# Lending Guide

## Chapter 20 | Jumbo AUS Lending Guidelines

## Overview

### Products

#### Cardinal Jumbo Product Matrix

For Retail Lending, refer to:

- Cardinal Jumbo AUS Snapshot
- Cardinal Jumbo AUS Expanded Snapshot
- Cardinal Jumbo AUS Expanded Plus Snapshot
- Additional Guidelines Specific to Expanded Plus Program

For Wholesale Lending, refer to:

- Cardinal Jumbo AUS Snapshot
- Cardinal Jumbo AUS Expanded Snapshot

### Fair Lending Statement

Federal law prohibits discrimination in connection with the origination of 1-4 family mortgage loans. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. Also, the Fair Housing Act prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and disability. It is the responsibility of Cardinal to ensure that we adhere to these laws and their underlying principles in connection with mortgage loans sold to the Investors.

## Underwriting Philosophy

All loans must be prudently underwritten utilizing these program guidelines and industry-standard best practices. All data points on the AUS should represent the loan attributes with the exception of any guideline overlays contained in this guideline. PIW waivers based on AUS recommendations are not allowed.

Must ensure that each loan is in compliance with the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules established by the CFPB. The following reference provides the specific guidelines. https://files.consumerfinance.gov/f/201301_cfpb_final-rule_ability-to-repay.pdf

## Automated Underwriting (AUS)

One of the following AUS feedback messages is required: DU Approve/Eligible, LPA Accept or DU Approve/Ineligible, LPA Accept/Ineligible for loan amount or maximum LTV on cash-out refinances only.

### ARM Parameters

- 5yr/6m SOFR ARM
    - The interest rate will be fixed for an initial period of five (5) years (60 payments). The initial rate change will take place effective as of the sixty-first (61st) payment due date and on that day every six months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.
- 7yr/6m SOFR ARM
    - The interest rate will be fixed for an initial period of seven (7) years (84 payments). The initial rate change will take place effective as of the eighty-fifth (85th) payment due date and on that day every six months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.
- 10yr/6m SOFR ARM

- The interest rate will be fixed for an initial period of ten (10) years (120 payments). The initial rate change will take place effective as of the one hundred and twenty-first (121st) payment due date and on that day every six months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

### Index

- 30 Day Average SOFR Index as published by the New York Federal Reserve.

### Margin

- Available Margin 2.75%

### Interest Rate Caps

- 5yr/6m ARM
    - 2% / 1% / 5% (First, Periodic, Lifetime)
- 7yr/6m and 10yr/6m ARM
    - 5% / 1% / 5%

### Interest Rate Floor

- The floor is 2.75%

### Qualification

- 5yr/6m ARM qualified at higher of the maximum potential Note rate after first adjustment or the fully indexed rate (sum of index and margin)
- 7yr/6m and 10yr/6m ARM's qualified at the higher of the Note rate or the fully indexed rate (sum of index and margin)
- Cardinal Jumbo AUS and Cardinal Jumbo AUS Expanded 7yr/6m and 10yr/6m ARM:
    - For loans locked on or after 8/21/23:
        - 7/6 and 10/6 ARMs qualified at the Note rate
    - For loans locked prior to 8/21/23:

- 7/6 and 10/6 ARMs qualified at the higher of the Note rate or the fully indexed rate (sum of index and margin)

## Borrower Eligibility

Borrowers must have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower. All borrowers must have a valid social security number.

Cardinal is required to order a third-party fraud report (Fraudguard or similar) to identify any borrower information discrepancies and indications of possible fraudulent activity.

Each loan can have a maximum of four (4) borrowers.

### Eligible Borrowers

- U.S. Citizens
- Permanent resident aliens
    - Same requirements as U.S. Citizens
    - Copy of valid resident alien card must be included in the loan file
- Non-permanent resident aliens
    - Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows:
        - E Series (E-1, E-2, E-3)
        - G Series (G-1, G-2, G-3, G-4, G-5)
        - H Series (H-1B, H-1C)
        - L Series (L-1A, L-1B, L-2, Spouse L-2 with EAD)
        - NATO Series (NATO 1 – 6)
        - O Series (O-1)
        - TN-1, Canadian NAFTA visa

        - TN-2, Mexican NAFTA visa

    See USCIS.gov for more information

    - Must have a valid Social Security Number.
    - Must have a history of visa renewals and a minimum of two (2) year employment history in the U.S. and qualifying income must be from the U.S.
    - Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document.
    - Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S. are allowed.

### Inter-Vivos Revocable Trusts

- Trust must be established by one or more natural persons, individually or jointly.
- The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
- If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.
- At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
- The mortgage and trust documents must meet Agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the loan origination of inter-vivos revocable trusts.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

### Ineligible Borrowers

- Borrowers with only an ITIN (individual taxpayer identification number)

- Irrevocable trusts
- Corporations, limited partnerships, general partnerships, and limited liability companies
- Borrowers who are party to a lawsuit
- Foreign Nationals
- Borrowers with Diplomatic Immunity

### Illinois Land Trusts

- Not eligible

### First-time homebuyers

A first-time homebuyer is defined as a borrower who has not had ownership interest in a property within the last three (3) years from the application date. Refer to the applicable matrix for LTV and Score requirements.

### Community Land Trusts

- Not eligible

### Multiple Financed Properties

- Follow AUS requirements

### Ownership

Ownership must be fee simple only and in the name of the individual Borrower(s) or Trust. Borrower(s) may hold title as follows:

- Individual
- Joint Tenants

## Occupancy

### Primary Residence

A primary residence is the property the borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any time.

- 1-4 units detached, attached, PUD, and eligible condominiums

### Second Home

The property must be occupied by the borrower from time-to-time and is suitable for year-round use. Typically the property is located in either a resort or vacation area or for convenience in a city where the borrower works when the primary residence is in a distant suburb.

- 1-unit detached, attached, PUD, and eligible condominium.
- Property may not be a timeshare, subject to a rental agreement or other shared ownership arrangements.
- The property must be a reasonable distance from the borrower's primary residence.
- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not be significant.
- Rental income from a second home cannot be used to qualify the borrower.

### Investment Property

An investment property is owned by the borrower but is not occupied by the borrower.

- 1-4 unit detached, attached, PUD, and eligible condominiums.

A borrower signed **Business Purpose & Occupancy Affidavit** indicating the loan purpose is for the acquisition, improvement, or maintenance of a rental property is required. The affidavit must be signed before or at closing.

Cash-out loan proceeds used for any personal use are not eligible as a Business Purpose loan and will be subject to TILA compliance.

## Eligible Transaction Types

### Purchases

- Must adhere to Agency guidelines.
- LTV/CLTV is calculated using the lesser of the purchase price or appraised value of the subject property.
- If the seller has taken title to the subject property ninety (90) days or less prior to the date of the sales contract, the following requirements apply:
  - Property seller on the purchase contract is the owner of record
  - LTV/CLTV will be based on the lesser of the prior sales price or the current appraised value
  - Loans that are bank or relocation sales are exempt from the above requirements
- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property.

### Rate and Term Refinance

- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) before the date of closing.
- A minimum of 6 months must have elapsed if the previous refinance transaction combined a first and a non-purchase money subordinate lien into a new first lien or if the previous refinance was a cash-out. Provide the closing disclosure from any prior transaction.
- For properties purchased within six (6) months of the closing date, the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. The original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.

- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off the current appraised value.

- The mortgage amount may include the:
  - Principal balance of the existing first lien.
  - Payoff of a co-owner pursuant to a written agreement.
  - Financing of the payment of prepaid items and closing costs.
  - Payoff of a purchase second lien.
  - Payoff of a non-purchase second lien seasoned a minimum of 12 months from the date of application. The second lien must not show evidence of draws exceeding $2,000 within the past 12 months from the date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
  - Cash back to the borrower is limited to the lesser of $2000 or 1% of the new mortgage loan
  - Principal reduction is permitted up to the lesser of $2,500 or 2% of the new loan

### Cash-Out Refinance

- Borrower must have held the title for a minimum of 6 months from the closing date of our loan. Inherited properties are exempt from this seasoning requirement. LTV will be calculated off the current appraised value.
- If an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the Note date of the existing loan to the Note date of the new loan.
  - The requirements do not apply to any existing subordinate liens paid off through the transaction, or when buying out a co-owner pursuant to a legal agreement.
- Properties that have been listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the Note date of the transaction.
- Cash-Out Refinance transactions are ineligible in the state of Texas.

## Continuity of Obligation

For a refinance transaction to be eligible for purchase, there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction. Continuity of obligation is met when any one of the following exists:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on the title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently been legally awarded the property (divorce, separation, or dissolution of a domestic partnership).

Loans with an acceptable continuity of obligation may be underwritten, priced, and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

## Delayed Financing Refinance

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible for purchase. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds were used to pay off or pay down the loan used to purchase the property. Funds received as gifts and used to purchase the property may not be reimbursed with the proceeds of the new loan. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas.

A Closing Disclosure is required to document no mortgage financing was used to obtain the property and to verify the original purchase was an arm's length transaction.

### Contract for Deed/Land Contract

The payoff of an installment loan land contract is not eligible.

### Construction Loan Refinancing

Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:

- Only the permanent financing on a construction-to-perm loan is eligible. Single closing construction to permanent loan refinances are ineligible
- Borrower must have held title to the lot for a minimum of 6 months before the closing of the permanent loan.
- The LTV will be based on the current appraised value of the property if the borrower has held title to the lot for 12 or more months before the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan, the LTV will be based on the lesser of:
  - a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or
  - b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy, proof must be provided.
- Construction loan refinances in which the borrower has acted as builder are not eligible for purchase.

### Non-Arm's Length Transactions

All of the parties to a transaction should be independent of one another. Except as indicated below, if a direct relationship exists between or among the parties, the transaction is a non arm's length transaction and the related loan is not eligible for purchase. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:

- Sales or transfers between members of the same family. The transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent.
- Borrower acting as his or her own real estate agent.
- Borrower is the employee of the originating lender.
- Borrower purchasing from his or her current landlord (canceled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
- Investment property transactions must be arm's length.

### Mortgage Insurance

Not applicable.

### Qualifying Ratios

Refer to the applicable Cardinal Jumbo AUS Product Snapshot for maximum DTI allowed.

# Credit Documentation Requirements

For scenarios not specifically addressed below, refer to AUS findings and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

## Credit Documents Age

For all transaction types, follow the AUS requirements for age of document requirements.

## Credit Score

- The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported.  If two (2) scores are reported, the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian, and TransUnion).

- For multiple borrowers, the credit score is the lowest of all representative credit scores.
- If only one credit score or no credit score is reported, the borrower is not eligible.
- A minimum of two (2) credit scores is required.
- No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.
- Credit re-scores are not permitted unless the rescore corrects erroneous line items or disputed accounts.

Refer to the applicable Cardinal Jumbo AUS Product Snapshot for minimum credit score requirements.

## Minimum Credit Requirements

- Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

## Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required; 0 x 30 lates.
- Acceptable rental verification includes:
  - A standard VOR completed by a professional management company, or
  - 24 months bank statements / canceled checks reflecting rent payments and a signed lease agreement
- If the housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 lates in the most recent 24 months since exiting forbearance.

- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.

## Credit Inquiries

- All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly; refer to the Ordering and Reviewing a Credit Report document for direction in ordering an extended inquiry supplement.
- Borrower must be qualified with any new debt.

## Liens, Judgments, and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact the lien position.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $1000.00 or if there are multiple accounts the total balance of all accounts cannot exceed $2,500.00.

## Bankruptcy, Foreclosure, Deed-In-Lieu of Foreclosure and Short Sale

- At least seven (7) years must have elapsed since the bankruptcy discharge or dismissal, foreclosure, notice of default (NOD) short sale deed-in-lieu, or modification measured from the date of completion to the date of application.
- A satisfactory letter of explanation for the event from the borrower is required.

## Forbearance

- If the borrower is currently in forbearance, the loan is ineligible
- A 24-month acceptable pay history after exiting forbearance is required

## Liabilities

- All debts the borrower(s) are obligated for must be included in the DTI calculation.

# Employment and Income

Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

The loan file should include an Income Analysis form detailing income calculations.

## Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history on the 1003.

## Salaried Borrowers

- Completed, signed, and dated final Uniform Residential Mortgage Application. The most current form must be used.
- Any employment gaps of one (1) month or greater must be addressed with a satisfactory signed letter of explanation from the borrower.
- Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

### Salaried Borrowers who also file Self-Employed and/or Supplemental Income/Loss Tax Return Schedules

- Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, requirements in this section must be followed.
- The underwriter is not required to obtain any additional documentation or evaluate the income *or loss* from the self-employment for each borrower on the mortgage who:

- Has a primary source of income, *other than self-employment,* used for qualifying for the Mortgage (e.g., salaried income from primary employment), *and*
- Is self-employed and that self-employment income is a secondary source of income

- If a borrower is using income from a self-employed source to qualify for our transaction, and there are other sources of self-employment evidenced on the tax returns (not used for qualification), those businesses must still be analyzed for any loss which may impact the borrower's ability to repay the loan.

| Self-Employment Required Documentation | |
|---|---|
| Borrower has a Primary source of income, other than self-employment (i.e. salaried income from primary employment) | Self-employment does not need to be evaluated or documented |
| Co-Borrower self-employment not used to qualify | FNMA: Not required to document or evaluate the self-employment income (or loss) |
| | Freddie Mac: If a co-borrower does not have a primary source of income other than self-employment, the business must be analyzed for any loss. |

### Salaried Borrowers with Commission/Bonus

- Commission income must be documented with a written VOE breaking down the bonus or commission income for the past 2 years or a year-to-date pay stub and W-2's supporting the income.

## Verbal VOE

- Verbal VOE of current employment documented in writing is required to be obtained no more than ten (10) business days prior to the Note Date. If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the verbal VOE requirements above and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note Date.

## Tax Transcripts

Tax transcripts must be obtained from the IRS only for income for years used for qualification. Wage transcripts are acceptable for W-2 borrowers. Borrower provided transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided must be consistent.

- Note: Only U.S. tax transcripts are allowed.

## Self-Employed Borrowers

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
- Completed, signed, and dated final Uniform Residential Mortgage Application. Most current forms must be used.
- Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.
- Only U.S. filed tax returns are eligible. U.S. Territory or foreign tax returns are not allowed.
- If the tax return for the previous tax year is not filed, a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request **for both personal and business tax returns** must be provided.
- Signed IRS Form 4506C is required.

### Profit & Loss and Balance Sheet Requirements

The underwriter should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements (only required for self-employment income used to qualify):

- An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, *and* a Balance Sheet; or
- An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, *and* business bank statements from the most recent three months represented on the year-to-date P&L *and* a Balance Sheet
    - For example, the business bank statements should be from March and May 2021 for a year-to-date profit and loss statement dated through May 31, 2021.
    - The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

### Small Business Administration (SBA) Loans and Grants Requirements

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID-related loan or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.

In addition,

- Proceeds from the PPP loan must not be included as business income or assets.
- PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids, or reserves.

- Follow all requirements in this section for underwriting self-employed borrowers.

### Verification of Active Business

The existence of the borrower's business must be verified within ten (10) calendar days prior to closing. Methods of verifying business include:

- Verification from a third party such as a CPA, regulatory agency, or by an applicable licensing bureau. If a CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years.

### Tax Transcripts

Tax transcripts are required to be obtained from the IRS only for income for years used for qualification. Borrower provided transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

- Note: Only U.S. tax transcripts are allowed.

## Other Income

For all other acceptable income sources not specifically addressed, follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

## Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified
- Restricted stock income (RSU)
- Income that is temporary
- Rental Income (Boarder Income) received from the borrower's primary residence
- Expense account payments

- Retained earnings
- Automobile allowances
- Virtual currency

# Debts and Liabilities

## Debt-to-Income Ratio

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The underwriter must ensure that liabilities are included in qualifying. Refer to the Product Matrix for the maximum allowable DTI.

## Installment Debt

Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

## Revolving Debt

Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

## Home Equity Line of Credit (HELOC)

- For HELOC loans paid off at closing, the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable..

- Subordination of HELOC loans is permitted up to a maximum CLTV per matrix. The CLTV should be calculated using the full amount of any HELOC (whether or not funds have been drawn).

### Pending Sale of Departing Residence or Conversion of Departing Residence to Investment Property

Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.

## Assets and Source of Funds

### Source of Funds

- Follow AUS and requirements per the Fannie Mae Single Family Selling Guide or the Freddie Mac Single-Family Seller Servicer Guide currently in effect. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guide, the guide requirements must be followed.
- Non-Applicant Title Holder assets are not an eligible source of funds
- Gifts of equity are not allowed.

### Cash Reserves

Reserves must be verified and comprised of liquid assets that the borrower can readily access. Equity lines of credit, gift funds, business assets, and cash-out from the subject property on refinance transactions are not acceptable sources to meet the reserve requirement.

Refer to the Product Snapshot for required reserves.

## Property

#### Eligible Property Types

- 1-4 units attached/detached owner-occupied properties.
- 1-unit second homes.
- Low/mid/high-rise new and established Fannie Mae or Freddie Mac warrantable condominiums.
  - Condominiums with HOA in litigation are ineligible.
  - Minimum square footage 400.
- Planned Unit Development (PUD).
- Maximum lot size 20 acres. Properties with greater than 10 acres need to have three comparables with similar acreage.

### Ineligible Property Types

- Manufactured Homes
- Factory-built housing
- Properties with income-producing attributes
- Condo hotel units
- Log homes
- Unwarrantable condominiums
- Condominiums with HOA in litigation
- Timeshare units
- Geothermal homes
- Unique properties
- Mixed-use properties
- Commercial properties
- Agriculturally zoned properties (agricultural/residential eligible)

- Working farms
- Rural zoned properties
- Properties with an oil and gas lease
- Properties held as leasehold
- Properties located in Puerto Rico, Guam, and the US Virgin Islands
- Co-ops
- Properties with more than 20 acres

### Declining Markets

Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by the appraiser.

### Land-to-Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

### Carbon Monoxide and Smoke Detector Standards

Cardinal Financial will rely on the information provided in the residential appraisal report completed by a state-licensed appraiser regarding compliance with any applicable city, county, state, or other local jurisdiction laws or requirements. If a compliance issue regarding missing or nonfunctional carbon monoxide detectors or smoke detectors is indicated by the appraiser, the following requirements must be met depending on the status of the appraisal. If the Appraiser does not indicate that these items are not installed but completes the appraisal as meeting minimum property standards, we will assume that the items required to comply with state or local laws are in place.

## ‘As-Is’ Property Appraisal for Newly Constructed Properties

Newly Construction Properties with an ‘As-Is’ property appraisal requires **one** of the following documentation options to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from the builder verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed

## ‘As-Is’ Property Appraisal for Existing Properties

Existing Properties with an “As-Is’ property appraisal requires **one** of the following documentation options along with an executed Certification and Indemnification Agreement to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from a licensed contractor, handyman or similar vendor confirming that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser)confirming the smoke detector was successfully installed

AND

- An executed Certification and Indemnification Agreement

**Note:** The Certification and Indemnification Agreement may be signed by the borrower, real estate agent or property seller on a purchase transaction. The Certification and Indemnification Agreement must be signed by the borrower on a refinance.

**'Subject-To' Property Appraisal**

- A 1004D (provided by the appraiser) must be provided to verify that the functioning detector(s) have been installed to ensure compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.

## Appraisal Requirements

- All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- Property Inspection Waiver (PIW)/Value Acceptance, value acceptance + property data and hybrid appraisals are not allowed.
- Properties must be appraised within the twelve months that precede the date of the Note.
- Two (2) full appraisals are required for loan amounts >$2,000,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisals must not be over 120 days old from the date of the Note. If an appraisal is over 120 days old, a new appraisal needs to be performed. For new construction, an appraisal update on form 1004D is required.
- Appraisals transferred or assigned from another lender are not acceptable
- Escrow holdbacks are not allowed

### Third-Party Appraisal Review

- A Collateral Desktop Analysis (CDA) from Clear Capital is required for each loan with a collateral underwriter (CU) score greater than 2.5.
    - A CDA is required in all cases when a CU score is not available

- A CDA is not required for loans with two appraisals, regardless of the collateral underwriter score.
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, there is the option to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible.

Detailed instructions for this are located within Appraisal Requires Desk Review Job Aid.

### Properties Located in a Disaster Area

- If the property is in a zone where a Disaster End Date has been declared by FEMA, a post-disaster inspection prior to loan purchase to confirm the property value has not been impacted by the disaster.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current known disaster boundaries.

## Additional Loan Attributes and Policies

### Subordinate Financing

- Allowed up to maximum CLTV per Snapshot.
- Secondary financing terms must conform to Agency guidelines.
- The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOCs (whether or not funds have been drawn).

### Chain of Title

- All transactions require a minimum twelve (12) month chain of title.

- For purchase transactions, the seller must have taken title to the subject property a minimum of ninety (90) days before the date of the sales contract.

## Balloon Mortgage

Balloon mortgages are not eligible for purchase.

## Recasting/Re-amortizing

Recasting or re-amortized transactions are not eligible for purchase.

## Temporary Buydown

Temporary buydown mortgage loans are not eligible for purchase.

## Prepayment Penalty

Mortgage loans with prepayment penalties are not eligible for purchase.

## Interested Party Contributions

- Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.
    - LTV between 75.01% - 89.99%: Maximum 6% contribution allowed
    - LTV <= 75%: Maximum 9% contribution allowed
    - Non-owner occupied properties max 2% contribution allowed
- Seller contributions in excess of the interested party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. Contributions exceeding the allowed amount will be deducted from the sales price to determine LTV.

## HERO/PACE/Solar Panels

- Any item that will include a UCC associated with the property and/or will create an easement on title is ineligible.
    - An existing UCC must be terminated at closing but may be placed on the property again AFTER our closing.
- Payoff of a HERO lien is considered cash-out.

## Escrows

- Cardinal advocates the establishment of an escrow account for the payment of taxes, hazard insurance, flood insurance, etc.
- Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
- Hazard insurance must have the same inception date as the date of disbursement on a purchase money transaction.
- All applicable loans must adhere to HFIAA regarding flood insurance escrows.

**Note:** Escrow waivers are requested through the lock desk. LLPA's may apply.

## Title and Closing Documentation

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in the states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the lender must ensure that those amendments provide the same coverage.

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, and ARM loan types.

- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- The title insurance policy must insure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- Construction loan refinance: When closed as a single transaction for both the construction loan and the permanent financing, the policy must be dated concurrently with the date of the mortgage and must include (1) a "pending disbursements" clause and (2) a final endorsement to the title policy that extends the effective date of the coverage to the later of the final construction advance date or the endorsement date.
- Any existing tax or mechanic's liens must be paid in full through escrow.

## Appendix A - Summary of Program Overlays to AUS and FNMA/Freddie Mac Guidelines

Please reference guidelines for complete requirements.

- (Eligibility)
  - Minimum credit score, maximum DTI (45%), and reserves as per program matrix.
  - A minimum of two credit scores is required for each borrower.
  - Credit re-scores are not permitted unless the rescore corrects erroneous line items or disputed accounts.
- (First-Time Homebuyer)
  - Owner-occupied property only.

  - Maximum 80% LTV/CLTV.
  - Maximum loan amount $2,000,000.
- (Ineligible Borrowers)
  - Refer to the section for overlays.
- (Business Purpose and Occupancy Affidavit)
  - For NOO properties, a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required.
- (Purchases)
  - Seller must have taken title to the subject property a minimum of ninety (90) days before the date of the sales contract.
- (Cash-Out Refinance)
  - Texas Cash-Out refinances are ineligible.
  - Texas 50(a)(6) loans are ineligible (permitted under the Cardinal Jumbo AUS Expanded Plus program).
- (Continuity of Obligation)
  - For a refinance transaction to be eligible for purchase, there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction. See section for full requirements.
- (Delayed Financing)
  - Delayed financing refinances in which the borrowers purchased the subject property for cash must be within 90 days of the application date. A Closing Disclosure is required to document that no mortgage financing was used to obtain the subject property.
- (Contract for Deed/Land Contract)
  - Contract for Deed/Land Contracts are ineligible.

- (Non-Arm's Length Transaction)
  - If a direct relationship exists between or among the parties, the transaction is a non-arm's length transaction and the related loan is not eligible for purchase. See section for full requirements.
- (Mortgage/Rental History)
  - A minimum of twenty-four (24) months verified housing history is required; 0 x 30 lates
  - If the housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 lates in the most recent 24 months since exiting forbearance. The payment history must be provided.
  - For rental verification, the following is required:
    - A standard VOR completed by a professional management company, or
    - 24 months bank statements or canceled checks, and
    - A lease agreement to document the term and payment
- (Credit Events)
  - At least seven (7) years must have elapsed since the bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale, deed-in-lieu or modification measured from the date of completion to the date of application.
- (Tax Transcripts)
  - Tax transcripts are required to be obtained from the IRS only for income for years used for qualification.
- (Unacceptable Income)
  - Refer to the section for overlays.
- (Source of Funds)
  - Gifts of equity are ineligible.

- (Cash Reserves)
  - The greater of the AUS reserve requirements or the reserve requirements in the Product Matrix are required. If AUS does not provide reserve requirements, follow the Product Matrix reserve requirements.
- (Property)
  - Refer to section for overlays for the following;
    - Eligible properties
    - Ineligible properties
    - Minimum square footage
    - Appraisal requirements (PIW not allowed)
    - Third-party appraisal review process.
    - Properties located in FEMA declared disaster areas.
- (Eligible Property Types)
  - Condos in litigation are ineligible.
- (Declining Markets)
  - Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by the appraiser.
- (HERO)
  - Payoff of a HERO lien is considered cash-out.

## Additional Guidelines Specific to Expanded Plus Program

### Channel Eligibility

Only available for Retail and Consumer Direct Channels

## Age of Appraisal

The age of the subject property appraisal must be within 90 days of the Note date. Additionally, when the effective date of the original appraisal report is greater than 90 days, a new full appraisal will be required. A recertification of value will not be acceptable for appraisals aged greater than 90 days.

## Automated Underwriting (AUS)

Loans must be run through DU only.

- One of the following AUS feedback messages is required: DU Approve/Eligible, DU Approve/Ineligible for loan amount or maximum LTV on cash-out refinances only.

## Eligible Transaction Types

### Rate and Term Refinance

- For properties purchased within twelve (12) months of the closing date, the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. The original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.

### Cash-Out Refinance

- Cash-out proceeds may not be used to satisfy judgments, tax liens, charge-offs, or past-due accounts.

### Delayed Financing

- Follow Fannie Mae Selling Guide requirements
  - The six months seasoning is measured from the closing date of the purchase transaction to the Note date of the subject transaction.
- LTV/CLTV for Rate and Term refinances must be met
- Delayed financing refinance transactions are underwritten and priced as rate and term refinances and are not subject to cash-out refinancing program limitations
  - Note: DU will identify the transaction as cash-out
  - Loan must be input into Octane as cash-out

- Property may not be located in Texas
- For locks made on or after 12/29/23:
  - Property must have been purchased using the borrower's own funds
  - If funds to purchase property came from the borrower's self-employed business, borrower must be 100% owner, and cash flow analysis must be completed to confirm no negative impact to business

### Texas Section 50(a)(6) and (f)(2) Refinance

Permitted with the following restrictions:

- Maximum LTV/CLTV is the lesser of 80% or program maximum
- Allows for 30-year fixed rate product only
- Eligible Property Types:
  - Attached or detached 1-unit principal residence designated as the borrower's homestead under Texas law
  - Condominium
  - Planned Unit Development

### Subordinate Financing

- Permitted per AUS guidelines
- Shared equity finance agreements are an ineligible source of subordinate financing
- Employer Subordinate Financing is permitted:
  - 30 year fixed rate only
  - Employer must have an Employee Financing Assistance Program in place
  - Employer may require full repayment of the debt if the borrower's employment ceases before the maturity date
  - Financing may be structured in any of the following ways:
    - Fully amortizing level monthly payments
    - Deferred payments for some period before changing to fully amortizing payments
    - Deferred payments over the entire term
    - Forgiveness of debt over time

## Third-Party Appraisal Review

- Cardinal must order an appraisal desk review product CDA for each loan from Clear Capital. In the instance where two appraisals are required due to loan amount, a CDA must still be ordered supporting the lower of the two reports.
    - Where a CU may not be available due to property type (2-unit), a desk review product CDA is required.
    - All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal, including the underwriting thereof.
    - Note: requirement does not apply if a CU score of 2.5 or lower is obtained
        - Properties identified by the appraiser as being in a declining market are not eligible to use the CU to meet appraisal review requirements. A CDA is required for all properties in declining markets.
    - Detailed instructions for this are located within Appraisal Requires Desk Review Job Aid.
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the desk review product CDA produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase without further appraisal supporting documentation.
    - A Field Review will be required to support the appraised value.
    - If the Field Review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase.
    - Effective for locks on or after 2/17/2023, if a Field Review product value is more than 10% below the appraised value, a second appraisal is required
        - Value will be based on the lesser of the original appraisal, Field Review, or 2nd appraisal

## Borrower Eligibility

- Non-permanent resident aliens are eligible for Primary Residence transactions only
  - Must be legally present in the U.S with an acceptable visa type.  Acceptable visa types are as follows:
    - E-1
    - G Series (G-1, G-2, G-3, G-4, G-5)
    - H-1B, H-2B
    - L-1

## Credit Documentation Requirements

### Forbearance

A borrower that has entered into a forbearance agreement may be eligible under the following circumstances:

- Purchase/ Rate & Term Refinance:
  - A minimum of 6 months seasoning since completing the forbearance agreement,
  - No payments were skipped even if the forbearance agreement allowed, and
  - All payments were made during the forbearance period
  - Note: Payoff statements and mortgage statements must not reflect any deferred principal balance or any indication of current forbearance
- Cash Out Refinance:
  - A minimum of 12 months seasoning since completing the forbearance agreement,
  - No payments were skipped even if the forbearance agreement allowed, and
  - All payments were made during the forbearance period
  - Note: Payoff statements and mortgage statements must not reflect any deferred principal balance or any indication of current forbearance

Note: Guidance applies to both subject/non-subject properties.

### Frozen Credit

All borrowers must have a minimum of two (2) credit scores that are generated from unfrozen bureaus.

### Letters of Explanation

Mortgage late payments or significant derogatory credit will require a satisfactory signed letter of explanation.

### Maximum Number of Financed Properties

For loans locked on or after 2.9.2024:

- Maximum number of financed properties permitted per AUS.
- Maximum total loan exposure to the same borrower, including the subject property, is $8,000,000

### Tax Liens

Payment plans on prior year tax liens / liabilities are not allowed.

If the most recent tax return or tax extension indicates a borrower owes money to the IRS or State Tax Authority, evidence of sufficient liquid assets to pay the debt must be documented if the amount due is within 90 days of loan application date or if the tax transcripts show an outstanding balance due.

- A payment plan for the most recent tax year is allowed if the following requirements are met:
    - Payment plan was set up at the time the taxes were due. A copy of the payment plan must be included in the loan file.
    - Payment is included in the DTI
    - Satisfactory pay history based on terms of payment plan is provided
    - Payment plans are only allowed for taxes due for the most recent tax year. Prior tax years are not allowed.
        - For example, borrowers file their 2021 return or extension in April 2022. A payment plan would be allowed for taxes due for the 2021 tax year. Payment plans for 2020 or prior years would not be allowed.
    - Borrower does not have a prior history of tax liens.

## Employment and Income

### Tax Transcripts

When a borrower's only source of income is W-2 wages, W-2 transcripts are permitted in lieu of personal tax transcripts.

When the most recent year's tax returns have been filed, and where the IRS has not processed the returns in order to obtain tax transcripts, the following documentation alternative is allowed and required:

- Tax transcripts for previous 1 or 2 years (per DU Findings Report),
- For the most recent year's tax return, provide:
  - Proof of e-filing with the IRS
    - This is generally an e-file receipt or a screen shot from the borrower's online IRS account that confirms receipt of the tax returns, and
  - Proof of payment in full of tax liability owed or receipt of refund, as applicable, and
  - A processed 4506-C response that confirms "no record of return found" with the IRS

### Code 10 Rejection

In the instance where there may be possible identity theft or fraud and the transcript request has been rejected by the IRS with a Code 10 indicating that "Due to limitations, the IRS is unable to process this request", provide the following:

- Evidence of the IRS transcript request rejection for the current tax year,
- Borrower provided tax returns for the corresponding tax year (year for which Code 10 was returned),
- Proof of payment in full of tax liability or receipt of refund, as applicable,
- Tax transcripts for previous one or two years (per AUS)

### Borrowers Employed by a Family Member

- Most recent 30 days' paystubs with year-to-date earnings
- W2s or tax returns for the most recent 2-year period
- VVOE
- 2 years' tax transcripts (required for W2 and  personal returns where applicable)

- Borrower's potential ownership in the business must be addressed by obtaining a letter from a qualified disinterested third-party

### Self-Employment Documentation

Follow the requirements per the DU findings, except as detailed below:

- If DU returns a recommendation for one (1) year of tax returns, the most recent year's tax return must be provided.  IRS extensions are not permitted.
  - If the borrower has filed an extension, the most recent prior two (2) years tax returns are required.
- Secondary Self-Employment Income:
  - Secondary and separate sources of self-employment losses reporting on 1040 tax transcripts greater than 5% of borrowers' total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.
- Income from Self-Employed Co-Borrower:
  - Co-borrower self-employment losses reporting on 1040 tax transcripts greater than 5% of borrowers' total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.

Review of tax returns in their entirety is required; prior years' income reporting on the documentation must be considered when analyzing the income stream.

### Profit & Loss and Balance Sheet

In addition to the requirements under the Profit & Loss and Balance Sheet Requirements section, if after 3/31 of the current year tax returns for the prior year have not been filed, a P&L and Balance Sheet for the prior year are required.

### Short-term Rental Income

In addition to all Agency requirements, qualifying income from short-term rental properties is not eligible in any of the boroughs of New York City.

### Social Security Secondary Income Validation

Secondary validation when income is documented via either a Social Security Benefit Award Letter or a 1099 is required. Acceptable validation can be in the form of tax transcripts/1099 transcripts or a bank statement showing evidence of the SSI deposit and dated within 30 days of the application date.

## Assets

### Cash Reserves

Refer to the Product Snapshot for required reserves.

Additional 1-4 Unit Financed REO Properties:

- Additional six (6) months reserves PITIA for each property is required based on the PITIA of the additional REO
- If the property is eligible to be excluded from the count of multiple financed properties, reserves are not required for those properties.

### Unacceptable Reserves

In addition to the Unacceptable Source of Assets, the following cannot be counted as part of the borrower's reserves:

- Gift funds
- Business funds
- Cash proceeds from a cash out refinance transaction
- Proceeds from a home equity loan or line of credit, bridge loan or cash out from any other property
- Deferred compensation
- Funds that have not vested

### Gift Funds

Gift funds may be used on primary residence and second home transactions once the borrower has contributed 5% of their own funds to the transaction.

Unacceptable Source of Funds

- Proceeds from a personal or unsecured loan

- A cash advance on a revolving charge account or unsecured line of credit
- Foreign assets
- Non-marketable securities
- Profit sharing plans
- Labor performed by the borrower, also referred to as “sweat equity”
- Gifts that must be repaid
- Donated funds in any form, such as cash or bonds donated by the seller builder or selling agent outside of approved financing contributions
- Funds from a community second mortgage or down payment assistance program
- Individual Development Accounts (IDAs)
- Pooled Savings (Community Savings Funds)
- Salary Advances
- Funds in a custodial or “in trust for” account
- Trade equity
- Cash on hand
- Employer assistance assets
- Loans from non-institutional lenders

### Virtual Currency

Virtual currency (i.e. bitcoin) is an ineligible asset type

- Virtual currency must be exchanged into U.S. dollars to be acceptable for use as down payment, closing costs or reserves
- Documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution is required, and
- The funds must be verified in U.S. dollars prior to the loan closing

## Property

### Illinois Land Trust

- One-unit property only
- The trustee must be a financial institution customarily engaged in the business of acting as trustee under Illinois land trusts
- The trust agreement term must be equal to or greater than the term of the security instrument

- Title may be vested as follows:
  - Solely in the trustee(s) of the trust,
  - Jointly in the trustee(s) of the trust and in the name(s) of the individual borrower(s), or
  - In the trustee(s) of more than one trust
- Title insurance must ensure full title protection to the Seller and must state that title to the property is vested in the trustee(s) of the trust. It must not list any exceptions with respect to the trustee(s) holding title to the property or to the trust; and
- The loan must be underwritten as if the individual(s) establishing the trust were the borrower

## Eligible Property Types

### Non-Warrantable Condominium

#### General Requirements

- **Only one (1) non-warrantable feature noted below is allowed and LTV/CLTV must be 10% below the product maximum up to a maximum of 70% LTV/CLTV.**
  - Example: If a borrower qualifies for a loan at 70% LTV based on transaction, FICO score, loan amount and reserves, then the maximum allowed LTV would be 60%.
- Primary residence and second home only
- Full project review required
- Subject Legal Phase
  - The subject legal phase and any other prior legal phases in which units have been offered for sale are substantially complete (common elements complete and units complete subject to selection of buyer upgrades/preference items)
- All other Fannie Mae Selling Guide condo requirements met, including litigation requirements
- Loans must be locked as a non-warrantable condominium and applicable pricing adjustments applied

**Following are the non-warrantable features that may be present, but only one feature is allowed:**

Commercial Space

- Includes space above and below grade, excluding parking
- Must be compatible with the residential use of the project; for example, restaurants, small shops, business offices, small market/grocery store that complements the neighborhood
- Maximum 50% commercial space allowed

Maximum Ownership by one (1) entity is 25% for projects with more than ten (10) units

- Units owned by the developer, sponsor, or succeeding developer that are vacant and being actively marketed for sale are not included in the calculation
- Units currently leased must be included in the calculation
- For projects with ten (10) units or less, Fannie Mae guidelines apply for the number of units owned by one (1) entity and would not be considered non-warrantable.

Presale

- New projects or converted projects (as defined by Fannie Mae Selling Guide) must have at least 30% of the units sold or under contract to owner occupants or second home purchasers for the specific subject legal phase
- Common areas / amenities must be complete for the subject phase

Budget - for projects with line item for replacement reserves of less than 10%

- Less than 10% but greater than 7% replaced reserves allowed if current reserve balance exceeds 10% of operating expenses
- Less than 7% replacement reserves allowed if current reserve balance exceeds 20% operating expenses
- Regardless of the replacement reserves percentage amount, the project balance sheet must be provided and within 120 days of the Note date

## Condotels

Condotel Projects LTV/CLTV must be 10% below product / program maximum up to a maximum of 70% LTV/CLTV.

- Example: If a borrower qualifies for a loan at 70% LTV based on the transaction, FICO score, loan amount and reserves, then the maximum allowed LTV would be 60%.

Condotel Requirements

- Full project review required
- Rental income may not be used for qualifying
- If subject unit appears on Schedule E of the borrower's tax returns, there must be a minimum of thirty (30) days the unit is used for personal use
- No fractional ownership allowed in the project
- Subject unit must not be subject to a mandatory rental pool; it must be for the borrower's exclusive use and enjoyment

- Project must have no more than 50% investor concentration
- Commercial space is limited to 50%
    - Commercial space does not need to include square footage from parking garage
- Minimum square footage of 500 square feet and unit must have a fully functioning kitchen
- Housekeeping, front des, card key access and daily rentals allowed
- Property must be in a resort area or metropolitan area with a project associated with luxury high-end hotel brands
- Primary residence and second home only
- Appraisal must include similar Condotel comparables

All other Fannie Mae condominium requirements must be met, including guidelines surrounding litigation.

Loans must be locked as a Condotel with applicable pricing applied.

### Ineligible Property Types

- Properties with condition rating of C5 / C6
- Properties with quality rating of Q6

## Regulatory Compliance

Cardinal must ensure that each loan has been originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws and regulations including without limitation the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules effective 3/1/21, the TILA-RESPA Integrated Disclosure (TRID) rule effective 10/3/15 and the laws and regulations listed below. All loans must be designated Safe Harbor QM(APR/APOR) and Verification Safe Harbor QM as defined by § 1026.43.

- Regulation X – RESPA
- Regulation Z – Truth in Lending
- Regulation G – SAFE Act – Federal Licensing and Registration
- Regulation H- SAFE Act - State Licensing and Regulation
- Regulation V – Fair Credit Reporting
- Regulation B – Equal Credit Opportunity

- Regulation P – Privacy of Consumer Financial Information (GLB)
- USA Patriot Act
- Fair Housing Act
- Dodd-Frank Act
- Federal high-cost loan regulations
- State, local, and county high cost and usury regulations
- National Flood Insurance Act

The closed file submission should include all applicable closing documentation and disclosures pertaining to the above regulations.

## Revision History

*Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record. Versioning has been captured as of 10.1.20.*

| Date | Version | Description | Approved By |
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| 2.14.24 | V25 | Added requirements for Carbon Monoxide and Smoke Detector Standards depending on property construction and appraisal type | Ellen Clayson |
| 2.8.24 | V24 | Added Maximum Number of Financed Properties section to the Additional Guidelines Specific to the Expanded Plus Program section specifying a maximum loan exposure of $8,000,000 is applicable for loans locked on or after 2.9.2024 | Kristen Bellon |
| 1.3.24 | V23 | • Updated requirement for two appraisals to state a second appraisal is required for loan amounts over $2,000,000<br>• Removed Tenants in Common as an eligible ownership type<br>• Amended the forbearance requirements to apply to all financed properties (previously only applied to Primary Residence) | Kristen Bellon |

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| | | • Added Modifications to the derogatory credit event requirements<br>• Amended to require a lease agreement when documenting rental payment history<br>• Added virtual currency as unacceptable income<br>• Updated Third-Party Appraisal Review process | |
| 12.20.23 | V22 | Added additional guidance for Delayed Financing under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 12.20.23 | V23 | Added Texas a(6) and f(2) transactions are eligible under a 30-year fixed term only | Kristen Bellon |
| 12.5.23 | V21 | Clarified that if tax returns or tax transcripts are required, only U.S. documents are eligible. U.S. Territory or foreign tax returns are not eligible | Ellen Clayson |
| 10.2.23 | V20 | Added Short-Term Rental Income section specifying in addition to Agency requirements, qualifying income from short-term rental properties is not eligible in any of the boroughs of New York City under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 9.12.23 | V19 | Updated ARM Qualification details for the Cardinal Jumbo AUS and Cardinal Jumbo AUS Expanded programs | Kristen Bellon |
| 8.25.23 | V18 | Added guidance for a Code 10 Rejection to the Tax Transcript section under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 4.5.23 | V17 | Added additional guidance to Cash-out Refinance transactions to specify if an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the Note date of the existing loan to the Note date of the new loan | Kristen Bellon |
| 3.3.23 | V16 | Added additional guidance related to Forbearance under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 3.1.23 | V15 | Non-warrantable and Condotel properties are now an eligible property type on Expanded Plus | Ellen Clayson |

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| 2.23.23 | V14 | Added eligibility for Texas Equity (a)(6) under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 2.9.23 | V13 | Updated Third Party Appraisal Review section to provide guidance for field review results greater than 10% to the Additional Guidelines Specific to the Expanded Plus Program section | Kristen Bellon |
| 1.24.23 | V12 | Added Condotels as an eligible property type on Expanded Plus (COMING SOON) | Ellen Clayson |
| 12.29.22 | V11 | Added Non-Warrantable Condos as an eligible property type on Expanded Plus (COMING SOON) | Ellen Clayson |
| 12.2.22 | V10 | Added mortgage late payments or significant derogatory credit will require a satisfactory signed letter of explanation under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 12.2.22 | - | Added Borrowers Employed by a Family Member section under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 12.2.22 | - | Added additional requirement for a Profit and Loss / Balance Sheet when tax returns are filed after 3/31 of the current year under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 12.2.22 | - | Added Unacceptable Reserves section under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 12.2.22 | - | Added Unacceptable Source of Funds section under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 12.2.22 | - | Added Illinois Land Trust section under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 11/15/22 | V9 | Added for properties identified by the appraiser as being in a declining market are not eligible to use the CU to meet appraisal review requirements. A CDA is required for all properties in declining markets under the Additional Guidelines Specific to the Expanded Plus Program | Kristen Bellon |
| 11/15/22 | - | Added Age of Appraisal under the Additional Guidelines Specific to the Expanded Plus Program section | Kristen Bellon |

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| 7/28/22 | V8 | Updated Third Party Appraisal Review section- update is not applicable to the Expanded Plus Third Party Appraisal Review guidance | Kristen Bellon |
| 7/14/22 | V7 | Added secondary validation when income is documented via either a Social Security Benefit Award Letter or a 1099 is required under the Additional Guidelines Specific to the Expanded Plus Program section | Kristen Bellon |
| 6/22/22 | V6 | Clarified acceptable documentation for Verification of Rent | Kristen Bellon |
| 6/16/22 | V5 | Added clarification for Secondary Self-Employment Income under the Additional Guidelines Specific to the Expanded Plus Program section | Kristen Bellon |
| 6/1/22 | V4 | Updated guidance for loans in Forbearance under the Additional Guidelines Specific to the Expanded Plus Program section | Kristen Bellon |
| 6/1/22 | V4 | Added Subordinate Financing under the Additional Guidelines Specific to the Expanded Plus Program section | Kristen Bellon |
| 5/27/22 | V3 | Added guidance for use of Virtual Currency under the Additional Guidelines Specific to the Expanded Plus Program section<br><br>Added clarification that Non-Applicant Title Holder assets are not an eligible source of funds | Kristen Bellon |
| 4/4/22 | V2 | Added Expanded Plus guidelines | Ellen Clayson |
| 1/1/22 | - | Created Guide | Ellen Clayson |