1st lien Home Equity Line of Credit: Full Doc or Bank Statement Program

For Wholesale channel only

Product code	• SUNHELOC10
Loan purpose	• Purchase • Cash out refinance • Limited cash out refinance* *Note: On Limited cash out transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $5,000.
Lien position	• 1st Lien
Occupancy	• Primary Residence • 1 unit Second Home • Investment properties
Eligible states	• All states except Texas, American Samoa, Guam, Northern Mariana Islands, Hawaii (Lava zone 1 & 2 ineligible). • Investment property loans in Baltimore City (Maryland) are not allowed. • NY CEMA loans are not eligible.
Amortization types	• 30-years variable term with 3-year draw period with 3 years I/O

Qualifying payments

Index and Margin	Qual Rate	Rate limits		Minimum payment	
		Life cap	Life floor	Draw period	Repayment period
10-year CMT index plus a margin as per rate sheet	Start rate + 2%	18%	6.75%	I/O calculation, greater of interest amount or $100	Amortized P&I payment based upon the total line amount, repayment term, current rate (Index + margin)

Note: Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled remaining loan term after the interest-only period has expired.

Draw requirement	• Initial draw for purchase and limited cash out refinance: 100% of the total loan amount. • Initial draw for cash-out refinance: Minimum: 75% of the total credit limit
Eligible borrowers	• US Citizen • Permanent Resident Alien • Non-permanent resident alien
Ineligible borrowers	• Foreign Nationals • Borrowers who are party to a lawsuit are ineligible. • Persons sanctioned by OFAC

Non-Permanent Resident Alien

- A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis.
- Borrower eligibility requirements:
  - Borrower must have valid Social Security Number; and
  - Borrower must have established U.S. credit.
- Employment status documentation is required for all borrowers, and may consist of one of the following:
  - Employment Authorization Documents (EAD), provide one of the following:
    - Form I-766 Employment Authorization Document (EAD), (work permit/card) is required for US employment if the borrower is not sponsored by a current employer.
    - If the EAD expires within six (6) months of loan application, then renewal documentation is required.
    - Form I-765 Application for Employment Authorization, the form must reflect approval status in the Action Block (upper right-hand corner of the form).
    - Form I-797, I-797A, I-797B, or I-797C conveying approval status.

	◦ If EAD is not provided, a copy of the Visa permitting employment authorization needs to be included in the credit file. The following visa classifications are allowed as Non-Permanent Resident Aliens: ▪ E-1, E-2, E-3 ▪ G-1 through G-5 ▪ H-1B & C, H-2 through H-4 ▪ L-1B, L-2 ▪ NATO 1 through 6 ▪ O-1 ▪ R-1 ▪ TN-1 & 2 (NAFTA) ◦ Asylum – Individuals granted asylum are eligible, documentation includes one of the following: ▪ Form I-766 Employment Authorization Document (EAD), (work permit/card) referencing code C08, or ▪ Form I-94 with a stamp or notation, such as "asylum granted indefinitely" or the appropriate. ▪ provision of law (8 CFR 274a.12(a)(5) or INA 208) to show their employment authorization. The asylee does not need to present a foreign passport with this Form I-94. An asylee can also present an electronic Form I-94 with an admission class of "AY." ◦ Deferred Action for Childhood Arrivals (DACA) ▪ Form I-766 Employment Authorization Document (EAD), (work permit/card) referencing code C33, or ▪ Form I-797 conveying approval status for Case Type I765-Application for Employment Authorization referencing code C33, or ▪ Form I-765 Application for Employment Authorization, the form must reflect approval status in the Action Block (upper right-hand corner of the form). • The following individuals or countries are restricted from financing: ◦ Individuals with Diplomatic immunity are not eligible. Immunity status is listed on the reverse side of the U.S. issued ID card or at https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm. ◦ All parties involved in the transaction must be screened through exclusionary lists, must be cleared through OFAC SDN list, search of Specially Designated Nationals, Blocked Persons List may be completed via US Department of Treasury: http://sdnsearch.ofac.treas.gov/. ◦ Citizens of Venezuela are ineligible. ◦ The TPS status of the country of the borrower's origin must be valid.
First time homebuyer	• A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property during the preceding 3-year period. • The following requirements apply to first-time home buyer transactions: ◦ First-time home buyers are allowed on primary residence. ◦ Minimum three (3) months of reserves.
Non-occupying Co-borrower	• Non-occupant co-borrowers are allowed if the following requirements are met: ◦ Allowed on primary residence only. ◦ Purchase and rate/term only (non-occupant must be on the current mortgage for a rate/term refinance).
Borrower Living Rent Free or less than 12 months history including lien free properties	• Borrowers who live rent-free or without a complete 12-month housing history including lien free properties are allowed, with the following restrictions: ◦ Allowed on Primary residence only. ◦ Minimum 3 months reserves after closing. ◦ Gift funds are not allowed. ◦ Any available portion of a 12-month housing history must be paid as agreed. ◦ The property taxes, Homeowner's Insurance (HOI), Flood Insurance, and HOA dues of a primary residence that is owned free and clear will be considered in the borrower's housing history determination and must remain current throughout the transaction. ◦ Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.
Vesting allowed	• Ownership must be fee simple. • Acceptable forms of vesting are: ◦ Individuals ◦ Joint tenants ◦ Tenants in common

	◦ Inter Vivos revocable Trust. ◦ Business entity – Acceptable on Investment property with Business purpose transaction only. ▪ Limited Liability Company ▪ Limited and General Partnership ▪ Corporations ▪ S Corporations
Eligible properties	• Single Family residence [1-unit] • 2-4 units • PUD • Warrantable Condominium • Site condo
Ineligible properties	• Leasehold • Non-Warrantable condominium • Condition rating of C5/C6 on the appraisal. • Property with more than 10 acres • Vacant land or land development properties • Properties not readily accessible by roads that meet local standards. • Properties not suitable for year-round occupancy, regardless of location • Properties with zoning violations, illegal use, or unpermitted additions/alterations • Properties zoned agricultural, commercial, or industrial. • Properties with agricultural features (e.g., vineyards, farms, hobby farms, ranches, orchards, equestrian facilities) • Mixed-Use properties • Unique Properties • Manufactured or Mobile homes • Modular homes • Units subject to timeshare arrangements • Properties with fractional ownership • Units in a Co-op development • Properties used as boarding houses, bed/breakfast, or single room occupancy. • Properties used as healthcare facilities (e.g., assisted living, elder care, recovery/treatment) • Properties with non-residential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop) • Dome or geodesic properties • Properties on Native American Land (Reservations) • Log homes • Hawaii properties located in lava zones 1 and/or 2. • Houseboats • Any project in litigation, arbitration, mediation, or other dispute regarding safety, soundness, or habitability. • Properties used for the cultivation, distribution, manufacture, or sale of marijuana. • Rural property
Property located in a flood zone	• If property is in a flood zone, then flood insurance is required on the loan.
Compliance	• No section 32 or state High cost • Loans must comply with all applicable federal and state regulations
Max. number of borrowers	• The maximum number of borrowers allowed is 4 per loan.
Approval type	• Manual underwritten loans
Minimum credit score	• 680 • Minimum 2 credit score required for all the borrowers
Non-traditional credit	• Not allowed
Maximum debt to income ratio	• 50%
Minimum loan amount	• $50,000

Eligibility matrix

Loan Amount	Minimum Credit Score	Primary Residence Maximum LTV/CLTV	Second Home Maximum LTV/CLTV	Investment Maximum LTV/CLTV	Reserve Requirement
$50,000 to $1,000,000	740	75%	70%	70%	3 months reserve
	700	70%	65%	65%	
	680	65%	60%	NA	6 months reserve
$1,000,001 to $2,000,000	740	70%	70%	65%	6 months reserve
	700	65%	60%	60%	
	680	60%	55%	NA	
$2,000,001 to $3,000,000	760	65%	60%	60%	12 months reserve
	720	60%	55%	55%	

- Additional LTV/CLTV overlay:
  - Asset depletion documentation type: The maximum LTV/CLTV allowed as per above matrix must be reduced by 5% if the asset depletion is a stand-alone income qualifier.

Minimum tradeline requirement

- If the primary borrower has a 3-credit score, then the minimum tradeline requirement can be waived.
- If primary borrower has less than 3 credit score, then each borrower must meet any of the below minimum tradeline requirements:
  - At least three (3) tradelines reporting for a minimum of 12 months, with activity in the last 12 months, or
  - At least two (2) tradelines reporting for a minimum of 24 months, with activity in the last 12 months.
- The following are not valid tradelines:
  - Liabilities in Deferment status
  - Account discharged through bankruptcy
  - Authorized user account
  - Charge offs
  - Collection accounts
  - Foreclosures
  - Deed in lieu foreclosure
  - Short Sales
  - Pre-closures sales

Credit inquiries

- A letter of explanation is required from the borrower for all the installment, auto and mortgage inquiries made within 90 days of the credit report date.

Housing or Mortgage lates

- Minimum 12 months housing history required.
- No 30 days late allowed in the last 12 months on all mortgages for all the borrowers.
- Mortgage payment histories on non-subject properties reported on credit report are not required till closing if the borrower has additional 2 months of reserve over and above the requirement as per the guidelines

Land contract or contract for deed

- Not allowed

Collection or charge-offs

- Follow FNMA guidelines for collection and charge-offs.

Lawsuits

- If the application, title or credit documents reflect that the borrower is involved in a lawsuit or litigation, the borrower is not eligible

Judgment

- All open judgments and garnishments must be paid off prior to or at loan closing.

Tax Lien

- All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:
  - A copy of the approved IRS instalment agreement with the terms of repayment, including the monthly payment amount and total amount due. Multiple IRS instalment agreements are not allowed for one borrower.
  - A minimum of three (3) payments has been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment

<table>
<tr><td></td><td>reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
The maximum payment must be included in the DTI.
Subordination agreement is required by the taxing authority.</td></tr>
<tr><td>Student loan</td><td>
If the monthly student loan payment is provided on the credit report, then the same amount must be considered for qualification.
If the credit report does not reflect the correct monthly payment, then the most recent student loan statement will be required to consider the payment for the qualification.
If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, then the documentation is required to verify the monthly payment and consider the same for the qualification.
For deferred loans or loans in forbearance:
a payment equal to 0.5% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment),
a fully amortizing payment using the documented loan repayment terms.
</td></tr>
<tr><td>Housing events</td><td>
<u>Following waiting periods are applicable for housing events:</u>

<table>
<tr><th>Housing Events</th><th>Waiting Period</th></tr>
<tr><td>Foreclosure, short-sales, deed in lieu, bankruptcy</td><td>48 months</td></tr>
<tr><td>Multiple Events [Foreclosure, short-sales, deed in lieu, bankruptcy]</td><td>84 months</td></tr>
<tr><td>Forbearance, Modification, Deferral</td><td>12-months of consecutive payments since existing plan</td></tr>
</table>

<u>Notes</u>:
Bankruptcy must be measured from the discharge/dismissal date to the Note date.
Foreclosure, short-sale, deed in lieu must be measured from the settlement/deed date to the Note date.
In the case of a foreclosure/ short sale/deed-in-lieu, which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and short sale/deed-in-lieu/foreclosure completion date.
</td></tr>
<tr><td>Rate and term refinance</td><td>
At least one borrower must have ownership interest (vested on title) in the subject property at the time of the initial application.
The property owned free and clear is not allowed for rate and term refinance.
The loan amount cannot exceed the sum of existing lien payoff, financed closing costs, and cash back to borrower (lesser of 2% of the new refinanced loan amount or $5,000).
</td></tr>
<tr><td>Subordinate liens</td><td>
Secondary or Subordinate Financing is allowed.
<u>Subordinate financing is subject to the following</u>:
Subordinate financing must be recorded and clearly subordinated to the new mortgage.
Maximum CLTV is equal to maximum LTV.
Seller-held subordinate liens are not permitted.
Negative amortization is not allowed.
Private party secondary financing is not allowed.
Existing subordinate liens can be paid off through closing.
<u>If the subordinate financing is being subordinated, the following is required</u>:
The repayment terms of the existing second lien.
An unsigned copy of the subordination agreement prior to closing; and
A copy of the executed subordination agreement at closing.
The payment needs to be included in the debt-to-income qualification.
</td></tr>
<tr><td>Debt to be Paid off at closing in case of cash out refinance loan</td><td>
If the primary use of subject property is Business purpose, then only business-related debt can be paid off from the loan proceeds. Borrower’s personal debt can’t be paid off from the proceeds.
</td></tr>
</table>

Solar liens	• UCC filings are acceptable provided they are limited to personal property.
Assets	• Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 30 days from closing date or sourced. • Most recent one-month bank statement or quarter statement indicating opening and closing balances are required.
Large deposit	• Any single deposits greater than 50% of the borrower's qualifying monthly income or any unusual deposit must be documented with letter of explanation, third party documentation, etc. • Large disparities between the current balance and the opening balance will require additional verification or supporting documentation.

Business assets	• Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers.
	• **<u>The following requirements are applicable</u>**:
	  o Borrowers must be owners on the business account.
	  o Borrowers must have a minimum of 50% ownership of the business.
	  o Ownership percentage must be documented via CPA letter, operating agreement or equivalent etc.
	  o All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account.
	  o A signed letter from CPA, Tax Attorney, Enrolled Agent (EA), or Paid Tax Professional (PTIN) must also be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business.
	  o The assets to be considered as balance of the business assets must be multiplied by the ownership percentage of owner's portion of business assets.

Gift funds	• Gift funds are an acceptable source of funds for down payment, closing costs.
	• Gift funds can't be used for reserve requirements.
	• **<u>Gift Funds are acceptable if the following requirements are met:</u>**
	  o For primary residence: No minimum borrower contribution from the borrower is required.
	  o For second home and Investment properties: A minimum of 10% of the down payment must be made by the borrower from their own funds.

Eligible gift donors	• A gift can be provided by:
	  o borrower's spouse, child, or other dependent, or
	  o any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
	  o A fiancé, fiancée, or domestic partner.
	• The donor must not be related to the builder, the developer, the real estate agent, or any other interested party to the transaction.

Gift of equity	• Gift of equity may be permitted subject to exception review and approval.
Unacceptable source of funds	• Cash-on-hand • Sweat equity. • Gift or grant funds which must be repaid. • Down payment assistance programs • Bridge loans • Unsecured loans or cash advances • Paycheck Protection Program (PPP) Loans • Small Business Administration (SBA) Loans • 529 Savings Plan • Virtual Currency (such as bitcoin, cryptocurrency etc.) • Foreign Assets • Rent credit

Income documentation type allowed	• Full Doc: 2 years income documentation required.
	• Reduced Doc: 1 year income documentation required.
	• Bank Statement Documentation type:
	  o 12 months personal bank statement
	  o 12 months business bank statement
	  o 24 months personal bank statement
	  o 24 months business bank statement
	• 12 or 24 months 1099 form
	• Asset Depletion

Full documentation type	• **<u>Full Doc</u>**: 2 years income documentation required. • **<u>Salaried Borrower:</u>**

	◦ Most recent paystub covering 30 days' pay including YTD earnings. The pay stub must be dated no earlier than 30 days prior to the initial loan application date. ◦ 2 years W-2 forms or wage transcript is required. ◦ Written verification of employment or third party VOE is required if the underwriter is not able to justify the income. ◦ Signed and dated IRS form 4506-C ◦ Verbal Verification of Employment within 10 days of closing. • **<u>Self-employed borrower</u>**: ◦ The two most recent Personal and/or Business tax returns, signed by the borrower(s), including any K-1's and all other schedules. ◦ The most recent two months business bank statements are required on the loan. ◦ If the borrower pays themselves wage income, a YTD pay stub and most recent two (2) years W2's are required. ◦ Tax Transcripts for most recent two (2) years. ◦ Signed and dated IRS form 4506-C ◦ 3rd Party verification within 30-days of Note date. Methods of verifying the business include one of the following: ▪ Letter from CPA, regulatory agency, or applicable licensing bureau ▪ Internet Listing ▪ Other reasonable evidence of business activity
Reduced documentation type	• **<u>Reduced Doc</u>**: 1 year income documentation required. • **<u>Salaried Borrower:</u>** ◦ Most recent paystub covering 30 days' pay including YTD earnings. The pay stub must be dated no earlier than 30 days prior to the initial loan application date. ◦ 1 year W-2 form, or wage transcript is required. ◦ Written verification of employment or third party VOE is required if the underwriter is not able to justify the income. ◦ Signed and dated IRS form 4506-C ◦ Verbal Verification of Employment within 10 days of closing. • **<u>Self-employed borrower</u>**: ◦ The most recent Personal and/or Business tax returns, signed by the borrower(s), including any K-1's and all other schedules. ◦ The most recent month business bank statements are required on the loan. ◦ If the borrower pays themselves wage income, a YTD pay stub and most recent one (1) year W2's are required. ◦ Tax Transcripts for most recent one (1) year. ◦ Signed and dated IRS form 4506-C ◦ 3rd Party verification within 30-days of Note date. Methods of verifying the business include one of the following: ▪ Letter from CPA, regulatory agency, or applicable licensing bureau ▪ Internet Listing ▪ Other reasonable evidence of business activity
Ineligible source of income	• Income from a business that is state or federally illegal. • Educational benefits • Gambling winnings • Refunds of federal, state or local taxes.
Bank statement documentation type	• **<u>History requirements</u>**: ◦ Borrowers must be self-employed for at least two years. ◦ Less than two (2) years of self-employment history permitted if the borrower has been employed in the same line of work and same industry for at least two (2) years, with supporting documentation. Minimum length of self-employment required is one (1) year. • **<u>Existence of the business</u>**: ▪ The business must be in existence for a minimum of two (2) years, as evidenced by one of the following: ◦ CPA letter or ◦ Business license • **<u>Ineligible entity or funds</u>**: ◦ Non-profit entity is not eligible. ◦ Funds/deposits in an IOLTA (trust) ineligible source. • **<u>Tax return and 4506-C requirement:</u>** ◦ Tax return and 4506-C are not required for the bank statement programs. ◦ When wage income is combined with Alt Doc, a tax return is not required for the standard full income documentation. 4506-C form should reflect Box 8 checked to obtain a transcript of W-2 earnings.

- **<u>12- or 24-months Personal Bank Statement Documentation type</u>**:

- **<u>Documentation Requirements</u>**:
  - 12 or 24 months of consecutive personal bank statements required. The most recent statement must be dated within 120 days of the note date.
  - Most recent two months of business bank statements are required.
  - The borrowers must own minimum 50% of the business. The following documentation is required to document the ownership:
    - CPA letter.
    - Tax Preparer Letter
    - Operating agreement or equivalent reflecting the borrower's ownership percentage.

- **<u>Review of the bank statement</u>**:
  - Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
  - ATM deposits may be included if a consistent pattern of such deposits can be validated.
  - If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded from income calculation unless sourced.
  - NSF activity in the past 12 or 24 months must be satisfactorily explained by the borrower and subject to management approval.
  - Any inconsistent or large deposit must be sourced or excluded from the income calculation. The large deposit is any deposit exceeding 50% of the average monthly sales of the business.
  - If there is any change in deposit pattern, then the same must be explained by the borrower.
  - Only transfers or deposits from the business account are eligible deposits for income calculation.
  - The most recent bank statement must be consistent with the qualifying income.
  - The combination of Personal Bank Statement Documentation and Business Bank Statement Documentation is not acceptable.
  - Business receipt and expense activity reflected in personal bank accounts are not acceptable under the personal bank statement program.
  - Two months of business bank statements must be reviewed for the following:
    - Evidence activity to support business operations
    - It must reflect transfers to the personal account.

- **<u>Income Calculation</u>**:

- Qualifying income = <u>Sum of the total eligible deposits from the statements reviewed</u>
  12 or 24 months based on qualification method

- **<u>12- or 24-months Business Bank Statement Documentation type</u>**:

- **<u>Documentation Requirements</u>**:
  - 12 or 24 months of consecutive business bank statements required.
  - The most recent statement must be dated within 120 days of the note date.
  - The borrowers must own minimum 50% of the business. The following documentation is required to document the ownership:
    - CPA letter.
    - Tax Preparer Letter
    - Operating agreement or equivalent reflecting the borrower's ownership percentage.

- **<u>Review of the bank statement</u>**:
  - Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
  - Any inconsistent or large deposit must be sourced or excluded from the income calculation. The large deposit is any deposit exceeding 50% of the average monthly sales of the business.
  - If there is any change in deposit pattern, then the same must be explained by the borrower.
  - The most recent bank statement must be consistent with the qualifying income.
  - NSF activity in the past 12 or 24 months must be satisfactorily explained by the borrower and subject to management approval.
  - ATM deposits may be included if a consistent pattern of such deposits can be validated.

- **<u>Co-mingled Bank statement</u>** (i.e., combination of personal and business receipt and expense activity reflected in one bank accounts) are only acceptable if below requirements are met:
  - Borrower must be the sole owner of the business and must have 100% ownership in the business.

- Following documents are required to verify the above requirements:
  - Ownership must be documented from any of the following:
    - CPA letter, Tax Preparer letter, operating agreement, or equivalent document reflecting the borrower's ownership percentage.
  - URLA or loan application must reflect borrower is a sole owner.
  - Borrower and spouse with combined 100% ownership of the account are eligible.

- **<u>Income Calculation options for business bank statement</u>**:

- **<u>Option 1: Standard Expense Ratio = 50%</u>**

- **<u>Additional Documentation Requirements</u>**:
  - A standard 50% expense factor will be applied to the total of eligible deposits.
  - If the business operates more efficiently or typically has a materially different expense factor (higher or lower than standard expense factor) then an expense factor from a CPA/account, IRS enrolled agent, tax preparer or P&L may be used to determine qualifying income.

  - Income calculation under standard expense ratio: Total deposits from all bank statements, less any inconsistent deposit(s), multiplied by 50%, multiplied by ownership percentage, divided by the number of bank statements reviewed

Qualifying income = Deposits x (.50) x (ownership %) / 24 or 12

- **<u>Option 2: Tiered Expense ratio:</u>**

- **<u>Additional Documentation Requirements</u>**:
  - 24 or 12-months business bank statement as per qualification method.
  - The expense ratio is tiered based on certain aspects of the borrower's business including, but not limited to the industry, number of employees, inventory vs services business, physical place of business vs work from home etc.
  - Net income is calculated by determining total eligible deposits per bank statement (minus any disallowed deposits) multiplied by tiered expense ratio after accounting for the borrower's ownership percentage and divided by 12 or 24 months.

Tiered Expense ratio			
Number of Employees/Contractors	**0**	**1-5**	**>5**
Service Business such as Consulting, Accounting, Legal, Therapy, Counselling, Financial Planning, Insurance, Information Technology	20%	40%	50%
Capital Intensive Business such as Retail, Food Services, Restaurant, Manufacturing, Factor Contracting, Construction	30%	50%	85%

Qualifying income= <u>Eligible Deposits * Borrower Ownership %* (1–Tiered Expense Ratio %)</u>
12 or 24 months based on qualification period

- **<u>Option 3: Expense ratio provided by a 3rd party (CPA or EA or Tax Attorney or Paid Tax Professional (PTIN))- Minimum ratio of 20%:</u>**

  - **<u>Additional Documentation Requirements</u>**:
    - The Expense Statement must be prepared, signed, and dated by CPA specifying business expenses as a percentage of the gross annual sales/revenue is required.
    - The statement does not contain any language that may compromise the integrity of the information provided.
    - CPA cannot be an employee or a relative of the Borrower.
    - The expense statement must have the name of the business.

  - **<u>Income calculation under Expense ratio provided by a CPA:</u>** Total expenses are calculated by multiplying the total deposits by the expense factor provided (subject to a minimum total expense percentage of 20%), multiplied by ownership percentage, divided by the number of bank statements.

Qualifying income = Eligible Deposits x (1-expense ratio %) x (ownership %) / 24 or 12

12- or 24-months 1099 income qualification

- The borrower must be self-employed for a period of a minimum of 2 years.
- 1099 income option is only allowed for borrower earnings from 100% commission or from independent contracts.
- Income can be documented by using 2 years or 1 year of IRS Form 1099
- 1099 income must be validated with 4506-C wage and income transcript.
- YTD earnings must support the receipt of income shown on the 1099 by:
  - Checks or a single check stub(s) with YTD totals, or
  - Bank Statements (YTD):
    - The YTD earnings from the total of check stubs or the total of deposits from bank statements must be within 10% or greater than prior year earnings.

Qualifying income is calculated considering 10% expense factor: (12 or 24 Total gross 1099 income) divided by total number of applicable months * (1-10% expenses factor)

Asset Depletion

- Asset depletion can be used as a stand-alone income qualifier or in combination with the following income documentation programs:
  - Full or Reduced Doc
  - 12- or 24-months Bank Statement
  - 12- or 24-months 1099
- **Asset Depletion Requirements and Documentation:**
  - The most recent 3 months bank statement is required for asset depletion.
  - The statement must not be greater than 60 days from the Note date.
  - Asset depletion income can be with other sources of income such as W2, pension, social security etc.
  - It cannot be combined with other asset related income derived from the same source such as Interest/dividend income, capital gains etc.
  - Asset must be held in an American based bank, be in English and in US dollars.
  - Assets must be held in the borrower's name.
- **Asset depletion income calculation**:
  - Monthly income can be calculated by dividing the (i) Depletable Assets (excluding amount required for down payment, closing cost and reserves) by (ii) 84 months.
  - [Assets - (down payment + closing costs + reserves)]/ 84 months = Qualifying Income
- **Acceptable assets that may be included in calculating income are as follows**:
  - Checking, savings or money market accounts or certificates of deposit=100% of the value.
  - Stocks, bonds, and Mutual Funds= 85% of the value.
  - Retirement accounts = 80% of the value.
  - Life insurance = Cash value of a vested life insurance policy is allowed at 100%
- **Ineligible assets for asset depletion:**
  - 529 or similar college fund
  - Business assets
  - Equity in real estate including current home
  - Funds held in foreign accounts or investments
  - Gift funds
  - Gift of equity
  - Pledged/Collateral assets
  - Margined assets/Loans
  - Private securities or any non-publicly traded assets
  - Restricted stock units, stock options, non-vested stock
  - Stocks and bonds not publicly traded
  - Assets from non-occupant co-borrowers are not allowed.
  - The following trusts are not acceptable:
    - Blind trust
    - Irrevocable trust
    - Land trust
    - Life estates

Bank Statement Documentation- Long Term Rental Income

- Along with bank statement qualification method (12/24 months business bank statement and 12/24 months personal bank statement), long term rental income can be considered if following documentations requirement are met:
  - A copy of lease agreement for rental property.
  - Two (2) months of proof of the receipt of rental income.
  - The deposits must be in a separate bank account i.e., bank accounts except the one(s) which are used for business income analysis.

- If the deposits cannot be verified in a separate account, the full PITIA of the rental property must be considered in the qualifying DTI ratio.

- **If the transaction type is a purchase of an investment property and Income from the subject property is considered in the underwriting:**
  - Proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is no current lease or assignment of lease.
- **Consideration of Income** - 75% of verified rental income can be used to offset the PITIA of the rental property.

- **Application of Rental Income**:
  - Primary Residence:
    - The monthly qualifying rental income must be added to the borrower's total monthly income. The income is not netted against the PITIA of the property.
    - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
  - Investment Property:
    - If the monthly qualifying rental income, minus the full PITIA, is positive, it must be added to the borrower's total monthly income.
    - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.

Bank Statement Documentation- Short Term Rental Income

- Along with bank statement qualification method (12/24 months business bank statement and 12/24 months personal bank statement), short- term rental income can be considered if following documentations requirement are met:

- **Purchase transaction:** 1007/1025 is required on the loan.

- **Refinance transaction:**
  - 12 months history for short-term rental income required in order to consider the same for qualification.
  - The deposits must be in a separate bank account i.e., bank accounts except the one(s) which are used for business income analysis.
  - If the deposits cannot be verified in a separate account, the full PITIA of the rental property must be considered in the qualifying DTI ratio.
  - 1007/1025 is required on the loan.
  - Any of the following documentation requirements must be met:
    - 12 months evidence of receipt via the home-sharing service or property management company.
    - Bank statement deposits clearly evidencing short-term rental deposits for at least 12 months.

  Note: If two or more rental properties are owned, statements from an online service must be provided to associate rents received with the specific property.

- **Consideration of Income** - 80% of deposits can be used to offset the PITIA of the rental property.

Full Doc: Rental income from subject or non-subject property

- Follow FNMA guidelines for the rental income guidelines.

Cannabis Income

- Income is allowed if the borrower is salaried or wage earner in the industry.
- Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing etc. is not allowed regardless of borrower's ownership percentage in the business.

Recently listed properties

- The subject property must be taken off the market on or before the application date.
- The value will be based on the lesser of the lowest list price in prior 12 months or appraised value.

Contribution by Interested Parties

- The maximum interested party contribution allowed is 6%.

Non-Arm's length transaction

- Non-Arm's length transaction may be permitted subject to exception review and approval.

Requirements when vesting in the name of

- Entity must be domiciled in a US state.
- Any business structure is limited to a maximum of four owners/ partners.
- Personal guaranties must be provided by all the owners of the entity.
- Each owner must apply as the borrower and complete the initial application (Form 1003).

entity	• The loan application, credit report, income and assets for each individual owner will be used to determine qualification and pricing. • A guarantor must have authority to execute loan documents on behalf of the entity.

Documentation when vesting in the name of entity	• **Limited Liability Company**
	  ○ Entity Articles of Organization, Partnership, and Operating Agreements, if any
	  ○ Corporate documents that contain a list of owners along with titles
	  ○ Tax Identification Number (Employer Identification Number - EIN)
	  ○ Secretary of State Search
	  ○ Certificate of Good Standing or equivalent
	  ○ Certificate of Authorization for the person executing all documents on behalf of the Entity
	  ○ LLC Borrowing Certificate
	
	• **Partnership**
	  ○ Filed Partnership Certificate
	  ○ Partnership Agreement (and all amendments)
	  ○ Secretary of State Search
	  ○ Certificate of Good Standing
	  ○ Tax Identification Number (EIN)
	  ○ Limited partner consents (where required by partnership agreement)
	
	• **Corporation**
	  ○ Filed Certificate/Articles of Incorporation (and all amendments)
	  ○ By-Laws (and all amendments)
	  ○ Secretary of State Search
	  ○ Certificate of Good Standing
	  ○ Tax Identification Number (EIN)
	  ○ Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation.

Title policy	• ALTA, Jr ALTA, ALTA lite, ALTA Short Form – Lender's policy

Appraisal requirements	• Full Appraisal is required on the loan.
	• Transferred appraisal is acceptable.
	• Secondary Valuation is not required.
	• Below are not acceptable:
	  ○ Appraisal waivers are not acceptable.
	  ○ Appraisals with condition or quality ratings of C5 or C6 will not be eligible.

Temporary buydown	• Not allowed
Private mortgage insurance	• Private Mortgage insurance is not required.
Power of attorney	• Power of attorney is allowed, subject to meeting FNMA requirements and restrictions.
Pre-payment penalty	• Not permitted
Assumable	• Not allowed
Escrow	• Required. • Escrow holdbacks are not allowed.

Age of documents

Documents	Validity
Income and credit including VOR/VOM	120 days old at the time of closing
Asset documents	60 days old at the time of closing
Title Report (or O&E)	60 days old at the time of closing
Appraisal	120 days old at the time of closing

Note: New appraisal is required after 120 days.