductory rate, what was the initial fully indexed rate? _____ %
 - B. Is the interest rate on the new loan less than the rate referenced in 4A? **Y/N**
 - If yes, continue.
 - If no, this loan is not eligible.

5.
 - A. What were the total points and fees paid by the borrower on the “low-rate home loan?” \$ _____
 - B. Are the points and fees being paid by the borrower on the new loan less than the points and fees referenced in 5A? **Y/N**
 - If yes, this loan is eligible.
 - If no, the loan is not eligible.

****A “low-rate home loan” is a loan with an initial rate that is two percentage points or more below the yield on treasury securities with maturities comparable to the loan term. If the loan had a discounted introductory rate, then the fully indexed rate should be used to determine whether the loan is a “low-rate home loan”.***

Exhibit B

**TEXAS REFINANCE
Borrower Acknowledgement**

Borrower's Name: _____ Loan #: _____

BORROWER ACKNOWLEDGEMENT

The undersigned acknowledge(s) that any refund check received as part of today's real estate settlement is a partial or full reimbursement of funds paid to the lender prior to or at the closing of the loan and does not constitute proceeds of the loan from lender.