CMG FHA 4000.1 Guidelines

All CMG Financial Guidelines will follow FHA/Ginnie Mae Guidelines (the HUD Handbook) in addition to CMG Financial overlays, when applicable.

Handbook 4000.1 is the Mortgage Credit Analysis Handbook for 1-4 Family Mortgage Loans. This is the handbook that will be followed for 203(b) and 234(b) programs.

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Part A – Borrower Eligibility

A-1 – Citizenship or Residency Status

Borrowers must be US Citizens or document their non-US Citizen status using the following guidelines:

Required Identification
All borrowers are required to have a valid driver's license, state issued identification or passport on all transactions.

Permanent Resident Alien
Individuals granted permanent residence status in the U.S. also includes refugees and others seeking political asylum. Documentation is commonly referred to as a 'Green Card'. Permanent Resident Aliens must provide any of the following documents to validate acceptable status:

- Permanent Resident Card (USCIC form I-551)
  - May be issued as a conditional right to reside for individuals seeking residency through marriage to a US Citizen/ Permanent Resident Alien or based on a financial investment in a US business.
  - These cards have an expiration date and are valid for two years
  - At the end of two years the individual must apply for an unconditional right to reside or risk losing their permanent resident status.
  - Cards due to expire within 90 days must be accompanied by a copy of the USCIS form I-751 (Petition to Remove Conditions on Residence) or USCIS form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.
  - Cards may be issued without conditions and are valid for 10 years.
  - Cards that are due to expire within six months must be accompanied with a copy of the USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
- Unexpired Foreign Passport
  - Must contain an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy.

All Non- U.S. Citizen Borrowers
Non US Citizens must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS) (formerly the Immigration and Naturalization Service or INS) within the Department of Homeland Security, evidencing the person's legal residency status in the United States.

Non-Permanent Resident Alien
Non-permanent resident aliens are individuals seeking temporary entry to the U.S. for a specific purpose, either business or pleasure. This group may include intra-company transferees, temporary workers/trainees, visitors for business or pleasure, students, etc. Various types of visa classification documentation will apply. Refer to the BCIS/INS for specifics at http://www.uscis.gov/portal/site/uscis

A Borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:

- the Property will be the Borrower's Principal Residence;
- the borrower has valid Social Security Number;
- the Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS;
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens; and
- All non-permanent resident aliens must provide evidence of an acceptable visa. Acceptable visas include but are not limited to E-1, H-1B, H-2B, H-3, L-1, G-series and O-1. (Borrowers without an acceptable visa will be considered on a case by case basis only.)
- Borrowers with diplomatic immunity are not eligible.

The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the Lender may assume that continuation will be granted. If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the USCIS.

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained. Note: C08 status is not eligible.

All non-permanent resident aliens must have a minimum two-year history of credit and employment in the U.S. or another country.

Effective January 19, 2021, the Federal Housing Administration (FHA) is permitting individuals classified under the “Deferred Action for Childhood Arrivals” program (DACA) with the U.S. Citizenship & Immigration Service (USCIS) and are legally permitted to work in the U.S. are eligible to apply for mortgages backed by the FHA.

Note: CMG requires a valid visa and considers exceptions to borrowers without an eligible/valid visa on a case by case basis only.

A-2 – Eligible Borrowers

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

Excluded Parties Search (LDP/SAM/CAIVRS)
CMG loans require confirmation that companies or individuals involved in the origination or underwriting of a mortgage transaction are not on the SAM Excluded Parties List, the HUD Limited Denial Participation (LDP), and NMLS, as applicable.

All borrowers must also pass a HUD Credit Alert Interactive Voice Response System (CAIVRS) check.

Refer to the CMG Policy for additional requirements.

Note: The Mortgagee must check the “Yes” box on form HUD-92900-LT if the Borrower appears on either the LDP or SAM list.

A-3 – Ineligible Borrowers

- Loans with title or interest held in various forms/legal entities such as Life Estates, Non-Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible. See product guide for full details.
- Individuals applying for a loan that will not take title are considered guarantors or co-signers. Guarantors or co-signers are ineligible. All borrowers must be in title.
- Applicants possessing diplomatic status are ineligible.
- Foreign Nationals are individuals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and are not eligible for financing.
- Borrowers with Diplomatic Immunity
- Corporations/LLC's
- Foreign Nationals
- Non-Revocable *Inter vivos* Trust

- Partnerships

A-4 – Power of Attorney

Application Forms: A Power of Attorney (POA) may not be used unless the Lender verifies and documents that all of the following requirements have been satisfied:

- For military personnel, a POA may only be used for one of the applications (initial or final), but not both:
  - when the service member is on overseas duty or on an unaccompanied tour;
  - when the Lender is unable to obtain the absent Borrower's signature on the application by mail or via fax; and
  - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

For incapacitated Borrowers, a POA may only be used where:

- a Borrower is incapacitated and unable to sign the mortgage application;
- the incapacitated individual will occupy the Property to be insured, or the Property is being underwritten as an eligible Investment Property; and
- the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

For guidance on use of POA on closing documents refer to Power of Attorney - Closing. (below)

CMG General Requirements

- Only a special/limited Power Of Attorney (POA) that is specific to the subject loan transaction can be accepted.
- Durable/general POAs are allowed only for court-appointed guardians with unlimited powers over the ward's affairs and must be accompanied by appointing documents.
- Initial 1003 and all initial disclosures must be signed without POA. All closing documents may be signed by Attorney In Fact if POA is eligible and approved for use by underwriting.
- POAs are not permitted on cash-out refinance transactions.
- If no borrowers are executing loan documents in person in the presence of a notary, the attorney-in-fact must be either (a) the borrower's relative or (b) the borrower's attorney-at-law.
- The following guidance must be followed when evaluating a POA for eligibility:
  - The POA cannot be a party to the transaction except where the POA is the coborrower
  - All POAs need to be specific to the transaction with Property address, Legal description, and Transaction type
  - The POA must be on the proper form and drawn in accordance with applicable state laws and be acceptable to the recording agent in the local jurisdiction
  - The POA is in effect (the expiration date, if any, has not passed and the POA has not been revoked.
  - The POA clearly defines the agent
  - The POA grants to the agent, the authority to enter into a real estate transaction and mortgage real property
  - The POA does not contain any blanks
  - The principal is the same person as shown on the loan application
  - The agent's identity is verified and documented in the loan file
- The POA has been, or will be, recorded prior to the recording of the Deed of Trust/Mortgage. If recorded simultaneously, the POA must be recorded first.

Power of Attorney – Closing

- A Borrower may designate an attorney-in-fact to use a Power of Attorney (POA) to sign documents on their behalf at closing, including page 4 of the final HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application* and the final Fannie Mae Form 1003/Freddie Mac Form 65, *Uniform Residential Loan Application* (*URLA*).
- Unless required by applicable state law, or as stated in the Exception below, or they are the Borrower's Family Member, none of the following persons connected to the transaction may sign the security instrument or Note as the attorney-in-fact under a POA:
    - Lender, or any employee or Affiliate;
    - loan originator, or employer or employee;
    - title insurance company providing the title insurance policy, the title agent closing the Mortgage, or any of their Affiliates; or
    - any real estate agent or any person affiliated with such real estate agent.

- The Lender must obtain copies of the signed initial *URLA* and initial form HUD 92900-A signed by the Borrower or POA in accordance with Signature Requirements for all Application Forms.

Signature Requirements
Documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety; abbreviations are not acceptable (AIF, POA, etc.). Additionally, the same information should be typed on the documents. Examples include:

Signature / Document Typed	
Jane Doe by John Smith, Attorney-in-Fact Jane Doe by John Smith, Attorney-in-Fact	*Jane Doe by John Smith, her attorney in fact* Jane Doe by John Smith, her attorney in fact
Jane Doe by John Smith as attorney in fact Jane Doe by John Smith as attorney in fact	*Jane Doe by John Smith as her attorney in fact* Jane Doe by John Smith as her attorney in fact
Jane Doe by her attorney in fact John Smith Jane Doe by her attorney in fact John Smith	*Jane Doe by attorney in fact John Smith* Jane Doe by attorney in fact John Smith

A-5 – Living Trust (Inter vivos Revocable Trust)

CMG aligns with HUD:

Property Held in Living Trusts

The Mortgagee may originate a Mortgage for a living trust for a Property held by the living trust, provided the beneficiary of the living trust is a Cosigner and will occupy the Property as their Principal Residence, and the trust provides reasonable means to assure that the Mortgagee will be notified of any changes to the trust, including transfer of beneficial interest and any changes in occupancy status of the Property.

Living Trusts and Security Instruments

The name of the living trust must appear on the security instrument, such as the Mortgage, deed of trust, or security deed.

The name of the individual Borrower must appear on the security instrument when required to create a valid lien under state law. The names of the owner-occupant and other Borrowers, if any, must also appear on the Note with the trust.

The name of the individual Borrower is not required to appear on the property deed or title.

The Mortgagee must obtain a copy of the trust documentation.

Part B – Property Ownership Restrictions

B-1 – Multiple Loans to One Borrower

Borrowers are limited to one (1) FHA loan and two (2) other loans, or one million dollars ($1,000,000) total in loans funded/purchased by CMG. Jumbo loans are excluded from loan amount limit, but still count towards the aggregate total of loans with CMG.

B-2 – Multiple Financed Properties

AUS findings are unable to determine the number of financed properties for a given borrower. It is incumbent upon the underwriter to determine the number of financed properties and apply additional standards where appropriate.

Multiple Loans.
A Borrower may be eligible to obtain another FHA-insured Mortgage without being required to sell an existing Property covered by an FHA-insured Mortgage if the Borrower is:

- relocating or has relocated for an employment-related reason; and
- establishing or has established a new Principal Residence in an area more than 100 miles from the Borrower's current Principal Residence.

Under no circumstances are borrowers with more than ten (10) properties eligible for FHA financing with CMG.

Financed Properties Abroad
For borrowers who have financed properties abroad, the property AND mortgage payment must be counted in the total amount of financed properties.

Part C – Occupancy

Purchase, Rate/Term & Cash out: Owner Occupied, Primary Residence and HUD Approved Secondary Residences only. Simple Refinance is only permissible for owner-occupied Principal or HUD-approved Secondary Residences. Streamline Refinances permitted for owner occupied, HUD Approved Secondary Residences, and non owner occupied transactions.

Additional restrictions apply for Streamlines.

C-1 – Primary Residence

A primary residence is a property that is physically occupied by at least one borrower as their primary residence. Residency is defined by the following criteria:

- Borrower occupies the property as his or her principal residence
- Borrower occupies the property for a majority part of the year
- Property location is convenient to the borrower's principal place of employment
- Property address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

The borrower must occupy the property within 60 days of closing and continue to occupy the property for at least one year.

Part D – Underwriting Documentation

D-1 – Age of Documents

Correspondent Lending: Age of documents must meet HUD Handbook requirements.

D-2 – Acceptable Documents

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

Alternative documentation provided in lieu of "Verification of Employment" and "Verification of Asset" forms must be legible originals or certified true and exact copies. Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Handling of Documents:

- CMG must not accept or use documents relating to the employment, income, assets, or credit of Borrowers that have been handled by, or transmitted from or through the equipment of unknown parties or Interested Parties.
- CMG may not accept or use any third party verifications that have been handled by, or transmitted from or through any Interested Party, or the Borrower.

Information Sent to the Lender Electronically – including Fax Copies

- CMG must authenticate all documents received electronically by examining the source identifiers (e.g., the fax banner header or the sender's email address) or contacting the source of the document by telephone to verify the document's validity. CMG must document the name and telephone number of the individual with whom the Lender verified the validity of the document.
- Fax copies in lieu of original documents or certified copies are acceptable subject to the following:
  - Verification transmitted directly from the loan processor to an employer, depository institution, Lender or landlord. The employer, depository institution, Lender or landlord must transmit the verification directly back to the loan processor.
  - Photocopies or faxes received by the loan originator or loan processor directly from the borrower are acceptable

Information Obtained via Internet

- CMG must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The Lender must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the CMG's visit to the URL and website.
- Documentation obtained through the Internet must contain the same information as would be found in an original hard copy of the document.

Direct Written Verification

- Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between CMG and the employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.
- Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Third Party Verification

- Third Party Verification refers to a process through which a Borrower's employment, income, and asset information is verified directly by the Mortgagee with a borrower's employer or financial institution, through the services of a third party vendor.

Additional Documentation

Tax returns, if required, must be true copies and the applicant must sign copies of filed returns.
W-2 forms that are marked "Employer Copy" are not acceptable. Employers do not distribute their copies.
If handwritten W-2 forms or paystubs are provided, tax returns must be obtained to substantiate the income.
Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words and be signed and dated by the applicant.

D-3 – Electronic Signatures

For FHA loan programs, Electronic Signatures are permitted on the Initial 1003 and Initial Disclosures.

Electronic Signatures are permitted on Real Estate Sales Contracts. CMG must ensure the Sales Contract is signed by the correct parties in all required places.

Note: The Amendatory Clause and Real Estate Certification are attachments to the Sales Contract so these documents may be electronically signed.

The Correspondent Selling Company is required to validate that their document delivery company is contracted to deliver initial disclosures to the consumer with the option for Electronic Signatures in compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), the Uniform Electronic Transactions Act (UETA), and the IRS's IVES Participant Guidelines for the 4506-T.

D-4 – Fraud Detection Tools

CMG employs risk management tools through selected vendors that provide information to assist with assessing the value risk and fraud potential in a loan transaction. These tools effectively screens the following components associated with mortgages:

- Income
- Employment
- Identity
- Occupancy
- Undisclosed debts
- Straw Borrowers

Correspondent Lending: It is considered a best practice for Correspondent Lenders to address any High Risk items noted on the fraud detection report. Refer to Correspondent Selling guide for additional QC requirements.

Part E – Application

E-1 – Application

The originator should perform a preliminary review of the borrower's application to determine that the requested mortgage loan satisfies program mortgage eligibility criteria. The originator's level of review should be the same for each mortgage. This eligibility review should happen before underwriting begins based on predictive risk factors that are incorporated into the Program Matrices, specifically:

- LTV/CLTV/HCLTV
- Qualifying Credit Score
- Product Type
- Loan Purpose
- Occupancy
- Property Type, including number of units

Requirements

All files must contain an initial and final application signed and dated by all borrowers as well as the loan officer. It must include the originator name, address, the loan officer's name, NMLS number and phone number. The application must be completed with all information from the credit report, asset documents, appraisal report, etc. and must include all HMDA and government monitoring information.

NMLS

CMG will validate Nationwide Mortgage Licensing System (NLMS) IDs provided on all loans submitted against the NLMS Registry which can be accessed at the following link:http://www.nmlsconsumeraccess.org/

The validation will include the following:

- Originator ID is found on the NMLS Consumer Access Website
- Originator ID matches the Originator Name
- 1003 Application Date is not prior to Originator Authorization Date
- Originator is authorized to conduct business in the property state
- Originator ID matches the listed Company Originator ID
- Company Originator ID is found on the MLS Consumer Access Website
- Company Originator ID matches the company name
- Company is authorized to conduct business in the property state
- 1003 Application Date is not prior to the Company Authorization Date
- 1003 Includes the Originator Name, Originator ID, Company Name, and Company Originator ID

Part F – Credit Analysis

F-1 – Credit Report

The credit report will be pulled through the seller's vendor, merged with the AUS findings, and provided to CMG in the loan package.

F-2 – Credit Score

Unless AUS approved, all loans require a minimum of two credit scores to be established for each Borrower. AUS approved loans require a minimum of one valid credit score to be established for each borrower. The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Emperica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score".

The term "Qualifying Score" Score refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle/lower, then lowest" credit score selection methodology.

Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score using the "middle/lower" method:

- If there are three valid credit scores for a borrower, the middle score of the three scores is to be used.
- If there are three valid credit scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is to be used.
- If there is one valid score for a borrower, use that score.

Qualifying Score Selection

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

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Qualifying Score.

When there is only one borrower, the selected credit score for that borrower is also the Qualifying Score.

F-3 – Credit History

A borrower's credit history is an account of how well the borrower has managed credit with both current and past accounts. An older, established history-- even though the accounts may have zero balances-- will have a more positive impact on the borrower's credit profile than newly established accounts.

A borrower who has relatively new credit history is not automatically considered a high credit risk. Making payments as agreed on newly established accounts signifies lower risk than if payments are not being made as agreed.

Payment history is a significant factor in the evaluation of the borrower's credit. The Automated Underwriting System (AUS) considers the severity of the delinquencies, the length of time since the delinquencies, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies.

When significant adverse credit is identified in a borrower's credit history, documentation must be provided evidencing the cause of the adverse credit and that an acceptable credit history has been re-established.

Thin credit files will be considered on a case-by-case basis. Acceptable documentation is at underwriter's discretion. In general, the credit file should contain a 12 month satisfactory payment history including 2 active tradelines (revolving or installment) and a verified housing payment history.

F-4 – Credit Bureau Analysis

The following aspects of the credit bureau should be reviewed for all loans in addition to following any automated underwriting system messaging.

Bankruptcy or Foreclosure
Determine there is no disclosed or reported bankruptcy or foreclosure on the credit bureau report, the application, or any other documentation in the file.

Credit Risk Score
Insure the accuracy of the Credit Risk Score selected.

Fraud Alert
All three national credit repositories have created automated messages to help identify possible fraudulent activity on a credit report. These alerts are commonly called HAWK ALERTS. All HAWK alerts must be adequately addressed and documented in the loan file.

F-5 – Credit Inquiries/Attestation

The borrower needs to address all inquiries to their credit within 120 days of the credit pull date, unless a corresponding new tradeline is evidenced on the credit bureau. In the event any new debt was incurred since the original credit pull date, details of the new obligation must be obtained and the monthly payment must be included in the debt to income ratio. Acceptable documentation would include a recent statement or a credit supplement. CMG will continually monitor the borrower's credit throughout the loan process using Undisclosed Debt Verification (UDV) for new inquiries, new debt obligations, new derogatory credit, credit line increases (if over 75% has already been utilized), and new public records (tax liens, judgments, etc.).

F-6 – Non-Traditional Credit

In the event the borrower does not have sufficient credit to produce a score, the loan will be deemed ineligible.

F-7 – Manual Downgrades/Manual Underwriting

A manual underwrite can be performed either through a TOTAL Scorecard *Refer* decision or by a manual downgrade. A manual downgrade becomes necessary if additional information, not considered in the AUS/TOTAL decision, affects the overall insurability or eligibility of a mortgage otherwise rated as a TOTAL Accept.

Manual downgrades may be triggered by inaccuracies in credit reporting, eligibility issues, and for other reasons including the unlikely failure of TOTAL and/or AUS to recognize derogatory credit reference. Unless specifically permitted to continue to use TOTAL Accept, such as a favorable resolution of a credit issue, the loan must be downgraded to a *Refer* risk classification and manually underwritten.

The lender **must** downgrade and manually underwrite any Mortgage that received an Accept recommendation if:

- the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;
- additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
- the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts;
- the date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- the Mortgage Payment history, ***for any mortgage trade line reported on the credit report*** used to score the application, requires a downgrade as defined in Housing Obligations/Mortgage Payment History in Handbook 4000.1;
- the Borrower has undisclosed mortgage ***debt that requires a downgrade (per Handbook 4000.1); or***
- business income shows a greater than 20 percent decline over the analysis period.

All manually underwritten loans must meet HUD's requirements for manually underwritten loans. The requirements in Table F-8-A apply to all manually underwritten FHA loans. Compensating factors cited to support the underwriting decision must be recorded in the *Underwriter Comments* section of Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary* and documentation must be included in the case binder.

Table F-7-A: Manual Underwriting Matrix

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
Insufficient Credit	31/43	N/A. Borrowers with insufficient credit may not exceed 31/43 ratios
620	31/43	No compensating factors required
620	37/47	One (1) of the following: • Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). • New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months. • Residual Income (see HUD guidance on residual income requirements)
620	40/40	Borrower has established credit lines in his/her own name open for at least six months but carries no discretionary debt (i.e., monthly total housing payment is only open installment account and borrower can document that revolving credit has been paid off in full monthly for at least the previous six months).
620	40/50	Two (2) of the following:

		1. Verified and documented cash reserves equal to at least three total monthly mortgage payments (1-2 units) or six total monthly mortgage payments (3-4 units). 2. New total monthly mortgage payment is not more than $100 or 5% higher than previous total monthly housing payment, whichever is less; and a there is documented twelve month housing payment history with no more than one 30 day late payment. In cash-out transactions all payments on the mortgage being refinanced must have been made within the month due for the previous 12 months. 3. Verified and documented significant additional income that is not considered effective income (i.e., part-time or seasonal income verified for more than one year but less than two years). 4. Residual Income (see HUD guidance on residual income requirements)

Part G – Evaluating Income

G-1 – Evaluating Income

All loans must include an Income Worksheet, demonstrating the rationale behind the calculations used to determine the borrower's qualifying income. It must be determined that the borrower's income level can be reasonably expected to continue through at least the first three (3) years of the mortgage loan.

G-2 – Verbal Verification of Employment

Timing

- The VVOE or Electronic Verification of Employment must be obtained within 10 calendar days prior to the funding date for salaried income, and within 30 calendar days prior to the funding date for self-employment income.
  - *Electronic verification employment data must be current within 30 days of the date of verification.*

Salaried Borrowers

The requirements for completing a VVOE for a Salaried Borrower are:

- The employer's phone number and address must be obtained independently using directory assistance or the Internet.
- The employer must be contacted verbally to confirm the borrower's current employment status.
- The conversation with the employer must be documented and include the following:
  - Name and Title of the person at CMG who contacted the employer
  - Name and Title of the person who completed the verification for the employer
  - Employer name
  - Employer phone number
  - Source of the Employer's phone number
  - Dates of employment (Hire date to present)
- If the borrower is currently on leave, ensure that is noted on the VVOE
  - Borrower's position or title
  - Date of the call

If the employer refuses to verify employment verbally over the phone, a written verification may be obtained to confirm the borrower's current employment status. The written verification must be dated within the same timeframe as for the VVOE requirement. The written verification must be sent directly to the Human Resources, Payroll or Accounting department of the employer and received back directly from the employer. Copies provided by any other source are not acceptable. The written verification must include the Name and Title of the person who completed the verification for the employer.

Note: CMG may utilize the Written Verification of Employment (WVOE) Fannie Mae Form 1005 for the written verification. Please refer to *Part D: Acceptable Documentation > Direct Written Verifications* for more information regarding using this form.

If the employer uses a third party employment verification vendor, obtain a written verification directly from the vendor via electronic link, facsimile transmission or mail, and a legible copy must be retained in the loan file. All VOEs and VOIs that are not autogenerated from a vendor as required from the employer must be completed by the Correspondent Lender. CMG does not allow third-party vendors including Xactus (formerly Credit Plus) to complete any manual verification of employment or income documents. The verification must be completed within the same timeframe as the VVOE requirement and include the borrower's current employment status with the following information:

- Employer name
- Employer phone number

- Dates of employment (Hire date to present)
- Borrower's position or title
- Date of the information provided

Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database is no more than 30 days from the date the verification was pulled by the CMG employee.

Self-Employed Borrowers

A Self-Employed borrower is defined as an individual that has twenty five percent (25%) or greater ownership of the business. An individual with less than 25% ownership is not considered self-employed.
The VVOE for Self-Employed borrowers is a verification of the **existence** of the business through a third party source. There are three options for completing the VVOE:

Option 1: Verify a phone listing and address for the borrower's business using directory assistance or the Internet.

Note: If the borrower's business is listed under his or her personal name instead of a business company name, Option 1 is not permitted since the existence of the *business* cannot be verified utilizing directory assistance or the Internet. CMG is required to verify the *business's* existence, not the borrower's name.

Option 2: Verify the business directly with a regulatory agency or the applicable licensing bureau by obtaining a copy of the Business License. The Business License must be in Good Standing/Active Status.

Option 3: Verify the business with a CPA.
Obtain a CPA letter on letterhead that includes the following information:

- CPA name
- CPA business name, if applicable
- CPA license number
- CPA's signature
- Date
- Borrower's business name and address
- Confirmation of the business's current active status and existence of the business for at least two years.

Note: If the CPA has not prepared the borrower's business tax returns for two years or longer, it is permissible for the CPA to provide confirmation of the business's active status for as long as the CPA has prepared the taxes.

For all options, CMG must document the name and address of the business, provide the date the information was verified, the source of the information obtained, and the Name and Title of the CMG employee who obtained the information.

1099 Employee / Independent Contractor

If the borrower is an independent contractor, the borrower receives a 1099 instead of a W-2 to verify yearly income. If the borrower contracts with only one company, employment can be verified directly with that company using the steps outlined for Salaried Borrowers. If the borrower contracts with multiple companies, employment needs to be verified using a CPA Letter as outlined in Option 3 for self-employed Borrowers. If the borrower does not utilize a CPA, then the borrower needs to provide a minimum of two reference letters from the companies with which he or she contracts. CMG must validate the reference letters by contacting the companies to ensure the letters were provided by the companies listed.

Military

Active Duty
If the borrower is an active member of the military, the Servicemembers Civil Relief Act (SCRA) website provides independent verification of service dates. The SCRA website is located at:
https://www.dmdc.osd.mil/appj/scra/single_record.xhtml

Civilian
If the borrower is a civilian that is employed by the Department of Defense, the VVOE is obtained from the borrower. The borrower generates the verification of employment directly from the Defense Civilian Personnel Data System (DCPDS) using the Self Service My Biz tool for Employment Verification. This My Biz tool sends a password-protected Employment Verification document to CMG electronically directly to the email address provided by the borrower. The borrower must provide the password to CMG in order to access the Employment Verification document. Further explanation is provided on the following Department of Defense website: http://www.cpms.osd.mil/Subpage/EmploymentVerification

Seasonal Employment
If the borrower has seasonal employment resulting in the employer being unable to provide verification of current, active employment, then in lieu of the VVOE, CMG may obtain evidence of current receipt and amount of unemployment compensation and evidence that it is associated with the seasonal employment. The employer is also required to confirm that there is a reasonable expectation that the borrower will be rehired for the next season. CMG Operations must ensure the Underwriter is aware of the Seasonal Employment, and the Underwriter must condition the loan as needed to meet agency, investor and/or loan program guidelines.

Temporary Leave
If the employer confirms the borrower is currently on temporary leave, CMG/correspondent must consider the borrower "employed." CMG Operations must ensure the Underwriter is aware of the Temporary Leave, and the Underwriter must condition the loan as needed to meet agency, investor and/or loan program guidelines

G-3 – Tax Transcript Policy

A signed 4506T will be required on all applicants both prior to closing and at closing.

Refer to CMG's Income Validation Policy for full details on transcript requirements:

G-4 – Stable Monthly Income

Establishing stable monthly income is based on the type of income received, the length of time received, and whether or not the income is likely to continue. Additionally, for salaried applicants, the length of time employed in current position and length of time employed in current profession are also considerations in determining stable income. When analyzing the probability of continued employment, the borrower's past employment record, qualifications for the position, previous training and education, and employer's confirmation of continued employment must be examined. Income stability can take precedence over job stability in cases where a borrower changes jobs frequently within the same line of work, but continues to advance in income or benefits.

Length of Employment

Generally at least a two-year history of receipt of income is required to deem the income as stable. A borrower who has an income history of less than 24 months may be considered if CMG is able to define and document the borrower's income as being stable, predicable, and likely to continue.

If the borrower has less than a two year employment history, provide documentation showing borrower was in school or in a training program immediately prior to employment to use as effective income.

For Borrowers with gaps in employment of six months or more (an extended absence), the Lender may consider the Borrower's current income as Effective Income if it can verify and document that:

- the Borrower has been employed in the current job for at least six months at the time of case number assignment; and
- a two year work history prior to the absence from employment using standard or alternative employment verification.

Applies to TOTAL and manually underwritten loans.

Income Documentation

Depending on the type of employment, various documentation requirements may be applied based on full documentation or alternative documentation methods, and considerations as to whether the borrower is salaried, commissioned or self-employed, etc.

- For Traditional Current Employment Documentation for employment related income: The Mortgagee must obtain one of the following to verify current employment:
    - The most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year to-date earnings, and a written Verification of Employment (VOE) covering two years; or
    - direct verification by a TPV vendor covering two years, subject to the following requirements:
        - the Borrower has authorized the Mortgagee to verify income and employment; and
        - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1).
- For Alternative Current Employment Documentation for employment related income: If using alternative documentation, the Mortgagee must:
    - obtain copies of the most recent pay stub that shows the Borrower's year-to-date earnings;
    - obtain copies of the original IRS W-2 forms from the previous two years; and
    - document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.
- For Past Employment Documentation for employment related income:
    - Direct verification of the Borrower's employment history for the previous two years is not required if all of the following conditions are met:
        - The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
        - Only base pay is used to qualify (no Overtime or Bonus Income).
        - The Borrower executes IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two tax years.
    - If the applicant has not been employed with the same employer for the previous two years and/or not all conditions immediately above can be met, then the Mortgagee must obtain one or a combination of the following for the most recent two years to verify the applicant's employment history:
        - W-2(s)
        - VOE(s)
        - direct verification of employment by a TPV vendor, subject to the following requirements:
            - the Borrower has authorized the Mortgagee to verify income and employment; and
            - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1)
        - evidence supporting enrollment in school or the military during the most recent two full years

G-5 – Non-Taxable Income

CMG gives special consideration to regular sources of income that may be non-taxable, such as child support payments, Social Security benefits, disability retirement payments, foster care, and workers' compensation benefits.

- The lender must document and support the amount of income to be Grossed Up for any Non-Taxable Income source and the current tax rate applicable to the Borrower's income that is being Grossed Up.
- **Calculation of Effective Income** The amount of continuing tax savings attributed to Non-Taxable Income may be added to the Borrower's gross income. The percentage of Non-Taxable Income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the Borrower's tax rate for the previous year. If the Borrower was not required to file a federal tax return for the previous tax reporting period, the lender may Gross Up the Non-Taxable Income by 15 percent.
- The lender may not make any additional adjustments or allowances based on the number of the Borrower's dependents.

Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

G-6 – Projected Income

Loans involving a new job for the borrower that will begin after closing may be eligible subject to all of the following requirements:

- The subject transaction is for the purchase of a 1-unit primary residence;
- borrower must have a minimum 640 qualifying credit score;
- maximum DTI is 50%;
- the Borrower's employment offer must be non-contingent and the non- contingent offer letter must be retained in the loan file;
- the Borrower's written acceptance of the employment offer must be retained in the loan file;
- the Expected/Projected income cannot be derived from a family-owned business;
- the Borrower must have cash reserves to support the mortgage payment and any other obligations during the employment gap plus and additional one month's reserves of PITIA;
- the time frame between the Note Date and the start of employment (the employment gap) must not exceed 60 days (Income must be guaranteed to begin within 60 Days of mortgage closing);
- the income is calculated in accordance with the standards for the type of income being received;
- a post-closing copy of the borrower's first paystub / proof of receipt of income must be obtained and verified to support income used to qualify and retained in the loan file.

G-7 – Salary, Commission, and Bonus

Salary & Wages / Hourly Income

Salary and wage income may be used to qualify. Base income may be used to qualify. Significant increases in base over prior years should be adequately explained. Paystubs or payroll earnings covering the borrower's earnings for the most recent 30-day period and, if applicable, W2s for the most recent two years are required. Generally, the documents must be computer-generated or typed by the borrower's employer, although paystubs or payroll earnings statements that the borrower downloads from the internet are acceptable as well. Documents that are faxed to CMG or that the borrower downloads from the internet must clearly identify the employer's name and source of information.

- Paystubs and payroll earnings statements must identify clearly the borrower as the employee and show the employee's gross earnings for both the most recent pay period and YTD.
- The paystub must be dated within 30 days of the application date and cover at least 30 days of YTD earnings.
- IRS W2 forms must identify the borrower as the employee.
- **HUD's requirements for Hourly Income:**

- For employees who are paid hourly, and whose hours do not vary, the Lender **must** consider the Borrower’s current hourly rate to calculate Effective Income.
- For employees who are paid hourly and whose hours vary, the Lender **must** average the income over the previous two years. If the Lender can document an increase in pay rate the Lender **may** use the most recent 12-month average of hours at the current pay rate.

Determining the Need for Federal Income Tax Returns

CMG must obtain copies of the individual federal income tax returns filed with the IRS for the past two years for the following types of salaried or commissioned borrowers.

- Borrowers employed by family members
- Borrowers employed by interested parties to the property sale, purchase, or financing transaction
- Borrowers receiving rental income from an investment property
- Borrowers claiming unreimbursed business expenses
- Borrowers receiving income from periodic employment or employment that is subject to time limits, such as a contract employee or a tradesperson

Bonus

- Refer to “Overtime, Bonus or Tip Income” below.

Commission Income

- All HUD Handbook requirements must be met.
- To document, CMG must obtain and verify per the following:
  - For all Commission Income, the Lender must use traditional or alternative employment documentation.
- Calculation of Effective Income
  - The lender must calculate Effective Income for commission by using the lesser of:
    - Either, (i) the average Commission Income earned over the previous two years for Commission Income earned for two years or more, or (ii) the length of time Commission Income has been earned if less than two years; or
    - The average Commission Income earned over the previous year.

Overtime, Bonus or Tip Income

- All HUD Handbook requirements must be met. Overtime, Bonus or Tip Income refers to income that the Borrower receives in addition to the Borrower’s normal salary.
- The Lender may use Overtime, Bonus or Tip Income as Effective Income if the borrower has received this income for the past two years and it is reasonably likely to continue.
- Periods of Overtime, Bonus or Tip Income less than two years may e considered Effective Income if the Lender documents that the Overtime, Bonus or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
- **Calculation of Effective Income.** For employees with Overtime, Bonus or Tip Income, the Lender must calculate the Effective Income y using the lesser of:
  - The average Overtime, Bonus or Tip Income earned over the previous two years, or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
  - The average Overtime, Bonus or Tip Income earned over the previous year.

Part-Time Employment:

- Part-Time Employment refers to employment that is not the Borrower’s primary employment and is generally performed for less than 40 hours per week. Borrower must have must have worked the job uninterrupted for the past two years.
- **Calculation of Effective Income:** CMG must average the income over the previous two years. If CMG can document an increase in pay rate the Lender *may* use a 12-month average of hours at the current pay rate.

G-8 – Part Time, Second Job, and Seasonal Income

For all part time and second job requirements, refer to the Overtime, Second Jobs or Additional Job requirements in section G-7: Salary, Commission, and Bonus.

CMG aligns with FHA requirements in regards to eligibility of and documentation requirements for seasonal income and seasonal unemployment compensation. The following must be verified for seasonal income:

- It must be verified that the borrower has worked in the same job (or the same line of seasonal work) for the past two years.
- It must be confirmed with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

G-9 – Military Income

In addition to base pay, military personnel may be entitled to additional income. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay is acceptable, provided a verification of employment shows the continuation of the income is likely.

- The Lender must obtain a copy of the Borrower's military Leave and Earnings Statement (LES). The Lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the Mortgage, Military Income may only be considered Effective Income if the Borrower represents their intent to continue military service.
- The lender must use the current amount of Military Income received to calculate Effective Income.

G-10 – Rental Income

CMG aligns with HUD in regards to rental income.

G-11 – Other Sources of Income

In most cases, a borrower's qualifying income is limited to salary or wages. Income from other sources can be considered as effective if properly verified and documented. Other sources of income include: **Alimony or Child Support**

- Alimony, Child Support, and Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the Borrower's minor dependent.
- Required Documentation
  - CMG must obtain a fully executed copy of the Borrower's final divorce decree, legal separation agreement, court order, or voluntary payment agreement with documented receipt.
  - When using a final divorce decree, legal separation agreement or court order, CMG must obtain evidence of receipt using deposits on bank statements; canceled checks; or documentation from the child support agency for the most recent three months that supports the amount used in qualifying.
  - CMG must document the voluntary payment agreement with 12 months of cancelled checks, deposit slips, or tax returns.
  - CMG must provide evidence that the claimed income will continue for at least three years. CMG may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details.
- Calculation of Effective Income

- When using a final divorce decree, legal separation agreement or court order, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent three months, the Lender may use the current payment to calculate Effective Income.
- When using evidence of voluntary payments, if the Borrower has received consistent Alimony, Child Support and Maintenance Income for the most recent six months, the Lender may use the current payment to calculate Effective Income.
  - If the Alimony, Child Support and Maintenance Income have not been consistently received for the most recent three months if court ordered or six months if voluntary, the Lender must use the average of the income received over the previous two years to calculate Effective Income. If Alimony, Child Support and Maintenance Income have been received for less than two years, the Lender must use the average over the time of receipt.

Automobile Allowances and Expense Account Payments

- The lender must verify and document the Automobile Allowance received from the employer for the previous two years.
- Calculation of Effective Income
  - The Lender must use the full amount of the Automobile Allowance to calculate Effective Income.

Capital Gains

- Capital Gains refer to a profit that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.
- Capital Losses refer to a loss that results from a disposition of a capital asset, such as a stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.
- Capital gains or losses must be considered when determining Effective Income, when the individual has a constant turnover of assets resulting in gains or losses.
- **Required Documentation:** Three years' tax returns are required to evaluate an earnings trend. If the trend:
  - results in a gain, it may be added as Effective Income; or
  - consistently shows a loss, it must be deducted from the total income.

Disability Income

Under no circumstance may the Lender inquire into or request documentation concerning the nature of the disability or the medical condition of the Borrower.

- **Social Security Disability**. For Social Security Disability income, including Supplemental Security Income (SSI), the Lender must obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the Borrower, and one of the following documents:
  - federal tax returns;
  - the most recent bank statement evidencing receipt of income from the SSA;
  - a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
  - a copy of the Borrower's form SSA-1099/1042S, *Social Security Benefit Statement*.
- **VA Disability.** For VA disability benefits, the Lender must obtain VA Form 26-8937, *Verification of VA Benefits*, showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income from the VA.
- **Private Disability.** For private disability benefits, the Lender must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one of the following documents:
  - federal tax returns; or
  - the most recent bank statement evidencing receipt of income from the insurance provider.

- **Disability / Temporary Leave / Temporary Reduction in Income**
    - For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the Lender may consider the Borrower's current income as Effective Income, if it can verify and document that:
        - the Borrower intends to return to work;
        - the Borrower has the right to return to work; and
        - the Borrower qualifies for the Mortgage taking into account any reduction of income due to the circumstance.
    - For Borrowers returning to work before or at the time of the first Mortgage Payment due date, the Lender may use the Borrower's pre-leave income.
    - For Borrowers returning to work after the first Mortgage Payment due date, the Lender may use the Borrower's current income plus available surplus liquid asset Reserves, above and beyond any required Reserves, as an income supplement up to the amount of the Borrower's pre-leave income. The amount of the monthly income supplement is the total amount of surplus Reserves divided by the number of months between the first payment due date and the Borrower's intended date of return to work.
    - Required Documentation. The Lender must provide the following documentation for Borrowers on temporary leave:
        - a written statement from the Borrower confirming the Borrower's intent to return to work, and the intended date of return;
        - documentation generated by current employer confirming the Borrower's eligibility to return to current employer after temporary leave; and
        - documentation of sufficient liquid assets, in accordance with Sources of Funds, used to supplement the Borrower's income through intended date of return to work with current employer.

Foreign Income

- Foreign income is acceptable only if income is claimed on U.S. personal tax returns with a 4506T validation.
- Foreign income should be paid in U.S. currency. However, income paid in foreign currency may be considered on a case-by-case basis if it's converted into U.S. currency and claimed on borrower's U.S. tax returns.

Foster Care Income

- Income received from a state or county sponsored organization for providing temporary care for children may be considered as acceptable stable income as long as a three-year continuance of such income can be established.
- Foster care may be verified by letters from the organization providing the income, copies of the borrowers signed federal tax returns filed with the IRS, or copies of the borrower's deposit slips or bank statements showing the receipt of the income.
- Per the IRS website, foster care income is not taxable so it may not appear on the tax returns.

Interest and Dividend Income

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

- **Required Documentation**
    - The lender must verify and document the Borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.
- **Calculation of Effective Income:** The lender must calculate Investment Income by using the lesser of:
    - the average Investment Income earned over the previous two years; or
    - the average Investment Income earned over the previous one year.
    - The lender must subtract any of the assets used for the Borrower's required funds to close to purchase the subject Property from the Borrower's liquid assets prior to calculating any interest or dividend income.

Notes Receivable

Notes Receivable Income refers to income received by the Borrower as payee or holder in due course of a promissory Note or similar credit instrument.

- **Required Documentation:** The Lender must verify and document the existence of the Note. The Lender must also verify and document that payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three years of the Mortgage.
- **Calculation of Effective Income:** For Borrowers who have been and will be receiving a consistent amount of Notes Receivable Income, the Lender must use the current rate of income to calculate Effective Income. For Borrowers whose Notes Receivable Income fluctuates, the Lender must use the average of the Notes Receivable Income received over the previous year to calculate Effective Income.

<u>Retirement, Government Annuity, and Pension Income</u>

- Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income will cease within the first full three (3) years of the mortgage loan, the income may only be considered as a compensating factor. Regular and continued receipt of the income can be verified by:
  - Letters from the organizations providing the income;
  - Copies of retirement award letters;
  - Copies of signed federal income tax returns;
  - 1099s;
  - Copies of the borrower's most recent two months bank statements.
- Pension - Calculation of Effective Income
  - The Lender **must** use the current amount of Pension income received to calculate Effective Income.
- Individual Retirement Account and 401(k) –
  - If retirement income is paid in the form of a monthly distribution from a 401K, IRA, or KEOGH retirement account, determine whether the income is expected to continue for three years after the date of the mortgage application to be used as effective income.
  - For Borrowers with IRA/401(k) Income that has been and will be consistently received, the Lender must use the current amount of IRA Income received to calculate Effective Income.
  - For Borrowers with fluctuating IRA/401(k) Income, the Lender must use the average of the IRA/401(k) Income received over the previous two years to calculate Effective Income.
  - If IRA/401(k) Income has been received for less than two years, the Lender must use the average over the time of receipt.

If the distribution being received has been newly established, the following is required:

- Letter, from the organization detailing the terms of the distribution, and setup must be prior to the application date
- Asset documentation to support sufficient funds for the distribution to continue for a minimum of three years
- A minimum of one payment from the distribution must be received by the borrower prior to closing. Verification of receipt may be documented via a copy of the distribution check or bank statement showing the distribution being received into the borrower's account

<u>Section 8 & Other Public Assistance</u>

- Section 8 Homeownership Vouchers
  - **Definition** Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).
  - **Required Documentation:** The Lender must verify and document the Borrower's receipt of the Housing Choice Voucher homeownership subsidies. The Lender may consider that this income is reasonably likely to continue for three years.
  - **Calculation of Effective Income:** The Lender may only use Section 8 Homeownership Voucher subsidies as Effective Income if it is not used as an offset to the monthly Mortgage Payment. The Lender must use the current subsidy rate to calculate the Effective Income.

- Other Public Assistance
  - **Definition** Public Assistance refers to income received from government assistance programs.

  - **Required Documentation** Lenders must verify and document the income received from the government agency.
  - If any Public Assistance income is due to expire within three years from the date of mortgage application, that income cannot be used as Effective Income. If the documentation does not have a defined expiration date, the Lender may consider the income effective and reasonably likely to continue.
  - **Calculation of Effective Income:** The Lender must use the current rate of Public Assistance received to calculate Effective Income.

Social Security Income (SSI)

- When CMG believes or knows that the Social Security or disability income falls in a category that does not have a defined expiration date, CMG may conclude that the income is considered stable, predictable, and likely to continue and is therefore not expected to request additional documentation from the borrower.
- Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.
- However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if documentation confirms the remaining term is at least three years from the date of the loan application.
- Document benefits and proof of receipt as required by FHA Handbook/TOTAL Scorecard.
- **Calculation of Effective Income:** The Lender **must** use the current amount of Social Security Income received to calculate Effective Income.

Tip Income

- Tip income may be used to qualify the borrower if a verification of employment is received showing the type of income has been received for the past two years and will in all probability continue. An average of the past two years' tip income will be used to qualify the borrower, provided the income is consistent and not declining. The income must be shown on the borrower's tax returns and validated in order to be used to qualify.

Trust Income

- Trust Income refers to income that is regularly distributed to a Borrower from a trust.
- Required Documentation
  - The Mortgagee must verify and document the existence of the Trust Agreement or other trustee statement. The Mortgagee must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.
  - The Mortgagee must verify that regular payments will continue for at least the first three years of the mortgage term.
- Calculation of Effective Income: The lender must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate effective income.

Unemployment Benefits

Unemployment benefits may be used to qualify provided tax returns are obtained showing the income has been received over the past two years and the likelihood of the continuance of the income is established.

If the borrower is a seasonal worker, proof of current receipt of unemployment cannot be a substitute for a current paystub to satisfy the AUS requirement. The paystub must be from the borrower's regular employment.

The following documentation is required:

- Written VOE covering two full years for the seasonal employment
- Proof of receipt of unemployment compensation for two years, if applicable

OR

- Year to date paystub for 30 days (primary job, not unemployment)
- W2s covering the most recent two years
- Proof of receipt of unemployment compensation for two years, if applicable

VA Benefits Income

- VA Benefits may be deemed acceptable with documentation of receipt of VA benefits from a letter of distribution form from the VA and proof the income can be expected to continue for a minimum of three years from the date of closing. Educational benefits are not acceptable income because they are offset by educational expenses.
- Refer to "Disability income" for additional guidance.

G-12 – Self-Employment Income

Basic Information

A borrower with a 25% or greater ownership interest in a business is considered self-employed for FHA loan underwriting purposes. Two (2) year's documentation is required on Self Employed borrowers.

The following documents are required for manually underwritten loans:

- Signed individual tax returns for the past two (2) years
- Signed business tax returns for the past two (2) years if business is an S corporation or a partnership
- P&L and Balance Sheet required if more than a calendar quarter (3 months) has elapsed since date of most recent calendar or fiscal-year end tax returns was filed by the borrower – with no exceptions
  - If income used to qualify the borrower exceed the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.
- Business credit report on corporations and S corporations (not required on TOTAL Approve/Eligible Recommendations)

No business tax returns are required if all of the following conditions are met:

- TOTAL Scorecard Approve/Eligible
- Individual federal returns show increasing self-employed income over the past two years
- P&L and Balance Sheet required if more than a calendar quarter (3 months) has elapsed since date of most recent calendar or fiscal-year end tax returns was filed by the borrower – with no exceptions
  - If income used to qualify the borrower exceed the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from the IRS are required.
- Funds to close are not coming from the business account, and
- The proposed mortgage is not a cash out refinance

Generally, the self-employed income is computed using a two year analysis of the borrower's federal tax returns and business returns, if applicable, unless AUS approves with less documentation. A year to date profit and loss statement is not used to calculate qualifying income but instead to consider the borrower's income trend and the overall financial stability of the business. Declining income is subject to careful analysis and may not be approvable. If approvable, generally a worst-case scenario will be used to qualify.

Self Employed Borrowers are defined as borrowers owning 25% or more of a business. If a borrower has less than 25% ownership in a partnership or corporation, business returns are not required. Either the most recent years' K-1 or a statement from the business CPA or CEO is required to document the ownership percentage.

CMG aligns with FHA guidance regarding **decline in income:**

- Total: If the income form the business shows a greater than 20 percent decline over the analysis period, the lender must downgrade and manually underwrite.
- Manual:

- Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent decline in Effective Income over the analysis period, the Lender must document that the business income is now stable.
- A Lender may consider income as stable after a 20 percent reduction if the Lender can document the reduction in income was the result of an extenuating circumstance, the Borrower can demonstrate the income has been stable or increasing for a minimum of 12 months, and the Borrower qualifies utilizing the reduced income.

Business Use of Home

Mortgage interest, Mortgage Insurance Premiums (MIP), real estate taxes, and property insurance deducted for business use of a house may be added back to the gross income.

Income or Loss Reported on Schedule C

- The income or loss from a borrower's sole proprietorship business is calculated on the Profit or Loss from Business (Schedule C) and transferred to IRS Form 1040. Certain adjustments may need to be made to the net profit from Schedule C. If the Schedule C includes income that was not obtained from the profits of the business and that income does not appear likely to continue, the net profit should be adjusted by that figure.
- Refer to Appendix 2.0 in HUD handbook 4000.1, as applicable.

Income or Loss from Schedule F

- Income received from farming is calculated on the Profit or Loss from Farming (Schedule F) and transferred to the IRS Form 1040. In completing the cash flow analysis, certain adjustments may need to be made to the net income amount that was transferred to the 1040. For example, certain federal agricultural payments, cooperative distributions, and insurance or loan proceeds are not fully taxable so they would not have been reported on the 1040. The income sources may or may not be stable or continuous and could be a one-time occurrence. If the income from these sources is stable and continuing, the borrower's cash flow should be adjusted by the non-taxable portion of any recurring income from these sources. Other income on Schedule F may represent income that is not obtained from the borrower's farming operation. If the income cannot be verified to be stable, consistent, and recurring, it must be deducted from the borrower's cash flow. The cash flow may be adjusted by adding the amount of any deductions the borrower took on Schedule F for depreciation, amortization, casualty loss, depletion, and business use of his or her home.

Evaluating Business Tax Returns

- Returns for a Partnership or LLC (IRS 1065 / SCHEDULE K-1)
- Both partnerships and limited liability corporations use the US Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, and Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040).
- When analyzing IRS Form 1065, cash flow analysis of the business should be adjusted by adding back to the business's cash flow depreciation, depletion, amortization or casualty losses, and any other losses that are not consistent nor recurring. The business income should be reduced by the meals and entertainment exclusion, and any other reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to be adjusted.
- Income that the business receives from a partnership, estate, or trust generally should not be recognized, unless CMG obtains documentation to verify that the income was actually distributed to the borrower's business. If so, the income may only be considered if the borrower's business has a history of receiving such distributions on a consistent basis, the borrower's business has positive sales and earnings trends and adequate liquidity to support the withdrawal and the borrower can document his or her ownership and access to the income the partnership agreement or LLC's operating agreement.

- The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.
- Refer to Appendix 2.0 in HUD handbook 4000.1, as applicable.

Returns for an S-Corporation

- S corporations pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. The S corporation uses the US Income Tax Return for an S Corporation (IRS 1120S) and the Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing federal income tax returns for the corporation. The shareholder's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040). Ordinary income from the S corporation may be used to qualify the borrower only if the borrower's business has a history of receiving such distributions on a consistent basis, the business income is stable and consistent, the earning trends are positive, and the business has adequate liquidity to support the borrower's withdrawal of cash without a severe negative effect to the business. To determine the S corporation's ability to support the borrower's withdrawal of earnings, the underwriter should review the S corporation's history of distributions and its financial and liquidity positions.
- When analyzing IRS Form 1120S, the cash flow should be adjusted by adding back depreciation and depletion. The cash flow should be reduced by meals and entertainment exclusion and any reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. The borrower's withdrawal of cash from the corporation have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis.
- The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.
- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Returns for a Corporation

- A corporation uses the US Corporation Income Tax Return (IRS Form 1120) to report its taxes. Corporate earnings may not be used to qualify unless it is determined that the borrower owns 100% of the business. A borrower's percentage of ownership in a corporation can usually be determined from the "compensation of officers" section of the corporate tax return. A statement from the corporation's accountant will be acceptable evidence of the borrower's ownership of a business. When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, time adjustments must be made to relate the corporate income to the borrower's individual tax returns (which is based on a calendar year).
- When analyzing IRS Form 1120, the cash flow should be adjusted by adding back depreciation, depletion, amortization or casualty losses, or any other losses that are not consistent and recurring. Deductions the business took for net operating losses and other special deductions that do not represent recurring expenses or losses should be added back to the cash flow analysis. The cash flow should be reduced by the meals and entertainment exclusion. The corporation's taxable income does not reflect the corporation's tax liability and dividends it pays to its stockholders; therefore the cash flow should be reduced by the corporation's tax liability and the amount of any dividends payable from the corporation. Obligations on mortgages or notes that are due

and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to make this adjustment.

- Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

Evaluating Profit and Loss Statements

- A profit and loss statement (audited or unaudited) may be used to support the determination of stability and continuance of income for a self-employed borrower. Profit and loss statements cannot be used to establish new income levels, but can be used to support the fully documented income level. A typical Profit and Loss statement has a format similar to the Schedule C. If the borrower's year to date salary or draws were not used for the qualifying income, they may be added to the net profit on the P&L statement, and the following items may be added back to the net profit figure as well: nonrecurring income and expenses, depreciation, and depletion. However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that can be used to qualify.

G-13 – Unacceptable Income Sources

CMG considers any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations as an ineligible income source for
all financing types and programs. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:

- Foreign shell banks
- Medical marijuana dispensaries
- Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
- Businesses engaged in any type of internet gambling.

CMG may only consider income if it is legally derived. Per IRS regulations, income derived from trafficking in controlled substances is illegal and under federal
law, marijuana is a controlled substance.

Part H – Asset Assessment

H-1 – Asset Assessment & Required Reserves

Automated underwriting systems will indicate the minimum verification documentation necessary to process the loan transaction. This level of documentation may not be adequate for every borrower and every situation. The underwriter must determine whether additional documentation is warranted.

Ineligible Assets:

- 1031 exchanges are not permitted and are ineligible as an asset type.
- Custodial Accounts for Minors; accounts that are in a minor's name where the borrower is the only custodian of the funds are not eligible for closing costs, reserves or down payment.
- Pooled Funds
- Mattress Money / Cash on Hand

For depository accounts (checking, savings, money market funds, CDs), two consecutive monthly statements are required. Loans scored through an AUS may provide reduced documentation requirements and should be documented according to the findings.

- Monthly bank statements must be dated within 45 days of the initial loan application.
- Quarterly bank statements must be dated within 90 days of the initial loan application.

Bank statements must:

- Clearly identify the borrower as the account holder and include the account number
- Include the time period covered by the statement
- Include all deposits and withdrawal transactions
- Include the ending balance

Written Verifications of Deposit (VOD) are not acceptable. Only system generated Verifications of Deposit from the financial institution are acceptable. VODs as standalone asset documentation are not acceptable and must always be accompanied by bank statements.

CMG must investigate any indications of borrowed funds. They include recently opened accounts, large deposits, or account balances that are considerably greater than the average balance over the past few months. All large deposits must have a written explanation from the borrower as to the source of the funds as well as documentation of the funds.

Reserves

- **One- to Two-Unit Properties – Manual Underwriting Only:** The lender must verify and document Reserves equivalent to one month's PITI after closing for one- to two-unit Properties.
- For requirements for 3-4 Unit Properties refer to Part J-1 – Property Eligibility – "3-4 Unit Properties"
- Reserves do not include:
  - the amount of cash taken at settlement in cash-out transactions;
  - incidental cash received at settlement in other loan transactions;
  - gift funds (not acceptable for manual underwriting);
  - equity in another Property; or
  - borrowed funds from any source.

H-2 – Depository Accounts

Earnest Money Deposit:
The lender must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1 percent of the sales price or is excessive based on the Borrower's history of accumulating savings, by obtaining:

- a copy of the Borrower's cancelled check;
- certification from the deposit-holder acknowledging receipt of funds; or
- a Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit; or
- direct verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1); and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

If the source of the earnest money deposit was a gift, the lender must verify that the gift is in compliance with Gifts (Personal and Equity).

Large Deposits
For recently opened accounts and recent individual deposits of more than 1 percent of the Adjusted Value, the Lender must obtain documentation of the deposits. The lender must also verify that no debts were incurred to obtain part, or all, of the MRI.

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, CMG 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, additional documentation should be obtained.

Traditional Documentation - The Mortgagee must obtain:

- a written VOD and the Borrower's most recent statement for each account; or
- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month activity for a minimum of one month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.

H-3 – Gift Funds

In order for down payment funds to be considered a gift, there must be no expected or implied repayment of the funds to the donor by the borrower. Regardless of when gift funds are made available to a borrower, CMG must be able to determine that the gift funds were not provided by an unacceptable source and were the donor's own funds. For manually underwritten loans, surplus gift funds may not be considered as cash Reserves. F*or TOTAL loans must be entered correctly and AUS requirements must be met.*

Gifts may be provided by:

- the Borrower's Family Member;
- the Borrower's employer or labor union;

- a close friend with a clearly defined and documented interest in the Borrower (cousin, niece/nephew would fall under the "Close Friend" category);
- a charitable organization;
- a governmental agency or public Entity that has a program providing homeownership assistance to: o low or moderate income families; or o first-time homebuyers.

The donor may not be a person or entity with an interest in the sale of the property, such as:

- The seller
- The real estate agent or broker
- The builder, or
- An associated entity

Note: Gifts from these sources are considered inducements to purchase and must be subtracted from the sales price. This applies to properties where the seller is a government agency selling foreclosed properties.

- A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property. The gift of equity is transferred to the buyer as a credit in the transaction. Only family members may provide equity credit as a gift on property being sold to other family members.
- The Lender must obtain a gift letter signed and dated by the donor and Borrower that includes the following:
  - the donor's name, address, telephone number;
  - the donor's relationship to the Borrower;
  - the dollar amount of the gift; and
  - a statement that no repayment is required.

- **Documenting the Transfer of Gifts.** The Mortgagee must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the requirements below.

  a. If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account.

  b. If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check evidencing payment to the Borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the gift.

  If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the Mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

  Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

H-4 – Retirement Accounts

- The Lender may include up to 60 percent of the value of assets, less any existing loans, from the Borrower's retirement accounts, such as IRAs, thrift savings plans, 401(k) plan, and Keogh accounts, unless the Borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.
- The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as Reserves.
- The lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the Borrower's retirement accounts, the Borrower's eligibility for withdrawals, and the terms and

conditions for withdrawal from any retirement account. If any portion of the asset is required for funds to close, evidence of liquidation is required.
- Plans that have restrictions (i.e. only accessible upon retirement, termination/unemployment or death) may not be used.

H-5 – Stocks, Bonds, and Mutual Funds

The Lender must determine the value of the stocks and bonds from the most recent monthly or quarterly statement.
- If the stocks and bonds are not held in a brokerage account, the Lender must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds are valued at the original purchase price, unless the Lender verifies and documents that the bonds are eligible for redemption when cash to close is calculated.
- The Lender must verify and document the existence of the Borrower's stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.
- For stocks and bonds not held in a brokerage account the Lender must obtain a copy of each stock or bond certificate.

H-6 – Employer Assistance

- Employer Assistance refers to benefits provided by an employer to relocate the Borrower or assist in the Borrower's housing purchase, including closing costs, MIP, or any portion of the MRI. Employer Assistance does not include benefits provided by an employer through secondary financing.
- A salary advance cannot be considered as assets to close.
- **Relocation Guaranteed Purchase:**
  - The lender may allow the net proceeds (relocation guaranteed purchase price minus the outstanding liens and expenses) to be used as cash to close.
  - If the Borrower is being transferred by their company under a guaranteed sales plan, the lender must obtain an executed buyout agreement signed by all parties and receipt of funds indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.
  - The lender must verify and document the agreement guaranteeing employer purchase of the Borrower's previous residence and the net proceeds from sale.
- **Employer Assistance Plans**
  - The amount received under Employer Assistance Plans may be used as cash to close.
  - The Lender must verify and document the Borrower's receipt of assistance. If the employer provides this benefit after settlement, the Lender must verify and document that the Borrower has sufficient cash for closing.

H-7 –Sale of Real Property

- Net proceeds from the Sale of Real Property may be used as an acceptable source of funds.
- **Required Documentation:** The lender must verify and document the actual sale and the net sale proceeds by obtaining a fully executed Settlement Statement or similar legal document. The lender must also verify and document that the transaction was arms-length, and that the Borrower is entitled to the net sale proceeds.

H-8 – Sale of Personal Assets

CMG aligns with FHA requirements in regards to Sale of Personal Assets:
- Personal Property refers to tangible property, other than Real Property, such as cars, recreational vehicles, stamps, coins or other collectibles.

- The lender must use the lesser of the estimated value or actual sales price when determining the sufficiency of assets to close.
- Borrowers may sell Personal Property to obtain cash for closing. *Note: Not eligible for reserves.*

The lender must obtain a satisfactory estimate of the value of the item, a copy of the bill of sale, evidence of receipt, and deposit of proceeds. A value estimate may take the form of a published value estimate issued by organizations such as automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified Appraiser with no financial interest in the mortgage transaction.

H-9 – Rent Credit (Lease Purchase or Option to Purchase)

CMG Aligns with FHA requirements in regards to Rent Credits:

- Rent Credits refer to the amount of the rental payment that exceeds the Appraiser's estimate of fair market rent.
- The Lender may use the cumulative amount of rental payments that exceeds the Appraiser's estimate of fair market rent towards the MRI.
- The Lender must obtain the rent with option to purchase agreement, the Appraiser's estimate of market rent, and evidence of receipt of payments.

Note: Excess rent credit is considered an inducement to purchase and must be treated accordingly.

H-10 – Business Accounts

Business funds may be used for down payment, closing costs and reserves if the borrower is a 100% owner of the business and appropriate evidence can be provided that shows the borrower as the owner of the account. Additionally, a cash flow analysis must be completed by the underwriter to determine that the withdrawal of funds will not negatively affect the business.

H-11 – Cash on Hand

CMG Overlay: Cash on hand is not an acceptable source of funds for the down payment or closing costs.

Debt & Liability Assessment

I-2 – Monthly Debt

CMG's risk analysis must include an evaluation of liabilities that may affect the borrower's ability to repay the mortgage obligation.

For each liability, the unpaid balance, the terms of repayment, and the borrower's payment history must be determined. If the credit report does not contain a reference for each significant open debt shown on the application, separate credit verification must be provided.

The section describes obligations that should be considered when underwriting the loan, including:

Alimony/Child Support/Separate Maintenance Payments

- Must obtain the borrower's pay stubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support, and maintenance.
- Must calculate the monthly obligation from the greater of: (1) the amount shown on the most recent decree or agreement establishing the borrower's payment obligation; or (2) the monthly amount of the garnishment.

Assumption with No Release of Liability

- The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:
- Copy of documents transferring ownership of the property;
    - The assumption agreement executed by the transferee; and
    - Evidence that the mortgage is current.

Authorized User Accounts

- Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Lender can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI.

Business Debt in a Borrower's Name

Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business.

- When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Lender can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.
- **Required Documentation.** When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Lender must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash flow analysis of the Borrower's business.

Court Order Assignment of Debt

- If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:
    - Copy of the court order or divorce decree
    - For mortgage debt, a copy of the documents transferring ownership of the property; or

- If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

Co-Signed Loans

- When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit—but is not the party who is actually repaying the debt—the borrower has a contingent liability.
- The liability does NOT need to be considered as part of the borrower's recurring monthly debt obligations if a history of documented payments on the co-signed debt by the primary obligor and ascertain that there is not a history of delinquent payments for that debt is verified (since this could be an indication that the co-signer might have to assume the obligation at some point in the future). Documentation must be provided that the person making payments is the joint obligor on the loan.
- The underwriter must verify the last 12 months payments with copies of cancelled checks or bank statements. The account cannot have the borrowers name on it. If bank statements are provided, you should not see deposits (other than payroll) being made into the account prior to the check clearing the primary obligor's account. Use underwriter discretion to see if it looks like someone is giving the primary obligor money to make the payment.
- The liability DOES need to be considered as part of the borrower's recurring monthly debt obligations if:
    - Payment by the primary obligor cannot be sufficiently documented,
    - A sufficient payment history has not been established for the debt, or
    - The primary obligor has a history of being delinquent in making payments on the debt.

Contingent Liabilities / Cosigned Liabilities / Court Ordered Assignment of Debt

- A Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.
- The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless:
    - the Mortgagee verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default; or
    - the other legally obligated party has made 12 months of timely payments and does not have a history of delinquent payments on the loan.
- The Mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.
- **Required Documentation**
    - Mortgage Assumptions: The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name.
    - Cosigned Liabilities: If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months, and does not have a history of delinquent payments on the loan.
    - Court Ordered Divorce Decree: The Mortgagee must obtain a copy of the divorce decree ordering the spouse to make payments.

Deferred Payment Accounts:

- The Lender must include deferred obligations in the Borrower's liabilities.
- **Required Documentation**
    - The Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability.
    - The Lender must obtain evidence of the anticipated monthly payment obligation, if available.
- Calculation of Monthly Obligation
    - The Lender must use the actual monthly payment to be paid on a deferred liability, whenever available.

- If the actual monthly payment is not available for installment debt, the Lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment.
- Refer to “Student Loans” in this section, as applicable.

Home Equity Lines of Credit (HELOC)

- When the mortgage also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower’s recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so CMG does not need to develop an equivalent payment amount.

Installment Debt

All applicable monthly liabilities must be included in the qualifying ratio.

- Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower’s gross monthly income.
- The Borrower may not pay down the balance in order to meet the 10-month requirement.
- Refer to “Student Loans” in this section, as applicable.

Lease Payments

- The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term the new lease payment should be determined and included in the total monthly debts.

Loans Secured by Retirement Savings Plans

- Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt because they are voluntary payments; however, the underwriter should consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio or negative cash flow.

Non-Purchasing Spouse

- If the borrower resides in a community property state or the property is located in a community property state, the debts of the non-purchasing spouse must be considered in the qualifying ratios except those obligations specifically excluded by state law. Although the non-purchasing spouse’s credit history is not to be considered a reason for credit denial, a credit report meeting the same requirements as a purchasing borrower must be met. (Community-Property states are: AZ, CA, ID, LA, NV, NM, TX, WA and WI)

Open 30-Day Accounts

A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month.

- The Lender must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower’s DTI. If the credit report reflects any late payments in the last 12 months, the Lender must utilize 5 percent of the outstanding balance as the Borrower’s monthly debt to be included in the DTI.
- **Required Documentation:** The Lender must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Lender must use the credit report to document the balance, and must document that funds are available to pay off the balance in excess of the funds and Reserves required to close the Mortgage.

Revolving Debt

- **P**ayoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.
  - Revolving debt cannot be not be paid down to qualify.
  - Revolving debt may be paid off to qualify at underwriter discretion subject to FHA eligibility. Underwriter has discretion upon review the overall loan analysis to determine if a revolving debt is eligible to be paid off to qualify and if so, whether it must be closed prior to or at closing
- Where the credit report does not reflect the necessary information on the charge account, the lender must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment.

Student Loans

CMG aligns with FHA's guidance on student loans. Mortgagee Letter (ML) 2021-13 provides revised student loan calculation requirements of the monthly payment obligation.

The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments.

Required documentation: If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer.

The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

Calculation of Monthly Obligation For outstanding Student Loans, regardless of payment status, the Mortgagee must use:

- the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero.

Note: FHA guidance for case numbers assign prior to June 30, 2016 in regards to deferred student loans: If the actual monthly payment is zero or is not available, the Lender must utilize 2 percent of the outstanding balance to establish the monthly payment.

Note regarding student loans in default: FHA guidelines state that the Mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable. If the Student Loan Payment Agreement states that after a specific number of payments must be made to remove the default status, the loan is not considered out of default until the borrower has met the terms in the agreement.

Timeshare

- A loan secured by an interest in a timeshare must be considered an installment loan.

Unpaid Federal Tax Debt

Borrowers with delinquent Federal Tax Debt are ineligible:

- Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

- The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

FHA does not treat a tax liability the same as a delinquent tax lien. As noted above, for a delinquent tax lien, FHA requires at three months paid as agreed. For a tax liability (that is not a tax lien) proof of the three months paid as agreed is not required; however, the lender is still responsible to verify borrower's tax debt and include the tax payment into the total DTI. To verify the borrower's tax liability and payment, a copy of the IRS agreement must be provided.

Note: For years available, Account Transcripts or Record of Account (ordered via 4506-T) can be used in lieu of cancelled check or proof of electronic payment.

Qualifying Impact of Other Real Estate Owned

- All FHA requirements must be met in regards to reserves, rental income, etc.

Part J – Property Eligibility

J-1 – Eligible Collateral

- Single Family Dwellings, including townhomes and row homes
- 2-4 Family Dwellings. See below for additional requirements for 3-4 Unit Properties.
- Condominiums and Site Condominiums
- Planned Unit Developments
- Modular homes are not considered manufactured and are eligible under the guidelines for one-unit properties. The housing must assume the characteristics of site built housing, must be legally classified as real property, and must conform to all local building codes in the jurisdiction in which they are permanently located.
- Unique homes such as log homes will be reviewed on an exception basis; like comparables must be provided

3-4 Unit Properties:

3-4 unit properties in New Jersey are subject to CMG 100% Prefunding QC audit.
Regardless of occupancy status, three and four unit properties must be self-sufficient. This means the maximum mortgage is limited so that the ratio of the monthly mortgage payment divided by the monthly net rental income does not exceed 100%. The calculation below is in addition to the regular maximum mortgage calculations:

- The monthly payment is defined as principal, interest, taxes and insurance including mortgage insurance (PITI) and any homeowners' association dues, computed at the note rate (no consideration for buydowns may be given).
- Net rental income is the appraiser's estimate of fair market rent from ALL units, including the unit that the borrower will occupy, minus 25% for vacancies and maintenance or the vacancy and maintenance factor determined by the jurisdictional HOC.
- Divide the monthly mortgage payment by the monthly net rental income. The monthly mortgage payment cannot exceed 100% of the net rental income. If it exceeds 100%, the loan amount must be reduced to a level that the monthly mortgage payment will not exceed 100% of the net rental income for the property.
- Borrowers must still qualify for the mortgage based on income, credit, cash to close, and the projected rents received from the remaining units. The projected rental of the subject property may only be used as income for qualifying purposes, it cannot be used to offset the mortgage payment. 3-4 Unit properties must be self-sufficient

Reserves (3-4 Unit properties): For three and four unit properties, the borrower *must* have personal reserves equivalent to three months' PITI after closing on a purchase transaction. Reserves cannot be derived from a gift.

J-2 – Ineligible Collateral

- Mixed Use Properties
- Multi-family properties with more than four units
- Agricultural-type properties (such as farms, orchards or ranches) where income is being produced from the property
- Bed and Breakfast Properties
- Properties not suitable for year-round occupancy
- Properties not accessible by roads meeting local standards
- Non-HUD approved Condominiums
- Weatherization financing (II.A.8.i)
- EEM/Energy Efficient Financing (II.A.8.c)
- Solar & Wind Technologies Financing (II.A.8.j)
- Construction to Permanent Financing (II.A.8.g)
- Co-ops
- Properties not typical for the area and lacking comparables (i.e. geodesic homes, log cabins, etc.)
- Timeshares
- Property Flip when Non-Arm's Length Transaction
- Properties appraised with condition C5 or worse
- Properties with:
  - Any health/safety issues or repairs needed;
  - Less than average condition;
  - No permanent heating source;
  - Private Transfer Fee Covenants;
  - Resale restrictions (Age restricted properties allowed – Refer to J-9 Properties Subject to Age Restrictions)
  - Utilities turned off

J-3 – Manufactured Homes

Manufactured homes must meet all requirements in the FHA/VA Manufactured Home Addendum.

J-4 – Appraisal Documentation

USPAP COMPLIANCE
All appraisals must comply with the standards and practices established by the Uniform Standards of Professional Appraisals Practice (USPAP).

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

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

Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter does not directly report to someone involved in loan production. The underwriting review must confirm the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

Appraisal Review Process
CMG will use various fraud and valuation tools to provide data to the underwriter when reviewing appraisals. The required products vary in accordance with the Appraisal Tree. The data as well as the appraisal report will be reviewed when determining acceptability of the appraisal report.

CMG Ineligible List
All loans will be reviewed against the Ineligible Appraiser List. If an appraisal is completed though an appraiser on the list, additional appraisal products may be required.

J-5 – Appraisal Forms and Exhibits

Table J-5-A: Appraisal Forms and Exhibits

FNMA 1004 - Uniform Residential Appraisal Report	This report is used to appraise single family properties and properties located in a PUD (including single family properties with an accessory unit). Includes both an interior and exterior inspection. In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance.
FNMA 1073 - Individual Condo Unit Appraisal Form	This form is used to appraise individual units located in an individual condominium unit. It includes both an interior and exterior inspection.
FNMA 1025 -Small Residential Income Property Report	This appraisal report is used for 2-4 unit properties and includes an interior and exterior inspection
FNMA 1004D – Appraisal Update and/or Completion Report	For appraisal updates and/or completion reports for all one-to-four unit appraisal reports

- The Appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.
- The Appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or out buildings contributing value. The sketch must show "covered" or "uncovered" to indicate a roof or no roof (such as over a patio). The Appraiser must show the calculations used to arrive at the estimated GLA. The Appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.
- The Appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the Appraiser's observation and analysis.

FHA Minimum Photograph Requirements	
Photograph Exhibit	**Minimum Photograph Requirement**

Subject Property Exterior	• Front and rear at opposite angles to show all sides of the dwelling • Front and rear at opposite angles to show all sides of the dwelling • Improvements with Contributory Value not captured in the front or rear photograph • Street scene photograph to include a portion of the subject site • For New Construction, include photographs that depict the subject's grade and drainage • For Proposed Construction, a photograph that shows the grade of the vacant lot
Subject Property Interior	• Kitchen, main living area, bathrooms, bedrooms • Any other rooms representing overall condition • Basement, attic, and crawl space • Recent updates, such as restoration, remodeling and renovation • For two- to four-unit Properties, also include photographs of hallways, foyers, laundry rooms and other common areas
Comparable Sales, Listings, Pending Sales, Rentals, etc.	• Front view of each comparable utilized • Photographs taken at an angle to depict both the front and the side when possible • Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, Appraisers must include their own photographs as well, to document compliance
Subject Property Deficiencies	• Photographs of the deficiency or condition requiring inspection or repair
Condominium Projects	• Additional photographs of the common areas and shared amenities of the Condominium Project

J-6 – Appraisal Transfers

In the event the borrower had an appraisal ordered through another mortgage company, the report should be obtained for our file. The report will be reviewed to ensure it meets CMG and HUD standards and provided the underwriter is accepting of the value, it will be used in determining LTV calculations. Should the report be deemed unacceptable and a second appraisal be requested, the cost of the second appraisal cannot be passed along to the borrower. In that instance, the lower of the two values will be used in calculating the LTV.

J-7 – Appraisal Assessment

CMG/correspondent is responsible for ensuring that appraisal reports are complete and that any changes to the report are made by the appraiser who originally completed the report. If CMG/correspondent has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, CMG/correspondent must attempt to resolve its concerns with the appraiser who originally prepared the report. If CMG/correspondent is unable to resolve its concerns with the appraiser, a replacement report prior must be obtained to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount.

J-8 – Appraisal Repairs

Regardless of product, if an appraisal is required and that appraisal is subject to ANY repairs, the repairs noted need to be cured and a final inspection issued by the appraiser will be required. See section M, Escrow Holdbacks for information on FHA Repair Escrows.

J-9 – Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with one of the Fair Housing Act exemptions.

Government Housing Programs - The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings provided under any STATE OR FEDERAL PROGRAM specifically designed and operated to assist the elderly or to house elderly persons. The Secretary of HUD must determine that the development meets this exemption.

Age Restrictions – 62 years of age or older
The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended for, and solely occupied, by persons 62 years of age or older.

Age Restrictions – Any age restriction
The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:

- At least 80% of the occupied units are occupied by persons 55 years of age or older; and
- The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older; and
- The housing facility or community can provide documentation for verification of occupancy, by means of:
    - Reliable surveys and affidavits;

Examples of published written policies and procedures for determination of compliance with the Fair Housing Act.

Required Documents for Age Restricted Properties

- When it is determined that a housing development is subject to age restrictions, the Homeowners Association must complete and sign the form Housing Developments Subject to Age Restrictions (see Form 38). By signing this form the association certifies that the housing development is in compliance with the Fair Housing Act.
- The Appraiser must note the presence of any Easements and Deed Restrictions to assist the Mortgagee in determining eligibility.
- The Appraiser must analyze and report the effect that Easements and other legal restrictions, such as Deed Restrictions, may have on the use, value and marketability of the Property. The Appraiser must review recorded subdivision plats when available through the normal course of business.

Part K – Geographic Restrictions

K-1 – Geographic Restrictions

CMG only lends in states where they are licensed to do so; for more information please visit CMG's NMLS Consumer Access page (www.nmlsconsumeraccess.org).

Refer to applicable Loan Matrix and Selling guide for any additional geographic restrictions.

Part L – Disaster Policy

L-1 – General Information

When a property is located in a Disaster Area, CMG must verify the structure is sound and not negatively impacted by the Disaster. This must be verified prior to closing / purchasing the loan.
Refer to the list of affected counties published by FEMA for Individual Assistance only at the following link:
http://www.fema.gov/news/disaster_totals_annual.fema

- CMG will require recertification from the appraiser on all loans located in the affected Counties prior to closing;
- If the county is indicated as being in a declared disaster area, the policy must be adhered to;
- The Disasters are referenced with both an incident start date and an incident ending date. The property is considered potentially impacted for 120 days from the incident END date to the date of the property inspection or valuation date;
- If a full appraisal was obtained on the property prior to the declared disaster, the inspection must verify the property is sound and habitable and in the same condition as when it was appraised. Any of the following options are acceptable to satisfy this requirement:
  - A 1004D Final Inspection or Appraisal Update signed by the original appraiser
  - FNMA 2075 – Desktop Underwriter Property Inspection Report
  - DAIR – Disaster Area Inspection Report
- Full appraisals obtained after the declaration need to indicate the property has not been impacted by the disaster;
- If the loan qualified for a non-standard appraisal (Property Valuation Update, PIW, 1075, 2055, 2075, 2095) and a Disaster has been declared prior to funding or purchase, a full appraisal with interior and exterior inspection dated **after** the incident period end date is required. The non-standard appraisal product is not permitted for 120 days after the disaster incident period end date;

Note: HUD requires that the damage inspection report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the Property, and the report must be dated after the Incident Period (as defined by FEMA).

Correspondent clients will be required to furnish CMG with the proper recertification prior to loan approval or purchase.

Part M – Escrow Holdbacks

M-1 – General Information

On a HUD Real Estate Owned (REO) 203b property that requires no more than $10,000 for repairs to meet FHA's property requirements, 110% of the estimated cost of the repairs may be included in the mortgage amount.

In all other cases, the repairs can only be escrowed for weather-related delays, in which case and the CMG Escrow Holdback form (or equivalent) completed by all involved parties.

Refer to the CMG Escrow Holdback Addendum for additional requirements.

Part N – Property Insurance

N-1 – Escrows for Taxes and Insurance

Escrows are always required on FHA loans, regardless of LTV.

N-2 – Hazard Insurance

CMG must ensure that adequate hazard insurance for the security property is in place.

Agent Rating Requirements

Unless CMG has approved alternative arrangements in advance, the hazard insurance policy for a property securing any first mortgage—including blanket policies for condos and PUDs—must be written by a carrier that meets the following rating requirements. The carrier only needs to meet only one of the following rating categories, even if it is rated by more than one agency.

Table N-2-A: Agent Rating Requirements

Rating Agent	Rating
Demotech, Inc. http://www.demotech.com/01_pages/fsr/search.aspx	an "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings.
A.M. Best Co. http://www3.ambest.com/ratings/default.asp	a "B" or better Financial Strength Rating in *Best's Insurance Reports* or a "6" or better financial performance index rating in Best's Key Rating Guide *OR* an "A" or better Financial Strength Rating and a Financial Size Category of "VIII" or greater in*Best's Insurance Reports Non-US Edition*.
Standard and Poor's Inc.	a "BBB" or better claims paying-ability rating in S&P's International Confidence Rating Service OR

	a “BBBq” qualified solvency ratios or a “BBB” or better claims paying ability rating in S&P's Insurer Solvency Review OR An “Aaisi” in its International Confidence Rating Service

Other Acceptable Insurance Underwriters

- Policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan, if it is the only coverage that can be obtained,
- Policies obtained through state insurance plans—such as the Hawaii Property Insurance Association (HPIA), Florida's Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools—if that is the only coverage that is available, and
- A separate windstorm and earthquake policy issued by the Virgin Islands Windstorm and Earthquake Insurance Authority (for properties in the Virgin Islands) or a separate hurricane insurance policy issued by the Hawaiian Hurricane Relief Fund (for properties in Hawaii), as long as the companion non-catastrophic fire and extended coverage (or homeowner's) policy is obtained from a hazard insurer that satisfies Fannie Mae's rating criteria.

General Hazard Insurance Coverage – 1-4 Family Dwellings

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Exclusions or limitations (in whole or in part) for windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not permitted.

Coverage Requirement

Required coverage must be equal to the lesser of the following:

- 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 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.

Deductible Amount

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy

Required Coverage for PUDs or Condos

Most condominium projects have master or blanket policies that address the insurance requirements for each unit. Each loan file must contain a copy of the blanket policy as well as a copy of the Evidence of Insurance that specifies the individual unit. Blanket policies may not permit:

- A blanket policy covering multiple unaffiliated condo associations or projects OR

- Self insurance arrangements in which the HOA is self-insured or has banded together with unaffiliated associations to self-insure the general and limited common elements of various associations.

The term "walls-in" for insurance policies has been eliminated and revised requirements have been updated. The new requirements are described below. The HO-6 policy is still required if the master insurance policy does not provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made for the individual unit.

A statement is required from the insurance agent that states: "Based on our best knowledge and information, the HO-6 coverage amount is appropriate and adequate to return this property to its current condition in the event of a claim."

A "single entity" policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must cover fixtures, equipment, and replacement of improvements and betterment coverage to cover any improvements that have been made inside the individual unit. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

An "all-in" (sometimes known as an "all inclusive") policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. The policy also must provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made. As such, a borrower is not required to have an HO-6 policy. If the unit interior improvements are not included under the terms of this policy type, however, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

A "bare walls" policy – the policy typically provides no coverage for the interior of the condominium unit which includes fixtures, equipment, and replacement of improvements and betterments. As a result, a borrower will also be required to obtain an HO-6 policy.

For policies covering the common elements in a PUD project and for policies covering condominium or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement value of the unit.

Most units in PUD projects are insured as individual residences; therefore their insurance requirements are similar to those for single-family residences. However, if a project covers individual units with a master policy, the master policy is acceptable.

Table N-2-A: Attached Condo Requirements

Coverage	Criteria
Type of Policy	The master policy in the name of the condo association must cover all common elements, amenities, and the residential buildings.
Named Insured	Policy must be in the exact name of the association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.

Liability Coverage	All States Except CA: A liability policy of $1,000,000 minimum per any single occurrence is required
	CA projects (100 or fewer units): A liability policy of $2,000,000 minimum per any single occurrence is required CA Projects (>100 units): A liability policy of $3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of 'umbrella' or 'additional liability')
Hazard Coverage	Must cover 100% of the insured value and include a GRC Endorsement or a Replacement Cost Endorsement.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity Bond	Required for new and established projects with more than 20 units. The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must: • Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or • If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments
Expiration Date	The policies must not expire prior to funding.

Table N-2-B: PUD and Detached Condo Requirements

Coverage	Criteria
Type of Policy	PUD and detached condos usually carry master policies for common elements and amenities, but do not include the residences. Individual lots are usually covered by individual owner policies. Occasionally, however a PUD/detached condo association may carry a master policy that insures the residences. This type of master policy is an acceptable alternative to individual policies, but the policy must be reviewed to ensure proper coverage exists.
Named Insured	Policy must be in the exact name of the PUD/detached condo association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.

Liability Coverage	All States Except CA: A liability policy of $1,000,000 minimum per any single occurrence is required
	CA projects (100 or fewer units): A liability policy of $2,000,000 minimum per any single occurrence is required CA Projects (>100 units): A liability policy of $3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of 'umbrella' or 'additional liability')
Hazard Coverage	No master policy verification is required. Each individual owner must provide a hazard insurance policy for the residence. If all hazard insurance is carried by the association's blanket policy that includes all the residences, the policy must cover 100% of the insurable value and must include an insurable value endorsement.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity Bond	Required for new and established projects with more than 20 units. The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must: • Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or • If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments
Expiration Date	The policies must not expire prior to funding.

Special Endorsements

The requirements for endorsements for PUD and condo projects are as follows:

- Inflation Guard Endorsement, when it can be obtained,
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land- use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.), and
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of $2 million or the insurable value of the building(s) housing the boiler or machinery.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.

Special Endorsements for Condo Projects Only

A Special Condo Endorsement is required if the policy doesn't provide that:

- Any Insurance Trust Agreement is recognized and the right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners' association.

The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Table N-2-C: Requirements for Name Insured

COVERAGE TYPE	REQUIRED FOR NAME INSURED
Condo Projects	The policy must show the homeowners' association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The “loss payable” clause should show the homeowners' association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the homeowners' association as the named insured.

N-3 – Flood Insurance

Flood insurance required for any property that has a building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that has federally mandated flood insurance purchase. The determination of the flood zone is required by pulling a Standard Flood Hazard Determination. Flood insurance is required when the Flood Certification indicates one of the following symbols: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30.

If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP) *or* the borrower(s) is unable to obtain a comparable private flood insurance policy meeting FHA requirements*****, the loan is not eligible.

Acceptable Flood Insurance Policies

Flood insurance generally should be in the form of the standard policy issued under the NFIP *or* a comparable private flood insurance policy meeting FHA requirements*****. The Policy Declaration page of a policy is acceptable evidence of coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP’s “Write Your Own” program—are acceptable.

~~HUD Policy states private flood insurance will not satisfy FHA’s National Flood Insurance Program (NFIP) flood insurance coverage requirement. The Department of Treasury published a final rule, effective July 1, 2019, that allows their regulated lending institutions to accept private flood insurance in lieu of an NFIP policy; however, this does not change FHA regulations. Flood insurance coverage exceeding FHA’s NFIP flood insurance coverage requirement can be obtained.~~ “On November 23, 2020, HUD published a proposed rule in the Federal Register (FR) in 85 FR 74630 to allow for public feedback on the proposed changes to 24 CFR Parts 201, 203, and 206. These changes would allow FHA Borrowers the option to purchase Private Flood Insurance on FHA insured Mortgages for Properties located in SFHAs to satisfy the mandatory purchase requirement under the FDPA. After reviewing and considering the received public feedback, HUD published a final rule in the Federal Register on November 21, 2022, to revise FHA regulations. This ML updates the Handbook 4000.1 requirements to accord with the published final rule”.

Maximum Available through NFIP

The maximum insurance available under the appropriate National Flood Insurance Program (NFIP) is $250,000 per unit. This maximum also applies to condos and PUDs.

Required Coverage on a 1-4 Unit Dwelling

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units, and certain individual condo units (such as those in detached condos, townhouses, or row houses) is the lower of

- 100% of the replacement cost of the insurable value of the improvements,
- The maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling, or
- The unpaid principal balance of the mortgage.

The amount of flood insurance coverage for a PUD project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program.

Required Coverage on Attached Condos: Must meet standard Agency requirements.

*****loan must close and be insured **after** 12/21/2022. See complete details and requirements: Mortgagee Letter 2022-18

Part O – Title Insurance

O-1 – General Requirements

All loans must close with an ALTA title insurance policy which will provide evidence of the borrower's lawful interest in the property to be mortgaged.

The title policy must be in the CMG/correspondent's name and /or its assigns. Title must be vested in the borrower's name, in the name of an eligible inter vivos trust (if permitted per program guides), or in the case of a purchase money must be currently vested in the seller's name with a requirement for a deed to be recorded transferring title to our borrower's name at closing.

The insured amount of the policy must be at least for the gross loan amount and the policy must be dated within 45 days of closing.

A survey will be required only if an exception appears on the title. ALTA 9 Endorsement, or its equivalent, may be substituted in the event a survey is not commonly required by the property area.

A minimum of a twelve month title chain must be provided on each policy. The chain of title will be reviewed for flips as part of the underwriting process.

O-2 – Title Company Requirements

Title companies must meet minimum standards with regards to their overall financial condition and ability to meet its credit obligations. Title Insurance companies must maintain an acceptable financial rating as defined by Fannie Mae.

O-3 – Closing Agent Requirements

All closing agents must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Errors and Omissions Insurance Policy. The minimum coverage limit is $500,000 per claim and $1,000,000 in aggregate with a deductible of no more than $5,000 per million. The policy must have valid effective dates.
- A Closing Protection Letter (CPL) from the title underwriter identifying the closing agent by name and address. A transaction specific CPL will be required on each transaction.
    - In the event the property is located in a state where closing protection letters are not issued by the insurer, a Fidelity Bond policy must be obtained. The bond must provide for a minimum of $1,000,000 in coverage and CMG must be named as a certificate holder on the policy.
- Title Company must meet Fannie Mae ratings criteria.
- Wiring Instructions must be provided with each closing transaction.

O-4 – Closing Attorney Requirements

All closing attorneys must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Copy of Business License
- Closing Protection Letter, if available in subject property state
- Liability Insurance Policy. The minimum coverage is $1,000,000 with a deductible of no more than $5,000 per million. The declarations page must have valid effective dates and list the name of the attorney or firm name and address.

Part Z - Recent Updates / 90 Day Lookback

1/19/2023 –

The following updates were made:

- The Federal Housing Administration (FHA) published its latest version of the Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1). This update includes enhancements and revisions to existing guidelines along with the incorporation of previously published MLs. The revisions are reflected below:
    - Handbook 4000.1 addition to "**Minimum Property Requirements and Minimum Property Standards: Minimum Requirements for Living Unit**" to state:
        - *kitchen facilities adequate for the preparation and cooking of food. Every living unit must have at least one area with kitchen facilities, which must include, at a minimum, a sink with potable running water and a stove utility hookup*.
    - Handbook 4000.1 addition to "**Minimum Property Requirements and Minimum Property Standards: Requirements for Well Water Testing**" to state:
        - *When a well test is required, the report may not be more than 180 days old from the Disbursement Date*.
    - CMG Guidelines, "G-11 – Other Sources of Income: **Alimony or Child Support**" topic was updated to differentiate between court-ordered and voluntary payments.
    - Handbook 4000.1 clarification to "**Compliance with FHA Guidelines and USPAP**" to state:
        - "*The Appraiser must observe, analyze, and report whether the Property meets HUD's Property Acceptability Criteria, including Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).*

- *MPR refers to general requirements that all homes insured by FHA be safe, sound, and secure*".
- "*The Appraiser must note every instance where the Property is not safe, sound, and secure and does not comply with HUD's MPR and MPS, or they must clearly state when no deficiencies with HUD's Property Acceptability Criteria have been observed or are known*".

- CMG Guidelines, "***J-5-A: Appraisal Forms and Exhibits***" topic was updated to remove Form 1004MC. Refer to Handbook 4000.1 "*FHA Appraisal Requirements for Market Conditions and Changing Markets*" for market condition required reporting.
- Handbook 4000.1 addition to "Acceptable Appraisal Reporting Forms and Protocols: **Accessory Dwelling Unit – Required Analysis and Reporting**" to state:
  - "*The Appraiser must measure the Contributory Value of the ADU by applying techniques based on one or more of the recognized three approaches to value: cost approach, income approach, and sales comparison approach*".
- Handbook 4000.1 addition to "Acceptable Appraisal Reporting Forms and Protocols: **Gross Living Area – Required Analysis and Reporting**" to state:
  - "*The Appraiser may apply a supplemental measurement standard if it does not conflict with these requirements and the Appraiser discloses the use of the standard*".

12/21/2022 –

Chapter "*Part N* – ***N-3 – Flood Insurance***" was updated to permit FHA's acceptable of a comparable private flood insurance policy.
