Lending Guide

Chapter 21 | Jumbo AUS Prime Lending Guidelines

Overview

Products

Cardinal Jumbo AUS Prime

For Retail Lending, refer to: Retail Product Snapshot | Cardinal Jumbo AUS Prime

Not available for Wholesale Lending

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 only, or loan is a rate/term refinance transaction and cash back exceeds $2,000 on DU transactions

Must comply with the respective Agency's published requirements along with any additional guidelines set forth in this Lending Guide.

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.

Assumability

- Loans are assumable after the initial fixed rate period under certain conditions described in the Security Instrument

Conversion Option

- None

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 (Note rate + 2%) 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)

Note: Massachusetts First Time Homebuyers are not eligible for ARM transactions.

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.
  - EAD C33 DACA borrowers are eligible for both DU and LPA.
  - Please refer to Chapter 2 | Documentation Standards | Lending Guide

- 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 from a third party or computer generated from the employer 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.
- Non-permanent resident alien with U.S. Citizen borrower
  - Loans may be underwritten following U.S. Citizen/Permanent Resident eligibility requirements and guidelines:
    - No asset / income contribution required from U.S. Citizen / Permanent Resident
    - Non-permanent resident can be a non-occupant and is eligible for Second Home or Investment transactions
- Non-permanent resident alien without U.S. Citizen borrower
  - Primary purchase, rate/term or cash-out refinance allowed
  - Must be an occupying borrower

- Non-occupant co-borrowers
  - Permitted per the AUS findings
  - Maximum LTV is the more restrictive of 85% or LTV permitted in the LTV Matrix from Snapshot

Inter-Vivos Revocable Trusts

- Permitted; Cardinal Credit Committee will review Trust documentation for acceptability

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
- Employment Authorization Document (EAD) reflecting C-10 is not eligible for individuals with designation of Withholding of Removal or Withholding of Deportation

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. No additional restrictions apply.

- Exception: Massachusetts First Time Homebuyers are not eligible for ARM transactions.

Community Land Trusts

- Not eligible

Illinois Land Trusts

- Not eligible

Multiple Financed Properties

- Follow AUS requirements and any additional reserve requirements for second home or investment property transactions.
- Multiple financed property reserve requirements must be added to the Base Reserve 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
- Tenants in Common

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.
- Seasonal limitations on year-round occupancy (such as, lack of winter accessibility) are acceptable provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property.

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.

Documentation in a Foreign Language

All documents included in a loan file must be in English or must be translated into English by the document originator or an unaffiliated third-party translation service. The translation must be attached to each document and warranted that the translation is complete and accurate.

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.
- Resales within 12 months:
    - Underwriter should use discretion when decisioning the loan and determine if:
        - Timeline and percentage of increase in the sales price is reasonable, or
        - There is an unrealistic percentage of increase based on the local market and/or improvements made
    - When one of the above situations exists, Underwriter should use discretion in:
        - Requiring a second appraisal even if not otherwise required
        - Requiring a review appraisal, and
        - Approving the loan

Rate and Term Refinance

Rate and term refinance transactions must meet the following requirements:

- The transaction is being used to pay off an existing first mortgage loan (including an existing HELOC in first-lien position).
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage.
    - A copy of the settlement statement for the purchase of the property is required to show the subordinate lien was indeed used to purchase the property.
    - Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements.

- The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property if the transaction is a primary residence.
- 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.
- Maximum incidental cash-back allowed is 1% of the new mortgage loan.
- Maximum principal curtailment at closing is $2,500.

Refinances to Buy Out an Owner's Interest

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 month preceding the disbursement date of the new mortgage loan.

All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.

Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to Agency guidelines.

Cash-Out Refinance

Cash-out refinance transactions must meet the following requirements:

- Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.
- Follow respective Agency guidelines based on AUS for definition of No Cash and Cash-out
- Cash-out mortgage seasoning requirements:

    - At least 12 months must have passed between the Note Date of the Mortgage being refinanced and the Note Date of the cash-out refinance Mortgage.
    - Refer to respective agency guidelines based on AUS method for detailed requirements.
    - **Note:** The above-referenced mortgage seasoning requirements do not apply to delayed financing transactions
- If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's ownership requirement. (In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
- If the property was owned prior to closing by an intervivos revocable trust, the time held by the trust may be counted towards meeting the borrower's ownership requirement if the borrower is the primary beneficiary of the trust.

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. All time-period references in this section are measured from the date of the event (for example, transfer of title) to the application date of the subject refinance transaction.

Continuity of obligation is met when any one of the following exists:

- There is at least one borrower obligated on the new loan who was also a borrower (as evidenced by the Note) on the existing loan being refinanced,
- Borrower on the new refinance transaction was added to title prior to the loan application date through a transfer from a Limited Liability Company (LLC) or partnership under the following circumstances:
    - Borrower must have owned 25% or more of the LLC or partnership prior to the transfer, and

- Transferring LLC and/or the borrower had a collective consecutive ownership (on title) for at least the most recent six months prior to the application date of the new loan

- Borrower recently inherited or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).

- Note: Transfer of ownership from a corporation to an individual does not meet the definition of acceptable continuity of obligation.

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 180 days from the date of the subject application and the borrower now prefers to encumber the property with secured financing are eligible.

- The transaction is underwritten and priced as a cash-out refinance; however, the maximum cash-out limits do not apply to delayed financing transactions
- Cash-back to the borrower in excess of the original purchase price or appraised fair market value (whichever is lower) is not allowed
- If the funds were borrowed to purchase the subject property:
    - Cash-out proceeds must be used to pay off or pay down the borrowed funds, as reflected on the Settlement/Closing Disclosure Statement for the refinance transaction
    - Additional cash-out is permitted only when all borrowed funds are paid in full
    - Payment on any remaining outstanding balance of the borrowed funds must be included in the debt payment-to-income (CTI) ratio
- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan
- Not permitted on Second Home or Investment property transactions

In addition, the loan must meet the following requirements to be considered delayed financing:

Subject	Requirement
Transaction Type	Transaction must be an arm's-length transaction
Source of Funds	Source of funds (from eligible sources) for the purchase transaction must be documented with, but not limited to: • Bank statements • Personal loan documents • HELOC documentation on another property (such as copy of statement evidencing a draw for the initial purchase of the subject property)
Documentation	Closing Disclosure (CD) must confirm that no mortgage financing that resulted in a lien against the subject property was used to acquire or complete the subject property • Preliminary title search or report must also confirm no liens on the subject property • Repayment of unsecured or personal loans used as the source of funds for the purchase transaction must be documented on the new Closing Disclosure (CD)

Texas 50(a)(6) Refinance Transactions

Follow Agency guidelines specific to acceptability for Texas 50(a)(6) cash-out transactions along with guidance in Chapter 15 | Texas Section 50(a)(6) & (a)(4) | Lending Guide.

- Maximum LTV/CLTV limited to 80%,
- Primary residence only,
- Property type must be 1 unit, condo/PUD, attached or detached,
- Acreage limitations apply

Contract for Deed/Land Contract

Land contracts (Contracts for Deed) are installment purchases of land and any dwellings or other structures on the loan. The buyer:

- Executes a land contract that calls for the remittance of monthly payments to the seller, and frequently, a balloon payment,
- Takes possession of the land,

- And in many instances, the buyer moves into the dwelling and occupies it as a primary residence.

Upon payment in full of the land contract, legal title to the property (land and dwelling) is conveyed to the buyer from the seller. If the buyer is obtaining mortgage financing to pay-off the land contract, it can be underwritten as either a purchase or refinance, under the following conditions:

If the new mortgage is used to pay off the contract that was executed…	**Then include a copy of the executed land contract or contract for deed in the loan file and…**

Within the last 12 months prior to application date,	• Treat the transaction as a purchase
	• Include the document in the acquisition cost
	    ○ Original purchase price,
	    ○ Rehab or renovation costs,
	    ○ Energy Conservation improvements
	• Document the expenditures for rehab/renovation/conservation
	• Use the lesser of the documented acquisition cost or the current appraised value to calculate the LTV
	All of the loan proceeds must be used to pay the outstanding balance under the land contract or contract for deed, and no loan proceeds can be disbursed to the borrower.
	
	Note: If the borrower occupied the property as a primary residence, the Right of Rescission applies.

More than 12 months prior to the application date,	• Treat the transaction as a no cash-out refinance, • Provide evidence verifying payment history in accordance with land contract or contract for deed for the most recent 12-month period, • Must meet continuity of obligation requirements, • Calculate the LTV from the appraised value. Note: Payment history can be verified by a third party or with copies of 12 months of canceled checks (front and back).
Note: Cash-out refinance transactions involving land contracts are not eligible.	

Construction Loan Refinancing

Construction loan refinances are eligible and must meet the following criteria:

- Permitted as Rate and Term or Cash-Out Refinance – follow respective Agency requirements based on AUS method
- Only the permanent financing on a construction-to-perm loan is eligible. Single closing construction to permanent loan refinances are ineligible
- The LTV will be based on the current appraised value of the property.
- 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.

Non-Arm's Length Transactions

All of the parties to a transaction should be independent of one another. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:

- A minimum of 5% of the borrower's own funds must be into the transaction (unless there is a gift of equity and the LTV is less than or equal to 80%),
- No subordinate financing is allowed,
- Seller concessions are not allowed,
- If the property is newly constructed, the occupancy must be a primary residence,
- Second appraisal is required on loan amounts over $2 million,
- Title commitment or policy cannot reflect the customer has been on title to the property in the most recent 24 months,
- Title commitment / policy cannot reflect foreclosure proceedings.

Mortgage Insurance

Not applicable

Qualifying Ratios

Refer to the Retail Product Snapshot | Cardinal Jumbo AUS Prime for maximum DTI allowed.

Ineligible Product Features

- Affordable LTV / Deed Restrictions that terminate at Foreclosure
- Housing or Employer Assisted Deed Restricted Properties
- GSE affordable loan products with loan amount exceeding GSE loan limits
- High cost, Subprime and loans with Prepayment features
- Loans where Right of Rescission has been waived or reopened
- Loans with unexpired redemption periods regardless if the risk is covered by an insurance policy, redemption policy, redemption bond, or other risk mitigant.
- Loans with community second made by Native American tribe
- Shared Equity programs
- PACE / similar EEF loans that allow for lien prioritization over 1st mortgage (cannot subordinate)
- Temporary Buydowns

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 Bureau Report Requirements for Community Property States

Except when required by state law, do not run credit on the non-applicant spouse. Exclude the sole and separate income, assets, liabilities, and debts of the non-applicant spouse from consideration when qualifying the applicant spouse.

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 permitted. The credit report must be analyzed by the AUS and documentation must be provided for the source of funds to pay off / down any accounts between the two reports.
- Non-Traditional Credit is not permitted
- Credit reports based on non-traditional credit sources such as Experian Boost, UltraFICO are not permitted

Refer to the Retail Product Snapshot | Cardinal Jumbo AUS Prime for minimum credit score requirements.

Housing Payment History / Mortgage

Verification of a minimum of 12 months housing payment history is required for all mortgages secured by real estate on which the borrower is personally obligated and must meet the below requirements:

- 0x30 days late in last 12 months, or
- If more than 12 months history verified, no more than 1x30 days late in months 13-24

Note: If the available mortgage history is less than 12 months, previous housing history must be obtained to supplement. If currently renting, refer to the Housing Payment History - Verification of Rent (VOR) section.

Housing Payment History / Verification of Rent (VOR)

When a rental history is required by the respective Agency based on AUS method, the rental history must:

- Show 0x30 days late in last 12 months (based on available documentation), and
- Show no more than 1x30 days late in months 13-24 (based on available documentation)

Note: A VOR is eligible if provided through a rental management company. However, a private landlord VOR is not permitted.

Minimum Tradelines

The respective Agency guidelines based on the AUS method will determine the acceptability of the credit trade lines.

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 for any new debt.

Temporary COVID Requirements

The following Temporary COVID guidelines continue to apply:

- Freddie Mac Bulletin 2020-17 and Fannie Mae Lender Letter 2021-03 in regards to forbearance requirements

Liens, Judgments, and Collections

- Judgements, regardless of amount, must be paid in full
- Garnishments, regardless of amount, must be paid in full
- Tax liens - IRS, Federal, State, Local, or property must be paid in full
- Liens on title must be paid
- Accounts on credit report shown as Past Due (not collections or charge offs) must be brought current

Forbearance

- Follow Agency guidelines along with Temporary COVID guidelines

Federal Income Tax Installment Agreements

For DU and LPA transactions, must follow Fannie Mae guidelines plus the borrower must establish a history of making regularly scheduled payments as evidenced by one month on-time payment made prior to closing.

Liabilities

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

Debt Paid by Others (non-mortgage)

To exclude payment from DTI, payor must:

- Be obligated on the debt
- Provide satisfactory documentation to evidence 12 months' timely payment history

Derogatory Credit

Serious Derogatory Credit History

For consideration, a loan request from borrowers with serious derogatory credit history must meet all the guidelines detailed below and provide:

- Satisfactory written explanation from the borrower accompanied by supporting documentation (as applicable), and
- Compensating factors to offset the layers of risk

Serious Derogatory Items (disclosed or reported)

Derogatory Term	**Description**
Bankruptcy	• Chapter 7 • Chapter 11 • Chapter 12 • Chapter 13
Foreclosure	Any foreclosure
Deed-in-Lieu of Foreclosure	Any Deed-in-Lieu of foreclosure
Mortgage Delinquency/ Housing Debt	Any payment 30 days or more past due for any housing debt within the last 12 months
Forgiveness of Debt	• Short Sale (also known as pre-foreclosure sale) • Short Payoff • Modification (with principal forgiveness)
Collection Account	Collection of non-mortgage accounts in excess of $1,000 within the last 24 months
Charge-off	Charge-off of non-mortgage accounts in excess of $1,000 within the last 24 months

Judgment	Any Judgment in excess of $1,000 within the last 24 months
Tax Lien	Any tax lien in excess of $1,000 within the last 24 months
Repossession	Any repossession within the last 24 months
Consumer Credit Counseling	Consumer Credit Counseling
• For additional information regarding the requirements for payoffs of delinquent credit accounts, refer to the Payoff of Delinquent Credit Accounts section below • Refer to the Mortgage/Housing Payment History section for additional requirements • The borrower must pay in full and clear any derogatory item that may impact either the title of the subject property or the lien position of the first or second mortgage • In such cases the borrower must have sufficient funds to pay any such amounts from liquid assets or loan proceeds, and the use of such funds must be deducted from available assets in addition to funds required for closing and/or reserves	

Consumer Credit Counseling/Debt Management

A borrower who experiences credit or financial management problems may elect to participate in consumer counseling sessions to learn how to correct or avoid such credit problems in the future.

- All re-established credit must be current.

While credit approvals are partly based on credit scoring and/or scoring models, these score(s) should be compared to the credit history details in the borrowers' credit bureau report. The borrowers' score(s) should be reflective of the following key credit history characteristics that the credit scoring models use in assigning a credit score:

- Number and age of accounts
- Payment history
- Credit utilization, and
- Recent attempts to obtain new credit

Even when an acceptable credit score is obtained, the underwriter is accountable for performing an appropriate level of due diligence and should evaluate the borrowers' cumulative credit characteristics.

There are two types of consumer credit counseling:

- Homebuyer Education - designed to help first time homebuyers prepare for the financial responsibilities of homeownership.
  - If the borrower has an acceptable history of managing credit and has participated in counseling to prepare for homeownership, this should be considered a positive risk factor.
- Credit Mismanagement - designed to assist borrowers who have had problems managing their debts.
  - If the credit report shows the borrower:
    - Has completed the counseling and has re-established acceptable credit by repaying the creditors directly, the loan may be considered a positive risk factor.
    - Is currently in credit counseling due to debt mismanagement and has not re-established acceptable credit, the loan is not an acceptable risk.

Disputed Derogatory Credit

In some circumstances, the borrower may be disputing the reported derogatory credit occurrence with the creditor. In those cases, to verify there is an active dispute, the borrower must provide documentation such as:

- Legal documents
- Contractual documents
- Insurance papers, or
- Correspondence between the parties

IF AUS ...	THEN ...
Provides an approval with the inclusion of the disputed derogatory credit item(s),	Underwriter/findings will indicate if further action is necessary
Approval is not received and/or the approval terms were affected by the disputed credit,	• Loan is ineligible • Resolution to the disputed item is required and a new credit report confirming the resolution must be obtained. AUS findings must be rerun using the new credit report.

The underwriter must:

- Evaluate the impact the disputed derogatory credit item may have on the borrower(s)' ability to manage the mortgage debt and how other debts have been managed in the past,
- Take into consideration the equity investment in the property, amount of the disputed credit item, the borrower's asset position, credit risk score, and repayment history with respect to other debts

Note: If these areas are acceptable, the serious or major derogatory credit may be considered an isolated incident, with no material impact in the underwriting analysis.

Serious Derogatory Credit Event Seasoning Requirements

Select credit events that generate severe negative impact to a borrower's credit history are defined as serious derogatory credit, and these events must reach minimum seasoning requirements (waiting period) after completion as illustrated in the following table.

Serious Derogatory Event	**Seasoning Requirement - Months from Event Completion to Loan Application Date**	
	If Due to Extenuating Circumstances	**If Due to Financial Mismanagement**
Single Bankruptcy	84 Months	84 Months
Multiple Bankruptcy Filings (among all borrowers)	Not Eligible	Not Eligible
Foreclosure	84 Months	84 Months
Deed-in-Lieu of Foreclosure, Short Sale (also known as pre-foreclosure sale)[2], Short Payoff[2], and Charge-off of a Mortgage Debt	24 Months: • Purchase of Primary Residence with maximum 80% LTV/CLTV[1] ,or • No Cash-out Refinance (all occupancy types) 84 Months if: • Purchase of Primary Residence with	48 Months: • Purchase of Primary Residence with maximum 80% LTV/CLTV[1] ,or • No Cash-out Refinance (all occupancy types) 84 Months if: • Purchase of Primary Residence with

	LTV/CLTV[1] greater than 80%, or • Purchase of Second Home or Non Owner Occupied Property, or • Cash-out Refinance (all occupancy types)	LTV/CLTV[1] greater than 80%, or • Purchase of Second Home or Non Owner Occupied Property, or • Cash-out Refinance (all occupancy types)
Modification (with principal forgiveness)	36 Months	48 Months
[1]LTV/CLTV limits in the above chart are for Derogatory Credit purposes only and are not reflective of actual allowable limits of any specific product or program. Please see Snapshot for maximum allowable LTV/CLTV limits [2]The new loan must not be contingent on a concurrent Forgiveness of Debt transaction		

Completion Date Definition

The applicable waiting period is measured from the Completion Date to the date of application.

Event	Completion Date
Bankruptcy	Discharge or Dismissal Date
Foreclosure, Deed-in-Lieu of Foreclosure, Charge off of a Mortgage Debt	Transaction Completion date
Forgiveness of Debt (Short Sale/pre-foreclosure sale)	Sale Date
Forgiveness of Debt (Short Payoff or Modification)	Transaction Completion date

Extenuating Circumstances

Extenuating circumstances are isolated non recurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations which rendered the Borrower unable to repay as agreed. Examples include, but are not limited to:

- Death of the primary wage earner
- Prolonged loss of employment for reasons beyond the borrower's control such as site closings, mergers, or reductions-in-workforce

- Long-term illness or disability not covered by insurance

Note: In no event should there be any request for any medical documentation or make any inquiry regarding the nature of the illness or disability. If borrower discloses this information, one must be careful to protect the confidentiality of the information.

Follow the guidelines below when any of the following events were a result of extenuating circumstances:

- Chapter 13 Bankruptcy (regardless of the reason for the filing)
- Chapter 7, 11, or 12 Bankruptcy
- Foreclosure
- Deed-in-Lieu of Foreclosure, Charge off of a Mortgage Debt, or
- Forgiveness of Debt: Short Sale/pre-foreclosure sale, Short-Payoff, or Modification of a mortgage

The guidelines below must be met for the circumstances outlined above:

- Borrower must provide a letter of explanation and documentation evidencing the derogatory credit incident was not due to financial mismanagement, but was the result of extenuating circumstances beyond their control
- Borrower must provide copies of full documentation verifying completion (e.g., bankruptcy petition and discharge papers and list of creditors) if the underwriter is unable to determine the completion date on the credit bureau or when required by specific guidelines
- Underwriter must review all aspects of the file that evidence the borrower's recovery from the circumstance to determine that the circumstances and events leading to the incident are not likely to recur
- File must be documented with evidence that the borrower had an acceptable credit history prior to the extenuating circumstances, and
- The underwriter must have sufficient documentation to support their conclusion that: The borrower is now creditworthy The borrower has the capacity to repay the obligation, and There is no additional or potential overlaying of risks

Financial Mismanagement

Guidelines are provided below for extenuating circumstances that cannot be documented or supported, including any of the following that were a result of financial mismanagement (rather than extenuating circumstances):

- Chapter 13 Bankruptcy (regardless of the reason for the filing)
- Chapter 7, 11, or 12 Bankruptcy
- Foreclosure
- Deed-in-Lieu of Foreclosure, Charge off of a Mortgage Debt, or
- Forgiveness of Debt: Short Sale/pre-foreclosure sale, Short-Payoff, or Modification of a mortgage

The guidelines below must be met for the circumstances outlined above:

- Borrower must provide a letter of explanation
- Borrower must provide copies of full documentation verifying completion (e.g., bankruptcy petition and discharge papers and list of creditors) if the underwriter is unable to determine the completion date on the credit bureau or when required by specific guidelines
- Underwriter must review all aspects of the file that evidence the borrower's recovery from the circumstance to determine that the circumstances and events leading to the event are not likely to recur
- Underwriter must review all aspects of the file paying particular attention to risk score factor reason codes that accompany the credit risk score, notably:
    - Inquiries
    - Age of accounts
    - Balance-to-limits, and
    - Any adverse or derogatory information

The underwriter must have sufficient documentation to support their conclusion that:

- The borrower is now creditworthy,
- The borrower has the capacity to repay the obligation, and
- There is no additional or potential overlaying of risks

Reaffirmation of Debts after Bankruptcy

The following debts must be reaffirmed after bankruptcy when paying off is a condition of approval and one or more of the borrowers on the application to a new loan was a filing party to the bankruptcy from which the debt(s) being paid off were included:

- Any mortgage being refinanced on the subject property, or
- Any debt included in a prior bankruptcy

Payoff of Liens and Delinquent Credit Accounts

All reported delinquent accounts, unless as specified below, must be brought current prior to or at closing. Verification of sufficient funds to pay derogatory items is required, and those funds must be deducted from available assets in addition to funds required for closing and/or reserves.

Type/Amount	Subject Property Type/Occupancy	Must be Paid Off or Brought Current?
	Medical Collection Accounts	
Any Amount	All properties and Occupancy Types	No
	Non-Mortgage Charge Offs and Non-Medical Collection Accounts	
Any Amount	1-Unit Primary Residence	No[1]
Individual balance or total balance of all accounts is less than or equal to $5,000	2- to 4-Unit Primary Residence and Second Home	No[1]
Individual balance or total balance of all accounts is more than $5,000[2]	2- to 4-Unit Primary Residence and Second Home	Yes
Individual account less than $250 or total balance of all accounts is less than or equal to $1,000[2]	Investment	No[1]
Individual account greater than	Investment	Yes

or equal to $250 or total balance of all accounts is less than or equal to $1,000[2]		
Other		
• Garnishments - Regardless of amount • Tax Liens[3] - IRS, Federal, State, Local (city/county), or property (regardless of occupancy or amount) • Judgments - Regardless of amount • Accounts reported on credit report as Past Due (not collection or charge off)	All	Yes
[1] These accounts only require payoff if the title company will not insure first lien position on the subject property. [2] If either individual or total limits are exceeded, all collection and non-mortgage charge-off accounts must be paid in full at or prior to closing. [3] To protect the first lien position against current or future claims, these liens are required to be paid off. Acceptable documentation must be received from (as issued by) the creditor, federal, state, or local municipality to confirm lien satisfaction; or, if the lien will be paid off at closing, the lien payoff must be reflected on the Closing Disclosure (CD).		

In addition to the requirements reflected in the above chart:

- Borrower must pay in full and clear any derogatory item as outlined in this topic and any derogatory item that is revealed as an exception on the title commitment
- When an account is required to be brought current or paid in full, the borrower must have sufficient funds to pay any such amounts from cash/cash like assets, or loan proceeds, and the use of those funds must be deducted from reserve calculations and requirements

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

- Handwritten VOE Form 1005 is not permitted.
- Third party and Employer Computer generated VOE forms are acceptable when AUS messaging allows.
- 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.

Employment Contracts

Current Employment

- When a borrower's employment and income is based on an employment contract (such as, sports franchise, entertainment industry, medical professional) obtain a copy of the employment contract.

- If there is a defined employment expiration date within the three years following the Note date, and there is no clause for automatic renewal, then the income does not meet continuance requirements.

Future Employment

- Follow respective Agency guidelines based on the AUS method, and
- Employment must begin within 90 days from Note date, and
- Must document any *additional* reserves required per the Agency guidelines.

Mortgage Differential Income

- Employer providing the income credit cannot be an interested party on the transaction.

Annuity (Non-Retirement/Structured Payments)

An award letter or similar documentation confirming the amount, frequency and duration of payments is required. The borrower must already be receiving the income. Additionally, must evidence:

- Investment is in the annuitization phase at the time of loan application, and
- Whether the annuity provides fixed or variable payments. If the payments are:
    - Variable: A 24-month history of payments are required.
    - Stable or increasing: An average can be used.
    - Decreasing, and there is a guaranteed minimum amount specified in the annuity contract: The guaranteed minimum amount can be used. Otherwise, the income is ineligible for qualifying.
- Receipt for the most recent month and minimum three year's continuance is required.
    - If annuity is newly established, proof of most recent one-month receipt is not required
- Note: If the non-annuity is in the accumulation phase (such as, when investment is being funded) or is a deferred income annuity, then the non-retirement annuity is not eligible to use for income.

Economic Issues

The Underwriter must not ignore national, regional, or local economic issues in the employment analysis if it could affect the stability of the employment and income or impact the loan decision. Borrowers should exhibit the potential for maintaining continuous employment and/or income to meet minimum guidelines. Any known economic issue relating to employment and/or loss of income must be addressed by the borrower and the employer.

Cryptocurrency

Follow respective Agency guidelines based on the underwriting method used.

Grossing Up Tax Exempt Income

Follow respective Agency guidelines for the AUS provided, plus:

- For income that is always non-taxable, the most recent year's tax return is required to gross up income by more than 25%.
- For Social Security Benefits (Retirement or Survivor Benefits):
  - 15% of the benefit may be grossed up using a 25% tax rate and then added to the full amount of social security benefit. Tax returns are not required. Refer to the Freddie Mac Selling Guide for an example of this calculation.
  - If the borrower does not qualify as described above, a copy of the most recent tax return is required to determine if:
    - Tax rate greater than 25% applies, and/or
    - More than 15% of the income should be treated as non-taxable.
- All other sources, a complete copy of the most recent tax return is required to determine:
  - Portion of income which may be non-taxable, and
  - Borrower's tax rate to be used in the gross-up calculation

Income Deemed Illegal by Federal or State Law

Income derived from an activity that is deemed illegal by federal or state law (for example, income derived from a business that is legal by state law but illegal by federal law) cannot be considered.

Interest / Dividend or Capital Gains

Standard documentation showing historical receipt of the income is provided using two years of personal tax returns.

- When used for income, must document continuance by obtaining an underlying asset statement.
- Calculate YTD earnings by applying a realistic market interest rate to the account balances and averaging over the number of months the income has been received for the year.

Mandatory Furlough

Borrowers that are on a Mandatory Furlough from their job (such as a plan shutdown, temporary layoff, etc.) must return to work prior to the closing of the loan in order to use the income for qualifying purposes.

Additionally, the following documentation is required:

- VVOE indicating the borrower has returned to work under the same terms as prior to the furlough, and
- Pay stub verifying return to work and supporting the qualifying income used for the loan.

MCC Income

Mortgage Credit Certificates (MCC) are not an eligible source of income.

Re-entering Workforce

Follow Agency guidelines for required documentation. Borrower(s) do not need to be employed for 6 months or longer on the current job in order to use it as qualifying income.

Rental Income

Follow the respective Agency guidelines per the AUS to determine required documentation and income calculations.

- When a Lease Agreement is required to document rental income, the original term of the lease agreement must be for at least one year.
- Note: When the lease agreement with the original term of one year has expired but has moved to a month-to-month phase, the lease is acceptable.
- Follow Agency guidelines for any required landlord history.
- For Freddie Mac LPA transactions, rental income from an Accessory Dwelling Unit (ADU) on a subject property that is a 1-Unit Primary Residence is not permitted.

Short-Term Rental Income

Follow respective Agency guidelines to determine required documentation and income calculation, plus apply the following lease agreement and short-term rental requirements.

Lease Agreements

When a rental lease agreement is required to document rental income, the original term of the lease agreement must be for at least one year. When the lease agreement with an original term of one year has expired, but has moved to a month-to-month phase, the lease is acceptable.

Eligibility and Documentation Requirements

When evaluating the use of short-term rental income for an individual property, refer to the table below for eligibility and documentation requirements.

Property/Transaction Type	Eligibility and Documentation
Subject Property - Purchase	Not Eligible
Subject Property - Refinance Non- Subject Property - Purchase or Refinance	Eligible on DU transactions only, and document with the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E Note: Lease agreements with terms less than 12 months are considered short-term leases, therefore they cannot be used to document or calculate rental income.

Calculation

To calculate short-term rental income, use the amount from the Schedule E and divide the net amount by 12 months, regardless of fair rental days.

Rental Income - Disregarded Entities

For disregarded entities, follow IRS Form Schedule E analysis and obtain a current lease agreement. These transactions are not subject to being evaluated pursuant to self-employment guidelines.

Restricted Stock Units

Ineligible without an approved exception through the Loan Review process. Regardless of the AUS engine (DU or LPA), follow Freddie Mac RSU guidelines as follows.

Restricted Stock Unit income is considered a form of compensation. Depending on each employer's benefits program, the units will take a period of time to vest after they are awarded (i.e. % of units over a set number of years). RSUs are assigned a fair market value when they vest and are not considered income until they vest and the value of the stock units are reported to the borrower as income for tax filing purposes.

RSU Subject to Performance-Based Vesting Provisions

History of receipt:

- Two years, consecutive;
- To be considered for a history of receipt, RSU used for qualifying purposes must have vested and been distributed to the borrower from their current employer, without restriction.

Continuance: Must be likely to continue for at least the next three (3) years.

Documentation Requirements:

- All of the following:

- YTD paystub(s) documenting all YTD earnings, including payout(s) of RSU;
- W-2 forms for the most recent two (2) calendar years; and
- 10-day Verbal VOE

- Or, all of the following:
  - Written VOE documenting all YTD earnings (including payout(s) of RSU) as well as earnings for the most recent two calendar years;
  - 10-day Verbal VOE
  - Income verifications obtained through a third-party verification service provider are permitted provided that the documentation clearly identifies and distinguishes the payout(s) of RSU income.
- Provide evidence the stock is publicly traded
- Documentation verifying that the vesting provisions are performance-based (e.g., RSU agreement or offer letter)
- Vesting schedule(s) currently in effect detailing past and future vesting
- Evidence of receipt of previous year(s) payout(s) of RSU (e.g., year-end pay stub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pre-tax).

Calculation:

- RSU distributed as shares:
  - Multiply the 52-week average stock price as of the application received date (disclosure mode date) by the total number of vested shares distributed (pre-tax) to the borrower in the past two years, then divide by 24.

- Example: If 200 vested shares were distributed (pre-tax) in the past two years and the 52-week average stock price as of the application date is $10, multiply 200 x $10, then divide by 24 = $83.33 monthly income.

- RSU distributed as cash equivalent:
  - Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24.

RSU Subject to Time-Based Vesting Provisions

History of receipt:

- One year;
- To be considered for a history of receipt, RSU used for qualifying purposes must have vested and been distributed to the borrower from their current employer, without restriction.

Continuance: Must be likely to continue for at least the next three (3) years.

Documentation Requirements:

- All of the following:
  - YTD paystub(s) documenting all YTD earnings, including payout(s) of RSU;
  - W-2 forms for the most recent one (1) calendar year; and
  - 10-day Verbal VOE
- Or, all of the following:
  - Written VOE documenting all YTD earnings (including payout(s) of RSU) as well as earnings for the most recent one calendar year;
  - 10-day Verbal VOE

  - Income verifications obtained through a third-party verification service provider are permitted provided that the documentation clearly identifies and distinguishes the payout(s) of RSU income.
- Provide evidence the stock is publicly traded
- Documentation verifying that the vesting provisions are time-based (e.g., RSU agreement or offer letter)
- Vesting schedule(s) currently in effect detailing past and future vesting
- Evidence of receipt of previous year's payout(s) of RSU (e.g., year-end pay stub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pre-tax).

Calculation:

- RSU distributed as shares:
  - Multiply the 52-week average stock price as of the application received date (disclosure mode date) by the number of vested shares distributed (pre-tax) to the borrower in the past years, then divide by 12.
    - Example: If 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as of the application date is $10, multiply 50 x $10, then divide by 12 = $41.67 monthly income.
- RSU distributed as cash equivalent:
  - Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.

Schedule F - Farm Income

Regardless of the AUS engine (DU or LPA), follow **Fannie Mae** guidelines for documentation and adjusting cash-flow analysis.

Income received from farming is calculated on IRS Form 1040, Schedule F, and transferred to IRS Form 1040. **Note**: Other income on Schedule F may represent income that is not obtained from the borrower's farming operations.

Certain adjustments may need to be completed to the net income that was transferred to IRS Form 1040. For example, certain federal agricultural program payments, co-op distributions, and insurance or loan proceeds are not fully taxable, so they would not be reported on IRS Form 1040. These income sources may or may not be stable or continuous and could be a one-time occurrence.

If verification is obtained that the net income amounts that were transferred to IRS Form 1040 are stable, consistent, and continuing, the borrower's cash flow must be adjusted by the non-taxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the borrower's cash flow.

The borrower's cash flow can be adjusted by adding the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of his or her home.

Schedule K-1 (<25% Ownership)

Follow respective Agency guidelines based on underwriting method for employed and self-employed borrowers. In addition, the following guidance applies:

- K-1 Business Ownership <25%; obtain a Verbal Verification of Employment (VVOE) for each borrower using income to qualify.

Tax Return Requirements

Refer to Individual Federal Tax Return Requirement (IRS Form 1040) requirements according to income type and AUS to determine the number of years of tax returns required. The table below is intended to help determine what year is considered the most recent, not how many years of returns are required.

Application Date	Disbursement Date	Tax Return Requirements

Oct 15[1] (current year minus 1) to April 14[2] current year (currently 10/15/22-4/17/23)	October 15[1] (current year minus 1) to April 14[2], current year (currently 10/15/22-4/17/23)	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 15[1], current year to June 30, current year (currently 4/18/23 to 6/30/23)	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the loan file must include a completed and signed IRS Form 4506-C for transcripts of tax returns provided by the borrower.. Note: While Form 4868 is not required, if evidence of the most recent year's extension is obtained, review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the most recent year obtained as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the underwriter to require the current returns in order to proceed.
	July 1, current year to October 14[2], current year (currently 7/1/23 to 10/15/23)	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, perform all of the following: ● Obtain one of the following documents from the borrower: ○ Copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS ○ Proof of the e-filing of Form 4868, or ○ Confirmation of electronic payment(s), including the confirmation number, of all or part of the estimated income taxes. ● Review the total tax liability either reported on IRS Form 4868 or paid by the borrower and compare it with the borrower's tax liability from the most recent year obtained as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with
April 15[1], current year to October 14[2], current year (currently 4/18/23 to 10/15/23)	April 15[2], current year to December 31, current year (currently 4/18/23 to 12/31/23)	

		previous years may make it necessary for the underwriter to require the current returns in order to proceed. • Obtain IRS response from the filing of IRS Form 4506–C confirming that no transcripts are available for the applicable tax year. (Alternatively, the underwriter, at their own discretion, may rely on borrower provided evidence that no transcripts are available for applicable tax years when that evidence is obtained directly from the IRS website). Note: Any documents provided by the borrower must clearly identify the source of information including identifying information in the internet banner on the document
	January 1, (current year plus 1) to April 14[2], (current year plus 1) (currently 1/1/24 to 4/14/24)	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
Note: For business tax returns, if the borrower's business uses a fiscal year (a year ending on the last day of any month except December), the underwriter may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date / disbursement date of the new mortgage loan. The loan file must always include the last tax return filed by the borrower and the minimum number of years of tax returns required. [1] Or the April/October filing dates for the year in question as published or extended by the IRS. [2] Or the day prior to the April/October filing dates for the year in question as published or extended by the IRS.		

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.

- 1040 tax transcripts are also required if the loan is identified by the Fraud report as High Risk

Tax Transcripts Not Available

IF borrower...	AND Note date is...	THEN Provide...

Filed 2022 tax return, but 2022 transcripts are not yet available,	on or before October 31	The prior year's tax transcript with evidence the current year's tax return has been filed, per the following requirements:
		• 2020 tax return and transcript, and
		• 2021 tax return and transcript, and
		• 2022 filed tax return verified in one of the following ways:
		  ◦ Officially stamped by the IRS as received, or
		  ◦ Evidence that the return was electronically received, or
		  ◦ Evidence of a refund check or payment made
		Underwriter must apply appropriate due diligence to determine if borrower's income is acceptable for the transaction:
		• Analyze the 2020 and 2021 transcripts and 2022 tax return
		• If loan file is an otherwise strong file with no other risk factors, and
		• Earning trends are stable or increasing, then
		• Underwriter may include the 2022 tax return as part of the income calculation

Trust Income

- Follow respective Agency guidelines based on AUS method for use of Trust Income. In addition, the following apply:
  - Trust must be established prior to the TRID Application Date
  - Additionally, for revocable trusts, follow the more restrictive of:
    - Agency guidelines based on AUS, OR
    - Provide a minimum of one year history of receipt of trust income as of the application date

Verbal VOE

- Verbal VOE of current employment documented in writing are 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.

Self-Employed Borrowers

- Self-employed borrower definition is an individual borrower that has 25% or more ownership interest in a business(es).

- 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.

- 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 4506-C is required.

- A minimum of two-years operating in the same business is required to be documented by:

- Two years most recent signed and dated personal income tax returns and transcripts with all applicable schedules required, and
- Two years most recent signed and dated business tax returns and all schedules which correspond with the two most recent years' signed and dated personal income tax returns (unless evaluated through DU and meets Fannie Mae guidelines for waiver of business tax returns)
- **Note:** If federal tax returns do not reflect the complete 24-month period (due to timing), and unaudited Profit and Loss Statement and Balance Sheet prepared by an independent third-party (such as borrower's tax preparer, CPA, or company bookkeeper) or by the borrower must be provided covering the remaining time period.
- **Note:** The LPA feedback message that allows 1 year of tax returns if documentation of 5 years ownership in the business is not permitted on this product.

- Agency guidelines for signature/date alternatives can be applied to both personal and business returns.

Temporary COVID Requirements

Self-employment business open and operating guidelines still apply as referenced in Freddie Mac Bulletins 2020-08, 2020-27 and 2020-35, and Fannie Mae Lender Letter 2020-03.

Self-Employment: Pass Through Income (Entity to Entity)

When self-employment income being used to qualify is passed through to other entities and the borrower owns 25% or more of the other business entity:

- The pass-through entity must be fully analyzed by obtaining two years of business tax returns, including all schedules.

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 must be consistent.

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.

Home Equity Line of Credit (HELOC)

Follow the respective Agency guidelines based on the AUS method.

Installment Debt

Follow the respective Agency guidelines based on the AUS method.

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

Follow the respective Agency guidelines based on the AUS method.

Properties Owned Free and Clear

When a property is owned free and clear, the property taxes, homeowners' insurance and HOA fees (when applicable) must be verified, documented and included in the DTI.

Revolving Debt

Follow the respective Agency guidelines based on the AUS method.

Short-term Installment Obligations

When Short-term Installment Plans (for example, Buy Now/Pay Later) are identified, either through disclosure by the borrower or from loan file documentation (application, credit report or bank statements), treat in a consistent manner with the existing approach applied to other more traditional short-term installment obligations.

Installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations.

Homestead Tax Exemption

Debt Analysis

Use the following guidelines for applying homestead tax exemptions for owner-occupied primary residences.

IF the transaction is a…	THEN…
Refinance	The amount of taxes after the exemptions have been deducted may be used to qualify
Purchase	The reduced Homestead Exemption (or state equivalent language) tax amount can be used only when: • Subject property is not new construction and the current reported tax amount represents the amount on the land plus improvements • Loan is for an owner-occupied primary residence transaction. When the borrower owns their current primary residence then: ○ The current primary residence property must be sold on or before the closing of the subject property, and ○ The sale of the primary residence property must

	be documented with a Closing Disclosure (CD) • Loan file must contain a breakdown showing how the tax amount used to qualify was calculated Note: Only applies for the Homestead Exemption. Other exemptions are reviewed on a case-by-case basis

Assets and 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.

Note: DU Validation Services/LPA-AIM, including validations from DDA Account Data are not eligible.

Source of Funds

- Allow for a one month asset statement on refinance transactions submitted to DU or LPA
- Allow for a one month asset statement on purchases submitted to LPA
- If bank statements indicate accounts opened within 90 days, the initial deposit must be sourced if funds are needed for closing and meet the definition of a large deposit.
- Minimum 5% from borrower's own funds is required if LTV or CLTV is > 80%
- Non-Applicant Title Holder Assets are not an eligible source of funds

Verification of Deposit (VOD) / Form 1006

VOD/Form 1006

- Not permitted for:
  - Initial asset verification, regardless of statement frequency, or
  - Subsequent verification if asset account is reported monthly or quarterly

- If reported other than monthly or quarterly, a VOD can only be used for subsequent verification of an expired asset statement

Business Assets

Business assets are not eligible to meet minimum reserve requirements but can be used for down payment and closing costs.

- Must correspond to the borrower's percentage of ownership in the business,
- Must provide evidence supporting borrower has full access to their percentage of funds, and
- A cash-flow analysis or CPA letter is required supporting withdrawal of funds will not have a negative impact on the business.

Cash Reserves

Follow respective Agency guidelines based on the underwriting method used. Refer to individual asset types for restrictions on source of funds used as reserves.

Refer to the Retail Product Snapshot | Cardinal Jumbo AUS Prime for required reserves. In the event the AUS findings require more reserves than what is required under the Carinal Jumbo AUS Prime guidelines, the amount of reserves indicated on the AUS must be met.

Custodial Accounts

Custodial accounts established for children or other individuals are not an eligible source of funds when the borrower is not the beneficiary of the account.

Cryptocurrency

Follow respective Agency guidelines based on the underwriting method used.

Gift Funds

Follow respective Agency guidelines based on AUS.

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
    - Not permitted on Investment property transactions
    - Projects with significant conditions or project-wide deferred maintenance within the project that may negatively impact the safety, structural soundness, habitability, or functional use of any individual unit or the project as a whole are not eligible
    - Special Assessments - If a special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. In addition, if the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible
- Planned Unit Development (PUD)
    - Attached PUDs must comply with applicable Agency requirements submitted through DU or LP
    - Detached PUDs do not require a full project review
- Maximum lot size 25 acres
- Property address must be in the Continental U.S., Alaska or Hawaii

Ineligible Property Types

- Any land, building, property, structure, etc. for which there is knowledge of an illegal activity occurring past or present (based on federal or state law), regardless of whether any income or assets are being derived from illegal activity. Property alterations cannot be made to achieve collateral eligibility.
- Manufactured Homes
- Accessory Dwelling Units that are Manufactured Homes
- Properties with income-producing attributes (such as orchards or ranches), including those properties that are currently not commercially income producing
- Condo hotel units
- Non-warrantable condominiums
- Timeshare units
- Commercial properties, including boarding houses or bed and breakfast
- Properties with an oil and gas lease
- Properties held as leasehold
- Properties located in Lava Zones 1 & 2
- Co-ops
- Properties with more than 25 acres
- Properties encumbered by certain types of private transfer fee covenants if they were created on or after February 8, 2011, unless excluded from the final rule (12 CFR Part 1228). The final rule excludes private transfer fees paid to homeowner associations, condominiums, co-operatives and certain tax-exempted organizations that use private transfer fee proceeds to benefit the property
- Properties not suitable for year-round occupancy

Accessory Dwelling Units (ADUs)

An Accessory Dwelling Unit (ADU), also referred to as a mother-in-law unit or guest apartment, is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. The ADU must have basic requirements for living, sleeping, cooking and bathroom facilities on the same parcel as the primary dwelling.

Examples of ADUs include, but are not limited to:

- Living area over a garage
- Living area in a basement
- Small addition to the primary dwelling

Section	Jumbo AUS Prime through DU	Jumbo AUS Prime through LPA
Eligibility	Only one ADU is permitted on the parcel of the primary one-unit dwelling.	Mortgage secured by a 1-, 2- or 3-unit property that has one ADU. Examples of eligible ADU configurations include: • 1-, 2-, or 3-unit dwelling with an ADU above a garage • Dwelling with an attached or detached ADU, or • Dwelling with an ADU in the basement
Ineligible property types	ADUs are not permitted with a two- to four-unit dwelling.	Mortgages secured by the following property types are not eligible for purchase by Freddie Mac: • A 2- or 3-unit property with an ADU that does not comply with zoning and land use requirements (illegal zoning) • A 1-, 2- or 3-unit property with two or more ADUs

		• A 4-unit property with an ADU

ADU Requirements	The ADU must:
	• Be subordinate in living area to the primary dwelling
	• Contribute less value than primary dwelling
	• Have the following separate features from the primary dwelling:
	    • Means of ingress/egress
	    • Kitchen
	    • Sleeping area
	    • Bathing area, and
	    • Bathroom facilities
	• ADU may, but is not required to, include access to the primary dwelling; however, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy
	• The kitchen must, at a minimum, contain the following:
	    • Cabinets
	    • Countertop
	    • Sink with running water, and
	    • Stove or stove hookup (hotplates, microwaves, or
		An ADU is an additional living area that:
		• Includes a kitchen
		• Includes a bathroom
		• Includes a separate entrance
		• Is independent of the primary dwelling unit
		• Is subordinate in living area, and
		• Contributes less to the value of the property than the primary dwelling unit

	toaster ovens are not acceptable stove substitutes) • An independent second kitchen by itself does not constitute an ADU. The removal of a stove does not change the ADU classification.	

Appraisal Requirements

The following appraisal requirements apply to ADUs:

- When appraiser is reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling.
    - ADU should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade
    - If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property
- Whether a property is defined as a one, two or three-unit property with an ADU or a 2-4 unit property is determined by the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented
- The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include:
    - Description of the ADU
    - General condition of the ADU

- Room count specifying the number of bedrooms and baths and square footage of the ADU's living area
- Analysis of any effect it has on the value or marketability of the subject property

- The appraisal report must demonstrate that the improvements are acceptable for the market
- An attached non-permitted second unit (guest unit or ADU) should not be valued but the area should be included in the area calculations as if the kitchen components have been removed. The report should be "as is" as long as the appraiser describes the functional obsolescence for the cost of removing the kitchen and returning the structure to its original state.
- A detached non-permitted second unit (guest unit or ADU) should not be valued unless the appraiser can find three similar non-permitted units to demonstrate the acceptance of the non-permitted unit in the market and zoning does not prohibit a second unit (such as illegal use).

Zoning for an ADU

The appraisal report must indicate whether the ADU complies with zoning and land use requirements (legal or legal non-conforming), and whether it is typical for the area.
If the ADU does not comply with zoning and land use requirements (illegal), the property is eligible if it meets all characteristics noted above and:

- Subject property is a 1 unit property with an ADU
- Existence of an ADU does not jeopardize future insurance claims
- Illegal use of the ADU conforms to the subject neighborhood and to the market
- Property is appraised based upon its current use
- Appraisal report (site section) indicates the improvement (ADU) does not comply with zoning requirements (illegal)
- Appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable properties with the same non-compliant use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales
- When the property is a 2 or 3 unit property with an ADU the zoning compliance must be either legal or legal non-conforming. Illegal zoning is not permitted.

Comparable Sales Requirements

When the property with the ADU is legal, legal non-conforming or location has no zoning then the following comparable requirements apply:

- Appraiser must provide at least one comparable sale with an ADU, when available, to demonstrate the property's conformity and marketability to its market area
    - If a recent comparable sale with an ADU is not available in the subject neighborhood, the appraiser can use an older sale with an ADU from the subject neighborhood or a sale with an ADU from a competing neighborhood as a comparable sale or as supporting market data.
    - The appraiser may always use more than three comparable sales, including contract sales (pending sales) and/or current listings, to justify and support their adjustments and opinion of market value, as long as at least three are actual closed (settled) sales.
- For loans submitted through LPA:
    - If a comparable sale with an ADU is not available, the appraiser can use a comparable sale in the subject neighborhood without an ADU as long as the appraiser can justify and support such use in the appraisal report and the appraiser can develop an accurate opinion of market value for the property.
- For loans submitted through DU:
    - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use. The comparable property must be the same use but need not be a recent comparable sale. The comparable can be recent or aged settled sale, an active listing, or under contract sale.
- If these requirements for non-compliant zoning cannot be met, follow the requirements for a non-permitted second unit. The appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

Water, Wells, Septic and Sewage Systems

Water, well, septic and sewage systems must:

- Meet community standards
- Be adequate and
- Be accepted by area residences

If Public water and/or sewage facilities are not available, then private well and septic facilities must be available and utilized by the subject property.

- The private facilities must be viable and adequate to service the subject property.
- Generally, the private well and septic facilities must be located on the subject property site. However, off-site private facilities are acceptable if the inhabitants of the subject property have the right to use and access the off-site facilities and there is an adequate, legally binding agreement for use, access and maintenance.
- The Appraiser must comment when the viability, adequacy, or market acceptance of, or access to, the well and septic facilities are an issue.

Properties in Special Assessment Districts

A Special Assessment District is a district in which a special tax is created to fund a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Appraisers must exercise special diligence when reviewing properties in these districts.

The following are requirements pertaining to Special Assessment Districts:

- Appraisers are required to report on any special assessments that affect the property
- If the Special Assessment District is experiencing financial difficulty that has an effect on the value or marketability of the property, the appraiser is required to:
    - Reflect the difficulty in the analysis and note the difficulty and impact in the report
    - Reflect market reaction to the potential liabilities that may arise within a financially troubled Special Assessment District
    - Consider the current and expired listings of properties for sale, pending contract sales, and recent closed sales within the district
- If financial difficulty of a Special Assessment District is so severe that its actual effect on the value and marketability of a property is not measurable because there is no

comparable market data, then the mortgage secured by such property is not eligible for financing

- Any information regarding special assessments on a given property must be disclosed to the appraiser
- Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales and note the effect of the assessment in the appraisal report
- Appraisers must be cautioned about the need to be aware of whether or not the subject property and the comparable sales are located within or affected by a Special Assessment District

Note: Properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different special assessment or to no assessment at all

Deed Restricted Properties

Properties that are subject to deed/resale restrictions will be governed by the following conditions:

- Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease, agreement, or other instrument executed by or on behalf of the owner of the land.
- Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income, or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers.
- The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions.
- The resale restrictions are binding on current and subsequent property owners and remain in effect until they are formally removed or modified, or terminated in accordance with their terms, that being at foreclosure or acceptance of deed in lieu of foreclosures, or after a specific number of years.

Deed Restricted Program Features

- Available on 1 Unit/Condo/PUD/Co-op and 2 Unit properties
- Primary residence only
- Available for Purchase, Cash-Out and No Cash-Out refinance transactions
- Subordinate Financing is permitted
- Must be underwritten utilizing DU; loans evaluated through LPA are ineligible
- Deed Restrictions that negatively impact marketability or are considered prejudicial (such as, restrictions based on buyer's marital status, race, religion, etc.) are not eligible
- Code, Covenant and Restrictions (including, but not limited to, restrictions requiring home must be maintained or HOA must approve addition, colors, etc.) are permitted
- Properties in Massachusetts with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure are ineligible

Deed Restricted Appraisal Requirements

Deed restricted properties require additional information on the appraisal as outlined in the table below.

IF the resale restrictions...	THEN the appraisal must reflect the ...
Terminate automatically at foreclosure, or upon recordation of a deed-in-lieu of foreclosure,	market value of the property without the resale restriction. A special statement must be made on the appraisal, as described in Fannie Mae Announcement 06-03.
Do not terminate automatically at foreclosure,	impact the restrictions have on the value and be supported by comparables with similar restrictions. A commentary must be made on the appraisal, as described in Fannie Mae Announcement 06-03.

Subject Property For Sale/Was for Sale

If the subject property had been for sale within the prior 12 months, refinancing may be considered subject to the following conditions for both No Cash Out and Cash-out transactions:

- The listing must have expired or been withdrawn prior to the disbursement date,
- The appraisal must confirm all of the following:
  - Home is not currently listed in the MLS as for sale
  - Home is not publicly offered or for sale by the owner
  - Date the listing was withdrawn or expired

Or

- When the property is listed for sale at the time of the appraisal but is withdrawn or expired prior to the disbursement date, the borrower must provide evidence (for example, a copy of the canceled agreement) that the property is no longer for sale.

If the appraised value is not at least 10% less than the lowest listing price, and

IF the subject property is located in...	THEN...
Increasing or stable market as noted in the appraisal report,	Underwriter must note support considered for the value based on the transaction.
Neighborhood with declining values as noted in the appraisal report,	Full second appraisal must be obtained to support the value.

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) is not allowed.
- Properties must be appraised within the twelve months that precede the date of the Note.
- One (1) full appraisal is required for loan amounts up to $2,000,000.

- Two (2) full appraisals are required when:
    - Transaction is a non-arm's length transaction,
    - Purchase transaction with loan amount greater than $2,000,000 and the LTV is greater than 80%,
    - Refinance transaction with loan amount greater than $2,000,000, regardless of the LTV.
    - When two appraisals are required, the lower of the two is used in the LTV calculation.
- An appraisal is valid for 120 days from the effective date of the appraisal. An Appraisal Update and/or Completion Report (1004D) is used to update a prior appraisal after 120 days.
    - The Appraisal Update must concur with the original appraisal,
    - Perform an exterior inspection of the subject from at least the street,
    - Research, verify and analyze current market data in order to determine if the property value has changed since the effective date of the original appraisal, and
    - Provide a new front photo of the subject.
- A new appraisal is required and an Appraisal Update is not acceptable if the appraisal update indicates the market value is declining or if the appraisal being updated will be 12 months old as of the Note date.
- Escrow holdbacks are not allowed
- Transferred or assigned appraisals are not permitted
- Prior to closing, properties with Condition ratings C5 or C6 must be cured and the property must be brought to Condition ratings C1-C4
- Building Sketch interior dimensions required on all attached projects
- 2-4 Unit Building Sketch must include each unit's layout (labeled rooms) and indicate the square living area for each unit and gross building area (GBA). GBA includes all interior common areas such as stairways or hallways, based on exterior measurements of the building

- Appraisers must follow the ANSI standards for interior and exterior inspections and include all of the declarations as required by ANSI in the appraisal report

Photographs

An appraisal with an interior inspection, on the appropriate form for the property type, is required and must include photos of the following areas:

- Kitchen
- All bathrooms, including partial bathrooms
- Main living area (living room, family room, dining room, all bedrooms, etc)
- Basement, including all finished and unfinished rooms
- Examples of physical deterioration, if present
- Examples of recent updates (improvements, restoration, remodeling, amenities, and renovation)

Third-Party Appraisal Review

- Fannie Mae CU and Freddie Mac LCA score is required on all appraisals
    - Second Valuation required on loans when the successful SSR reflects CU/LCA score of 2.6 or higher, or indicates no score can be determined for a transaction type
    - Secondary valuations are not required when at least one of the Submission Summary Reports (SSR) [either Fannie Mae Collateral Underwriter (CU) or Freddie Mac Loan Collateral Advisor (LCA)] reflects a score of 2.5 or lower. Regardless of score, both the Fannie Mae and the Freddie Mac SSRs must be provided in the Closed Loan File.
        - Example: It is acceptable for one SSR score to be 2.4 and the other SSR score to be 2.6 to meet the 2.5 or less requirement.

If Secondary Valuation is...	Then the Valuation must...
Determined from an approved AVM vendor	Must be no more than 10% below the original appraised value, and, be from one of the following AVM vendors with the FSD Score less than or equal to:

	• Clear Capital .06 • Veros .07 Note: AVM value is not used for LTV calculations and should not be the basis for determining acceptability of the appraisal used for the lending decision
Clear Capital CDA or Desk Review (Fannie Mae form 2000 or 2000A) from independent 3rd Party	Original appraised value must be supported by CDA/Desk Review within 10%. Note: Value not used for LTV calculations

Solar Panels

When a subject property has solar panels, ownership and any financing structure of the panels must be identified to properly underwrite the transaction.

Panels Owned Free and Clear

When the solar panels are owned free and clear (not leased or financed) by the borrower (property owner), standard eligibility requirements apply and the following additional requirements must be met:

- Property must maintain access to traditional (an alternate source from solar panels) electric utilities consistent with community standards
- Solar panels must be considered in the appraiser's opinion of market value of the subject property

Panels Not Owned Free and Clear

When solar panels are not owned free and clear, determine whether the solar panels are:

- Owned by a third party and leased or covered by a power purchase agreement, or
- Financed or collateralized and are separately financed solar panels (where panels serve as collateral for debt distinct from any existing mortgage)

Copies of the lease or power purchase agreement or other financing agreement must be included in the loan file. If insufficient documentation is available and the ownership status of the panels is unclear, no value of the panels may be attributed to the property value on the appraisal unless a UCC "property property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

When solar panels are determined as owned by a third party and leased, or are covered by a power purchase agreement, the following additional requirements apply:

- Solar panels cannot be included in the appraised value of the property
    - The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
    - Note: A 'precautionary" UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
- Property must maintain actress to traditional (an alternate source from solar panels) electric utilities consistent with community standards
- Lease or purchase agreement payment must be included in the DTI ratio calculation unless the lease is structured to:
    - Provide delivery of a specific amount of energy at a fixed payment during a given period
    - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required in the lease for that period
- The payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio
- Lease or power purchase agreement must indicate that:
    - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or removal of the solar panels is the responsibility of the owner of equipment and owner ust be obligated to repair the damage and return improvements to their original or prior condition; and
    - Owner of solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure to which the panels are attached (as an alternative to this requirement, verify that the owner of the solar panels is not a named loss payee or named insured on the property owner's insurance policy); and

- In the event of foreclosure, the lender or assignee has discretion to:
  - Terminate lease/agreement and require third-party owner to remove equipment; or
  - Become, without payment of any transfer or similar fee, the beneficiary of borrower's lease/agreement with third party; or
  - Enter into a new lease/agreement with a third party, under terms no less favorable than the prior owner.

When solar panels are financed or collateralized, and are separately financed (where the panels serve as collateral for debt distinct from any existing mortgage) follow the directions in the table below:

If...	Then...
Solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records,	• Property must maintain access to traditional electric utilities consistent with community standards • Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement that reflect the terms of the secured loan • Include the debt obligation in the DTI ratio calculations • Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property, and • Include the solar panels in the other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records. • Note: If a UCC fixture filing is in the land records as a priority senior to the mortgage loan, it must be subordinated.
Solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report,	• Property must maintain access to traditional electric utilities consistent with community standards • Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or related security agreement) • Include the debt obligation in the DTI ratio calculation • Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt • Do not include the panels in the LTV ratio calculation, and • Do not include the debt in the other debt secured by the real estate in the CLTV ratio.
**A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the	

condostate in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office where mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest of the described fixture has priority over the lien of a subsequently recorded mortgage.

Condo Project Approval

Cardinal project underwriters will rep and warrant the condo project to the respective Agencies condo project approval guidelines.

Refer to Eligible Property Types for additional information on eligible condominiums.

Eligible Agency Condominium Classifications

Fannie Mae Classifications	Freddie Mac Classifications

• P - Limited Review-New Condo Project
  ○ Ineligible for transactions in Florida
• Q - Limited Review–Established Condo Project
  ○ Ineligible for transactions in Florida
• R - Full Review–New Condo Project
• S - Full Review–Established Condo Project
• T - Fannie Mae Review through PERS-Condo Project
	• Streamlined Review
	  ○ Ineligible for transactions in Florida
	• Established Condominium Projects
	• New Condominium Projects

Ineligible Condo Warranty Types

The following Condo Project Warranty Types are not permitted:

- Waived / Expedited Condo project approvals / Freddie Mac Project Waiver Request (PWR)
- Limited / Streamline review for attached condos in the State of Florida
    - FNMA P

    - FNMA Q
    - Freddie Mac Streamlined Review
- FNMA U FHA Approved Condo Project
- Freddie Mac Reciprocal Project Review
- If the underwriter is aware of any reason why the project would not otherwise meet agency Full Review criteria, transaction cannot be reviewed under Limited/Streamline review criteria

Deferred Maintenance, Special Assessments, CPM

The following Fannie Mae guidelines from Lender Letter 2021-14 (dated 10.13.21) apply:

- Attached Condos with significant deferred maintenance and unsafe conditions are not eligible,
- Special assessments,
- CPM "Unavailable" status is not eligible

HOA / Management Company Confirmation

HOA or management company must confirm if they are aware of any conditions or project-wide deferred maintenance with the project that may negatively impact structural soundness, habitability or functional use of any unit or project as a whole.

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

Recasting/Re-amortization

Recasting or re-amortization would need to be negotiated with the end servicer once the loan is funded.

Prepayment Penalty

Mortgage loans with prepayment penalties are not eligible for purchase.

Interested Party Contributions

Interested Party Contributions are the cost of items normally paid by the borrower but which are paid by the seller or another interested third party to the transaction.

Interested Party Contributions are classified as:

- Funds that are paid directly from an interested party to the borrower
- Funds from an interested party that flow through a third party organization, to the borrower or to pay costs associated with the transaction on borrower's behalf, including non-profits
- Funds that are donated to a third party, which then provides the money to pay some or all of the closing costs for a specific transactions
- Sales Allowances

Interested parties include, but are not limited to:

- Builder
- Developer
- Seller of the property
- Real Estate Agent*

Unless they are affiliated with an interested party as described above, Cardinal does not consider a contribution originating from any of the following to be an interested party contribution:

- The Originating lender,
- Person related to the borrower(s),
- Employer,
- Municipality,
- Nonprofit organization

All interested party contributions must be:

- Disclosed in the sales contract*,
- Documented in the Mortgage file,
- Clearly shown on the *Closing Disclosure* (CD), and
- Paid to the appropriate vendor by the Title Insurance Company or Closing Attorney

*Real Estate Agent Contributions: A signed agreement between the Real Estate Agent and the customer is acceptable when the Agent is providing a credit to the customer.

Interested Party Contribution Limits

Follow respective Agency guidelines based on AUS method for Interested Party Contribution limits.

Sales Contract Addendum Requirements

Sales contracts must be updated prior to Note date to reflect any interested party contributions (sales contributions and sales concessions including but not limited to seller credits or realtor commissions).
The final numbers on the Closing Disclosure must match the information on the most recent version of the fully executed Purchase Agreement.

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.

California Tax Calculation

For all California purchase transactions and California refinance transactions taking place within 16 months of an ownership change, property taxes must be recalculated based on the purchase price using the higher of the following and dividing by 12 months:

  - 1.25%, or
  - Actual tax rate plus any levies/special assessments

If the actual tax rate plus any levies/special assessments is the highest of the two factors, then this rate must be used for the recalculation.

An actual tax rate plus any levies/special assessments that is the lower of the two tax factors may be used if the reason for departure/adjustment is documented with supporting evidence (such as the most recent tax bill with combined millage rate). If the underwriter departs from the most conservative tax calculation, it must be evidenced that the "most accurate" tax calculation was used. When recalculating the taxes use either the purchase price or appraised value, depending on the transaction type in table below:

Transaction Type	Basis for Calculation

Purchase	Purchase Price
Refinance acquired through prior purchase within the last 16 months	Purchase Price
Refinanced acquired through other means (inheritance or divorce) within the last 16 months	Current appraised value

Note: Escrow waivers are requested through the lock desk. LLPA's may apply. Flood insurance escrows cannot be waived for subject properties located in SFHAs.

Insurance

In addition to Agency requirements, the following Insurance Guidelines should be followed for the Cardinal Jumbo AUS Prime program.

Liability and Fidelity for Condominiums

Liability Insurance coverage must be verified as part of the project review on Attached condominiums with 5 or more units with Full Project approval types.

Verify fidelity, crime, or employee dishonesty insurance for condos with more than 20 units with Full Project approval types.

Individual Homeowner Policy Requirements

For both FNMA (DU) and Freddie Mac (LPA), the policy must name all persons holding title to the subject property as named insured.

Refinance

Provide one of the following:

- A copy of the existing policy, certified by the insurance agency, or
- A new insurance policy and proof of payment for the first year's premium

- Policies must be must be current at the time of closing and up to a minimum of 30 days after loan delivery

Revision History

Date	Version	Description	Revised By	Approved By
8.21.23	V27	Added clarification when a property is owned free and clear, associated taxes, homeowners' insurance and HOA fees (when applicable) need to be verified, documented and included in the DTI	Kristen Bellon	Kristen Bellon
8.16.23	V26	Added clarification that the AUS feedback results may indicate Ineligible on rate/term refinance transactions when cash back exceed $2,000 on DU transactions	Kristen Bellon	Kristen Bellon
8.3.23	V25	Added clarification that Medical Collection Accounts do not need to be paid off or brought current	Kristen Bellon	Kristen Bellon
8.3.23	-	Updated guidance for the use of Trust Income	Kristen Bellon	Kristen Bellon
8.3.23	-	Added clarification under Individual Homeowner Policy Requirements for refinance transactions	Kristen Bellon	Kristen Bellon
8.3.23	-	Added FNMA U FHA Approved Condo and Freddie Mac Reciprocal Review as ineligible Condo Warranty types	Kristen Bellon	Kristen Bellon
8.3.23	-	Updated Secondary Appraisal Valuation requirements	Kristen Bellon	Kristen Bellon
7.3.23	V24	Added Individual Homeowner Policy Requirements section with clarification that the Homeowner's Policy must name all persons holding title to the	Kristen Bellon	Kristen Bellon

		property for both FNMA and Freddie Mac		
7.3.23	-	Added clarification under Third Party Appraisal review that a secondary valuation is required when No Score is returned with the SSR	Kristen Bellon	Kristen Bellon
6.26.23	V23	Added Tax Return Requirements section which provides assistance in determining what tax year is considered the most recent when identifying eligible documentation	Kristen Bellon	Kristen Bellon
6.26.23	-	Revised guidance for Federal Tax Installment Agreements to allow one-month on time payment made prior to closing, updated from three months	Kristen Bellon	Kristen Bellon
6.23.23	-	Added guidance for VOE requirement when borrowers have less than 25% ownership as evidenced on the K-1 statement	Kristen Bellon	Kristen bellon
5.23.23	V22	Updated Housing History section breaking out guidance for Mortgage History and Verification of Rent History	Kristen Bellon	Kristen Bellon
5.23.23	-	Added clarification that signed and dated business tax returns must correspond with the most recent two years' signed and dated personal income tax returns where required	Kristen Bellon	Kristen Bellon
5.23.23	-	Added clarification for calculation of short-term rental income	Kristen Bellon	Kristen Bellon
5.9.23	V21	Added Photograph requirements under the Appraisal section	Kristen Bellon	Kristen Bellon
5.9.23	-	Added Insurance section addressing Liability and Fidelity insurance requirements for condominiums	Kristen Bellon	Kristen Bellon
4.20.23	V20	Updated Reserves section to defer to AUS requirements	Kristen Bellon	Kristen Bellon

4.11.23	V19	Added clarification that the subject property address must be in the Continental U.S., Alaska or Hawaii	Kristen Bellon	Kristen Bellon
4.11.23	-	Added Properties in Massachusetts with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure are ineligible	Kristen Bellon	Kristen Bellon
4.11.23	-	Added additional clarification for income calculation under Tax Transcripts Not Available section	Kristen Bellon	Kristen Bellon
3.14.23	V18	Added clarification for use of Trust Income	Ellen Clayson	Ellen Clayson
2.22.23	V17	Updated guidance for Cash-out Refinance to align with AUS chosen	Kristen Bellon	Kristen Bellon
2.22.23	-	Added Tax Transcripts Not Available section	Kristen Bellon	Kristen Bellon
2.16.23	V16	Added Documentation in a Foreign Language section	Kristen Bellon	Kristen Bellon
	-	Added clarification that credit reports based on non-traditional credit sources such as Experian Boost, UltraFICO are not permitted	Kristen Bellon	Kristen Bellon
1.30.23	V15	Added additional guidance for Purchase transactions under the Homestead Tax Exemption section	Kristen Bellon	Kristen Bellon
	-	Added additional guidance on seasonal accessibility for Second Homes	Kristen Bellon	Kristen Bellon
	-	Added lengthened seasoning period for cash-out refinance transaction with lock date on or after 2/1/2023	Kristen Bellon	Kristen Bellon
1.24.23	V14	Added clarification for Credit Bureau Report Requirements for Community Property States	Kristen Bellon	Kristen Bellon
1.24.23	-	Added clarification for Disputed Derogatory Credit	Kristen Bellon	Kristen Bellon

1.24.23	-	Added guidance for calculating short-term rental income	Kristen Bellon	Kristen Bellon
1.24.23	-	Revised Gift Funds section to align with Agency guidance	Kristen Bellon	Kristen Bellon
1.24.23	-	Added guidance for Custodial Accounts	Kristen Bellon	Kristen Bellon
12.27.22	V13	Updated Schedule K-1 (<25% Ownership) section to follow respective Agency guidelines based on underwriting method	Kristen Bellon	Kristen Bellon
12.14.22	V12	Added additional guidance under Deed Restrictions. Clarified loans must be underwritten utilizing DU	Kristen Bellon	Kristen Bellon
12.7.22	V11	Updated Interested Party Contributions section aligning contribution limits with AUS method chosen. Provided additional guidance and clarification for contributions from interested parties	Kristen Bellon	Kristen Bellon
11.9.33	V10	Added LPA as an eligible AUS engine for DACA borrowers	Kristen Bellon	Kristen Bellon
10/28/22	V9	Added sections for ADU, Water Well and Septic, Properties in Special Assessment Districts and Deed Restricted Properties	Kristen Bellon	Kristen Bellon
10/28/22	-	Added additional requirement for Second Appraisal	Kristen Bellon	Kristen Bellon
10/28/22	-	Added additional properties to Ineligible Property Types	Kristen Bellon	Kristen Bellon
10/28/22	-	Added additional guidance under Employment Contracts for Current Employment	Kristen Bellon	Kristen Bellon
10/28/22	-	Added DU Validation Services / LPA-AIM, including validations from DDA Account Data are not eligible	Kristen Bellon	Kristen Bellon

9/28/22	V8	Added section for Short-Term Rental income	Kristen Bellon	Kristen Bellon
9/28/22	-	Added additional guidance for California tax calculations	Kristen Bellon	Kristen Bellon
8/12/22	V7	Added Trust Income section	Kristen Bellon	Kristen Bellon
8/12/22	-	Clarified Ineligible Product Feature- Affordable LTV / Deed Restrictions that terminate at foreclosure	Kristen Bellon	Kristen Bellon
8/12/22	-	Added borrowers with a C-10 EAD are ineligible	Kristen Bellon	Kristen Bellon
8/4/22	V6	Added additional guidance for warrantable condominiums	Kristen Bellon	Kristen Bellon
7/27/22	V5	Added Derogatory Credit section	Kristen Bellon	Kristen Bellon
7/22/22	V4	Added Homestead Tax Exemption section	Kristen Bellon	Kristen Bellon
7/12/22	V3	Removed rule prohibiting loans on properties resold within 90 days of the previous Note date. Added Resales within 12 Months section	Kristen Bellon	Kristen Bellon
6/29/22	V2	Clarified a minimum of 12 months housing payment history is required for all mortgages secured by real estate on which the borrower is personally obligated, if the available mortgage history is less than 12 months, previous housing history must be obtained to supplement	Kristen Bellon	Kristen Bellon
6/29/22	V2	Added cash-out as eligible transaction type for construction to permanent financing	Kristen Bellon	Kristen Bellon
6/29/22	V2	Added Delayed Financing exception is not permitted on Second Home or Investment property transactions	Kristen Bellon	Kristen Bellon
6/29/22	V2	Added additional clarification under Cryptocurrency to follow respective	Kristen Bellon	Kristen Bellon

		Agency guidelines based on the underwriting method used		
6/29/22	V2	Added rental income from an ADU on a 1-unit subject cannot be used when the transaction is underwritten using LPA	Kristen Bellon	Kristen Bellon
5/23/22	V1	Added guidance under Debts Paid by Others for exclusion of monthly payment(s) from DTI	Kristen Bellon	Kristen Bellon
5/23/22	V1	Added additional guidance for payoff of debt when the debt has been included in a Bankruptcy	Kristen Bellon	Kristen Bellon
5/23/22	V1	Clarified if an annuity is newly established, proof of most recent one-month receipt is not required	Kristen Bellon	Kristen Bellon
5/23/22	V1	Added guidance for when a copy of the most recent tax return is required under Grossing Up Tax Exempt Income	Kristen Bellon	Kristen Bellon
5/23/22	V1	Added Gift Funds section	Kristen Bellon	Kristen Bellon
5/23/22	V1	Clarified second appraisal requirements for Non-Arm's Length transactions	Kristen Bellon	Kristen Bellon
5/23/22	V1	Added Income Deemed Illegal by Federal or State Law section	Kristen Bellon	Kristen Bellon
5/23/22	V1	Clarified Down Payment as follows: Minimum 5% from borrower's own funds if LTV or CLTV is > 80% Clarified that Non-Applicant Title Holder assets are not an eligible source of funds	Kristen Bellon	Kristen Bellon
5/23/22	V1	Added guidance for VOD form 1006	Kristen Bellon	Kristen Bellon
5/16/22	-	Created Guide	Ellen Clayson	Ellen Clayson