



# Series E: Alt-A Guidelines

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Effective Date: 12/20/2021

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Solve Mortgage (SOLVE) believes that a robust and expanded mortgage product and program set is an important facet of helping consumers fulfill their financial goals. SOLVE leverages a logical approach to the evaluation of borrower capacity and creditworthiness, with an emphasis on Ability to Repay (ATR) and risk mitigation through sound underwriting and documentation practices. Our products and programs are supported by compliance and quality control. Should the guide be silent on an area, the Seller must follow the relevant guidance in the Federal National Mortgage Association (FNMA) Selling Guide, unless SOLVE provides other written guidance. SOLVE recognizes credit and compliance risk and has built product and program guidance for its loan programs which include Qualified Mortgages (QM) and Non-Qualified Mortgages (Non-QM). This guidance ensures each borrower application is evaluated with a comprehensive review of a full credit package wherein a Seller can approve the mortgage transaction based on a reasonable belief that the borrower(s) have met ATR requirements for the subject loan. SOLVE requires delegated Sellers to have a robust fraud identification system that will identify borrower(s) from OFAC-sanctioned countries (<https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>) and any material parties (company or individual) to the transaction identified on an Exclusionary List, including HUD's Limited Denial of Participation (LDP) and General Services Administration (GSA) along with all other federal and state compliance requirements. SOLVE purchases closed loans and provides a correspondent loan product. SOLVE does not issue direct credit decisions. Departures from the product and credit guidance provided below may result in a loan purchase denial or a Seller repurchase of the loan. SOLVE may elect not to purchase transactions that fall outside of the program guidelines. The guidelines set forth and referenced in this document are solely intended to reflect the requirements and terms for loans that are eligible for purchase by SOLVE in connection with the various programs. Each Seller is responsible for prudent underwriting of loans and compliance with all applicable laws. This includes, and without limitation, ATR and Fair Lending laws. Seller may not rely on SOLVE Selling Guide as a basis for compliance with any state or federal laws. ***NOTE: Any area not specifically addressed in this guide will defer to the FNMA Selling Guide requirements in effect at the time of application.***

## 1.1 Purchasing Entity

Solve Mortgage and any affiliated entities (collectively referred to herein as "SOLVE") will be the purchasing companies for the residential loan products in the SOLVE Selling Guide.

## 1.2 Mortgage Program Parameters

The SOLVE programs provide fixed rate mortgage options for borrowers seeking financing with either QM or Non-QM (see Truth in Lending Act (TILA)/Regulation Z for standards) features. If a loan is designated as a QM loan then all Appendix Q requirements must be met. Appendix Q sets forth guidance for determining income and debt for the general QM based on a strict 43% DTI ratio set forth in Regulation Z section 1026.43(e)(3). That section is what sets forth the requirements for the general QM and it incorporates Appendix Q. All programs that are subject to the TILA/Regulation Z require the loan to meet ATR requirements utilizing documentation types discussed later in this guide.

Under the ATR rule there are eight underwriting factors that **must** be considered to meet the requirements of TILA/Regulation Z.

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.
2. Current employment status (if relying on employment income when assessing the consumer's ability to repay).
3. Projected monthly mortgage payment for this loan. This is calculated at the introductory or fully -indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal. (For a loan with an Interest Only payment feature, the monthly mortgage payment is calculated at the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal based on the loan term remaining at the time of the recast.)
4. Projected monthly payment on any simultaneous loans or lines of credit secured by the same property.
5. Monthly payments for mortgage-related obligations, which include property taxes and assessments, insurance, and certain other costs related to the property such as homeowner association fees and ground rent.
6. Debts, alimony, and child-support obligations.
7. Monthly debt-to-income ratio or residual income, calculated using the total of all the mortgage and nonmortgage obligations listed above, as a ratio of reasonably expected gross monthly income.
8. Credit history.

The verification, assessment and payment calculation requirements set forth in the ATR provisions of the TILA and Regulation Z must be followed. This includes and without limitation the use of reasonably reliable third-party records for verification purposes.

## 1.3 Underwriting Considerations

SOLVE evaluates many aspects of the loan during its review. All elements of the loan will be examined to determine the level of risk, including the borrower's capacity and willingness to repay, the borrower's credit, compensating factors, the appraisal, and the overall investment quality of the loan.

The following are examples of underwriting considerations and compensating factors:

- Ability to pay housing expenses greater than or equal to the proposed monthly housing expenses
- Verified reserves of principal, interest, taxes, insurance, and HOA dues in excess of program requirements

- Ability to provide a larger down payment, typically 10% more than program requirements, on the subject property
- A good credit history, including current and previous mortgage/rental housing payments
- Verified net worth, liquid, and other verified assets substantial enough to evidence an ability to repay the loan regardless of income
- Evidence of significant monthly residual income above program requirements

A loan may present a distinct circumstance or additional compensating factors not listed above. All underwriting considerations must be well-documented and will be reviewed on a case-by-case basis. Any exceptions will be made at the sole discretion of SOLVE.

## 1.4 Program Requirements and Restrictions

All Full Documentation loans must include one of the following as evidence that the loan is not eligible for sale to the Government Sponsored Enterprises (GSEs), or for insurance or guaranty by the Federal Housing Administration (FHA), United States Department of Agriculture (USDA) or United States Department of Veterans Affairs (VA):

- An AUS Findings with a “Refer” or “Approve/Ineligible” response
- A note on the 1008 indicating why it is a benefit to the borrower to use a SOLVE program (ex. DTI > 43%, use of SOLVE Pending Sale and Departure loan requirements, Restricted Stock Unit income)

SOLVE does not allow:

- Section 32 High Cost loans
- State High Cost loans
- Sub Prime loans
- Prepayment penalties
- Loan assumptions

SOLVE does not have any restrictions on minimum loan amounts unless specifically noted for a specific loan product or program type.

### 1.4.1 State Restrictions

SOLVE has the following state restrictions for all loan program(s):

- The seller is required to be licensed to originate loans in the state the property is located •  
Some states have LTV or pricing implications. See program matrices and pricing sheets for details •  
The following are not eligible:
  - Any Texas refinance loan
  - New York CEMA
  - Cooperatives

Refer to **SOLVE Program Matrices** for additional information.

### 1.4.2 Electronic Signatures

SOLVE does not authorize the acceptance or provision of e-Signatures, from any party, on the following documents or agreements due to the subject matter or purpose thereof or other legal restrictions:

- Documents or agreements that by their purpose or subject matter require Handwritten Signatures or require certification or acknowledgement by a notary or similar officer

- Real property transaction documents including, but not limited to, those for the transfer of title to real property, required to be recorded, or acknowledged by a notary or similar officer
- Agreements or documents related to SOLVE's security interest that by their nature are required to be recorded and/or acknowledged by a notary or similar officer

Examples:

Document	Acceptable – Yes	Not Acceptable - No
Note		No
Mortgage/Deed of Trust		No
Notarized Documents		No
Right to Cancel	Yes	
Documents signed with a POA		No
Trust Documents	Yes, if recording is not required	No, if recording is required
4506-C	Yes	

#### 1.4.3 Seller Authorization for Disclosure of Information

When additional valuation products from Clear Capital are required to satisfy program valuation requirements the seller authorizes Clear Capital to disclose in good faith all seller provided appraisals and Clear Capital collateral valuation products for loans submitted to SOLVE or its affiliates, for loan eligibility, potential purchase and/or quality control review. As such, the seller will assist and provide access to SOLVE or its affiliates as needed.

The seller agrees to hold Clear Capital, SOLVE and their respective affiliates free of liability for the sharing of this information and any other reasonable and necessary information applicable to the collateral valuation, loan eligibility, or quality control of a loan submitted for SOLVE's review or potential purchase.

## Section 2 COMMITMENT PRICING OVERVIEW

This chapter describes SOLVE's commitment, pricing, and lock policies and procedures with regard to pricing and funding the mortgage loans delivered under this Guide. SOLVE refers to all the delivery options collectively as "Commitments" throughout this section even though the delivery requirements for each Commitment type may vary. The group within SOLVE that is responsible for pricing and Commitments is the Trading/Lock Desk.

### 2.1 Commitment Requirements

In order for a Seller to enter into a Commitment to deliver a mortgage loan, the following conditions are required:

- The Seller must register each mortgage loan with an approved SOLVE due diligence provider or with SOLVE directly and obtain a SOLVE loan number
- The Seller must be in good standing with SOLVE
- Mortgage loans seasoned beyond the third scheduled payment date due from the borrower are ineligible. SOLVE may, at its sole discretion, make exceptions regarding mortgage loan seasoning

### 2.2 Due Diligence

SOLVE's due diligence provider will conduct due diligence services on behalf of SOLVE for each mortgage loan submitted for due diligence review under the SOLVE Selling Guide. Loans may be submitted for a pre-close (Prior Eligibility Review Program) or closed loan (Delegated Loan Review Program) eligibility review.

**Prior Eligibility Review Program:** The SOLVE program that provides for a determination, on a date prior to the closing date of the loan that SOLVE will purchase a loan and that such loan meets the purchase underwriting criteria of SOLVE's Selling Guide and the required program documents. A review under the Prior Eligibility Review Program is not an origination underwriting determination and Seller may not rely on any determination under the Prior Eligibility Review Program as an origination underwriting determination.

**Delegated Loan Review Program:** The SOLVE program that provides for a determination, on a date after the closing date of the loan that SOLVE will purchase a loan and that such loan meets the underwriting criteria of the SOLVE Selling Guide and the required program documents.

Loan submissions must include all the requisite documentation, including the Seller's underwriting approval. SOLVE purchases closed loans and provides a correspondent loan product. SOLVE does not issue direct credit decisions.

The original note and collateral file must be delivered to SOLVE's designated document custodian for review prior to purchase.

### 2.3 Pricing and Delivery Options

The standard Commitment is binding on Seller, requiring that Seller deliver the loan for sale to SOLVE in accordance with the SOLVE Selling Guide. However, Best Effort Commitment options are available for loans delivered under the SOLVE Selling Guide. Commitment pricing for Best Efforts is available via email by contacting the Trading/Lock Desk at SOLVELockDesk@westernalliancebank.com.

### **2.3.1 Pricing**

SOLVE will circulate daily rate/pricing sheets via email each business day before 10:00 a.m. EST which will outline the price to be paid for individual mortgage loans. SOLVE may update the rate/pricing sheet intraday based on daily fluctuations in market rates.

In addition to holidays, business days take into consideration secondary market closures. The days and times that pricing is available will vary based on announced and/or unplanned secondary market closures.

Pricing is subject to change without notice. Overnight price protection is unavailable.

### **2.3.2 Delivery Options**

#### **Individual Loan Best Efforts Commitment**

- Best efforts pricing is available between the hours of 10:00 a.m. and 8:00 p.m. EST Monday through Friday excluding holidays. Rate locks may be requested via email at the SOLVE Trading/Lock desk.

#### **Delayed Purchase Fee**

- All Commitments assume delivery of a closed loan on or before the Commitment Expiration Date. It is also assumed that the loan will be cleared for purchase within 14 calendar days of the latter of 1) the Commitment Expiration Date or 2) Solve Mortgage's initial review date of the closed Loan File. In the event that a loan has not been cleared for purchase within the 14calendar day grace period, the final purchase price will be adjusted according to the Delayed Purchase Fee Schedule outlined on the rate sheet at the time of initial Commitment. Loans purchased more than thirty calendar days from the latter of the Commitment Expiration Date or Solve Mortgage's initial review date may be subject to worst case pricing.

#### **Commitment Cancellations**

- Best Efforts Commitments may be cancelled prior to delivering the loan by emailing the SOLVE Trading/Lock Desk

## **2.4 Enforcement**

Each Commitment offered by SOLVE shall be in full force and effect according to its terms at the time the Seller agrees to accept the Commitment from SOLVE.

Each such Commitment shall be binding upon the Seller, and the Seller agrees to be obligated to perform in accordance with its terms. Seller acceptance of a Commitment shall constitute an irrevocable offer by the Seller to deliver and sell such loans to SOLVE according to the terms of the Commitment under which they were submitted.

## 2.5 Transferability of Commitments

Commitments are not transferable.



## Section 3 TRANSACTION TYPES

### 3.1 Purchase

For a mortgage loan to be considered a purchase money transaction, the proceeds from the mortgage loan must be used to finance the acquisition of the subject property or to pay off the outstanding balance of a land contract or contract for deed. The lesser of the purchase price or appraised value will be used to calculate the LTV/CLTV. Proceeds from the mortgage loan may not be used to give the applicant cash back other than an amount representing reimbursement for the applicant's overpayment of fees and/or a legitimate pro-rated insurance premiums and real estate tax credit in locales where real estate taxes are paid in arrears, if any. The settlement statement must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund.

The borrower may rent back their subject property for up to 30 days from the closing sale date. In some cases, such as relocations, SOLVE, at its sole discretion, may allow the rent back period to be greater than 30 days.

### 3.2 Rate and Term Refinance

For rate and term refinance loans, Sellers must follow FNMA Selling Guide, except as modified by the following parameters:

- Cash back limit is the lesser of 2% of the loan amount or \$5,000
- HELOC
  - A HELOC can be paid off and still considered a rate and term transaction provided the HELOC has no draws greater than \$2,000 over the last 12 months (established at purchase or a later date, seasoning from Note date to application date)
    - ✦ Loan must be paid off and closed or it will be considered cash-out
- Payoff of a closed end 2<sup>nd</sup> lien will default to FNMA requirements
- Ineligible for rate and term designation if the original loan was cash-out and less than 6 months has passed from the original Note date
- Benefit to the borrower must be documented

### 3.3 Cash-out Refinance

For cash-out refinance loans, Sellers must follow FNMA cash-out refinance loan guidelines in all cases, except as modified by the following parameters:

- The maximum cash-out allowed is \$500,000 (this includes the payoff of consumer debt and is not limited to cash-in-hand). This limit is valid for all product-types, occupancies and property-types
- Minimum 12 months ownership seasoning (seasoning from Note date to application date) to use appraised value to determine LTV/CLTV. If the ownership seasoning is less than 12 months, the lower of the purchase price or the appraised value will be used to determine LTV/CLTV. The purchase price must be documented.
- The borrower must show ownership of the current property for at least 6 months (seasoning is from application date) OR if less than 6 months ownership, documentation that the ownership is due to inheritance or was legally awarded in an agreement
- Cash-out if cash back exceeds the lesser of 2% of the loan amount or \$5,000
- Prior loan transaction was cash-out and within the last 6 months from disbursement then current loan is considered cash-out
- Paying off a HELOC where borrower has drawn more than \$2,000 in the last 12 months

### 3.4 Delayed Financing

When the borrower purchased the property with cash within 6 months from acquisition date to application date and the borrower now prefers to encumber the property with secured financing:

- LTV is based on the lesser of current appraised value or purchase price
- Transaction is treated as a rate/term refinance
- No financing was obtained against the property for the initial purchase
- The source of funds to acquire the property are documented and are the borrower's own funds
- CD or other settlement statement must be provided to document the original purchase price and date of acquisition
- Inherited properties are not eligible
- The original transaction must have been Arm's Length
- No cash-back to the borrower exceeding the original purchase price or appraised fair market value (whichever is lower) is permitted

**NOTE:** *Cash-out limits do not apply with Delayed Financing.*

### 3.5 Continuity of Obligation

For refinance transactions, there must be a continuity of obligation. If additional borrowers are added who are not currently on the title, the transaction is limited to a Rate and Term refinance. **Cash-out is not allowed when additional borrower(s) who are not on title are added to the transaction.**

- Rate and Term Refinance Transactions meet continuity of obligation requirements when one of the following requirements are met:
  - At least one borrower on the new mortgage was a borrower on the mortgage being refinanced ○ At least one borrower on the new mortgage held title to the subject property for the most recent 12-month period prior to the application date. In addition, for Primary Residence transactions, at least one Borrower on the new mortgage also resided in the subject property as a primary residence for the most recent 12month period prior to the application date. The mortgage file must contain documentation evidencing that the borrower, **either**:
    - ✦ Has been making timely mortgage payment, including the payments for any subordinate financing, for the most recent 12-month period; **or**
    - ✦ Is a related person to a borrower on the mortgage being refinanced ○ At least one borrower on the new mortgage inherited or was legally awarded the subject property, e.g., in the case of divorce, separation, or dissolution of a domestic partnership
  - The title to the property being refinanced is in the name of a Limited Liability Company (LLC) or acceptable trust. The borrower(s) must be a member of the LLC or beneficiary of the trust at the time of application.
    - ✦ Title to the subject property must be transferred into the borrower's name prior to or at closing
    - ✦ Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirements
- Cash-Out Refinance Transactions (including properties owned free and clear) meet continuity of obligation requirements when one of the following requirements are met:
  - All borrower(s) must have held title to the subject property for a minimum of 6 months prior to the application date
    - ✦ Title can be in the name of a Limited Liability Company (LLC) or acceptable trust. The borrower must be a member of the LLC or beneficiary of the trust at the time of application
      - Title to the subject property must be transferred into the borrower's name prior to or at closing
      - Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirements
  - Property was purchased by borrower:
    - ✦ If the borrower's purchase date is within 6 to 12 months prior to application date, the LTV/CLTV must be based on the lesser of the original sales price or the current appraised value
    - ✦ If the borrower's purchase date is more than 12 months prior to application date, the LTV/CLTV may be based on the current appraised value
  - Property was not purchased by borrower (e.g. borrower was granted the property):
    - ✦ If the borrower has been on title for at least 6 months prior to the application date, the appraised value can be used to calculate LTV/CLTV
    - ✦ The LTV/CLTV maximum is the lesser of 50% or the program maximum

Borrower must meet all other program guidelines including the mortgage housing history.

### 3.6 Higher Priced Mortgage Loan (HPML)

SOLVE follows the CFPB guidance on the definition of an HPML loan (See Regulation Z section 1026.35 for the most current details). This program(s) will allow for HPML loans provided the following requirements are met:

- Escrow account for taxes and insurance premiums
- Must have an interior and exterior appraisal of the subject property (all SOLVE programs require)

Appraisal requirements:

- The borrower must be provided a copy of the prescribed appraisal disclosure within three business days of application for an HPML loan or within three business days of learning the loan will be an HPML loan • The borrower must receive a copy of the appraisal at least three days prior to closing • A second appraisal by a different appraiser is required if:
  - The seller acquired the property 90 or fewer days prior to the date of the buyer's agreement to acquire the property, and the buyer's purchase price exceeds the seller's purchase price by more than 10%
  - The seller acquired the property 91 to 180 days prior to the date of the buyer's agreement to acquire the property, and the buyer's purchase price exceeds the seller's purchase price by more than 20%

## 3.7 1031 Exchanges

The 1031 tax deferred exchange provides the borrower with an additional means for down payment funds. In a 1031 tax deferred exchange, proceeds from the sale of the borrower's previously sold property (relinquished property) is transferred to an intermediary and held by the intermediary until the borrower finds a replacement property (the subject property). The relinquished property sale must close before or simultaneously with the replacement (subject) property acquired. These transactions must comply with Internal Revenue Code Section 1031.

**A 1031 tax deferred exchange is an acceptable source of down payment for an investment property purchase transaction only.** Reverse exchanges are not allowed. This occurs when the borrower acquires the subject property through an exchange accommodator titleholder prior to transferring the property to be relinquished.

### 3.7.1.1.1 Documentation Requirements

The following documentation is required in the Loan File for both properties in a 1031 tax deferred exchange transaction when the relinquished property is transferred prior to the purchase of the subject (acquired) property:

- 1031 exchange agreement and title transfer or evidence of title transfer
  - The exchange agreement should identify the holder of funds, buyer and seller, expiration date, agreed upon value, closing date, closing costs, condition of transfer, and repairs, if required
- Verification of the receipt of funds from the qualified intermediary / accommodator

The following documentation is required for **both** properties of a 1031 tax deferred exchange transaction that are closing simultaneously:

- Copy of the sales contract
- Fully executed Closing Disclosure
- Fully executed deed transferring title or evidence of title transfer
- The 1031 exchange agreement
  - Note: The exchange agreement should identify the holder of funds, buyer and home seller, expiration date, agreed upon value, Closing Date, closing costs and conditions of transfer and repairs, if required.
- Statement of borrower's equity for the property to be relinquished, calculated as the lesser of the appraised value or the tradein value (sales price) from the sales contract minus any outstanding liens and transfer costs.

The loan closing must be handled by a qualified intermediary, typically an escrow company or licensed exchange company, who enters into a written agreement with the borrower. The qualified intermediary cannot be an agent, investment banker, broker, employee of the borrower, or related family member.

**Note:** Reverse 1031 Exchanges are not eligible

## 3.8 Ineligible Transactions

SOLVE will not purchase the following:

- Community Land Trust loans
- Construction loans
- Any Texas refinance loan
- CEMAs
- Cooperatives
- Credit only application

- Loans that fund/disburse with an interest credit beyond the 10<sup>th</sup> calendar day of the month

## Section 4 PROGRAM REQUIREMENTS

SOLVE requires loans submitted for purchase under the various product offerings meet the standards set in the guidelines herein and the requirements set forth in TILA and Regulation Z, which require Sellers to make a reasonable, good faith determination of a consumer's ATR for closed-end consumer credit transactions secured by a dwelling. The following requirements are designed to ensure loans made to borrowers under these programs have demonstrated and documented the ability and capacity to repay the debt, satisfying ATR requirements.

**NOTE:** Any area not specifically addressed in this guide will defer to the FNMA Selling Guide requirements in effect at the time of application.

### 4.1 Delegated Underwriting, Appraisal and Condo Review

For approved Sellers SOLVE will allow delegated underwriting of the loan product, appraisal review and the condo review requirements (if applicable). The Seller must ensure all requirements of the appropriate program are met and are eligible for delivery to SOLVE. In all cases there must be a benefit to the borrower. Any deviation from this guide, other written SOLVE guidance or the FNMA Selling Guide, where applicable, could result in SOLVE declining to purchase the loan.

### 4.2 Escrow Account Requirements

All first lien mortgage loans that are HPMLs, or that will be secured by property outside of California and will have an LTV greater than 80%, require an escrow impound account for taxes and insurance, unless prohibited by statute or law or a waiver is permissible by law. Please refer to the rate sheet for any pricing implications for escrow waivers.

Flood insurance must be escrowed for properties located in a designated flood zone requiring a flood insurance policy as required under the National Flood Insurance Act of 1968 (as amended), unless the flood premium is documented as paid by a condominium or homeowner's association.

**NOTE:** Partial escrow waivers with  $\leq 80\%$  LTV/CLTV may be considered on a case-by-case basis (with the exception of premiums and fees for flood insurance).

### 4.3 Payment Shock

SOLVE does not set a limit on payment shock for the borrower though ATR must always be met unless the loan is for business purpose and is exempt from the Regulation Z ATR requirements.

### 4.4 Borrower Eligibility

SOLVE will purchase loans made to borrowers who are legal United States residents. That includes U.S. Citizens, or Non-U.S. Citizens assuming they can meet the requirements of a lawful permanent or non-permanent resident of the United States and any additional requirements in the section below. SOLVE limits the number of borrowers per loan to four (4).

Eligible Borrowers:

- U.S. Citizens
- Permanent Resident Aliens
- Non-Occupant Co-Borrowers (Full Documentation loans only)
- Non-Permanent Resident Aliens

Ineligible Borrowers:

- Foreign Nationals
- DACA
- Persons with Diplomatic Immunity
- Corporations, general partnerships, limited liability companies and DBAs (LLCs allowed with the DSCR program)
- Borrower(s) without a Social Security number (ITINs are not eligible)

**NOTE:** If documentation in the file indicates the borrower is a party to a lawsuit then additional information must be obtained to determine the impact to the borrower's ATR, assets or collateral.

#### 4.4.1 Resident Aliens

SOLVE requires permanent and non-permanent resident aliens to provide two-year documented employment history (only U.S. employment will be considered). The Seller is responsible for gathering appropriate documentation to determine and represent that the borrower is legally residing in the U.S. A Permanent Resident Alien may be an eligible borrower if they hold an alien registration card (green card).

A Non-Permanent Resident Alien may be an eligible borrower if they maintain one of the following current classifications:

VISA ELIGIBILITY MATRIX				
Visa Category	Visa Type	Brief Description	Documentation Required	EAD Code
	E-1	Treaty trader - employee, spouse, and/or child	Visa and EAD	C02



<b>Trade Treaty Work Visa</b>	E-2	Treaty investor - employee, spouse, and/or child	Visa	
	E-3	Specialty occupation		
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	Visa and EAD	A17/C12
<b>Temporary Employment Visa</b>	H-1B	Specialty Occupation	Visa	
	H-1B1	Specialty Occupation		
	H-1B2	Specialty Occupation - U.S. Department of Defense		
	H-1B3	Fashion model of distinguished merit and ability		
	H-1C	Registered nurse - U.S. Department of Labor		
	H-4	Spouse or child of H-1B	Visa and EAD	C26
<b>Media Work Visa</b>	I	Foreign media outlet (press, radio, film, or other)	Visa	
<b>Nonimmigrant Visa for Fiancé(e)</b>	K-1	Fiancé(e) - purpose of marriage	Visa and EAD	A06
<b>Nonimmigrant Visa for Spouse</b>	K-3	Spouse of a U.S. citizen	Visa and EAD	A09
<b>Temporary Employment Visa</b>	L-1A	Intracompany transfer - managerial or executive	Visa	
	L-1B	Intracompany transfer - specialized knowledge		
	L-2	Spouse or child of L-1A or L-1B	Visa and EAD	A18
<b>Temporary Employment Visa</b>	O-1A/B	Extraordinary ability in analysis, business, education, entertainment	Visa	
	O-2	Assistant to O-1		
	P-1A	Internationally recognized athlete		
<b>NAFTA Professional Workers Visa</b>	TN	Professional under NAFTA	Visa	
<b>Spouse / Child of Permanent Resident Alien</b>	V-1	Spouse of a Legal Permanent Resident (LPR) who is the principal beneficiary of a family-based petition (Form I-130) which was filed prior to December 21, 2000, and has been pending for at least three years.	Visa and EAD	A15
	V-2	Child of a Lawful Permanent Resident (LPR) who is the principal beneficiary of a family-based visa petition (Form I-130) that was filed		

		prior to December 21, 2000, and has been pending for at least three years.	
	V-3	The derivative child of a V-1 or V-2.	

EAD ELIGIBILITY MATRIX			
Certain borrowers may hold an EAD which does not require a corresponding Visa type. Borrower's holding the <b>EADs noted below are eligible without a Visa.</b>			
EAD Code	EAD Code Definition		
C09	Adjustment of status applicant		
C10	<ul style="list-style-type: none"><li>Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants</li><li>Applicant for suspension of deportation</li><li>Applicant for cancellation of removal</li></ul>		
C24	LIFE legalization applicant		
C31	<ul style="list-style-type: none"><li>Principal beneficiary of an approved VAWA self-petition</li><li>Qualified child of a beneficiary of an approved VAWA self-petition</li></ul>		
TEMPORARY EMPLOYMENT VISAS – ADDITIONAL INFORMATION			
Visa Category	Visa Type	Brief Classification Description	USCIS Period of Stay/Extension Requirements – Income Continuity, Stability, and Dependability Considerations
Temporary	H1-B	Specialty Occupations, DOD Cooperative Research and Development Project Workers, and Fashion Models	<ul style="list-style-type: none"><li>An H-1B specialty occupation worker or fashion model,</li><li>May be admitted for a period of up to three years.</li><li>The time period may be extended, but generally cannot go beyond a total of six years, though some exceptions do apply.</li></ul>
	L-1A	Intracompany Transferee Executive or Manager	<ul style="list-style-type: none"><li>Qualified employees entering the U.S. to establish a new office will be allowed a maximum initial stay of one year.</li><li>All other qualified employees will be allowed a maximum initial stay of three years.</li><li>All L-1A employees, requests for extension of stay may be granted in increments of up to an additional two years, until the employee has reached the maximum limit of seven years.</li></ul>
	L-1B	Intracompany Transferee Specialized Knowledge	<ul style="list-style-type: none"><li>Qualified employees entering the U.S. to establish a new office will be allowed a maximum initial stay of one year.</li><li>All other qualified employees will be allowed a maximum initial stay of three years.</li><li>All L-1B employees, requests for extension of stay may be granted in increments of up to an additional two years, until the employee has reached the maximum limit of five years.</li></ul>
	O-1A/ O-1B/ O-2	Individuals with Extraordinary Ability or Achievement	<ul style="list-style-type: none"><li>An initial period of stay for up to 3 years.</li><li>USCIS will determine time necessary to accomplish the initial event or activity in increments of up to 1 year.</li><li>New petitions involving new events or an event that, on case-by-case basis is determined to be materially different from the event in the initial petition may be approved for up to 3 years.</li></ul>

Employment Visa	P-1A	Athlete	<ul style="list-style-type: none"> <li>Individual athlete - The time needed to complete the event, competition, or performance.</li> <li>This period of time cannot exceed five years.</li> <li>Extensions of Stay in increments of up to five years in order to continue or complete the event, competition, or performance.</li> <li>Total stay is limited to 10 years.</li> </ul>
	P-1B	Member of an Internationally Recognized Entertainment Group	<ul style="list-style-type: none"> <li>Time needed to complete the event, competition or performance, not to exceed one year.</li> <li>Extensions of Stay in increments of up to one year in order to continue or complete the same event, competition or performance for which you were admitted.</li> </ul>

Acceptable evidence of permanent residency for borrowers who are not U.S. citizens must be provided. The borrower must provide the USCIS evidence as follows:

- Permanent Resident Card (USCIS Form I-551), referred to as a green card, without conditions
- Permanent Resident Card (USCIS Form I-551) with conditional right to reside, accompanied by a copy of the filed Petition to Remove Conditions on Residence (USCIS Form I-751)

**NOTE:** Any Permanent Resident Card that is due to expire within six months must be accompanied by a copy of an Application to Replace Permanent Resident Card (USCIS Form I-90) filing receipt. The Visa or Employment Authorization Documents (EAD) must be current and may not expire prior to the closing date.

#### 4.4.2 Non-Occupant Co-Borrowers

The use of a non-occupant co-borrower is acceptable provided the property is occupied by a borrower as their primary residence. The non-occupant co-borrower does not have to be a family member provided the coborrower meets the legal residency status discussed in prior sections.

- Owner-occupied, one unit only
- Full documentation
- The Primary (occupant) Borrower's credit profile will be used for grade determination
  - A minimum borrower contribution of 5% of the down payment can come from either the Primary (occupant) Borrower or the non-occupant Borrower's funds with an LTV/CLTV of 80% or less
  - If the LTV/CLTV is greater than 80% then a 5% contribution from the primary (occupant) Borrower is required
- Secondary financing is not allowed on non-occupant co-borrower transactions
- No gift funds allowed
- Non-occupant co-borrower must be vested on title for a minimum of six months for a rate/term refinance (seasoning based on application date)
- Cash-out refinance transactions are not allowed
- Up to two non-occupant co-borrowers are allowed

**NOTE:** The appropriate box at the top of the 1003 must be selected for the non-occupant co-borrower.

#### 4.4.3 Title Vesting

Eligible Vesting:

- Individual
- Joint Tenants
- Tenants by the Entirety
- Tenants in Common
- Inter Vivos Revocable Trust
- Land Trust (in those states where land trusts are widely accepted and an individual is the beneficiary)

Ineligible Vesting:

- Limited Liability Company (allowed under the DSCR program)
- Irrevocable and Blind Trusts

### 4.5 Occupancy

#### 4.5.1 Owner Occupied Primary Residence

An owner-occupied primary residence is a one- to four-unit dwelling that is occupied by the borrower as their principal residence. A property will not be considered a primary residence unless at least one of the borrowers occupies all or part of the subject property as a primary residence within 30 days of the Note Date. The following define primary residency:

- The borrower occupies the property for a major part of the year.
- The property location is convenient to the borrower's place of employment.
- The property must possess the physical characteristics to accommodate the borrower's immediate dependent family ○

Physical characteristics are considered those typical to both the owner and the neighborhood.

- The property's address is on record for federal income tax reporting, voter registration, driver's license, and occupational licensing.
- In the case of a purchase money transaction, the borrower must state his or her intention to occupy the subject property as his or her principal residence

#### **4.5.2 Second Home or Vacation Homes**

A second home or vacation home is a one-unit dwelling owned and occupied by the borrower for his or her exclusive use and enjoyment. The property should be located at a sufficient distance and time of travel from the primary residence. The following define a second/vacation home:

- The property is suitable for year-round occupancy
- The property is not subject to timesharing, rental agreement ownership, rental pools, or agreements that stipulate the rental of the property
- A management firm must not control occupancy
- The property may not be remote or inaccessible and may be used only for residential purposes
- Income from a second/vacation home is not acceptable

SOLVE limits the number of loans a borrower may have for second/vacation homes to one. Exceptions may be made for multiple second homes if they are in different resort or vacation type areas. Two- to four-unit properties are ineligible as second/vacation homes

#### **4.5.3 Non-Owner Occupied Investment Properties**

A non-owner occupied investment property is a one- to four-unit residential property that is neither the borrower's primary residence nor their second/vacation home. Investment property is defined as property owned for the purpose of generating a positive net cash flow.

A loan for investment property that generates a negative cash flow may be eligible for purchase by SOLVE as long as the borrower's credit and debt ratios strictly adhere to the Loan Program requirements. The overall transaction will be closely scrutinized and must make sense for the borrower's circumstance

### **4.6 Non-Arm's Length Transaction**

SOLVE will not permit non-arm's length transactions. A non-arm's length transaction is a transaction between family members, co-workers, friends or anyone associated with the transaction such as the listing agent, builder, mortgage lender, or broker. Exceptions are reviewed on a case-by-case basis for the below situations:

- Divorce requiring a buy out
- Inherited property to buy out interests
- Gift of Equity
- A borrower represented by a relative in the transaction (realtor or loan officer) if it is an open market transaction and there are no fees credited to the borrower. A relative cannot be both realtor and loan officer

**NOTE:** *Employee loans are considered non-arm's length and are not eligible.*

### **4.7 Age of Documents**

SOLVE allows the age of documentation to be utilized for 120 days. The age of documents is measured from the date of the document to the date the Note is signed.

## 4.8 Maximum Number of Financed Properties

SOLVE may limit the number of properties a borrower can have to qualify for these programs depending on the occupancy type of the transaction.

<u>SUBJECT PROPERTY OCCUPANCY TYPE</u>	<u>MAXIMUM NUMBER OF ALL FINANCED PROPERTIES</u>
Primary Residence	No Limit
Second Home / Investment Property	20 (Cumulative for all borrowers)

### 4.8.1 Calculation to count number of properties:

The Seller should evaluate the number of financed properties of the borrower based on the criteria below:

- All residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is eligible to be excluded from the borrower's DTI
- The count is by number of properties not the number of mortgages (i.e. a property with a 1<sup>st</sup> and 2<sup>nd</sup> mortgage counts as one financed property)
- The borrower's principal residence counts if it is financed
- The cumulative total for all borrowers (jointly financed properties are only counted once)

### 4.8.2 Property ownership types excluded from maximum limit:

The following are not included in the financed property count:

- Ownership in a timeshare
- Loans secured by vacant residential lots or other vacant land
- Ownership in commercial real estate
- Ownership of a multifamily property consisting of more than four dwelling units
- Properties owned by the borrower's joint venture, S or C Corp
- Properties owned in an LLC or partnership name and borrower's total ownership interest is <25% • Ownership of a manufactured home on a leasehold estate not titled as real property
- Chattel

**NOTE:** If the credit report or other documentation in the loan file indicates the borrower is personally liable on the note, then the payment has to be included in the qualifying ratios.

## 4.9 Maximum Number of Loans to One Borrower Sold to SOLVE

The maximum number of loans that can be submitted at one time for the same borrower (to be sold to SOLVE) is limited to 4 or by the aggregate dollar amount of \$4MM (of the total loans sold to SOLVE). If more than 4 loans need to be reviewed at the same time (and the aggregate dollar amount is within guidelines) then the review will have to be coordinated and approved by SOLVE.

## 4.10 Maximum Number of Loans in One Market Area Sold to SOLVE

The number of loans to one borrower in any single market area is limited to two. The term "Single Market Area" is generally defined by the appraiser and refers to the physical location of the property, meaning two or more homes owned by the same borrower within a several block radius, defined neighborhood, or lending area.

**NOTE:** Sellers may contact SOLVE to confirm market area location of properties being submitted for eligibility review.

#### **4.11 Principal Curtailments**

A principal curtailment to the new refinance loan at closing is allowed up to the lesser of 2% of the new loan amount or \$5,000 and must be clearly reflected on the Closing Disclosure to avoid the potential of an originator steering a borrower into a higher rate loan for the sole purpose of reducing the overall principal amount of the loan as a result of the seller credit.

Principal curtailments cannot be used to cure tolerance violations post-closing of the loan but are permitted at closing.

## Section 5 CREDIT

### 5.1 Credit Requirements

SOLVE expects all files to contain a tri-merge credit report reviewed carefully by a Seller for adverse trends, borrower credit profile, credit scores, payment history, etc. Typically, all qualifying borrowers should have three FICO scores. A borrower not using income to qualify (showing \$0 earned) or who is not employed, does not need to meet the minimum tradeline requirements but must meet the minimum credit score requirement of 680.

Frozen credit is not allowed. Tradelines for authorized users are not eligible to be counted as a tradeline.

Borrower(s) circumstances relative to credit history will be reviewed based on the parameters outlined below.

#### 5.1.1 Minimum Tradeline Requirements

A borrower's credit history must reflect **one** of the following to generate a valid credit score as defined by SOLVE:

Three or more established open and active tradelines as follows:

- All active in the last 12 months. This is defined as last activity within 12 months of the credit report date
- Derogatory/deferred tradelines do not count

Minimum four years of established credit history as follows:

- Eight or more tradelines reported
- At least one active in the last 12 months. This is defined as last activity within 12 months of the credit report date
- At least one of these tradelines must be a mortgage tradeline (can be counted as the active tradeline)

#### 5.1.2 Borrowers who do not meet Minimum Tradeline Requirements

The following option is available for borrowers who do not meet the minimum tradeline requirements in the section above.

Six months additional reserves and meets **one** of the following requirements:

- DTI < 35%
- LTV/CLTV ≤ 70% or the program maximum, whichever is less

#### 5.1.3 Credit Score Selection

The borrower's qualifying credit score should be chosen by identifying the mid-score of the tri-merge credit report with three scores or the lower of two scores if a credit pull returns only two scores.

Once the qualifying credit score for each borrower has been established the underwriter will utilize the credit score of the borrower with the highest income (Primary Borrower) to issue a credit decision.

- The Primary Borrower's qualifying score is used with Full Documentation and 12-month Bank Statement documentation type loans
- If the borrowers earn equal income the lower of the calculated score will be used for grade determination
- If there are non-occupant borrowers, use the highest qualifying credit score of the occupant(s)
- All borrowers must meet the minimum credit score requirements for the program being utilized



- The Asset Qualifier documentation type requires the use of the lowest selected score among all borrowers
- The Debt Service Ratio Program allows the use of the highest credit score between borrowers

#### 5.1.4 Monthly Debt Obligations

SOLVE will calculate monthly debt obligations for the borrower based on FNMA guidelines.

##### 5.1.4.1 HELOC – No Payment on Credit

SOLVE requires the total line limit amount to be included in the CLTV.

- If there is a balance, the payment listed on the credit report is included in the DTI. If no payment is listed on the credit report, a HELOC statement can be used to verify payment (as an alternative the greater of 1% of the balance or \$10 may be used as the payment)
- If a line has a zero balance, then no payment is required. The exception to this would be if the borrower is pulling funds from the HELOC for closing costs. In this case, the calculated payment would be the greater of 1% on the drawn amount, or \$10

## 5.2 Rapid Rescores / Credit Updates

SOLVE will allow a Rapid Rescore or credit update provided the Seller delivers the original credit report and the Rapid Rescore is completed prior to the loan closing and prior to the loan submission to SOLVE. The Seller must evaluate:

- Derogatory information removed from original credit report and documentation to support validity • Payment for each tradeline:  
Significantly lower balances on revolving accounts must document source of funds used •  
  - The Seller is required to use the highest payment of each active tradeline between the original credit report and Rapid Rescore to calculate the borrower's monthly liabilities in the DTI calculation

## 5.3 Mortgage /Rental History

If the borrower currently has a mortgage, SOLVE requires a mortgage history of 0x30 for the last 24-months (as of the note date) depending on the program.

<u>MORTGAGE TYPE</u>	<u>DOCUMENTATION</u>
Institutional Mortgages or Rental	Credit report or Verification of Mortgage/Rent
Private Rental	24-months cancelled checks or bank statements (depending on the program)
Private Mortgages	Copy of the mortgage note, 24-months cancelled checks or bank statements (depending on the program), and VOM

One of the following scenarios must be met to satisfy the borrower's mortgage/housing payment history for their primary residence:

- A fully documented, recent, consecutive, 24-month housing history (must be within 59 days of closing) as required by program(s) guidelines
  - If there are multiple borrowers on the loan, only one of the borrowers must have a primary housing history
  - If both borrowers have a housing history then both must be verified
  - A non-occupant co-borrower's history may not be used to satisfy this requirement on a primary residence

- Evidence that the primary residence is owned free and clear (e.g., copy of title or credit report). The mortgage/housing history will be treated as 0x30 from the time the property obtained free and clear status. If the property has not been free and clear for 24-months, additional housing history will need to be verified to complete the full 24-month history

Borrowers who lack a primary mortgage/housing history or do not have a complete history as required by the program(s) guidelines are eligible if **one** of the following is met:

- Borrower has a fully documented, recent, consecutive 12- or 24-month mortgage history, as required by program(s) guidelines, on an additional owned property The following apply:
  - o Allowed with all credit grades
  - o LTV/CLTV of 75% or the program(s) maximum, whichever is lower
  - o Not allowed with DSCR Program
  - o Primary residence
  - o Mortgage history must be from an institutional Seller
- Borrower lives rent-free or does not have a fully documented, recent, consecutive 12- or 24-month mortgage history as required by program(s) guidelines. This includes situations where the borrower may have received a rent holiday, payments have lapsed due to divorce/separation, or other instances where the most recent 12- or 24-month housing history is not consecutive or complete The following apply:
  - o LTV/CLTV of 75% or the program(s) maximum, whichever is lower
  - o Not allowed with the DSCR Program
  - o Minimum credit score of 720 for Jumbo loans and 700 for Expanded loans
  - o Primary residence

### 5.3.1 Free and Clear

If current residence is owned free and clear the following is required:

<u>DURATION</u>	<u>REQUIREMENT</u>
Free and Clear $\geq$ 12 Months	No additional requirements
Free and Clear < 12 Months	Verify payment of taxes, insurance, HOAs, or other associations (as applicable)

## 5.4 Student Loans

Deferred student loans are included in the DTI as a long-term obligation. If no payment is shown on the credit report for a student loan payment, then proof of payment should be provided by student loan lender. If payment is unable to be determined, use 1% of the unpaid balance. If a student loan is charged off or in collection, the following must be provided:

- A copy of repayment agreement and six months cancelled checks, **or**
- If not in repayment, evidence it won't affect title

Income based repayment is not allowed. A payment must be included for qualifying.

## **5.5 Subordinate / Secondary Financing**

SOLVE will follow the requirements outlined in the FNMA Selling Guide with the following exception(s):

### **5.5.1 HELOC**

The Seller must provide a copy of the subordination agreement and a copy of the executed Note. The line limit will be used to calculate the CLTV.

## **5.6 Paying Off Debt**

### **5.6.1 Revolving accounts**

If a revolving account is paid off at or prior to loan closing, the Underwriter may exclude the account that has been paid off from the DTI ratio.

To exclude the payment the following must be provided:

- The applicant(s) must show assets available to pay off debt or sufficient equity to pay off loan
- Document the debt will be paid at (on closing documents (CD/HUD-1)) or was paid prior to closing

### **5.6.2 Delinquent Credit Liens**

Any derogatory item that may impact either title of the subject property or lien position of the first or second mortgages (as applicable) must be paid off at or prior to closing. The borrower must meet the asset qualification (reserves, down payment, etc.) of the program(s) after the payoff of the lien(s) has been satisfied.

### **5.6.3 Paying Down Debt**

It is not acceptable to pay down debt to reduce the DTI to a level that would allow the borrower to qualify for the program. An applicant may pay debt down using assets or proceeds from the loan, however the Seller should utilize the original payment prior to the pay down in the DTI for qualifying.

## **5.7 Derogatory Credit Events**

Borrowers who have experienced derogatory credit events, such as deed-in-lieu of foreclosure, principal forgiveness, foreclosure, loss mitigation or bankruptcy must reach minimum seasoning requirements (waiting period). Seasoning for each event is measured from completion/settlement date to the Note date.

Loss mitigation history includes the following:

- Deed-in-Lieu
- Short Sale
- Notice of Default (NOD)
- Short Refinance
- Pre-Foreclosure Sale
- Loan Extension
- Loan Modification

- Forbearance
- Charge-off

Foreclosure history includes any of the following:

- Breach
- Lis Pendens
- Notice of Sale
- Sheriff's Sale
- Short Payoff

In the instance where a borrower has been or is currently delinquent 120 days or longer on any mortgage loan and the lender has not initiated formal actions, the 120 days plus delinquency will be treated as a foreclosure for grading purposes unless documentation is provided to show how the event finalized. For example, if a 120-day delinquency occurred but the loan went into a modification, it would be considered a loss mitigation event for credit grade determination.

If a foreclosure is included in the bankruptcy, each event is treated separately for grade determination. The Seller must determine the seasoning for each event and grade the loan accordingly.

Multiple major derogatory events are ineligible with the following exceptions:

- Derogatory events greater than 7 years from Note date
- When a Chapter 13 rolls into a Chapter 7 bankruptcy

Refer to the **SOLVE Program Matrix** for derogatory seasoning information and loan program restrictions.

## 5.8 Disputed Accounts

The loan programs may be available if credit history shows a disputed account. The Seller must determine if the account is disputed because the borrower is not responsible for the payment; or if the borrower is responsible but the reporting of payment amount, history or other term is not correct.

<u>SCENARIO</u>	<u>RESPONSE</u>
The borrower is disputing responsibility for the tradeline	The Seller must obtain documentation clearly reflecting that the borrower is not responsible.
The borrower is responsible but reporting is in error	The Seller must obtain information that clearly disproves the reported information on the disputed account
The borrower is responsible and reporting is correct or can't be proven inaccurate	The Seller must obtain proof that the dispute was resolved or paid. If documentation is not available then the loan will be reviewed on a case-by-case basis.

## 5.9 Judgments / Collections / Charge-offs / Garnishments

This type of information that shows in the credit report should be scrutinized by the Seller under FNMA Selling Guide requirements. However, SOLVE will not require charge-offs or collections that do not affect title to be paid off prior to closing. All derogatory accounts should be evaluated by the Seller to ensure the borrower can represent a strong credit profile.

## Section 6 INCOME

This section outlines income requirements that apply to all programs. Should a specific income scenario not be addressed in this section of the guide and is an eligible income source refer to the FNMA Selling Guide in effect at the time of application to determine qualifying income.

### 6.1 General Income Requirements

All documentation types must have:

- A complete two-year history of employment and/or source of income must be stated on the 1003. Exceptions to the two-year history are allowed for the following (a 2-year history in the same business is always required for selfemployment):
  - Acceptable employment duration requirement is not met due to school (documented with a transcript or diploma)
  - Military service supported with discharge papers
- Job gaps greater than six (6) months in the past two (2) years require the borrower to be on the current job for at least six (6) months to consider income for qualifying
- Minimum three (3) years expected continuance at the same level or better
- Follow scenario and requirements for income stability below:

<u>SCENARIO</u>	<u>REQUIREMENTS</u>
Stable or Increasing (0% to 25% Increase)	Income should be averaged based on program requirements
Decreasing less than 25%	The lower income documented is used (not averaged)
Significant Decrease (greater than 25% decrease)	Follow "Decreasing less than 25%" provided: <ul style="list-style-type: none"><li>• One time or isolated impact</li><li>• LOX for the decrease</li><li>• Documentation to support the LOX</li></ul>
Significant Increase (greater than a 25% Increase)	The higher income may be used to qualify if: <ul style="list-style-type: none"><li>• There is enough documentation to support the increase is stable and likely to continue at qualifying amount</li></ul>

#### 6.1.1 Ineligible Income

- Foreign income
- Contributions or support from family members (other than alimony/child support)
- Deferred income not presently available
- Educational benefits
- Illegal income
- One-time capital gains (continuing capital gains is an acceptable source of income)
- Projected income
- Refund of federal or state income tax
- Rental income on a second home, accessory unit or an ineligible second unit
- Reimbursable income

- Gambling winnings
- Automobile allowances (used to offset the auto payment only)
- Per diem income
- Retained earnings
- Unverified sources
- Income from a business that is illegal
- Mortgage credit certificates
- Mortgage differential payments
- Boarder income and room rents
- Non-qualified and non-vested stock options
- Temporary income
- Employment related assets as income (only allowed under the Jumbo Express program)

### 6.1.2 Verification of Employment

Verbal Verification of Employment (VVOE) is required for all borrowers and a record of the VVOE must be in the loan file. Additional requirements for employment verification include:

- Wage earner income ○ VVOE should include verification of a phone listing and employer's address ○ Completed within 10 calendar days of the Note date
- Self-employment income ○ VVOE for self-employment income should include verification of a phone listing and address for the borrower's business and verification through a 3rd party such as:
  - ✦ CPA
  - ✦ Regulatory agency
  - ✦ Applicable licensing bureau

Completed within 10 calendar days prior to the note date

If contact is made verbally, the loan file must be documented to identify:

- ✦ The source of the information obtained
- ✦ The name and title of the person who obtained the information

**NOTE:** Verification of Employment and documentation in the file (e.g. 1003) must provide a minimum two years of employment history.

### 6.1.3 Residual Income

All primary, second home and investment transactions must meet residual income requirements. To calculate the residual income, subtract the total monthly expenses from the total monthly verified income.

- Total monthly expenses are all obligations on the 1003
- Ex. Credit debt, PITIA, alimony/child support and any recurring monthly debts

SOLVE requires residual income of at least \$3,000 per month. On an exception basis, based on the type of underwriting considerations noted in Section 1.3, SOLVE in its sole discretion may accept a lower monthly residual income.

#### 6.1.4 4506-C / Tax Transcript and Filing Requirements

SOLVE has different requirements for tax transcripts and 4506-C delivery based on the income documentation type. When necessary the signed 4506-C and/or transcripts obtained are used to validate the information provided by the borrower for income qualification. Transcripts are not required for business returns unless the borrower owns 25% or more of the company and the business income does not flow through to the borrower's personal tax return such as an 1120 (C-Corp). The Seller is responsible for validating the documentation used for qualification prior to delivery to SOLVE. Requirements for each documentation type:

<b>INCOME DOCUMENTATION TYPE</b>	<b>REQUIREMENTS</b>
Full Doc Wage Earner (not self-employed)	4506-C W-2 transcripts
Full Doc Self-Employed	4506-C Full transcripts
Full Doc Rental Income	4506-C Full transcripts
Bank Statements	4506-C not required
DSCR	4506-C not required
Asset Qualifier	4506-C not required

SOLVE will allow tax extensions until October 15<sup>th</sup>. If the borrower has not filed tax returns by April 15<sup>th</sup> (or date allowed by IRS), then the following is required on or prior to June 30<sup>th</sup>:

- Evidence of tax extension (IRS Form 4868) or evidence of extension filing
- Proof tax liability payment has been made (if applicable) or the amount of the tax liability due can be subtracted from the borrower's liquid assets (if proof of payment is not supplied). The borrower will need to meet the required assets for down payment, closing costs and reserves after the taxes due are subtracted from the borrower's liquid assets. After October 15<sup>th</sup> proof of tax payment is required

After June 30<sup>th</sup>, in addition to the requirements above, an IRS Form 4506-C transcript confirming "No Record Found" for the tax returns on extension must be supplied.

Requirements are based on note date (ex. if loan closes after October 15<sup>th</sup> then tax returns must be filed and supplied for qualifying).

If full transcripts are required and are not available then an IRS Form 4506-C transcript confirming "No Record Found" must be supplied with evidence taxes were filed and any amounts due were paid.

- If most recent year's tax transcript for the income used to qualify is not available for a borrower who has filed taxes, the income may be verified by one of the following:
  - Officially stamped return by the IRS
  - Evidence that the return was electronically received (must reflect refund or amount owed to IRS) In all cases, evidence of a refund check or payment made must be supplied.
- If W-2 transcripts are required and are not available then an IRS Form 4506-C transcript confirming "No Record Found" must be supplied. If the most recent year's W-2 transcript for the income used to qualify is not available then one of the following is required:
  - Prior year W-2 and W-2 transcript must be provided, OR
  - A WVOE for the time period covering the W-2 that shows a return of "No Record Found"

**NOTE:** If the loan submission is for a prior-to-purchase review then it is preferable that the 4506-C transcript is submitted prior to closing.

## 6.2 Full Documentation Wage Earner

The information provided below outlines the basic documentation requirements. Any income-type not addressed below will refer to the FNMA Selling Guide in effect at time of the mortgage application.

### 6.2.1 Salaried Borrower

- Most recent paystub covering one-month and includes year-to-date earnings
- Most recent two years W-2s
- If qualifying income includes commission then it is subject to the following:
  - Less than 25% of income
    - ✦ No additional documentation is necessary
  - More than 25% of income
    - ✦ Additional conditions for variable income and specific income types are outlined below

### 6.2.2 Variable Income

SOLVE variable income addresses bonus, overtime, commission and restricted stock units/stock option income that is greater than 25% of the borrower's overall qualifying income. Documentation of history of receipt, frequency of payments, income trend and continuity must be reviewed per FNMA guidelines unless specifically stated in the following section.

### 6.2.3 Specific Income Type Requirements

The requirements below are in addition or in support of the FNMA Selling Guide for the income type listed. Definitions of stable, declining and significant are in the table below:

<u>TERM</u>	<u>DEFINITION</u>
Stable	Income trend is consistent or increasing
Declining	Income trend has declined year over year
Significant	Any change in income greater than 25% (Positive or Negative).

#### 6.2.3.1 Bonus Income Requirements

- Sign-on bonuses or other one-time pay outs are not eligible
- Projected bonus income with no historical basis (two-year history) or bonuses based on a forgivable loan structure are not eligible
- If there is less than a 2-year history then the YTD bonus earnings will not be used to qualify
- YTD bonus must be annualized if included in average (Borrower must have received for a minimum of two years at current employer)
- If YTD bonus is reflecting a "Significant" increase or decrease:
  - Averaging not allowed
  - LOX and case-by-case evaluation is required



- Significant bonus income variations from year-to-year may require additional years of documentation to use the income to qualify

### 6.2.3.2 Overtime Income Requirements

- Use the last two-years average of income for qualifying
- Seller must consider the annualized YTD earnings
  - “Stable” YTD earnings would allow for utilization of the two-year average
  - “Declining” YTD earnings:
    - ✦ Averaging not allowed
    - ✦ Must be carefully analyzed before considering as qualifying income
    - ✦ Seller must document in writing a sound rationalization for utilization in qualifying
  - “Significant” earnings variations from year-to-year will require additional years of documentation to use the income to qualify
- The borrower must have a consecutive, recent, two-year history of receiving overtime income

### 6.2.3.3 Commission Income Requirements

Commission income is averaged over 24-months regardless of duration of commission income

- Review the commission trend
  - “Stable” earnings require no additional review or documentation
  - “Declining” earnings require additional justification and/or documentation to include as qualifying income
    - ✦ Seller must include a written LOX in the loan file explaining the use of declining commission income
    - ✦ Seller must clearly indicate documentation used to support the decision to use the income to qualify
- Draws should be considered when commission income is calculated
- Certain documentation required and/or restrictions are applied based on the timeframe commission income has been received

<u>TIME RECEIVING COMMISSION</u>	<u>DOCUMENTATION REQUIREMENTS</u>
24 months or more	Follow Variable Income section
12-23 months	<ul style="list-style-type: none"> <li>• Requires positive factors that offset shorter income history.</li> <li>• Gather all available Variable Income section documentation supporting the current commissions.</li> <li>• Averaged over 24-month period (i.e. 12-month receipt still averaged over 24-months)</li> </ul>
< 12 Months	Commission income cannot be used

### 6.2.4 Restricted Stock Units (RSUs) and Stock Options Income Requirements

- The vesting schedule indicates the income will continue for a minimum of three years at a similar level as the prior two years
- The calculated income derived from RSUs or stock options income should:
  - Average the previous two years
  - Determine continuance based on the future vesting schedule
- The income used for qualifying must be supported by future vesting based on the stock price used for qualifying
- Borrower must be currently employed by the employer issuing the RSU/stock options for the income to be considered
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify

#### Documentation Requirements:

- Evidence that stock is publicly traded
- The most recent vesting schedule or issuance agreement showing continuance of RSU income for a minimum of three (3) years
- To prove a 3-year continuance, take the available number of RSUs on the Note date and multiply by the 52-week low stock price, then divide by 36 months. Use the lower of the two-year history or 36-month continuance amount for qualifying

### 6.2.5 IRA Distributions

To document IRA distributions, evidence of the following is required:

- Two-year history showing on borrower's tax returns and three years' continuance, or
- Distribution letter, evidence at least one month's receipt and three years' continuance
- Borrower's Required Minimum Distribution (RMD)

### 6.2.6 Employment Offers or Contracts

SOLVE will default to FNMA requirements for borrowers scheduled to begin employment under the terms of an employment offer or contract.

- Only FNMA Option 1 is eligible
- FNMA Option 2 is not eligible under any program

## 6.3 Full Documentation Self-Employed:

### 6.3.1 General requirements

General requirements for self-employed borrowers must be considered when analyzing business income for potential use in qualification. The evaluation criteria for a self-employed borrower includes:

- Minimum two-year self-employment history [in the same business/entity](#) is required with at least one complete year of self-employment reporting on tax returns. Two (2) years of tax returns are required and there must be one full year of the applicable self-employment showing on the most current year
- Minimum two-year history of self-employment reflected on the 1003 (loan application)
- Location and nature of the borrower's business is stable
- Demand for product and service offered by the business
  - Sales earning trends are positive
- Financial strength of the business
  - Business income is stable and consistent
- Liquidity testing of the business
  - Must be done on the business to ensure that the business can support withdrawal of assets and revenue necessary for the borrower to meet the requirements of the mortgage and other debt liabilities When evaluating the characteristic above, the Seller should be aware of the conditions below:
- The Seller must complete a Comparative Income Analysis (FNMA Form 1088) to determine business viability
- Seller must evaluate and document where the business can sustain the withdrawal of assets if the borrower should need them to make mortgage payments and meet other personal debt obligations
- Mortgages, notes, and bonds payable in less than one year can be excluded, if supported
- Business use of home and amortization can be added back
- Net operating loss (NOL)/carryover loss can be excluded if supported

The table below describes the necessary documents required for the business-type and any additional requirements.

	<b><u>1099</u></b>	<b><u>PARTNERSHIP (1065)</u></b>	<b><u>S-CORP (1120S)</u></b>	<b><u>C-CORP (1120)</u></b>
<b><u>2 YEAR PERSONAL TAX RETURNS</u></b>	Yes	Yes	Yes	Yes
The additional requirements for documentation in this chart below are not needed IF K-1 income reported on personal return is positive for most recent two (2) years and NOT being used to qualify.				
<b><u>ADDITIONAL REQUIREMENTS</u></b>				
<b><u>INCOME ADJUSTMENT</u></b>	None	Income based on ownership %	Income based on ownership %	Borrower must be 100% owner to use business income
<b><u>2 YEAR BUSINESS TAX RETURNS</u></b>	No	Yes	Yes	Yes
<b><u>TWO YEARS K-1s</u></b>	No	Yes In addition, can be used to document ownership %	Yes In addition, can be used to document ownership %	No
<b><u>SIGNED P&amp;L</u></b>	No	Yes	Yes	Yes
<b><u>FORM 1065</u></b>	No	Yes • Used to reflect positive sale and earnings trend by comparative analysis	No	No
<b><u>CORPORATE RESOLUTION OR ANOTHER COMPARABLE DOC</u></b>	No	No	No	Yes • Must document to demonstrate borrower's legal right to additional income and % of ownership

<b><u>LIQUIDITY TEST REQUIRED</u></b>	No	Yes <ul style="list-style-type: none"> <li>If ordinary income, rental income, and other net rental income from the K-1 is being used in qualifying</li> </ul>	Yes <ul style="list-style-type: none"> <li>If ordinary income, rental income, and other net rental income from the K-1 is being used in qualifying</li> </ul>	Yes (including below) <ul style="list-style-type: none"> <li>Minimum two-year history of stable and consistent distributions (income must have been distributed)</li> <li>Verification from business account that it can support continued distributions at current level or better</li> <li>Add-back corporation's depreciation, depletion and amortization to the after-tax income</li> <li>Reduce the taxable income by the tax liability to determine the gross net profit</li> </ul>
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## 6.4 Full Documentation Rental Income

Rental income can be utilized for borrowers without previous landlord/property management experience, provided the borrower can provide the required documents. The income or loss will then be calculated to evaluate in the overall DTI calculation. The treatment of these items will be based on FNMA guidelines.

Rental income from short term leases, Airbnb, VRBO, Homestay or other vacation rentals (i.e., short -term rentals (less than 12-month lease)) will be allowed with the following documentation and restrictions:

- A two-year history of receipt is reported on the borrower's income tax returns
- Evidence that the property is currently being offered for rent in the same manner
- Market rents cannot be used for short-term rental income

Rental income received from a family member may not be used as income without copies of a minimum of six months of cancelled rent checks provided by the tenant family member.

## 6.5 Jumbo Express Program

For loan amount and LTV/CLTV limitations and for income documentation type and eligibility, refer to the **SOLVE Program Matrices**.

### 6.5.1 Program Overlays

<b>Underwriting Eligibility</b>	<p>The Jumbo Express Program requires the Seller to utilize FNMA Desktop Underwriter (DU). Manual underwriting is not allowed. The Seller must underwrite the loan to the most restrictive of the Jumbo Express Matrix, the DU Findings, and the overlays noted in this Jumbo Express Program document.</p> <p><b>NOTE:</b> Any mention of Agency refers to FNMA only.</p>
<b>Exceptions</b>	<p>The Jumbo Express Program does not allow exceptions to the Guidelines.</p>
<b>QM Status</b>	<p>Non-QM only</p>
<b>Underwriting</b>	<ul style="list-style-type: none"><li>• FNMA DU (DU) required</li><li>• Freddie Mac LP (LP) not allowed</li><li>• Manual underwrite not allowed</li><li>• For underwriting guidelines not addressed, refer to the FNMA Selling Guide currently in effect as of the loan application date</li></ul>
<b>Occupancy Types</b>	<p><b>Eligible:</b></p> <ul style="list-style-type: none"><li>• Primary residence (owner occupied - OO)</li><li>• Second home (OO)</li><li>• Investment Properties (NOO)</li></ul>
<b>Transaction Types</b>	<p><b>Eligible:</b></p> <ul style="list-style-type: none"><li>• Purchase</li><li>• Rate/Term Refinance</li><li>• Cash-out Refinance</li><li>• Land Contracts</li><li>• Lease Option to Buy</li><li>• Contract for Deed</li></ul> <p><b>Ineligible:</b></p> <ul style="list-style-type: none"><li>• Construction Financing</li></ul> <p><b>NOTE:</b> Permanent end financing on construction loans is allowed.</p>

<b>Loan Purpose</b>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/term Refinance</li> <li>• Cash-out Refinance</li> </ul>
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<b>Principal Curtailments</b>	<ul style="list-style-type: none"> <li>• A principal curtailment to the new refinance loan at closing is allowed up to the lesser of 2% of the new loan amount or \$5,000 and must be clearly reflected on the Closing Disclosure to avoid the potential an originator is steering a borrower into a higher rate loan for the sole purpose of reducing the overall principal amount of the loan as a result of the seller credit</li> <li>• Principal curtailments cannot be used to cure tolerance violations post-closing of the loan but are permitted at closing</li> </ul>
<b>Cash-out Refinances - Ownership Seasoning and Establishing LTV/CLTV</b>	<ul style="list-style-type: none"> <li>• Per FNMA</li> <li>• Minimum six months ownership seasoning required for cash-out refinance transactions</li> </ul>
<b>Maximum Cash-out</b>	\$500,000
<b>Lien Type</b>	First liens only
<b>Qualifying Payment</b>	<p><b>Fixed Rate Full Amortization:</b></p> <ul style="list-style-type: none"> <li>• Qualify using the fully amortized fixed payment <b>Interest</b></li> </ul> <p><b>Only Full Amortization:</b></p> <ul style="list-style-type: none"> <li>• Borrowers qualify at the note rate based on fully amortizing Principal and Interest payment during the principal repayment period. Borrowers will not qualify on the Interest Only payment amount</li> <li>• 30-year Interest Only – Fully amortizing mortgage loan that pays Interest Only during the first 10 years and amortizes down over the remaining 20 years</li> </ul>

<b>FNMA DU AUS Requirements</b>	<ul style="list-style-type: none"> <li>• Approve/Eligible</li> <li>• Approve/Ineligible (for loan structure such as LTV limits, loan purpose, and loan amount. It cannot be ineligible for a credit event (and credit events cannot be excluded.)</li> <li>• 30-year Interest Only program should be run as a 20-year fixed loan</li> <li>• FNMA DU Findings Report used by the Seller for their underwriting decision must be included in the file submission</li> <li>• <b>FNMA DU Findings Report must match the loan characteristics and be within alloSolvele FNMA tolerance at the time of submission and at the time of loan closing</b></li> </ul>
<b>Agency Program Restrictions</b>	<ul style="list-style-type: none"> <li>• Seller-negotiated criteria/variances with FNMA are not eligible</li> <li>• FNMA unique eligibility and underwriting consideration programs are not allowed, including but not limited to: HomeStyle, HARP, DU Refi Plus, and Home Ready</li> </ul>

<b>Agency Extenuating Circumstances</b>	Extenuating Circumstance guidelines for derogatory credit and flexibility are not eligible (i.e., cannot instruct DU to disregard information on credit report to receive an Approve/Eligible)
<b>Borrower Eligibility</b>	<ul style="list-style-type: none"> <li>• Eligible Borrowers: <ul style="list-style-type: none"> <li>○ U.S. Citizens</li> <li>○ First Time Homebuyers</li> <li>○ Permanent Resident Aliens</li> <li>○ Non-Occupant Co-Borrowers</li> <li>○ Inter Vivos Revocable (aka living) Trusts</li> </ul> </li> <li>• Ineligible Borrowers: <ul style="list-style-type: none"> <li>○ Foreign Nationals</li> <li>○ DACA</li> <li>○ Non-Permanent Resident Aliens</li> <li>○ Borrower(s) without a Social Security number (ITINs are not eligible)</li> <li>○ Borrower(s) living rent free</li> </ul> </li> <li>• Loans closed in irrevocable, blind, or fictitious name trusts are not eligible</li> <li>• Seller is responsible for verifying that the borrower has a valid registration card and document in the file</li> <li>• SOLVE limits the number of borrowers per loan to four</li> </ul>

<b>Ineligible Income</b>	<ul style="list-style-type: none"> <li>• Illegal income or assets</li> <li>• Income from a business that is state or federally illegal</li> <li>• Foreign income</li> <li>• Restricted Stock Units (RSUs)</li> </ul>
<b>Minimum Credit Score</b>	680 – all borrowers must meet the minimum credit score requirement
<b>Date used for Credit Seasoning Requirements</b>	Per FNMA
<b>Minimum Tradeline Requirements</b>	<ul style="list-style-type: none"> <li>• Per FNMA DU</li> <li>• A borrower without an established credit history is ineligible</li> </ul>
<b>Borrower Credit Eligibility</b>	<ul style="list-style-type: none"> <li>• Borrower eligibility requirements apply to all properties currently or previously owned by the borrower. Examples include mortgage housing histories, loss mitigation, foreclosure, etc.</li> <li>• Inclusive of all liens regardless of lien position</li> </ul>

<b>Mortgage/ Housing History</b>	<ul style="list-style-type: none"> <li>• 0X30 in the past 12-months. Mortgage history for all properties must be verified 'paid as agreed' within 30 days of the note date</li> <li>• <b>Borrowers without a primary mortgage or rent history in the last 12-months are Ineligible.</b> This includes situations where the borrower may have received a rent holiday, payments lapsed due to divorce/separation, or other instances where the most recent 12-months housing history is not consecutive and complete</li> <li>• At least one of the borrowers must have a fully documented, recent, consecutive, 12-months primary housing history</li> <li>• Evidence that the primary residence is owned free and clear (e.g., copy of title or credit report). The mortgage/housing history will be treated as 0x30x12 from the time the property obtained free and clear status. If the property has not been free and clear for 24-months, additional housing history will need to be verified to complete the full 24-month history for credit grade determination In addition:</li> <li>• Mortgage/housing payment history on any property, regardless of the occupancy or lien status, is considered mortgage/housing history for grading purposes. A copy of the title or credit report must document the free and clear status</li> </ul>
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<b>Bankruptcy History</b>	<ul style="list-style-type: none"> <li>• Chapter 7 and Chapter 11: Four years from discharge date to note date</li> <li>• Chapter 13: Two years from discharge date to note date or four years from dismissal to note date</li> <li>• If a foreclosure is included in the bankruptcy, each event is treated separately for credit grade determination</li> <li>• No extenuating circumstances allowed</li> </ul>
<b>Multiple Bankruptcies</b>	Per FNMA
<b>Loss Mitigation</b>	<ul style="list-style-type: none"> <li>• Four (4) years prior to Note date ○ Loss Mitigation includes non-foreclosure actions such as Deed-in-lieu, Short Sale, NOD, Short Refinance, Pre-Foreclosure Sale, Loan Extension, Loan Modification, Forbearance and Charge-off</li> <li>• No extenuating circumstances allowed</li> </ul>
<b>Foreclosure History</b>	<ul style="list-style-type: none"> <li>• Seven years from completion date to application date</li> <li>• If a foreclosure is included in the bankruptcy, each event is treated separately for seasoning requirements</li> <li>• No extenuating circumstances allowed</li> </ul>
<b>Adverse Credit</b>	All delinquent credit that will impact title, including delinquent taxes, judgments, chargeoff accounts, tax liens, and mechanic's liens must be paid off prior to or at closing
<b>Tax Payment Plans</b>	Tax repayment plans must be paid off prior to or at closing
<b>Maximum DTI</b>	Maximum DTI 45%
<b>Full Income Documentation</b>	Income documented per DU Findings

<b>4506-C and Tax Transcripts</b>	<ul style="list-style-type: none"> <li>Required for all loans <ul style="list-style-type: none"> <li>Per DU income type used for qualifying. Ex. If DU requires 1-year W-2 then <ul style="list-style-type: none"> <li>1-year W-2 tax transcripts are required <ul style="list-style-type: none"> <li>If tax transcripts are not available for the current year then the prior year's tax transcripts must be obtained in order to validate the 1-year W-2 wages</li> </ul> </li> </ul> </li> </ul> </li> <li>If most recent year's tax transcript for the income used to qualify is not available for a borrower who has filed taxes, the income may be verified by one of the following: <ul style="list-style-type: none"> <li>Officially stamped return by the IRS</li> <li>Evidence that the return was electronically received (must reflect refund or amount owed to IRS)</li> </ul> </li> </ul> <p>In all cases, evidence of a refund check or payment made must be supplied.</p>
<b>Tax Extensions</b>	<p>SOLVE will allow tax extensions until October 15th. If the borrower has not filed tax returns by April 15th, then the following is required on or prior to June 30th:</p> <ul style="list-style-type: none"> <li>Evidence of tax extension (IRS Form 4868) or evidence of extension filing</li> <li>Proof tax liability payment has been made (if applicable) or the amount of the tax liability due can be subtracted from the borrower's liquid assets (if proof of payment is not supplied). The borrower will need to meet the required assets for down payment, closing costs and reserves after the taxes due are subtracted from the borrower's liquid assets. After October 15th proof of tax payment is required</li> </ul> <p>After June 30th, in addition to the requirements above, an IRS Form 4506-C transcript confirming "No Record Found" for the tax returns on extension must be supplied.</p>
<b>Foreign Assets</b>	Allowed per FNMA requirements.
<b>Borrower Required Funds</b>	A minimum down payment of 5% of the borrower's own funds is required for any purchase transaction. These funds cannot be from a non-occupant co-borrower or from a gift. A borrower's real estate commission from the subject property cannot be used to satisfy the minimum down payment requirement.
<b>Reserves</b>	<p>Per FNMA DU Findings for LTV/CLTVs <math>\leq</math> 80%</p> <p>Reserves for LTV/CLTVs <math>&gt;</math> 80%</p> <ul style="list-style-type: none"> <li>6 months for loan amount <math>&lt;</math> \$1,000,000</li> <li>12 months for loan amount <math>\geq</math> \$1,000,000</li> <li>Plus 2 additional months PITIA for each additional financed property</li> </ul>

<b>Property Types</b>	<b>Eligible Property Types:</b> <ul style="list-style-type: none"> <li>• Single Family Residence (attached and detached)</li> <li>• PUDs (attached and detached)</li> <li>• 2-4 Family Properties</li> <li>• FNMA warrantable condominiums (low, mid, and high-rise)</li> </ul>
<b>Florida Condominium LTV Restrictions</b>	Per FNMA
<b>Ineligible Property Types</b>	<b>Ineligible Property Types:</b> <ul style="list-style-type: none"> <li>• Non-warrantable condominiums</li> <li>• Mixed Use Properties including, but not limited to properties that have been modified to accommodate home businesses, such as catering, in-home day care, animal boarding facilities, or auto repair</li> <li>• Manufactured or Mobile homes (modular is allowed)</li> <li>• More than 5 acres</li> <li>• <a href="#">Rural properties</a></li> <li>• Commercial, Industrial or Business Zoned (where highest and best use is not residential)</li> <li>• More than four units in dwelling</li> <li>• Deed Restriction Communities (Age restricted communities permitted)</li> <li>• Houseboat</li> <li>• Live/Work Projects</li> <li>• Condotels</li> <li>• Geodesic Domes</li> <li>• Properties in declining markets</li> <li>• Property secured for land development purposes or where marketability has not been established</li> <li>• Square footage less than 500 square feet per unit (eligible with 2 acceptable comparable properties that are within 100 square feet of subject)</li> <li>• Unimproved land</li> <li>• Properties located on Indian/Native American tribal land</li> <li>• Properties not suitable for year-round occupancy regardless of location</li> <li>• Boarding rooms or group homes</li> <li>• Properties not readily accessible by roads that meet local standards</li> <li>• Condominium conversion seasoned less than three years</li> <li>• Time share units/projects</li> <li>• Motel conversions</li> </ul>

	<ul style="list-style-type: none"><li>• Properties with any type of litigation</li><li>• Properties that do not have full utilities installed to meet all local health and safety standards</li></ul>
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<b>Ineligible Property Types (continued)</b>	<ul style="list-style-type: none"> <li>• Properties appraised "subject to" without an Appraisal Update and/or Completion Certificate (FNMA Form 1004D or FHLMC Form 442)</li> <li>• Properties appraised "as is" that are incomplete, have deferred maintenance and/or require significant repairs</li> <li>• Property condition ratings of C5 or C6 or fair for 2-4 Family <ul style="list-style-type: none"> <li>○ Property condition of C1 through C4 or good or average for 2-4 Family required</li> <li>○ If no similar C4 comparable properties are provided, then a 5% LTV/CLTV reduction is required</li> </ul> </li> <li>• Any property with health and safety, habitability or structural issues</li> <li>• Properties in Hawaiian Lava Flow Hazard Zones 1 and 2 as determined by the U.S. Geological Survey's Hawaiian Volcano Observatory</li> <li>• Working farms or ranches</li> </ul>
<b>Flipped Properties</b>	<ul style="list-style-type: none"> <li>• A flip transaction is when the property is being resold within 180 days of its acquisition by the current seller (from closing date of the previous transaction to application date for the new transaction)</li> <li>• Flip transactions are not permitted unless one of the following conditions are met: <ul style="list-style-type: none"> <li>○ Property obtained through inheritance</li> <li>○ Property that is part of a settlement in a divorce agreement</li> <li>○ Property that is part of an employer relocation program</li> <li>○ Property acquired by the lender or servicer as a result of foreclosure or Deed in Lieu of foreclosure</li> <li>○ Property that has been substantially improved by verified renovations since the property was acquired by the property Seller in which any increase in sales price over the property seller's acquisition costs is representative of the market</li> </ul> </li> </ul>

<b>Properties Currently Listed for Sale/Listed Past Six Months</b>	<p>Properties that are listed for sale at the time of application are not eligible. Refinance transactions on properties that have been listed within six months of the application date are acceptable with the following:</p> <p><b>Rate/Term Refinance:</b></p> <ul style="list-style-type: none"> <li>The listing must have expired or been withdrawn prior to the application date</li> </ul> <p><b>Cash-out Refinance:</b></p> <ul style="list-style-type: none"> <li>LTV/CLTV less than 70% ○ The listing must have expired or been withdrawn prior to the application date</li> <li>LTV/CLTV greater than or equal to 70% ○ The application date must be six months or more after the last listing expired or was withdrawn</li> </ul> <p>For ALL scenarios above the Appraiser must confirm:</p> <ul style="list-style-type: none"> <li>Home is not currently listed in the MLS as for sale</li> <li>Home is not publicly offered or for sale by the owner</li> <li>Date the listing was withdrawn or expired</li> </ul>
<b>Warrantable Condominiums</b>	<ul style="list-style-type: none"> <li>Must be FNMA warrantable. Non-warrantable condominiums are not allowed</li> <li>Seller must indicate on the Uniform Underwriting and Transmittal Summary (FNMA Form 1008) that the condominium project is FNMA warrantable and the type of review completed</li> <li>HOA certification form required for all review types</li> </ul>
<b>Transferred Appraisals</b>	<ul style="list-style-type: none"> <li>Allowed</li> <li>FHA/VA appraisals are not allowed. Must be on a FNMA approved form</li> </ul>
<b>Age of Documents</b>	Per FNMA.
<b>Appraisal and Third-Party Valuation Requirements</b>	<ul style="list-style-type: none"> <li>Collateral Desktop Analysis (CDA)</li> <li>CU score of 2.5 or less (if the CU score is greater than 2.5, a CDA is required)</li> <li>With a Jumbo Express loan, the CU must be run off the appraised value entered in DU. If a 2nd appraisal is required, then the lower of the two appraised values must be used to run the CU and DU</li> </ul>
<b>Regulatory Requirements</b>	<p>Seller must meet <b>all</b> the following:</p> <ul style="list-style-type: none"> <li>Federal, state, and local requirements</li> <li>CFPB ATR Regulation Z, Section 1026.43(c) requirements</li> <li>Higher Priced Mortgage Loan (HPML) requirements</li> <li>High Cost Loans are not permitted</li> </ul>

<b>Escrow Holdbacks</b>	Permitted if the escrow holdback is complete and documented by the time SOLVE purchases the loan.
<b>Non-Arm's Length Transactions</b>	<p>SOLVE will not permit non-arm's length transactions. A non-arm's length transaction is a transaction between family members, co-workers, friends or anyone associated with the transaction such as the listing agent, builder, mortgage lender, or broker. The following scenarios may be acceptable on a case-by-case basis for the below situations:</p> <ul style="list-style-type: none"> <li>• Divorce requiring a buy out</li> <li>• Inherited property to buy out interests</li> <li>• Gift of Equity</li> <li>• A borrower represented by a relative in the transaction (realtor or loan officer) if it is an open market transaction and there are no fees credited to the borrower. A relative cannot be both realtor and loan officer</li> </ul> <p><b>NOTE:</b> Employee loans are considered non-arm's length and are not eligible.</p>

<p><b>Continuity of Obligation</b></p>	<p>For refinance transactions, there must be a continuity of obligation. If additional borrowers are added who are not currently on the title, the transaction is limited to a rate/term refinance. <b>Cash-out is not allowed when additional borrowers who are not on title are added to the transaction.</b></p> <ul style="list-style-type: none"> <li>• Rate and Term Refinance Transactions meet continuity of obligation requirements when one of the following requirements are met: <ul style="list-style-type: none"> <li>○ At least one borrower on the new mortgage was a borrower on the mortgage being refinanced</li> <li>○ At least one borrower on the new mortgage held title to the subject property for the most recent 12-month period prior to the application date. In addition, for Primary Residence transactions, at least one Borrower on the new mortgage also resided in the subject property as a primary residence for the most recent 12-month period prior to the application date. The mortgage file must contain documentation evidencing that the borrower, either: <ul style="list-style-type: none"> <li>✦ Has been making timely mortgage payment, including the payments for any subordinate financing, for the most recent 12-month period; or</li> <li>✦ Is a related person to a borrower on the mortgage being refinanced</li> </ul> </li> <li>○ At least one borrower on the new mortgage inherited or was legally awarded the subject property, e.g., in the case of divorce, separation, or dissolution of a domestic partnership</li> <li>○ The title to the property being refinanced is in the name of a Limited Liability Company (LLC) or acceptable trust. The borrower(s) must be a member of the LLC or beneficiary of the trust at the time of application. <ul style="list-style-type: none"> <li>✦ Title to the subject property must be transferred into the borrower's name prior to or at closing</li> <li>✦ Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirements</li> </ul> </li> </ul> </li> </ul>
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<p><b>Continuity of Obligation (continued)</b></p>	<ul style="list-style-type: none"> <li>• Cash-Out Refinance Transactions (including properties owned free and clear) meet continuity of obligation requirements when one of the following requirements are met:               <ul style="list-style-type: none"> <li>○ All borrower(s) must have held title to the subject property for a minimum of 6 months prior to the application date                   <ul style="list-style-type: none"> <li>✦ Title can be in the name of a Limited Liability Company (LLC) or acceptable trust. The borrower must be a member of the LLC or beneficiary of the trust at the time of application                       <ul style="list-style-type: none"> <li>Title to the subject property must be transferred into the borrower's name prior to or at closing</li> <li>Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirements</li> </ul> </li> </ul> </li> <li>○ Property was purchased by borrower:                   <ul style="list-style-type: none"> <li>✦ If the borrower's purchase date is within 6 to 12 months prior to application date, the LTV/CLTV must be based on the lesser of the original sales price or the current appraised value</li> <li>✦ If the borrower's purchase date is more than 12 months prior to application date, the LTV/CLTV may be based on the current appraised value</li> </ul> </li> <li>○ Property was not purchased by borrower (e.g. borrower was granted the property):                   <ul style="list-style-type: none"> <li>✦ If the borrower has been on title for at least 6 months prior to the application date, the appraised value can be used to calculate LTV/CLTV                       <ul style="list-style-type: none"> <li>✦ The LTV/CLTV maximum is the lesser of 50% or the program maximum</li> </ul> </li> </ul> </li> </ul> </li> </ul> <p>Borrower must meet all other program guidelines including the mortgage housing history.</p> <p><b>NOTE:</b> <i>The transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.</i></p>
<p><b>Delayed Financing</b></p>	<p>Per FNMA.</p>
<p><b>Maximum Loans to One Borrower Sold to SOLVE</b></p>	<p>The maximum number of loans that can be submitted at one time for the same borrower (to be sold to SOLVE) is limited to 4 or by the aggregate dollar amount of \$4MM (of the total loans sold to SOLVE). If more than 4 loans need to be reviewed at the same time (and the aggregate dollar amount is within guidelines) then the review will have to be coordinated and approved by SOLVE.</p>

<b>Maximum Dollar Amount Sold to SOLVE</b>	The aggregate dollar amount of all loans made to one borrower sold or serviced by SOLVE may not exceed \$4 million.
<b>Maximum Loans in One Market Area Sold to SOLVE</b>	<p>The number of loans to one borrower in any single market area is limited to two. The term “Single Market Area” refers to the physical location of the property, meaning two or more homes owned by the same borrower within a several block radius, defined neighborhood, or lending area.</p> <p><b>NOTE:</b> Sellers may contact SOLVE to confirm market area location of properties being submitted for eligibility review.</p>
<b>Escrows</b>	Required unless state or federal laws prohibit.
<b>Funding into the Month</b>	Loans that fund/disburse with an interest credit beyond the 10 <sup>th</sup> calendar day of the month are ineligible.
<b>E-Signatures</b>	<p>SOLVE does not authorize the acceptance or provision of e-Signatures, from any party, on the following documents or agreements due to the subject matter or purpose thereof or other legal restrictions:</p> <ul style="list-style-type: none"> <li>• Documents or agreements that by their purpose or subject matter require Handwritten Signatures or require certification or acknowledgement by a notary or similar officer</li> <li>• Real property transaction documents including, but not limited to, those for the transfer of title to real property, required to be recorded, or acknowledged by a notary or similar officer</li> <li>• Agreements or documents related to SOLVE’s security interest that by their nature are required to be recorded and/or acknowledged by a notary or similar officer</li> </ul>
<b>Taxes and Hazard Insurance</b>	<p>The appropriate amount of hazard insurance is determined as the lesser of:</p> <ul style="list-style-type: none"> <li>• 100% of the insurable value of the improvements with replacement cost coverage, as established by the property insurer, or the unpaid principal balance of the first and second mortgage (sufficient coverage for the new combined loans), or</li> <li>• The combined unpaid principal balance of the first and any secondary financing, as long as it equals the minimum amount required to compensate for any damage or loss on a replacement cost basis, typically 80% of the insured value of the improvements. If it does not, then coverage that does provide the minimum required amount must be obtained</li> </ul>
<b>Pre-Payment Penalties</b>	Not allowed

<b>Lien Position</b>	<ul style="list-style-type: none"> <li>• Seller must ensure SOLVE has first lien position</li> <li>• UCC filings, private transfer covenants, mechanics liens, and other items that would impact title, marketability, or foreclosure are not allowed</li> </ul>
<b>Title Insurance</b>	A full American Land Title Association (ALTA) Policy.
<b>Seasoned Loan Submissions</b>	Loans in which more than three payments have been made (at the time of purchase by SOLVE) are ineligible.
<b>Fraud Detection Tools</b>	The Seller must provide evidence in the loan file that they have ordered a third-party fraud detection report and have resolved any red flags, discrepancies, and conflicting information.
<b>COVID Overlays</b>	Per FNMA and SOLVE specific overlays.

## 6.6 Alt-A - Asset Qualifier Documentation Type

Asset Qualifier uses a method of calculating monthly income by amortizing a borrower's qualifying assets over a seven-year period. This is permitted as the borrower's only income source or may be used in conjunction with additional Full Documentation income sources and is considered an Asset Qualifier loan for pricing. The assets should reflect the borrower's accumulated wealth over time and cannot be due to recent windfalls or inheritances. The borrower is not required to liquidate their assets for use in qualifying. Assets being used for the income calculation may also be used for cash-to-close and reserves. Asset account(s) should be reduced by the funds required for cash-to-close and reserves prior to determining the amount of qualifying income.

### 6.6.1 Asset Qualifier Requirements

To utilize this income-type the borrower must have:

- Signed Borrower Affirmation – Asset Qualifier Documentation Type
- Minimum post-closing value of \$500,000.00 for assets being utilized for qualification
  - Assets used to meet cash-to-close or reserve requirement cannot be used to meet the minimum balance
  - Publicly traded instruments and retirement account(s) reductions below do not apply to minimum. (Use 100% of account value)
- The ability to access the account(s) used for asset depletion income
  - Only borrowers on the loan may be listed on the account
- A 12-month account history required
- Assets that may be utilized and readily liquidated include but are not limited to:
  - Bank deposits (ex. checking and savings accounts)
    - ✦ 100% of most recent documented value to determine qualifying income
  - Publicly traded instruments (stocks, bonds, ETFs, mutual funds, futures, etc.)
    - ✦ 70% of most recent documented value to determine qualifying income
  - Fully vested retirement accounts or annuities
    - ✦ The vested amounts are as follows:
      - Borrowers who are 59½ or more years old may use 100% of the documented value to determine qualifying income

- Borrowers who are less than 59½ years of age may use 70% of the documented value to determine qualifying income
- o Revocable Trusts that meet the following. Borrower is:
  - ✦ Sole Grantor
  - ✦ Sole Trustee
  - ✦ Sole Beneficiary

### 6.6.2 Asset Verification

The borrower must provide 3<sup>rd</sup> party documentation of the updated value for the account(s) being used within 30 days of the Note date. If a statement is not available within this time frame, a print out or screen shot of the account overview with the borrower name, account number, and current balance or liquidating value is acceptable.

### 6.6.3 Ineligible Assets

The following asset types are not eligible:

- Stock options
- Privately held stock
- Non-vested restricted stock units
- Foreign funds
- Deferred compensation
- Non-regulated financial companies
- Non-liquid assets (automobiles, artwork, business net worth, etc.)
- Health Savings Accounts
- Cash-out refinance proceeds
- Non-financial assets (collectibles, stamps, coins, artwork, etc.) unless liquidated
- Assets titled in an irrevocable trust
- Custodial accounts
- Escrow accounts
- 529 accounts
- Accounts pledged as collateral on another loan
- Below investment grade corporate and municipal bonds
- Cash value/surrender value of Life Insurance
- Business funds
- Inherited assets
- Lottery winnings/windfall assets

### 6.6.4 Calculated Income

The Asset Qualifier income is calculated as follows:

- Total qualifying assets available based on reductions indicated above
  - o Exclude assets being used for down-payment and closing costs and/or debt payoffs
  - o Exclude assets being used for reserves
- Apply a 3% rate of return on remaining qualified assets
- Asset Qualifier period:
  - o Seven-year amortization period regardless of age of borrower or loan term
    - ✦ (i.e. calculate using a 3% return compounded annually over a seven-year term)

#### 6.6.4.1 Asset Qualifier Example

Asset Qualifier Example	
Ms. Borrower is purchasing a primary residence. Ms. Borrower has verified \$450,000 in bank deposits (100% of balance eligible for qualifying). She will use this same account to meet the cash-to-close, down payment and reserve requirements. The transaction characteristics are as follows:	
Adjusted Asset Balance (100% can be used)	\$550,000
Down Payment	\$15,000
Cash-to-close	\$12,000
Reserve Requirement	\$23,000
\$500,000 in asset balances can be used for Asset Qualifier calculation (\$550,000 - \$15,000 - \$12,000 - \$23,000)	
Process	
$\$500,000 \text{ qualifying assets} \times \left[ \frac{3\%}{12} \times \left( 1 + \frac{3\%}{12} \right)^{84} \right] / \left[ \left( 1 + \frac{3\%}{12} \right)^{84} - 1 \right] = \$6,606.67 \text{ income per month}$	
Note: The Asset Qualifier Calculator will perform this calculation.	

### 6.7 Alt-A - Bank Statement Documentation Type

#### 6.7.1 Personal Bank Statements

SOLVE's Personal Bank Statement documentation type provides self-employed borrowers with the opportunity to establish qualifying income based on gross acceptable deposits from 12-months of personal bank statements, rather than by providing a full set of tax returns. The documentation provided needs to indicate that the income is stable, likely to continue, reasonable for the profession and sufficient to enable the borrower to repay the debt.

The Bank Statement documentation type is only available under the Alt-A Program. Refer to the **SOLVE Program Matrix** for loan amount, LTV/CLTV limitations and FICO requirements.

##### 6.7.1.1 Eligible Borrower Types

The bank statement documentation type will be an eligible income type for borrower's who meet the criteria below:

##### 6.7.1.1.1 Self-Employed

- Borrower(s) must have more than 50% ownership in a business
  - Sole Proprietorship
  - Partnership
  - Corporation
- Validation by a neutral 3<sup>rd</sup> party that the business has been in operation for a minimum of two years and that they have had ownership for that period. Third party verification of the business includes:
  - Business license
  - CPA Letter – if the borrower owns less than 100% of the business then the CPA letter must be provided to document their percentage of ownership
  - Secretary of State filing
  - Letter from a regulatory agency or professional organization

#### 6.7.1.1.2 Self-Employed with Wage Earner or Secondary Income Combination

Income documented using personal bank statements may be combined with other income sources that are fully documented but not associated with self-employment, such as a spouse employed as a wage earner. The net deposits used from the bank statements for the self-employed borrower must not reflect the income that is fully documented for the other applicant (i.e. deduct Social Security payments, W-2 wages, etc.). When wage income is combined with the use of bank statement income, tax returns are not required for the full income documentation. Any other full documentation income must be verified (e.g. most recent 30-day paystubs and W-2.)

- A minimum 12-month history of other income is required
- 4506-C W-2 transcripts are required for a wage earner (do not use full transcripts)
- Eligibility terms determined and priced as a bank statement loan

#### 6.7.1.2 Ineligible Borrower Types

- Borrowers who do not have a documented business entity for their self-employment
- Borrowers who owns 50% or less of the business
- Borrowers who receive foreign income
- Non-occupant co-borrowers
- Borrowers who exceed limitation for NSF's, see ***Non-Sufficient Funds Policy*** below

#### 6.7.1.3 Personal Bank Statement Documentation Requirements

The borrower's signed application must include all sources and amounts of income. The personal bank statements must support the income listed on the application. Deposits from income sources that are not reflected on the Uniform Residential Loan Application (FNMA Form 1003) or that are not needed to qualify will not be included in the qualifying income calculation. The following is required:

- Most recent and consecutive 12-month complete personal bank statements from the same account. Transaction history printouts are not acceptable
- Most recent consecutive two months **business** bank statements. These will be used to verify that expenses are handled through a separate **business** account and to validate that transfers/deposits are income to the borrower ○ If the borrower receives income from a source other than the business bank statements, then an acceptable signed letter of explanation from the borrower is required
- Deposits must be consistent and typical
- Atypical deposits may be included with a satisfactory explanation. Atypical deposits are defined as more than 150% of the gross monthly determined income. Supporting documentation may be required
- If the borrower's spouse is on the personal bank account and not on the loan, any income or deposits associated with the spouse will be removed ○ An executed letter from the borrower and spouse indicating remaining deposits on the bank statements are the borrower's income is required
- Separate personal accounts can be used for cash to close, down payment and reserves. Only two months of the most recent statements are required for seasoning. For additional details and requirements, see the **Assets** section of the guide
- The statements can be obtained from the borrower, or the Seller may use an asset verification service approved by FNMA's Day One Certainty program such as Blend Generated Asset Statement or Account Check Asset Report (Form Free). If using an asset verification service, a copy of the backup documentation used to generate the report must be provided with the file submission
- For rental income, see the **Bank Statement with Rental Income** section below
- Bank Statement Calculator worksheet or a similar form, with the initial loan submission, to ensure proper calculations were made in determining qualifying income

- Executed Borrower Affirmation – **Bank Statement Documentation Type Form** or a similar form

The following documentation limits apply:

- A maximum of two personal accounts can be used for qualifying
- Co-mingling of personal and business income and expenses in personal bank accounts will require the loan to be submitted and qualified as a business bank statement loan

**NOTE:** If tax returns, transcripts, or income verification is provided for the borrower using bank statements to support their income, the loan must be fully documented.

#### 6.7.1.4 Payments from Personal account

If personal bank statements provided reflect payments being made on obligations NOT listed on the credit report, then a thorough analysis must be performed to evaluate if the payment must be included in the monthly debt obligations, and a LOX from the borrower must be provided.

### 6.7.2 Personal Bank Statement Qualifying Income Evaluation and Calculations

<b><u>PERSONAL ACCOUNT</u></b>	
Personal Bank Statements allow a 12-months average of gross acceptable deposits.	
<b><u>BANK STATEMENT MONTHLY INCOME CALCULATION</u></b>	(12 months Gross Acceptable Deposits) ( )
<b><u>1003 INCOME COMPARISON</u></b>	The 1003 income must be compared with the qualifying income calculated from the Personal Bank Statement qualifying income. Calculated income that shows a variance greater than 10% (+/-) from the 1003 requires a satisfactory letter of explanation from the borrower.

#### 6.7.2.1 Personal Bank Statement Calculation Examples:

<b>Personal Account Example</b>	
Mr. My Aura is a self-employed life coach. He is the sole operator and owns 100% of his business. He has no other employees. Mr. Aura's current characteristics are below.	
Total 12 Month Bank Statement Acceptable Deposits (April prior year – March current year)	\$53,500
Income Reflected on Borrower's Completed 1003	\$5,000
<b>Process</b>	
<b>Step 1</b> Generate 12-months average of acceptable gross monthly deposits	\$53,500 ( ) = \$4,458.33 12

<b>Step 2</b> 1003 Income Comparison	$\left( \frac{\$4,458.33}{\$5,000.00} \right) - 1 = .1083 \text{ (10.83\%)}$
Evaluation Results	<ul style="list-style-type: none"> <li>Utilize the 12-months average of acceptable gross monthly deposits for qualifying income (\$4,458.33)</li> <li>Borrower needs to provide a LOX for the 1003 comparison since the variance greater than 10% (+/-)</li> </ul>

### 6.7.3 Business Bank Statement Documentation Type

SOLVE's Business Bank Statement documentation type provides self-employed borrowers with the opportunity to establish qualifying income based on gross acceptable deposits from 12-months of business bank statements in conjunction with an expense factor and a profit and loss statement, rather than by providing a full set of tax returns. The documentation provided needs to indicate that the income is stable, likely to continue, reasonable for the professions and sufficient to enable the borrower to repay the debt.

The Bank Statement documentation type is only available under the Alt-A Program. Refer to the **SOLVE Program Matrix** for loan amount, LTV/CLTV limitations and FICO requirements.

#### 6.7.3.1 Eligible Borrower Types

The bank statement documentation type will be an eligible income type for borrower's who meet the criteria below:

##### 6.7.3.1.1 Self-Employed

- Borrower(s) must have more than 50% ownership in the business they are using for qualifying income
  - Sole Proprietorship
  - Partnership
  - Corporation
- Validation by a neutral 3<sup>rd</sup> party that the business has been in operation for a minimum of two years and that they have had ownership for that period. Third party verification of the business includes:
  - Business license
  - CPA Letter – if the borrower owns less than 100% of the business then the CPA letter must be provided to document their percentage of earnings on the P&L
  - Secretary of State filing
  - Letter from a regulatory agency or professional organization

##### 6.7.3.1.2 Self-Employed with Wage Earner or Secondary Income Combination

When wage income is combined with the use of business bank statement income, tax returns are not required for the full income documentation. Any other full documentation income must be verified (e.g. most recent 30day paystubs and W-2).

- A minimum 12-month history of other income is required



- 4506-C W-2 transcripts are required for a wage earner (do not use full transcripts)
- Eligibility terms determined and priced as a bank statement loan

#### 6.7.3.2 Ineligible Borrower Types

- Borrowers who do not have a documented business entity for their self-employment
- Borrowers who own 50% or less of the business
- Borrowers who receive foreign income
- Non-occupant co-borrowers
- Borrowers who exceed limitation for NSF's, see ***Non-Sufficient Funds Policy*** below

#### 6.7.3.3 Business Bank Statement Documentation Requirements

The borrower's signed application must include all sources and amounts of income. The business bank statements must support the income listed on the application. Deposits from income sources that are not reflected on the Uniform Residential Loan Application (FNMA Form 1003) or that are not needed to qualify will not be included in the qualifying income calculation. The following is required:

- Most recent and consecutive 12-month complete business bank statements from the same account. Transaction history printouts are not acceptable
- Separate personal accounts can be used for cash to close, down payment and reserves. Only two months of the most recent statements are required for seasoning. For additional details and requirements, see the ***Assets*** section of the guide
- The statements can be obtained from the borrower, or the Seller may use an asset verification service approved by FNMA's Day One Certainty program such as Blend Generated Asset Statement or Account Check Asset Report (Form Free). If using an asset verification service, a copy of the backup documentation used to generate the report must be provided with the file submission
- For rental income, see the ***Bank Statement with Rental Income*** section below
- Profit and loss statement(s) covering at least the same 12 months as the bank statements
- Bank Statement Calculator worksheet with the initial loan submission to ensure proper calculations were made in determining qualifying income
- Executed Borrower Affirmation – ***Bank Statement Documentation Type Form***

The following documentation limits apply:

- A maximum of two business accounts (one account per business) can be used for qualifying
- Only one account per business may be used for qualifying income
- Bank statements reflecting other individuals who are not applicants for the loan are ineligible

#### 6.7.3.4 Ownership Percentage

The percentage of ownership must be used in the income calculation to reduce the bank statement income by the appropriate factor. Borrower must own more than 50% of the business to be eligible. The Seller is responsible for documenting the ownership percentage for the borrower.

#### 6.7.4 Business Bank Statement Qualifying Income Evaluation and Calculations

<b><u>PROFIT AND LOSS STATEMENT</u></b>	
<p>The criteria below will be utilized to analyze the borrower's profit and loss statement and will be used in multiple ways to support or be used as the borrower's qualifying income calculation depending on the characteristics of the application and the type of business.</p> <ul style="list-style-type: none"> <li>• A separate signed P&amp;L is required for each business</li> <li>• P&amp;L analysis is required</li> <li>• Borrower-prepared P&amp;L is permitted (CPA-prepared P&amp;L may be required - <i>see calculation below</i>)</li> <li>• P&amp;L covering no less than 12 months is required (previous tax year P&amp;L and YTD P&amp;L is acceptable)</li> <li>• The P&amp;L should cover at least the same calendar months as the bank statements provided</li> <li>• Calculated Profit <ul style="list-style-type: none"> <li>○ Any amounts on P&amp;L representing salary/wages paid to borrower/business owner can be added back and considered in the profit analysis</li> <li>○ Expense line items that can be added back to the business net income include depreciation, depletion, amortization, casualty losses, and other losses or expenses that are not consistent and recurring</li> </ul> </li> <li>• Borrowers that own &gt; 50% but &lt; 100% of a business must have the profit on the P&amp;L adjusted by the ownership percentage</li> </ul>	
<b><u>P&amp;L INCOME CALCULATION</u></b> <b><u>(MONTHLY)</u></b>	$P\&L\ Income = \left( \frac{(Total\ Profit\ from\ P\&L)}{\#\ of\ Monts\ covered\ by\ P\&L} \right) \times Ownership\ \%$

#### 6.7.4.1 Business Bank Statement Calculation Examples:

BUSINESS ACCOUNT			
Business accounts will utilize a tiered system based on the type of business the borrower is operating. SOLVE will set the Expense Factor and the Seller is responsible for evaluating the borrower’s business to determine which Expense Factor to apply to the gross acceptable deposits into the business account. When the bank statement monthly income calculation is completed the Seller must compare it with the profit and loss income calculation and determine the qualifying income to be used.			
TIER	EXPENSE FACTOR	CRITERIA	EXAMPLES
A	0.15	<ul style="list-style-type: none"><li>No employees other than borrower</li><li>Service business provided by the borrower</li><li>Service does not provide consumable materials</li><li>The services do not utilize heavy equipment or vehicles (Owner’s car is acceptable)</li></ul>	Accountant Consultant Architect Tutor Home Day Care Dentist
B	0.40	The business operates same as Tier A except carries a staff of 1 to 3 employees	Attorney Financial Services
C	0.80	<ul style="list-style-type: none"><li>Borrower deals in high value items that are purchased or owned by the business to turn into a profit later by resale or</li><li>Borrower is in food service, delivery, or other restaurant related business</li></ul>	Real-estate Jewelry Commodities Autos/ RVs Restaurant owner
D	0.50	Any other business not fitting categories above.	
<u>BANK STATEMENT MONTHLY INCOME CALCULATION</u>		$\left( \frac{(12 \text{ Months Gross Acceptable Deposits} \times \text{Ownership \%})}{12} \right) \times (1 - \text{Expense Factor})$	
After determining the Bank Statement Monthly Income and the P&L Income Calculation (Monthly) the Seller must determine which is utilized for the qualifying income based as follows.			
		SCENARIO	RESULT

<b>BUSINESS ACCOUNT</b> <b>QUALIFYING INCOME</b>	Bank Statement Monthly Income Calculation is <b>greater than</b> the value of P&L Income Calculation (Monthly)	Use P&L Income Calculation (Monthly) for qualifying income
	Bank Statement Monthly Income Calculation is <b>less than</b> P&L Income Calculation (Monthly)	Use the Bank Statement Income Calculation for qualifying income <b>unless</b> : <ul style="list-style-type: none"> <li>A P&amp;L from prior year is completed and signed by a CPA, and</li> <li>Variance Calculation*<sup>1</sup> of prior year's Annualized P&amp;L Gross Revenue vs 12-months Gross Acceptable Deposits is less than 10%</li> </ul>
<b>*<sup>1</sup>VARIANCE CALCULATION</b>	$\frac{12 \text{ Month Bank statement Gross Acceptable Deposits ( } \quad )}{\quad} - 1$	
<b>ANNUALIZED P&amp;L GROSS REVENUE</b>	$\frac{\text{Total P\&L Gross Revenue}}{\text{\# of months covered by P\&L}} \times 12$	
<b>1003 INCOME COMPARISON</b>	The 1003 income must be compared with the qualifying income calculated from the Business Bank Statements. Calculated income that shows a variance greater than 10% (+/-) from the 1003 requires a satisfactory letter of explanation from the borrower.	

#### Business Account Example (Architect)

Mr. Good Building runs an architect company which he is the sole operator and owns 100% of the business. He has no other employees. Mr. Building prepared his own P&L and provided it to his Originator. Mr. Building stated he makes approximately \$18,000 per month on his loan application. Mr. Building's current characteristics are below.

P&L Information	Prior Year	Gross Revenue	\$285,000
		Calculated Profit	\$210,000
	YTD (June)	Gross Revenue	\$142,000
		Calculated Profit	\$99,000
Total 12 Month Bank Statement Acceptable Deposits (July prior year – June current year)			\$275,000
Process			
Step 1 Generate P&L Income Calculated (Monthly)	$\frac{\$210,000 + \$99,000}{12 + 6 \text{ (YTD thru June)}} \times 1.00 = \$17,166.67$		
Step 2 Generate Bank Statement Monthly Income Calculation	<b>Note:</b> Mr. Building has no employees or consumable inventory and meets the Tier A requirements for the Profit Factor Calculation. $\left( \frac{\$275,000 \times 1.00}{12} \right) \times (1 - 0.15) = \$19,479.17$		
Step 3 Compare P&L vs Bank Statement qualifying income calculation	Bank Statement monthly income calculation (\$19,479.17) is greater than the P&L Income Calculated (\$17,166.67)		
Step 4 1003 Income Comparison	$\left( \frac{\$17,166.67}{\$18,000.00} \right) - 1 = .046 \text{ (4.6\%)}$		

<b>Result</b>	Qualifying income is the P&L Calculated Income (\$17,166.67) No LOX is required as 1003 Income Comparison variance is within 10% (+/-)
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Business Account Example (Restaurant)			
Mrs. Sally Sweetfood operates Sweetie Pie’s Bistro and Tea house with her partner Mrs. Great Plate. Mrs. Sweetfood and Mrs. Plate each own 50% of the business. They have 10 employees and multiple skews of consumable inventory on the books. The business hires a CPA to handle the complexities of the accounting. The P&L was completed and signed by their CPA. Mrs. Sweetfood’s current characteristics are below.			
P&L Information	Prior Year	Gross Revenue	\$875,000
		Calculated Profit	\$315,000
	YTD (Sept)	Gross Revenue	\$660,000
		Calculated Profit	\$238,500
Total 12 Month Bank Statement Acceptable Deposits (Oct prior year – Sept current year)			\$860,000
Process			
Step 1 Generate P&L Income Calculated (Monthly)		$\frac{\$315,000 + \$238,500}{12 + 9 \text{ (YTD thru Sept)}} \times 0.50 = \$13,178.57$	
Step 2 Generate Bank Statement Monthly Income Calculation		<p><b>Note:</b> Mrs. Sweetfood has employees and consumable inventory. She falls into the Tier C for the Expense Factor Calculation.</p> $\left( \frac{\$860,000 \times (1 - 0.80)}{12} \right) \times 0.50 = \$7,166.67$	
Step 3 Compare P&L vs Bank Statement qualifying income calculation		Bank Statement monthly income calculation (\$7,166.67) is less than the P&L Income Calculated (\$13,178.57)	
Step 4 Identify Qualifying income		Qualifying income is the Bank Statement Monthly Income Calculation	
Unfortunately, Mrs. Sweetfood’s DTI ratio would not qualify for the loan utilizing the Bank Statement Monthly Income. Proceed to <b>Step 5</b> to see if the P&L Calculated Income is an option for qualification			
Step 5 (Optional) Was P&L completed and executed by CPA		At this point the P&L cannot be self-prepared. If the P&L was or can be provided and executed by a CPA, then you may proceed to Step 6. Otherwise the Bank Statement calculation must be used to decision the loan.	
Step 6 Variance Comparison Calculation		$\text{Annualized P\&L Gross Revenue} = \left( \frac{\$875,000 + 660,000}{12 + 9} \right) \times 12 = \$877,143$	
		$1 - \left( \frac{\$860,000}{\$877,143} \right) = \text{Variance} = 0.0195 \text{ (1.9\% Variance)}$	
Result Evaluation		Since the P&L was provided by the CPA AND the Variance between Gross Bank Statement deposits and the Gross Revenue on the P&L Is within 10%,	

	Mrs. Sweetfood's application may use the P&L Calculated Income (\$13,178.57) for qualification.
--	---

### 6.7.5 Bank Statements with Separate Rental Income

Rental income may be used in qualifying a borrower under the Bank Statement documentation type. All the rental income must be shown in the borrower's bank statements to be considered in qualifying income. The rental income shown on the bank statements must support the rental lease amounts. **If the rental income is the borrower's sole source of self-employment and is not set up as a business entity, the loan must be fully documented and would not be eligible for the Bank Statement Program.**

- Eligible Rental Income Types
  - Long-term leases (12 months or greater). A 12-month lease that has converted to a month-to-month term is acceptable
  - Rental income received from a family member with copies of cancelled rent checks provided by the tenant family member (12 months)
- Ineligible Rental Income Types
  - Room or boarder rents. If any of the units in the property are receiving room rents, none of the rental income received for the property may be used as qualifying income
  - Rental income on a second home
  - Rental income from short-term leases, Airbnb, VRBO, Homestay or other vacation rentals (only for Full Documentation loans)
  - Rental income received from a family member without copies of cancelled rent checks provided by the tenant family member

#### 6.7.5.1 Rental Income Documentation

All owner-occupied two-to-four-unit properties and all investment properties require a rental income analysis to determine positive or negative cash flow. The following is required to support the rental income shown on the application:

- Single Family Comparable Rent Schedule (FNMA Form 1007) for the subject property only
- Complete Schedule of Real Estate Owned (FNMA Form 1003)
- Complete Rent Schedule outlining the property address, length of ownership, rent received and payment details (PITIA) • Copies of the fully executed lease agreements
- Rental income received from a family member must be supported with copies of 12-months cancelled rent checks provided by the tenant family member
- Evidence 12-month receipt of lease income being deposited into borrower's bank account. An additional account, outside of personal/business bank statements used for qualifying, may be used to verify receipt of rental income. If the rental income is not included in the business bank account used to determine the borrower's self-employed qualifying income, one additional personal account may be used to support the rental income. The following applies:
  - Documentation must be provided to show that the rental income account is separate and distinct from the bank account being used to determine the borrower's self-employment qualifying income
  - The account must have been set up for the management of the rental income only. If other funds are co-mingled with the rental income, the account is ineligible
  - The rental account personal bank statements must support the receipt of the income as outlined on the lease(s)
  - 12 month's bank statements will be required to show evidence of rental income receipt

If multiple accounts are needed to support the receipt of the rental income, the loan must be fully documented. If the bank statements presented do not support the rent schedule and the leases presented, the loan must be fully documented.

#### **6.7.5.2 Rental Income Calculation**

Income received from rental properties will be calculated as follows:

- The lower of actual rental income per the bank statements or 75% of lease amounts, as established by the fully executed lease(s)
- If the lease is incomplete, expired or not yet in effect, the entire payment will be included in qualifying ratios

A positive cash flow will be added to gross income and negative cash flow will be added to total liabilities to qualify the borrower. If the borrower owns multiple properties, rental income may be calculated on an aggregate basis.

#### **6.7.6 Non-Sufficient Funds Policy**

Bank statements reflecting NSF checks and overdraft protection transfers may indicate cash flow problems and each event or occurrence must be considered. In all cases, the financial strength of the self-employed borrower's business must be satisfactory.

- NSFs should be covered with deposits shortly after they are incurred
- NSFs require a borrower LOX to evaluate that they are not due to financial mishandling and/or indicative of insufficient income

The following tolerance for NSFs and overdrafts is allowed:

- Up to three occurrences are allowed in the most recent 12-month time period if there are zero occurrences in the most recent three-month period
- Each NSF is considered an occurrence (i.e. there may be multiple NSFs in each month that must be counted toward cumulative total)

The NSF occurrences may be excluded from the tolerances above if **one** of the following is met:

- Overdraft protection from another depository account (a personal account must be used when using personal bank statements and a business account must be used when using business bank statements) when the statements for the linked account confirm **all** the following:
  - o The account balance at the time of the transfer exceeded the amount of the overdraft transfer
  - o The account's balance did not report as zero or negative at any point during the statement period of the transfer
  - o The account did not itself receive overdraft protection proceeds during the statement period of the transfer
- Overdraft protection from a business line of credit (a personal line of credit cannot be used for overdraft protection) when the statements for the linked account confirm that the line's credit limit was not exceeded during the statement period of the transfer

#### **6.7.1 Verbal Verification of Employment**

A verbal verification of self-employment within 30 days of the loan closing must be performed.

#### **6.7.2 Request for Transcript of Tax Return (IRS Form 4506-C) Requirement**

Not Required for Bank Statement income.

## 6.8 Portfolio DSCR

SOLVE permits utilization of the Portfolio DSCR (Debt Service Coverage Ratio) Program with investment property transactions. SOLVE recognizes the relationship between cash flow and current debt obligations and utilizes property income to qualify the transaction. SOLVE approaches DSCR by using the gross income provided by the subject property divided by the total debt service. SOLVE considers current debt obligations to include total debt service (i.e. PITIA or ITIA for Interest Only loans).

### 6.8.1 DSCR Requirements

CRITERIA		
Property Type	Investment only	
Loan Type	Purchase	
	Refinance	Rate Term
		Cash-out
	Fix and Flip NOT permitted	
Units	1-4 Units Only	
Minimum Ratios Allowed	FICO >= 720 1.15 FICO < 720 1.25	
Loan Amounts	Minimum = \$250,000 Maximum = \$1,000,000	
MAX LTV/CLTV	65%	
Reserves	12 months PITIA	
Property Type	Rural properties not allowed	
Gift Funds	Not allowed	
Cross Collateralization	Not allowed	
Short Term Leases	Not allowed (12-month leases that have converted to month-to-month are allowed)	
Non-Arm's Length	Not allowed (to include leasing to a family member)	
Prepayment Penalty	Not allowed	

Refer to the **SOLVE Program Matrix** for additional DSCR requirements.

#### 6.8.1.1 Calculating DSCR

$$\frac{\text{Gross Income}}{\text{Expenses (ITIA allowed with IO loans)}} = \text{Debt Service Coverage Ratio (DSCR) PITIA}$$



### 6.8.1.2 DSCR Calculation Example

Debt Service Coverage Ratio Example - Purchase	
Mr. Borrower has a 705 FICO and is purchasing a new investment property without an existing lease. The property characteristics are as follows:	
Estimated Monthly Market Rent (FNMA Form 1007)	\$850
Existing Lease Monthly Rent	Not Available
Monthly PITIA	\$650
Use Market Rent of \$850 for qualifying (Estimated Monthly Market Rent when a lease is not available)	
Process	
(Gross Income)	\$850
$() = 1.30 \text{ (DSCR)}$	\$650 (PITIA)
This is an acceptable ratio and would be eligible with a minimum FICO of 700.	

Debt Service Coverage Ratio Example - Refinance	
Mr. Borrower has a 730 FICO is refinancing an investment property that has a new lease in place at a rate of \$1000 per month. The property characteristics are as follows:	
Estimated Monthly Market Rent (FNMA Form 1007)	\$850
Existing Lease Monthly Rent	\$1000
Monthly PITIA	\$900
Mr. Borrower has provided evidence the property is currently rented and evidence of receipt of the most recent two months' rent.	
Use Existing Lease Monthly Rent of \$1000 for qualifying (permitted with the evidence of receipt even though current rent exceeds estimated rent per appraiser)	
Process	
(Gross Income)	\$1000
$() = 1.11 \text{ (DSCR)}$	\$900 (PITIA)
This is NOT an acceptable ratio and would not meet the minimum ratio requirement of 1.15 with a 720 FICO.	

### 6.8.1.3 Gross Income

Gross income will be the lesser of the actual rents indicated on the lease agreement or the market rents (FNMA Form 1007 or Form 1025 for multi-family) provided by the appraiser.

If the lease agreement reflects higher rents than the Rent Schedule, the lease amount may be used if the property is currently rented and proof of receipt of the last two months' rent is provided.

For a purchase transaction where a lease agreement has not been provided the amount on the rent schedule may be used.

#### 6.8.1.4 Property Expense

The total debt service includes all expenses associated with the subject property. The Seller should include principal, interest, taxes, insurance, and association dues (as applicable) in these costs. The interest only payment is allowed with Interest Only loans.

#### 6.8.2 Borrower Requirements

To qualify under this program in addition to standard borrower eligibility requirements the following is required:

- The borrower must currently own or rent a primary residence
  - If the borrower currently owns their primary residence the property cannot be on the market
  - If the borrower currently rents their primary residence it must make sense for the transaction and a copy of the current lease and verification of two most recent months' rent with third-party records must be provided
  - In all cases a 24-month housing history (0x30x12 and 1x30x24) must be provided
- Borrower must have a history of owning investment real estate for a minimum of 12 months. Mortgage histories must be provided for any financed properties.
- First time investors are not eligible (must have landlord experience in the past 3 years). One of the following must be provided as proof of landlord experience:
  - Copy of lease with evidence 2 months receipt of rent
  - Two current mortgage tradelines reflected on the credit report
  - Schedule E from tax returns (not full returns)
- The employment section of the 1003 application section should be completed including a valid phone number but no other income or verification is needed

A personal guaranty is required for all DSCR loans where title is being taken as an LLC.

#### 6.8.3 Documentation Requirements

The Portfolio DCSR program does not require any further income documentation by the borrower if the following documentation requirements can be met:

- Purchase
  - FNMA Form 1007 or FORM 1025, or
  - Existing lease agreement(s), if applicable
    - ✦ If the existing lease is being transferred to the borrower, the Seller must verify that it does not contain any provisions that could affect the first lien position of the subject property
- Refinance
  - FNMA Form 1007 or Form 1025
  - Existing lease agreement(s), if appraisal report reflects tenant occupied
  - If there is a new lease, must include a copy of the lease along with proof of receipt of security deposit and first month's rent
  - Properties that are not leased or that are vacant are not eligible

#### 6.8.4 LLC Vesting Requirements

Vesting in a Limited Liability Company (LLC) is only allowed for the Portfolio DSCR Program. The following requirements must be met:

- Business purpose and activities of the LLC are limited to ownership and management of real estate
- The LLC is limited to a maximum of 4 owners
- Each member of the LLC that is a borrower on the loan transaction must complete a 1003 and personal guaranty. Their application(s), credit report(s) and assets will be reviewed for eligibility
- Each member of the LLC must receive a notice of the loan and the loan terms prior to closing
- LLC must be domiciled in a US State

Required documentation for LLC vesting:

- Articles of Organization and Operating Agreements (if applicable)
- Tax Identification Number
- Certificate of Good Standing within 30 days of the Note Date
- Certificate of Authorization for the person(s) executing all documents on behalf of the Entity
- Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)
- Personal guaranties must be provided by all members of the entity that are borrowers for the loan transaction •  
Business Purpose and Occupancy Affidavits

Documents must be completed and signed as follows:

- Loan Application (FNMA Form 1003)
  - Completed for each Individual member of the Entity providing a personal guaranty
  - Section labelled "Title will be held in what Name(s)" should be completed with only the LLC name
  - Signed as Individuals
- Personal Guaranty
  - Completed for each individual member who is providing a personal guaranty
  - The guaranty should be executed at loan closing and dated the same date as the Note
  - Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge.
- Signed by all members providing a personal guaranty: ○ Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) ○ Any state or federally required settlement statement ○ Note, Deed of Trust/Mortgage, and all Riders

Sample signature blocks:

**Note:**

\_\_\_\_\_  
Joe

Brown

\_\_\_\_\_  
John

Brown, as member of 123, LLC

**Mortgage/deed of trust:**

\_\_\_\_\_  
Joe Brown, as member of 123, LLC

### **6.8.5 Statement of Business Purpose**

The borrower must acknowledge that the subject loan is a business purpose loan by completing and signing the Borrower Certification of Business Purpose form.

If the proceeds from the subject transaction are used for personal, family or household purposes then it is considered a consumer transaction and is not eligible for the DSCR program. This includes cash-out on an investment property when any loan proceeds are for personal use.

### **6.8.6 Rental Loss Insurance**

Rent loss insurance with a minimum of six (6) months for the subject property is required.

For details on a specific LTV, FICO, ratio and other DSCR Program requirements refer to the ***SOLVE Program Matrices***.

## Section 7 ASSETS

### 7.1 Ineligible Assets and Sources of Funds

- Stocks held by privately held corporations
- Stock options
- Non-vested restricted stock units
- Cash-out refinance proceeds from the subject property when using the Asset Qualifier
- Non-financial assets (collectibles, stamps, coins, artwork, etc.) unless liquidated
- Assets titled in an irrevocable trust
- Custodial accounts
- Escrow accounts
- 529 Accounts
- Assets pledged as collateral on another loan
- Below investment grade corporate and municipal bonds
- Health Savings Accounts
- Non-liquidated cryptocurrencies, such as Bitcoin
- Employment related assets as income (only allowed under the Portfolio Express program)

### 7.2 Down Payment and Source of Funds

SOLVE requires full asset documentation for both funds to close and reserves. For most asset types, this would include all pages of the most recent two months statements or the most recent quarterly statement at a minimum. A VOD alone is not acceptable and not all funds are eligible for all purposes. Unverified funds are not acceptable for the down payment, closing costs, or reserves. The Seller must follow FNMA guidance for allowed funds, ineligible funds, alloSolvele values, retirement accounts and guidance on large deposits. SOLVE does allow the use of cash-out as reserves for all programs except Asset Qualifier.

A borrower's real estate commission from the subject property cannot be used to satisfy the minimum down payment requirement.

The borrower(s) must contribute 5% of their own funds with LTVs greater than 80%.

### 7.3 Gift Funds

A borrower may receive a gift to be used toward the down payment, prepaid items, closing, and/or financing costs. Gift funds are not allowed for the following:

- Second homes
- Non-Owner-Occupied (NOO) transactions
- Transactions with non-occupant co-borrowers
- Asset Qualifier loans
- DSCR loans

A down payment of 100% from gift funds is allowed for LTVs of less than or equal to 80% or the program maximum when no secondary financing exists. Closing costs may also be in the form of a gift. Reserve requirements must be met by the borrower's own funds. If the borrower is receiving a gift for more than the amount to close, the excess cannot be used as reserves. Eligible donors include a close relative of the borrower or a fiancé.

If the borrower receives a gift from a relative, domestic partner, or fiancé who has lived with the borrower for the last 12 months, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement if all individuals currently occupy or intend to occupy the subject property. Ineligible donors include:

- Borrower's employer or labor union
- Federal/state/local government agencies providing home ownership assistance without repayment or established lien requirements
- Corporations established for humanitarian, welfare, or charitable purposes
- Individuals with an interest in the sale of the property (e.g., builder or seller, real estate broker, marketing agent, or any person/corporation/organization associated with them). Gifts of credits from these sources are considered inducements to purchase and must be subtracted from the contract sale price
- Nonprofit entities that provide gifts to homebuyers for the purpose of paying off installment loans, credit cards, collections, judgments, and similar debts
- Down Payment Assistance (DPA) programs

Gift funds must be verified by a signed gift letter that contains the following:

- Donor's relationship to the borrower
- Donor's address and phone number
- Subject property address
- Dollar amount of the gift
- Certification that it is a gift with no repayment required

## **7.4 Business Funds**

The use of business funds for down payment, closing costs and reserves is allowed for sole proprietors, partnerships and corporations, including S-corporations. The following requirements are applicable for selfemployed borrowers using business funds:

- Borrower(s) who are the sole proprietor or 100% owner of the business must provide three months' business bank statements evidencing ending balances for each month that are greater than the funds being used for the subject transaction
- If the borrower(s) own  $\geq 50\%$  but  $< 100\%$  of the business the following is required:
  - A letter from a CPA or other third-party verification to evidence that they have access to the funds and that the funds are not an advancement on future earnings, cash distributions or a loan
  - A cash-flow analysis (FNMA Form 1084 or similar form)
- Borrowers who own  $< 50\%$  of the business are not eligible to utilize business funds for the subject transaction.
- Business funds must be verified using standard documentation requirements
- All funds must be seasoned for 60 days. Any atypical or large deposits for the business must be sourced and fully documented along with an explanation letter

## 7.5 Foreign Assets

Assets held in a foreign account may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a United States domiciled account in the borrower's name.

The transfer should occur within 30 days of closing, but in all cases 10 days prior to closing.

- Documenting Assets Held in Foreign Accounts:
  - o Assets must be verified in U.S. dollar equivalency at the current exchange rate via either [www.xe.com](http://www.xe.com) or the Wall Street Journal conversion table
  - o A copy of the two most recent statements of the foreign account to verify that funds are seasoned a minimum of 60 days

## 7.6 Program Reserve Requirements

### 7.6.1 Acceptable asset types

Acceptable asset types used in meeting reserve requirements will follow FNMA Selling Guide for acceptable sources. Examples of liquid financial assets that can be used for reserves include readily available funds in checking or savings accounts; investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts; the amount vested in a retirement savings account; and or the cash value of a vested life insurance policy.

For details on a specific asset verification requirement refer to the **SOLVE Program Matrices**.

## 7.7 Asset Qualifier Account as Assets

SOLVE allows account(s) being used for the Asset Qualifier to be used for funds to close/reserves. Asset account(s) should be reduced by funds to close and/or reserves, and the remainder used for the income calculation (see Asset Qualifier section).

## 7.8 Interested Party Contributions

Interested 3rd party contributions (IPC) may only be used towards bona fide discount points or closing costs and must follow the FNMA Selling Guide requirements.

## Section 8 PROPERTY ELIGIBILITY

### 8.1 Eligible Property Types

Eligible properties are detached, semi-detached dwellings located on an individual lot, in a condo project or Planned Unit Development (PUD) that are typical for the area and don't have extended marketing times (over 6 months). The following are allowed subject to the restrictions in the sections below.

- Flip transactions
- Rural and Agriculturally properties
- Unique property features
- Mixed-use properties
- Leasehold Property

#### 8.1.1 Flip Transaction

A flip transaction is when the property is being resold within 180 days of its acquisition by the current seller (from closing date of the previous transaction to application date for the new transaction). Flip transactions are not permitted unless one of the following conditions are met:

- Property obtained through inheritance
- Property that is part of a settlement in a divorce agreement
- Property that is part of an employer relocation program
- Property acquired by the lender or servicer as a result of foreclosure or Deed in Lieu of foreclosure
- Property that has been substantially improved by verified renovations since the property was acquired by the property Seller in which any increase in sales price over the property seller's acquisition costs is representative of the market

#### 8.1.2 Rural and Agricultural Properties

Properties may be classified as a rural property if any of the following conditions exists (even if the appraiser does not classify the property rural):

- Located on a gravel road
- Two of the three comparable properties are more than five miles from the subject property
- Less than 25% of the surrounding market area is developed

Properties zoned or considered Rural or Agricultural are eligible providing they meet ALL the following criteria:

- Primary residence
- Appraisal must indicate 'highest and best use'
- Property cannot be income producing
- Lot size and acreage must be typical for area and similar to the comparable properties
- Outbuildings may be considered in determining the market value of the subject property when there are similar comparable properties
- Subject property's neighborhood must exhibit suburban characteristics
- Maximum 10-acre restriction still applies even if all the conditions above are met

**NOTE:** Hobby farms can be considered (provided no income production)



### **8.1.3 Unique Property Features**

Properties with unique property features will be handled on a case-by-case basis. Examples of unique property features may include:

- Properties with vineyards
- Equestrian use
- Log homes
- Property where the value/appeal is supported but the marketability of the unique property characteristics is not clearly established

### **8.1.4 Mixed Use property**

Mixed use property is considered on a case-by-case basis for primary residences only.

### **8.1.5 Solar Panels**

- Follow guidance in FNMA Selling Guide

## 8.2 Ineligible Property Types/Transactions

The program(s) follow FNMA Selling Guide for ineligible properties unless specifically stated differently in sections above (ex. Rural and Agricultural properties) or as follows:

- Manufactured or Mobile homes (modular is allowed)
- More than 10 acres
- Rural or Agricultural properties that do not meet the restrictions above (10-acre restriction still applies)
- Commercial, Industrial or Business Zoned (where highest and best use is not residential)
- More than four units in dwelling
- Deed Restriction Communities (Age restricted communities permitted)
- Houseboat
- Live/Work Projects
- Condotels
- Geodesic Domes
- Properties in declining markets
- Property secured for land development purposes or where marketability has not been established
- Square footage less than 500 square feet per unit (eligible with 2 acceptable comparable properties that are within 100 square feet of subject)
- Unimproved land
- Properties located on Indian/Native American tribal land
- Properties not suitable for year-round occupancy regardless of location
- Boarding rooms or group homes
- Properties not readily accessible by roads that meet local standards
- Condominium conversion seasoned less than three years
- Time share units/projects
- Motel conversions
- Properties with any type of litigation
- Properties that do not have full utilities installed to meet all local health and safety standards
- Properties appraised "subject to" without an Appraisal Update and/or Completion Certificate (FNMA Form 1004D or FHLMC Form 442)
- Properties appraised "as is" that are incomplete and/or require significant repairs
- Property condition ratings of C5 or C6 or fair for 2-4 Family
  - Property condition of C1 through C4 or good or average for 2-4 Family required
  - If no similar C4 comparable properties are provided, then a 5% LTV/CLTV reduction is required
- Any property with health and safety, habitability or structural issues
- Properties in Hawaiian Lava Flow Hazard Zones 1 and 2 as determined by the U.S. Geological Survey's Hawaiian Volcano Observatory

Note: Escrow holdbacks are only eligible if the escrow holdback is complete and documented by the time SOLVE purchases the loan.

## 8.3 Appraisal Requirements

<u>EFFECTIVE APPRAISAL DATE FROM THE NOTE DATE IS</u>	<u>REQUIREMENT</u>
Greater than 180 days	Appraisal is not valid

6 months to greater than 4 months	Appraisal update (FNMA 1004D/FHLMC442) required to use current appraisal and update must be within four months of the note date.
Less than or equal to 4 months	Appraisal is valid

- Appraisal must comply with applicable regulations and standards including but not limited to USPAP, FIRREA and Regulation Z appraisal independence requirements (Regulation Z section 1026.42)
- AVMs are not allowed
- Appraisals require photos of positive and/or negative aspects of the residence that impact value or marketability (ex. ongoing repairs, maintenance, and/or damages)
- If 2 appraisals are required and they are completed 'subject to' then both will require a completion cert • Condo Appraisal Requirement:
  - Appraiser can use Appraisal Report Form 1004/70 for detached condominiums when the appraisal includes an adequate description of the project, information about the homeowners' association fees, and the quality of the project maintenance
- Transferred appraisals are allowed with the following requirements:
  - Seller accepts responsibility to manage the transfer of the appraisal and any risk associated with the transferred appraisal
  - VA or FHA appraisals are not eligible, only Agency appraisals that meet SOLVE guideline requirements

See the SOLVE Program Matrices Appraisal Valuation tab for additional requirements.

## 8.4 Properties Listed for Sale

<u>NO CASH-OUT TRANSACTION</u>	<u>CASH-OUT TRANSACTION</u>	
The listing must have expired or been withdrawn prior to the application date	LTV/CLTV < 70%	The listing must have expired or been withdrawn prior to the application date
	LTV/CLTV ≥ 70%	The application date must be six months or more after the last listing expired or was withdrawn
<b>For All scenarios above the Appraiser Must Confirm:</b>		
<ul style="list-style-type: none"> <li>• Home is not currently listed in the MLS as for sale</li> <li>• Home is not publicly offered or for sale by the owner</li> <li>• Date the listing was withdrawn or expired</li> </ul>		

## 8.5 Disaster Areas

If the subject property is located in an area that is declared a federal disaster area, the Seller must ensure that the property meets all SOLVE Funding pre- or post-disaster collateral requirements. The list of disaster areas can be found on FEMA's website at: <http://www.fema.gov/disasters>.

### **8.5.1 Property Appraised Prior to Disaster**

For loans secured by properties appraised before the presidential/state disaster declaration, an exterior inspection of the subject property is required, and the following pre-disaster guidelines apply:

- The original appraiser should perform the inspection and provide a certificate stating:
  - o Subject property is free from damage and is in the same condition as previously appraised
  - o Marketability and value remain the same
- If the original appraiser is not available:
  - o The inspection may be completed by any of the following:
    - Property/building inspection company
    - Licensed general contractor
    - Building or safety inspector for local municipality
    - Licensed structural engineer
  - o The inspector must be given a copy of the original appraisal report
  - o The inspector must provide certification, on their letterhead, stating:
    - The original appraisal has been reviewed and to the best of their knowledge:
      - Subject property is free from significant damage
      - All repairs, if needed, have been completed

### **8.5.2 Property Appraised After Disaster**

For loans secured by properties appraised after the presidential/state disaster declaration, an interior and exterior inspection of the subject property is required and the following post-disaster guidelines apply:

- Appraiser must note any damage and its effect on marketability and value
- Electronic evaluations are not acceptable

## Section 9 DEPARTING RESIDENCE

If the borrower is purchasing a new primary residence, the PITIA of the current primary residence may be excluded providing the documentation required and guidelines below are met.

### 9.1 Reserve Requirements

The borrower is required to possess additional reserves in accordance with the requirements below.

- The reserves requirement is based on PITIA of the pending sale or departing residence
- The reserves are in addition to required standard reserves for the subject transaction
- If borrower is required or expected to bring funds to close on pending sale, those funds must be in addition to the required reserves

### 9.2 Departing Residence - Pending Sale

Housing payment for the departure home may be excluded if the following requirements can be met based on the applicable transaction scenario:

<u>PENDING SALE OPTION 1: DEPARTURE RESIDENCE NOT UNDER CONTRACT</u>	<u>PENDING SALE OPTION 2: DEPARTURE RESIDENCE UNDER CONTRACT</u>
Current listing or borrower written letter of intent (LOI) indicating intent to list within three months of closing on subject property	A copy of the executed sales contract  <b>NOTE:</b> Sale must be arm's length.
AVM or appraisal (2055 exterior or full appraisal) on the departure residence, dated within 6 months of the closing date of the new transaction <ul style="list-style-type: none"> <li>• Borrower must have at least 20% equity in the departure residence</li> <li>• Equity must be calculated based on existing outstanding property lien divided by lessor of the listed sales price (if listed) or the AVM or appraisal</li> </ul>	Departure closing must be scheduled within 60 days of subject property closing
An additional 12 months of reserves  <b>NOTE:</b> Reserve requirements for other financed properties per the program matrix do not apply.	An additional 6 months of reserves  <b>NOTE:</b> Reserve requirements for other financed properties per the program matrix do not apply.

### 9.3 Departing Residence – Investment Conversion

In a case where the borrower's current property is not being sold but instead will be converted to an investment property the following is required:

<u>INVESTMENT CONVERSION OPTION 1: DEPARTURE RESIDENCE DOES NOT HAVE A SIGNED LEASE</u>	<u>INVESTMENT CONVERSION OPTION 2: DEPARTURE RESIDENCE HAS A SIGNED LEASE</u>
Signed LOI to rent within three (3) months of closing on subject transaction	<ul style="list-style-type: none"> <li>• A copy of the executed lease agreement</li> <li>• Receipt of a security deposit from the tenant               <ul style="list-style-type: none"> <li>○ Verification of deposit into the borrower's account</li> <li>○ Deposit funds cannot be used for funds to close or reserve requirements</li> </ul> </li> </ul> <p><b>NOTE:</b> Lease must be arm's length.</p>
AVM or appraisal (2055 exterior or full appraisal) dated within 6 months of the closing date of the new transaction <ul style="list-style-type: none"> <li>• Borrower must have at least 20% equity in the departure residence</li> <li>• Equity calculated based on existing outstanding property lien divided by lesser of the listed sales price (if listed) or the AVM or appraisal</li> </ul>	Minimum equity position in departure home is not required
75% of the market rent survey amount can be considered in qualifying <ul style="list-style-type: none"> <li>• If 75% of market rent is more than the PITIA then this can be used to offset the PITIA               <ul style="list-style-type: none"> <li>○ Positive income is not allowed</li> </ul> </li> <li>• If 75% of market rent survey is less than the PITIA then the PITIA must be included in liabilities</li> </ul> <p><b>NOTE:</b> Market rent survey by licensed appraiser required.</p>	75% of the signed lease amount can be considered in qualifying <ul style="list-style-type: none"> <li>• If 75% of rent is more than the PITIA then this can be used to offset the PITIA               <ul style="list-style-type: none"> <li>○ Positive income is not allowed</li> </ul> </li> <li>• If 75% of rent is less than the PITIA then difference must be included in liabilities</li> </ul>
An additional 9 months of reserves <p><b>NOTE:</b> Reserve requirements for other financed properties per the program matrix do not apply.</p>	An additional 6 months of reserves <p><b>NOTE:</b> Reserve requirements for other financed properties per the program matrix do not apply.</p>

## Section 10 CONDOMINIUM REQUIREMENTS

The condo review is delegated to the Seller's underwriter and must follow FNMA Selling Guide and requirements unless otherwise stated below.

All loans secured by condominium units in projects with five or more attached units must meet the requirements of Lender Letter (LL-2021-14) – Temporary Requirements for Condo and Co-op Projects, which includes requirements for significant deferred maintenance and unsafe conditions, special assessments, Condo Project Manager "Unavailable" status, and budget reserves. This requirement applies regardless of project review type.

### 10.1 Warrantable Condominium

SOLVE will follow FNMA guidelines for warrantable condo projects. This includes S-CPM (Condo Project Manager) expedited review or FNMA full review and limited review for attached units in established condo projects. A project review/questionnaire is required for all condominium projects. If the project has not been approved by FNMA, the originator must initiate the appropriate review and secure the approval. For projects that are already FNMA-approved, the approval type must be included with the Loan File submission.

#### 10.1.1 Seller Concentration

SOLVE will limit project concentration based on criteria below for warrantable condo projects. There are no other eligibility or restrictions for condo projects other than already listed in these program guidelines, or as otherwise specified in written SOLVE guidance.

<u>NUMBER OF UNITS</u>	<u>SELLER CONCENTRATION</u>
> 50 units	10% of units
10 to 50 Units	Lesser of 20% or 5 units
< 5 to 10 units	50% of units
1 to 4	1 unit

*For percent calculations use standard rounding (0.5 or greater round up, everything else round down)*

### 10.2 Non-Warrantable Condominium

#### 10.2.1 Project Eligibility Requirements

##### 10.2.1.1 Seller Concentration

SOLVE will limit the Seller concentration based on the table below.

<u>NUMBER OF UNITS</u>	<u>SELLER CONCENTRATION</u>
>= 50	10 unit maximum
5 to 49	Lesser of 20% or 5 units
1-4	1 unit

*For percent calculations use standard rounding (0.5 or greater round up, everything else round down)*



### 10.2.1.2 Maximum LTV/CLTV

For details on specific LTV, FICO, ratio and other Program requirements refer to the **SOLVE Program Matrices**. Non-warrantable condominiums are not eligible for all programs.

### 10.2.2 Non-Warrantable Condominiums

The following characteristics of condominiums are acceptable if within the associated allowance below.

Nonwarrantable condominiums must meet SOLVE guideline requirements. Projects with multiple non-warrantable characteristics are ineligible.

<u>CHARACTERISTIC</u>	<u>ALLOWANCE</u>
Commercial / Non-Residential Percentage	Maximum 50% of the total space is used for non-residential purposes. Subject unit must be 100% residential.
Project with Condotel features	Not eligible. See Ineligible Condo Features section 10.2.4.
Mandatory Membership Fees	Units on areas such as golf courses, with pool clubs or other amenities that are subject to a mandatory membership fee are acceptable. The fees must be included in the borrower's debt to income ratio.
Single Entity Ownership	No single entity (an individual, investor group, partnership or corporation) may own more than 50% of the total units in the project.
Pending Litigation	Projects in current or threatened litigation are typically ineligible. In its sole discretion, SOLVE may accept litigation that it determines to be minor and immaterial. Details of the litigation must be submitted to SOLVE to determine acceptability.
HOA Reserves	HOA budget must include a dedicated line item allocation to replacement reserves of at least 8% of the budget. All projects must have a homeowners' association.
Delinquent HOA Dues	No more than 25% of total units in a project may be 60 days or more past due on the payment of condominium/association fees.
Investor and Second Home Concentration	Maximum investor and second home concentration of 60%. Calculation based on total units in all phases.
Completion Status	The project, or the subject's legal phase along with all prior phases, must be substantially complete. All common elements in the project or legal phase must be 100% complete. At least 50% must be sold or under bona fide contract.

HOA in Builder's Name	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period. The developer cannot retain control of the development. All projects must have an HOA.
Property Type	Low-, mid- and high-rise condos are eligible. Complexes over four stories must be common to the area. Projects less than 10 units must be typical and common for the market area.

### 10.2.3 Ineligible Condominium Property Vesting Types and Characteristics:

- Common Interest
- Tenants in Common
- Private Transfer Fees
- Projects with time share or fractional ownership
- Project with Rental Desk on Site or Online

### 10.2.4 Ineligible Condotel Features

A project may not be operated or managed as a hotel, motel, or similar commercial entity as evidenced by meeting one or more of the following criteria:

- The HOA is licensed as a hotel, motel, resort, or hospitality entity.
- The HOA or project's legal documents require owners to make their unit available for rental pooling (daily or otherwise).
- The HOA or the project's legal documents require unit owners to share profits from the rental of units with the HOA, management company, or resort, or hotel rental company.
- The HOA or project's legal documents restrict owners' ability to occupy the unit during any part of the year.

In addition to the requirements above, any project with one or more of the following characteristics is ineligible. The project:

- is primarily transient in nature;
- offers hotel type services (including those offered by or contracted through the HOA or management company) or characteristics such as registration services, rentals of units on a daily or short-term basis, daily cleaning services, central telephone service, central key systems and restrictions on interior decorating;
- is a conversion of a hotel (or a conversion of a similar type of transient housing) unless the project was a gut rehabilitation and the resulting condo units no longer have the characteristics of a hotel or similar type of transient housing building;
- is subject to voluntary rental-pooling, revenue, profit or commission sharing agreements with the HOA or management company, or similar agreements that restrict the unit owner's ability to occupy the unit such as blackout dates and occupancy limits to assure an inventory of units for rent on a frequent basis. This may include daily, weekly, monthly or seasonal restrictions;
- is professionally managed by a hotel or resort management company that also facilitates short term rentals for unit owners or projects with management companies that are licensed as a hotel, motel, resort, or hospitality entity;
- is deemed to be ineligible under Freddie Mac's requirements because of condo hotel, resort, transient or short term rental activity;
- has a legal or common name that contains hotel, motel, or resort, unless the use of hotel, motel, or resort is a reference to a historical use of the building and not reflective of its current use as a residential condo or co-op project;

- is marketed as a hotel, motel, resort or investment opportunity; or
- has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

The following criteria are examples of some common red flags. The lender should perform additional due diligence of the project when any of these characteristics are present:

- more than 75% or more of the units are owned as investment and second home occupancy - especially when the loan transaction is not a principal residence transaction;
- units that do not contain full-sized kitchen appliances;
- advertisements for daily or short-term rental rates;
- franchise agreements;
- location of the project in a resort area;
- units that are less than 400 square feet;
- amenities that are common in hotels or resorts including spa services, concierge services, rentals of recreational equipment or amenities, childcare services for short-term renters, scheduled social or entertainment activities for short-term renters, airport shuttles, ski lift shuttles or ski lift and trail passes, or other vacation amenities and packages; or
- interior doors that adjoin different units.

## Section 11 FORMS

### 11.1 HOA Certification Form

*Note: The Seller may use this form or a form of their choice, as long as it contains the same information.*

<b>Association Name:</b>	
<b>Project Name:</b>	
<b>Project Address:</b>	
<b>Project City &amp; State:</b>	

#### Questionnaire

- Year: \_\_\_\_\_ 1. In what year was the project built?
- Units: \_\_\_\_\_ 2. What is the total number of units in the entire project?
- ☐ Yes ☐ No 3. Is the project 100% complete, including all units, common elements and amenities, and not subject to additional phasing?
- Units: \_\_\_\_\_ 4. What is the total number of units that have been sold and conveyed to unit purchaser in the project?
- Units: \_\_\_\_\_ 5. What is the total number of units retained by the developer in the project?
- Units: \_\_\_\_\_ 6. What is the total number of units currently for sale in the project, including units owned by the developer/builder and unit owners?
- Units: \_\_\_\_\_ 7. What is the total number of units that are owner-occupied?
- Units: \_\_\_\_\_ 8. What is the total number of units that are second homes in the project?
- Units: \_\_\_\_\_ 9. What is the total number of units (including those owned by the developer/builder) that are rented/leased (investment properties) in the project?
- ☐ Yes ☐ No 10. Is the project a condominium hotel or motel?
- ☐ Yes ☐ No 11. Is the project a timeshare or a segmented ownership project?
- ☐ Yes ☐ No 12. Is the project a houseboat project?
- ☐ Yes ☐ No 13. Is the project a multi-dwelling unit condominium in which ownership of multiple units is evidenced by a single deed and mortgage?
- ☐ Yes ☐ No 14. Is the project an investment security?
- ☐ Yes ☐ No 15. Is the project a common interest apartment or community apartment project?
- ☐ Yes ☐ No 16. Is the project a cooperative?
- ☐ Yes ☐ No 17. Is the project a Planned Unit Development?
- ☐ Yes ☐ No 18. Are there any manufactured housing units within the project?
- ☐ Yes ☐ No 19. Is the Homeowners' Association (HOA) named as a party to a pending litigation? If yes, provide letter from the HOA on HOA letterhead disclosing the nature and status of the litigation. Note that a letter from an attorney representing the HOA may be required if further clarification is required.
- ☐ Yes ☐ No 20. Is the developer named as a party to pending litigation involving this project? If yes, provide a letter from the developer's attorney disclosing the nature and status of the litigation.
- ☐ Yes ☐ No 21. Is any part of the project used for nonresidential (commercial) purposes?

- \_\_\_\_\_ % 22. If part of the project is used for nonresidential purposes, what percentage of the square footage is used for nonresidential purposes?
- \_\_\_\_\_ 23. If part of the project is used for nonresidential purposes, what is the nonresidential space used for?
- ☐ Yes ☐ No 24. Does any single entity (the same individual, investor group, partnership, corporation, etc.) own more than 10% of the total units in the project?
- ☐ Yes ☐ No 25. Have at least 90% of the total units in the entire project been conveyed to unit purchasers?
- ☐ Yes ☐ No 26. Has control of the HOA been turned over to the unit purchasers?
- Date: \_\_\_\_\_ 27. If control of the HOA has been turned over to the unit purchasers, provide the date that the transfer occurred.
- ☐ Yes ☐ No 28. Are there any monthly assessments delinquent more than 30 days?
- Units: \_\_\_\_\_ 29. Provide the number of units that are delinquent and the dollar amount outstanding.
- \$ \_\_\_\_\_ 30. What are the monthly HOA fees for the project? Provide range if amounts vary.
- ☐ Yes ☐ No 31. Does the HOA budget provide adequate funding for the proper management and operation of the project?
- ☐ Yes ☐ No 32. Does the HOA budget provide funding for replacement reserves of at least 10% of the budget for capital expenditures and deferred maintenance?
- \$ \_\_\_\_\_ 33. What is the amount currently held in reserves for future repair and/or replacement of major components of the project?
- \$ \_\_\_\_\_ 34. What was the HOA's reserve account balance at the end of the year?
- \$ \_\_\_\_\_ 35. What was the HOA's reserve account balance at the end of the prior year?
- ☐ Yes ☐ No 36. Does the HOA budget provide adequate funding for insurance deductible amounts?
- ☐ Yes ☐ No 37. Is hazard insurance in place to cover 100% of the insurance replacement cost of the project improvements, including the individual units?
- ☐ Yes ☐ No 38. Is liability insurance in place providing at least \$1 million of coverage for bodily injury and property damage per occurrence?
- ☐ Yes ☐ No 39. Is flood insurance (if required) in place providing coverage of at least equal to the lesser of 100% of the insurable value of the facilities, the maximum coverage available under NFIP or the proposed loan amount?
- ☐ Yes ☐ No 40. Is fidelity insurance in place covering the maximum amount of funds that will be in the custody of the HOA or management company at any time (required if the project is 20 or more units)?
- ☐ Yes ☐ No 41. Does the project have attached units?
- ☐ Yes ☐ No 42. Is the project managed and operated as a hotel or motel, even though the units are individually owned?
- ☐ Yes ☐ No 43. Does the project restrict owner's ability to occupy their unit?
- ☐ Yes ☐ No 44. Does the project have a mandatory rental pooling agreement that requires unit owners to either rent their units or give management firm control over the occupancy of the units?
- ☐ Yes ☐ No 45. Does the project include registration services and offer rentals on a daily basis?
- ☐ Yes ☐ No 46. Is there a rental desk on-site or virtually (offering weekly or nightly rentals)?
- ☐ Yes ☐ No 47. Do the units contain full-size appliances?
- ☐ Yes ☐ No 48. Does the project have any non-incidental business operation owned or operated by the HOA?
- ☐ Yes ☐ No 49. Is the project a hotel or motel conversion?
- ☐ Yes ☐ No 50. Are the units in the project owned in fee simple or leasehold?
- ☐ Yes ☐ No 51. Does the HOA require automatic, non-severable membership for each individual unit owner, and provide for mandatory dues/assessments?

- ☐Yes ☐No 52. Are all of the facilities related to the project owned by the unit owners or the HOA?
- ☐Yes ☐No 53. Has the developer retained any ownership interest in any of the facilities related to the project?
- ☐Yes ☐No 54. Are the amenities and facilities, including parking and recreational facilities, subject to a lease between the unit owners or the HOA and another party?
- ☐Yes ☐No 55. Does the project contain one or more units with less than 400 square feet of space?
- ☐Yes ☐No 56. Do the units have separate metering?
- ☐Yes ☐No 57. If the units have separate metering, is it common and customary in the local market where the project is located?
- ☐Yes ☐No 58. If the units do not have separate metering, does the project budget include adequate funding for utility payments?
- ☐Yes ☐No 59. Do the unit owners in the project have the sole ownership interest in, and rights to the use of the project's facilities, common elements, and limited common elements?
- ☐Yes ☐No 60. Is the project managed by an independent management company?
- \_\_\_\_\_ 61. If the project is managed by an independent management company, what is the company's name?
- ☐Yes ☐No 62. If the project is managed by an independent management company, are the contract terms between the HOA and the management company reasonable and equitable?
- ☐Yes ☐No 63. If the project is managed by an independent professional management company; does the contract have a termination provision that requires a penalty payment or advance notice of termination of more than 90 days?
- ☐Yes ☐No 64. Besides being divided by a public street, is the project located on one contiguous parcel of land?
- ☐Yes ☐No 65. Are the structures within the project within reasonable distance from each other?
- ☐Yes ☐No 66. Are the common areas and facilities consistent with the nature of the project and competitive in the marketplace?
- ☐Yes ☐No 67. Are there any circumstances or conditions that would adversely affect the value, condition or marketability of units contained within the project? If yes, attach an explanation.

### Two to Four-Unit Projects

If the project has two to four units, the following questions must also be answered:

- Units: \_\_\_\_\_ 68a. How many units are in the project?
- ☐Yes ☐No 68b. Does any one person or entity own more than one unit within the project?
- ☐Yes ☐No 68c. Are all units, common elements, and facilities within the project, including those that are owned by any master association, 100% complete?
- ☐Yes ☐No 68d. Are the unit owners the sole owners of, and have rights to the use of, the project's facilities, common elements and limited common elements?
- Units: \_\_\_\_\_ 68e. How many units in the project are owned as principal residences or second homes?

This questionnaire must be completed, signed, and dated by an HOA representative or third party.

Acknowledgement: I, the undersigned, certify that to the best of my knowledge and belief the information and statements contained on this form are true and correct.

Representative completing the form:

\_\_\_\_\_

Date

Company Name

\_\_\_\_\_  
Name and Title (Printed)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Phone Number

\_\_\_\_\_  
Contact Email

Delivery File Checklist

The following is a sample checklist for file delivery.

DUE DILIGENCE and DELIVERY REVIEW CHECKLIST			
<b>Loan Information</b>		<b>Seller Information</b>	
Loan Number:		Company Name:	
Borrower Name:		Contact:	
Property Address:		Contact Email:	
<b>Legal</b>			
	Copy of note/applicable addenda/allonge		
	Copy of security instrument/applicable riders/legal description		
	Copy of Power of Attorney specific to transaction (if applicable)		
	MERS registration/assignment to MERS		
	Loan modification agreements/applicable exhibits, addenda, construction-to-permanent		
	Co-op documentation (if applicable)		
	Copy of Intervening assignments (if applicable)		
	Preliminary Title Report		
<b>Loan Information</b>			
	FNMA DU (if applicable)		
	Seller's Underwriting Approval, signed and dated by the underwriter		
	Conditions of loan approval		
	Initial 1003 signed and dated by all parties		
	Final 1003 signed and dated by all parties, and completed HMDA		
	Final 1008 - Uniform UW and Transmittal Summary		
	QM/ATR worksheets		
	Note Rate Lock between Seller and Borrower(s)		
<b>Credit</b>			

	Credit report
	Credit letters of explanation, if applicable
	Bankruptcy papers/discharge
	Divorce decree or separation agreement
	Child support verification
	Verification of mortgage/rents

#### **Inco me**

	Seller's Income Worksheet
	Income and Assets required for program submitted
	Verbal VOE and employer validation documentation
	Executed 4506-C
	Tax transcripts per program requirements
	Written VOE
	Paystubs, W-2's
	YTD profit and loss statements, signed and dated
	Personal tax returns with all schedules for the last two years or per program guidelines

	Business tax returns with all schedules for the last two years
	Rental/lease agreements

#### **Asse ts**

	Verification of deposit
	Two months of consecutive bank statements or requirements per program guidelines
	Letters of explanation/source/paper trail of assets
	Gift letter, verification of gift funds and transfer of gift funds

#### **Pro perty**

	Clear Capital CDA
	Condo/PUD warranty/Co-op approval
	Appraisal invoice
	Property Appraisal
	Any other property evaluations and invoice(s) if cost is passed to the borrower
	Appraiser License
	Purchase contract /agreement of sale with all addenda

#### **Compliance and Closing Documents**



	All Loan Estimates issued (LE), along with corresponding Change of Circumstance (COC), if applicable, and proof of borrower receipt
	Proof of borrower's Intent to Proceed
	Fraud Guard or similar third-party fraud tool
	Borrower Affirmation Forms (Bank Statement or Asset Qualifier documentation types)
	All applicable Federal and State Disclosures
	eSignature consent (if any disclosures are delivered electronically)
	eDisclosure history (if any disclosures are delivered electronically)
	ARM disclosure and CHARM Booklet
	Homeownership Counseling Notice and proof of delivery
	Home Loan toolkit and proof of delivery
	Acknowledgement of receipt of appraisal and written evaluations
	Monthly payment letter/first payment letter
	Initial escrow account disclosure statement
	Escrow waiver
	Written List of Service Providers and proof of delivery
	Rate Lock with lock date and any pricing adjustments
	Funding Worksheet
	Closing instructions
	Tax information sheet
	Tax authorization (NJ, NY, PA, IL)
	Homeowners Insurance or declaration page with paid premium
	Flood policy with paid premium
	Flood certification - life of loan coverage
	All Closing Disclosure(s) (CD), along with corresponding Change of Circumstance (COC), if applicable, and proof of borrower receipts
	Note: The Final Closing Disclosure (CD) must be provided as well as any Post Closing Closing Disclosures (PCCDs) including proof of deliver and letter of explanation
	Seller's CD
	Name affidavit
	W-9 form
	Final truth-in-lending
	Itemization

	Right of Rescission Notice
	Payment history

## 11.2 Borrower Affirmation – Asset Qualifier Documentation Type

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Date: \_\_\_\_\_  
Loan Number: \_\_\_\_\_  
Borrower Name: \_\_\_\_\_

1. I understand that the [ SELLER ] will determine my Ability to Repay this mortgage loan, as it is required to do under existing law, solely on the basis of existing assets that I currently maintain.
2. I have eligible assets in the amount of \$ \_\_\_\_\_ which are sufficient to cover my monthly expenses.
3. I understand that my monthly payment on this loan will be as follows:  
For \_\_\_\_\_ years  
My monthly payment is \$ \_\_\_\_\_  
If this period is less than 30 years, then I understand my payment may adjust (more than once) after the first \_\_\_\_\_ years.
4. I understand that my property taxes and insurance on this property will be approximately this amount per month \$ (\_\_\_\_\_.  
These (may, may not) \_\_\_\_\_ be impounded. If not, I am responsible to pay them directly.
5. I believe I can afford to make the monthly payment on the loan.
6. I am not aware of anything in the future that will affect my ability to make this loan payment.
7. My loan program did not require that I submit my prior tax returns. I understand that if I had provided verifiable documentation of my income, such as my tax returns or W-2 wage statements or other documentation deemed necessary to support my income, I may have been able to qualify for a different loan program with different loan terms or conditions such as a lower interest rate.

NOTE: If there is a discrepancy between the terms in this document and the actual loan documents, the terms of the loan documents prevail.

I certify that the above information and the information on the final Uniform Residential Loan Application is true and correct as of this day and that it represents an accurate picture of my financial status.

Borrower Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Borrower Name Printed: \_\_\_\_\_

Borrower Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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Borrower Name Printed: \_\_\_\_\_

### 11.3 Borrower Affirmation – Bank Statement Documentation Type

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Borrower Name: \_\_\_\_\_ Loan Number: \_\_\_\_\_

Borrower Name: \_\_\_\_\_

1. In accordance with the disclosures I received from [SELLER], I understand that my monthly payment of principal and interest on this loan will be \$\_\_\_\_\_ for \_\_\_\_\_ years.
2. That monthly payment amount of principal and interest MAY or WILL NOT adjust. If that amount may adjust, it may do so after the first \_\_\_\_\_ years, and then every \_\_\_\_\_ years thereafter.
3. I understand that my property taxes and insurance on the secured property will be approximately \$\_\_\_\_\_ per month. Those amounts WILL or WILL NOT be impounded and collected through monthly payments, in addition to my monthly payments for principal and interest as described above. If those amounts are not impounded, I understand that I am responsible for paying those amounts directly.
4. My average monthly income is \$\_\_\_\_\_.
5. I believe I can afford to make the monthly payment on the loan.
6. I am not aware of anything that will affect my ability to make these loan payments in the future.

The above information and the information on the final Loan Application (Form 1003) is true and correct to the best of my knowledge as of this day, it represents an accurate picture of my financial status, and I have not withheld any information regarding my income or obligations that would materially affect my ability to make the payments on my loan.

Borrower Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Borrower Name Printed: \_\_\_\_\_

Borrower Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Borrower Name Printed: \_\_\_\_\_

### 11.4 Borrower Certification of Business Purpose

This BORROWER CERTIFICATION OF BUSINESS PURPOSE LOAN is being executed and made effective as of [LOAN CLOSING DATE]. The undersigned borrower(s) and, if applicable, guarantor (collectively the "Borrower") certifies and represents to [SELLER] ("Seller") all of the following:

1. Borrower has requested that Seller make a loan in the original principal amount of [LOAN AMOUNT] ("Loan"), which is evidenced by that certain Promissory Note of even date herewith made in favor and payable to the order of Seller, which is secured by that certain Mortgage, Deed of Trust or Security Deed ("Security Instrument") of even date herewith encumbering all that certain real property referenced in the Security Instrument and commonly known as [PROPERTY ADDRESS] ("Property").
2. Borrower has previously represented to Seller that the purpose of the Loan is solely for business or commercial purposes and not for any personal, family, or household purposes.
3. As previously represented, all proceeds from the Loan are to be used solely for business or commercial purposes and not for any personal, family, or household purposes.
4. The Property is not the principal or secondary residence of (i) the Borrower (including, for avoidance of doubt, any guarantors), or (ii) if the Borrower is not a natural person, any person who has a direct or indirect ownership interest in the Borrower.
5. Certain consumer protection laws, including the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), do not apply to the origination of the Loan. If Borrower received a Loan Estimate, Closing Disclosure, Good Faith Estimate, or HUD-1 or HUD-1A Settlement Statement, Borrower understands that the disclosures were provided for informational purposes only and that the Loan is not subject to the laws governing such disclosures.

6. The Borrower has read and understands the contents of this Borrower Certification of Business Purpose.

IN WITNESS WHEREOF, this Certification has been duly executed by the Borrower as of the date first above written.

Borrower Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Borrower Name Printed: \_\_\_\_\_

Borrower Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Borrower Name Printed: \_\_\_\_\_