Non-QM Program Guide

Version 9
(Effective for locks taken out on or after April 28, 2025)

The Non-QM program includes full and alternative documentation options. The alternative documentation options include personal or business bank statements and 1099 statements. The eligibility matrices for each rate sheet are in Section 3.2 of this guide.

All information contained herein is proprietary and shall be kept confidential!

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1.0 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 all EPM buyers and sellers to ensure that they adhere to these laws and their underlying principles in connection with mortgage loans purchased and sold via EPM.

2.0 Overview

All loans must be manually underwritten and documented per the requirements in this guide. For scenarios not specifically addressed in the following guidelines, please contact your Account Executive and Underwriting for assistance.

3.0 Products

3.1 Products Offered

Fixed Rate Products

A fixed rate mortgage is a mortgage transaction in which the interest rate remains fixed throughout the amortized term.

- **Terms:** 30 Year amortization. Qualified using the fully amortizing payment.
- **Interest-Only Options:**
    - 30-Year: 10-year initial interest-only period followed by a 20-year fully amortizing period. Qualified using the 20-year fully amortizing payment.

Legal Documentation

Fannie Mae documents can be utilized for closing. Fannie Mae does not offer current documentation (i.e. interest only products), a document vendor such as Doc Magic or Encompass should be utilized.

3.2 Non-QM Program Matrices

NON-QM PRIME MATRIX

EPM NON-QM PRIME PROGRAM MATRIX

Purchase/Rate & Term Refinance				Cash-Out Refinance			
Occupancy	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score	Occupancy	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score
Owner Occupied	$2,000,000	80%	660	Owner Occupied	$1,500,000	70%	660
	$3,000,000	85%	680		$2,000,000	80%	680
					$3,000,000	80%	720
					$3,000,000	70%	680
Second Home	$2,000,000	80%	660	Second Home	$1,500,000	70%	660
	$3,000,000	85%	680		$2,000,000	80%	680
					$3,000,000	80%	720
					$3,000,000	70%	680
Investment	$2,000,000	80%	680	Investment	$2,000,000	75%	680
	$2,000,000	70%	660		$3,000,000	70%	740
	$3,000,000	75%	720				

Minimum Loan Amount	$100,000
Products	-30 Year Fixed Fully Amortizing -30 (10/20) Year Fixed Interest Only -ARM Products: Not Allowed
Interest Only	Reduce maximum LTV/CLTV 5%
Non-Permanent Resident Aliens	No Overlays
First-Time Homebuyer	No Overlays
Maximum Cash-Out	-LTV/CLTV <=70%: No Limit -LTV/CLTV >70%: $500,000
Documentation Types	-24 Month Full Document -12 and 24 Month Personal and Business Bank Statements -1 and 2 Year 1099
Maximum DTI	50%
Reserves	-Loan Amount <=$2,000,000: 6 months -Loan Amount >$2,000,000 - Owner Occupied and Second Home: 9 months -Loan Amount >$2,000,000 - Investment: 12 months
Owner Occupied: 2 Unit Properties	Maximum LTV/CLTV 80%
Warrantable Condominiums	No Overlays
Non-Warrantable Condominiums	Not Allowed
Escrow Holdbacks	Not Allowed. Any inadequacies determined by the appraisal must be remediated prior to closing.
Rural Properties	No Overlays
Subprime NY Loans	New York subprime loans: Not Allowed
Maximum Loan Exposure	The maximum exposure to EPM for any one (1) borrower and/or business entity is five (5) loans or $4,000,000 UPB.

NON-QM ELITE MATRIX

EPM NON-QM ELITE PROGRAM MATRIX							
Purchase/*Rate & Term Refinance				Cash-Out Refinance			
Occupancy	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score	Occupancy	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score
Owner Occupied	$2,000,000	90%	700	Owner Occupied	$2,250,000	80%	660
	$2,000,000	85%	680				
	$2,000,000	80%	660				
	$2,500,000	80%	660				
	$3,000,000	75%	660				
Second Home	$2,000,000	90%	700	Second Home	$2,250,000	80%	660
	$2,000,000	85%	680				
	$2,000,000	80%	660				
	$2,500,000	80%	660				
	$3,000,000	75%	660				
Investment	$2,000,000	90%	700	Investment	$2,250,000	80%	660
	$2,000,000	85%	680				
	$2,000,000	80%	660				
	$2,500,000	80%	660				
	$3,000,000	75%	660				

*Rate & Term Refinance: Maximum LTV/CLTV 80%

Minimum Loan Amount	$100,000
Products	-30 Year Fixed Fully Amortizing -30 (10/20) Year Fixed Interest Only -ARM Products: Not Allowed
Interest Only	No Overlays
Non-Permanent Resident Aliens	-Purchase and Rate & Term Refinance: maximum LTV/CLTV 80% -Cash-Out Refinance: Not Allowed
First-Time Homebuyer	Interest Only: Not Allowed
Maximum Cash-Out	-LTV/CLTV <65%: $2,000,000 -LTV/CLTV >=65% and <=70%: $1,500,000 -LTV/CLTV >70%: $1,000,000
Documentation Types	-24 Month Full Document -12 and 24 Month Personal and Business Bank Statements -1 and 2 Year 1099
Maximum DTI	-LTV/CLTV <=85%: 50% -LTV/CLTV >85% and <=90%: 45%
Reserves	6 months
Owner Occupied: 2 Unit Properties	No Overlays
Warrantable Condominiums	No Overlays
Non-Warrantable Condominiums	-Purchase: maximum LTV/CLTV 85% -Rate & Term Refinance: maximum LTV/CLTV 80%; -Cash-Out Refinance: maximum LTV/CLTV 75% -No Florida Condos allowed. They must meet all Agency requirements.
Cooperatives	No Overlays
Rural Properties	-Purchase and Rate & Term Refinance: maximum LTV/CLTV 80% -Cash-Out Refinance: maximum LTV/CLTV 70%
Additional Prepayment Penalty Restrictions	-MD: restricted to a 2 year term with either a Declining - 2%/1% or Fixed - 1% structure -MS: restricted to a 3 year term
Subprime NY Loans	New York subprime loans: Not Allowed
Maximum Loan Exposure	The maximum exposure to EPM for any one (1) borrower and/or business entity is five (5) loans or $4,000,000 UPB.

4.0 Regulatory Compliance

Seller must ensure that each loan delivered to EPM has been originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws and regulations. To the extent applicable to the subject transaction, loans must adhere to the Ability to Repay (ATR) rule effective 3/1/21, the TILA-RESPA Integrated Disclosure (TRID) rule effective 10/3/15 and the laws and regulations listed below.

- Regulation X – RESPA
- Regulation Z – Truth in Lending
- Regulation G – SAFE Act – Federal Licensing and Registration
- Regulation H- SAFE Act - State Licensing and Regulation
- Regulation V – Fair Credit Reporting
- Regulation B – Equal Credit Opportunity
- Regulation P – Privacy of Consumer Financial Information (GLB)
- USA Patriot Act
- Fair Housing Act
- Dodd-Frank Act
- Federal high cost loan regulations.
- State, local and county high cost and usury regulations
- National Flood Insurance Act

All applicable closing documentation and disclosures pertaining to the above regulations should be included in the closed file submission.

EPM will not purchase loans which are: (a) Mortgage Loans subject to, 12 CFR Part 1026.32 or, 1026.34 of Regulation Z, the regulation implementing TILA, which implements the Home Ownership and Equity Protection Act of 1994, as amended, or (b) classified and/or defined, as a “high cost,” “threshold,” “predatory high risk home loan,” or “covered” loan (or a similarly-classified loan using different terminology under a law imposing additional legal liability for mortgage loans having high interest rates, points and/or fees) under any other applicable state, federal, or local law.

5.0 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.

Lender is required to order a third-party fraud report (Fraudguard or similar) to identify and resolve any borrower information discrepancies and indications of possible fraudulent activity. The report should also include a comparison of all participant names against industry watch and exclusionary lists such as OFAC.

5.1 Eligible Borrowers

- United States Citizens
- Permanent Resident Aliens
  - Copy of a valid resident alien card must be included in loan file.
- Non-Permanent Resident Aliens
  - Copies of passport and unexpired visa must be included in loan file. Acceptable alternative documentation to verify visa is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). If the visa will expire within six months of the note date, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and visa renewal sponsorship. Borrowers who are residents of countries which participate in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a visa. Participating countries can be verified through the U.S. Department of State website.
  - Must have a history of visa renewals, minimum of two year employment history in the U.S. and qualifying income must be from the U.S.
  - No funds from outside the U.S are allowed.
- Inter-Vivos (Living) Revocable Trusts
  - Trust must be established by one or more natural persons, individually or jointly.
  - The individual(s) establishing the trust must be the primary beneficiary/ beneficiaries.
  - If the trust is established jointly, there may be more than one primary beneficiary as long as tfhe income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.
  - At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
  - The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.
  - The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

- First-Time Homebuyer

  A "First-Time Homebuyer" is defined as a borrower who had no ownership interest in a residential property in the United States during the three years preceding closing. A First-Time Homebuyer is permitted with the following restrictions:

  - Must have 0X30X12 rental payment history.
  - Borrowers who have lived in a rent-free situation are ineligible. If a Borrower has lived in a temporarily rent-free situation for a time period of three months or less, and the prior twelve months can be documented, this is acceptable (example: Borrower sold residence then lived with family rent-free until a new home was available). Borrowers whose spouse has the mortgage in only their name but can verify payments are coming from a joint account or who have other mortgaged properties with satisfactory most recent 12 month pay histories are excluded from rent free restrictions. Borrowers with a primary home that is owned free and clear are also exempt from this requirement.

- Limited Power of Attorney (POA)

  A Limited Power of Attorney is acceptable when all of the following are met:

  - It is specific to the transaction.
  - It is recorded with the Mortgage/Deed of Trust.
  - It contains an expiration date.
  - It is used to execute only the final loan documents.
  - The borrower who executed the POA signed the initial 1003.
  - An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.

5.2 Ineligible Borrowers

- Borrowers with only an ITIN (individual taxpayer identification number)
- Irrevocable trusts
- Land Trusts
- Corporations, limited partnerships, general partnerships and limited liability companies
- Borrower who are a party to a lawsuit
- Borrowers with diplomatic immunity
- Foreign Nationals

5.3 Multiple Financed Properties

Borrowers who own more than 20 financed properties (residential, 1-4 family), including their primary residence, are not permitted.

6.0 Occupancy

6.1 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 given time.

6.2 Second Home (Vacation 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.

- Property may not be a time share or subject to a rental agreement.
- 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 exceed 30 rental days.
- Rental income from a second home cannot be used to qualify the borrower.

6.3 Investment Property (Non-Owner Occupied)

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

For cash-out refinance transactions of an investment property a borrower signed **Business Purpose & Occupancy Affidavit** indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required. See Appendix A for form of Affidavit. Loans delivered without the affidavit will be subject to TILA compliance.

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

7.0 Eligible Transaction Types

7.1 Purchases

- Proceeds from the transaction are used to finance the acquisition of the subject property.
- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If the seller has owned the property less than 90 days measured from the seller's acquisition date to the date of the sales contract for the subject transaction, the following requirements apply.

- Property seller on the purchase contract must be the owner of record.
- LTV/CLTV will be based on the lesser of the prior sales price, current purchase price or the current appraised value.

Loans that are bank or relocation sales are exempt from the above requirements.

- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property for purposes of this section.
- When the Borrower is purchasing a new property as an owner-occupied residence, but will still retain ownership of their existing residence, the following requirements apply:
  - If the current principal residence is pending sale but the transaction will not be closed prior to the new transaction, or the property is being converted to a second home, both the current and proposed mortgage payments (PITIA) must be included in the debt-to-income ratio used for qualification.
  - If the current principal residence is being converted to an investment property, see Section 9.0 if the loan is qualifying under the Full Documentation Program and Section 10.0 if the loan is qualifying under the Alternative Documentation Programs.

7.2 Rate and Term Refinance

- The mortgage amount may include the:
  - Principal balance of the existing first lien.
  - Payoff of a purchase second lien.
  - Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not evidence draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
  - Payoff of a co-owner pursuant to a written agreement.
  - Financing of the payment of prepaid items and closing costs.
  - Cash to borrower no greater than $5,000.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.
- Principal reduction is permitted up to the lesser of $2,500 or 2% of the new loan.

7.3 Cash-Out Refinance

- Borrower must have held title for a minimum of six months from closing date.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.
- Texas 50(a)(6) loans are ineligible.
- Cash-out may be used for reserves.

7.4 Delayed Financing

Borrowers who purchased the subject property within the past six (6) months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:

- The original purchase transaction was an arms-length transaction.
- The borrower(s) initially purchased the property as one of the following:
  - A natural person, an eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust.
  - An eligible land trust when the borrower is the beneficiary of the land trust or an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
- The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.)
- The preliminary title search or report must confirm that there are no existing liens on the subject property.
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).
- All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable.

7.5 Contract for Deed/Land Contract

Contract for Deed/Land Contracts are ineligible.

7.6 Construction Loan Refinancing

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

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

7.7 Non-Arm’s Length Transactions

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

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

For non-arm’s length circumstances not specifically addressed above, please contact Underwriting for assistance as other transactions may be eligible on a case-by-case basis.

7.8 Loan Seasoning

To be eligible for purchase, the period between the closing date and the lock date cannot exceed 90 days.

8.0 Credit Documentation Requirements

Determination of a borrower's creditworthiness, as demonstrated by willingness to repay past and current debt obligations in a timely manner, is a critical aspect of credit analysis.

A credit report is required for every borrower who executes the Note. Each borrower must have a minimum of two credit scores and the qualifying credit score for a borrower is the middle of three or lower of two. For loans with multiple borrowers:

- Use the qualifying credit score of the primary income earner.
- Use the lowest qualifying credit score if the income is equal.

Rapid rescore is permitted for confirmation of the pay down of debt and correct of reporting errors and the updated credit score is permitted for qualifying.

Credit freeze may remain if reported under only one bureau and two credit scores are present for the borrower. A letter of explanation from the borrower is required when there is a credit freeze on one bureau. Borrowers currently enrolled in credit counseling or debt management plans are not permitted.

8.1 Credit Documents Age

The credit report & credit verifications may not be greater than 120 days old at the time of closing.

8.2 Minimum Credit Requirements

Each borrower must have a minimum of two trade lines reporting for 24 months with activity in the last 12 months or a combined credit profile between multiple borrowers of a minimum of three trade lines reporting for 24 months with activity in the last 12 months. The accounts may be opened or closed. Current housing not reporting on the credit report can be considered an open trade if supported by bank records.

The following accounts cannot be counted as a trade line.

- Non-traditional credit as defined by Fannie Mae.
- Deferred or derogatory accounts
- Authorized user accounts

8.3 Mortgage/Rental History

EPM requires a 12-month housing history on the subject property, primary residence and all additional financed properties. The housing history requirements for additional financed properties (properties other than the subject property and primary residence) are limited to properties with mortgages reflected on the credit report. All payment histories must reflect 0X30X12 measured from the credit report date. On the credit report date, the existing mortgage(s) must be current, which means that no more than 45 days may have elapsed since the last paid installment date.

Mortgage/Rental history must be documented as follows:

- A mortgage payment history from an institutional lender, as verified through (i) credit bureau report reference for 12 months or (ii) 12 months canceled checks.
- For rental verification a standard VOR completed by a professional management company or 12 months bank statements/canceled checks and a lease agreement to document the term and payment are required.
- If a borrower is refinancing a privately held mortgage the following payment verification requirements apply:
    - The privately held mortgage payments must be verified with either cancelled checks or bank statements (if the payment is automatically withdrawn from the borrower's account).
    - Evidence must be included in the loan file that the lien being paid off is a current recorded lien against the subject property.
- If the housing history reflects a forbearance agreement, the payment history must reflect 0X30 in the most recent 12 months since exiting forbearance. The payment history must be provided by the lender/servicer.

8.4 Bankruptcy, Foreclosure, Notice of Default (NOD), Deed-In-Lieu of Foreclosure, Short Sales and Modifications

- At least four years must have elapsed since bankruptcy discharge, dismissal or completion, foreclosure, notice of default (NOD), short sale, deed-in-lieu or modification measured from the date of completion to the date of application.
- A satisfactory letter of explanation for the event from the borrower is required.
- Borrower must show reestablished credit and meet the minimum credit requirement.
- If there are multiple events, at least seven years must have elapsed since the last event.

8.5 Collections, Charge-Offs, Judgments and Liens

All delinquent credit that will impact title, including delinquent taxes, judgments, charge-off accounts, tax liens and mechanics' lines, must be paid off prior to or at closing. Title must insure the lien position without exception. Any item secured against the subject must be paid in full.

Collection accounts, charged-off accounts and judgments that do not impact title are required to be paid off if open less than two years and greater than $10,000 (individually or aggregate). Combined medical collections less than $15,000 are not required to be paid. All past due accounts must be brought current prior to closing.

IRS payment plans are permitted if current and they do not carry a lien on the property.

8.6 Delinquent Credit belonging to an Ex-Spouse

Delinquent credit which belongs to an ex-spouse may be excluded from the credit evaluation when all of the following apply:

- File contains a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse.
- Late payments occurred after the date of the divorce or separation.
- If debt in question is a mortgage, evidence of title transfer prior to any delinquent debt must be provided and evidence of "buyout" as part of court proceedings.

8.7 Delinquent Credit belonging to Co-Signer

A Co-signer is considered a borrower on the loan, and therefore delinquent credit that belongs to a co-signer must be considered when evaluating the loan.

8.8 Written Explanations

A written explanation is required for significant derogatory information. The purpose for requiring a written explanation is to assist the originator in determining whether the borrower's credit problems were due to extenuating circumstances (factors clearly beyond the control of the borrower) or whether they reflect financial mismanagement (the borrower's disregard for the payment of obligations when due). In order to accomplish this purpose, it may be necessary to allow someone to assist the borrower in preparing the explanation.

A written explanation in and of itself does not satisfy the originator's responsibility to determine the borrower's willingness to repay. When adverse or derogatory information is considered significant, the originator must relate the reasons for the late payments, as stated by the borrower, to the other information about the borrower's credit history contained in the mortgage file. The originator must reasonably be able to conclude that:

- The explanation is consistent with the adverse information reported and the other information in the mortgage file.
- The explanation establishes a credible cause for the late payments.
- The borrower represents an acceptable credit risk and exhibits the ability and willingness to repay the Mortgage.

8.9 Inquiries

If the credit report indicated that a creditor has made inquiries within the previous 90-day period, the underwriter must determine whether additional credit was granted as a result of the borrower's request. A letter from the creditor or letter of explanation from the borrower is required for all inquiries inside this time period.

9.0 Full Documentation Program

Employment and income analysis are key elements of the underwriting process and are used to determine whether the borrower's ability to repay is reasonable.

This section outlines income requirements that apply to the full documentation program. Should a specific income scenario not be addressed in this section and is an eligible income source, refer to the Fannie Mae Selling guide to determine the qualifying income.

Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the borrower, the Seller must determine that both the source and the amount of the income are stable and reliable. A two-year history of receipt is required for the income to be considered stable and used for qualifying. When the borrower has less than a two-year history of income, the Seller must provide written analysis to justify the determination that the income used to qualify the borrower is stable and reliable.

Gaps in employment of one month or greater during the most recent two-year period require a letter of explanation from the borrower, and the borrower must be employed with their current employer for a minimum of six months to qualify.

Re-entering the workforce requires a minimum of six months on the job with an explanation of time off. Documentation of a two-year work history prior to absence must be provided.

Income calculation worksheets or a Uniform Underwriting Transmittal Summary (1008) with income calculations must be provided with every loan.

9.1 IRS Form 4506C/8821 and IRS Tax Transcripts

A signed 4506C/8821 and two years of IRS full tax transcripts are required to be obtained for all borrowers. The transcripts must support the employment and income that were used to qualify. Borrower-provided transcripts are not acceptable. A 4506C/8821, signed by all borrowers at closing, must also be included in the loan package.

If IRS Tax Transcripts are unavailable then an IRS Form 4506-C/8821 transcript confirming "No Record Found" must be supplied, and the prior year(s) transcripts must be obtained and analyzed.

9.2 Stable and Predictable Income (Trending)

If the borrower's monthly income is stable, the amount of income should be averaged based on the number of years of documentation required for the program. A significant increase or decrease is generally considered to be anything greater than 25%.

When the borrower has experienced a significant increase in income, the higher income may not be used to qualify the borrower unless there is sufficient documentation to determine that the increase is stable and likely to continue at the level used for qualifying.

When the borrower has experienced a significant decrease in income, the income cannot be averaged using a previous higher level unless there is documentation of a one-time occurrence (such as an injury) and documentation is provided to support that the borrower is back to work and both the employment and income have resumed at the prior levels. In such instances, a letter of explanation from the borrower is required, along with supporting documentation.

9.3 Wage and Salary Documentation

All base income from employment may be considered for qualification, provided proper verification is received and the income can be deemed likely to continue. The hourly, year-to-date and prior-year earnings should be reviewed to ensure consistency with the calculated monthly base income. If hours are inconsistent or unreasonable, additional information may be required. Overtime, commission and bonus income must have a minimum two-year history of receipt and the income should be expected to continue. The borrower's history of earnings must support a stable or increasing trend from year to year.

Verification must include:

- Most recent paystub(s) dated no earlier than 30 days prior to the initial loan application and must include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.
- W-2s for the most recent two years.
- All paystubs and W-2s must be computer-generated.
- Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification. IRS tax transcripts must align to the income being used to qualify.
- Verbal Verification of Employment (VVOE) documented in writing or via email is required to be obtained either no more than 10 business days prior to the Note Date, or after the Note Date but prior to purchase by EPM. If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the VVOE requirements and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note Date.

IRS tax transcripts must align to the income being used to qualify.

For borrowers employed by a family member, the Seller or any interested third party (for example, real estate agent, mortgage broker, etc.), provide signed individual tax returns for the most recent two years.

For borrowers who are employed in the field of education (such as a teacher), additional documentation may be required to verify whether income is based on calendar year or school year.

If the borrower does not have two years of employment because of being in school or serving in the military, a copy of the diploma or certificate evidencing that the borrower was serving in the military or attending school is require

9.4 Self-Employment Documentation

A borrower is considered self-employed when they have 25% of more ownership interest in a business. Borrowers who are self-employed but are not using self-employment income to qualify, do not have to meet the self-employed income requirements below if the income is positive and not being used or the self-employment income is secondary employment (borrower is a W2 wage earner) and the loss is minimal.

The borrower must have a minimum two-year history of self-employment for the income to be considered and the income must be documented with the following:

- Signed and dated individual tax returns with all applicable schedules for the most recent two years.
- For a corporation, “S” corporation or partnership, signed and dated business tax returns with all applicable schedules for the most recent two years.
- Year-to-date profit and loss (P&L) statement and balance sheet.
- Verification that the business is active and operating either no more than 10 business days prior to the Note Date, or after the Note Date but prior to EPM purchase is required with one of the following:
    - Evidence of current work (executed contracts or signed invoices)
    - Evidence of current business receipts
    - Business website demonstrating activity supporting current business operations.

EPM aligns with the Fannie Mae Selling Guide requirements for the use of self-employment income to qualify the borrower. Qualifying income must be calculated using FNMA’s cash flow analysis (Form 1084) or a comparable income analysis form.

9.5 Additional Sources of Income

For other sources of income, such as alimony, child support, pension/retirement, Social Security, military, long-term disability, rental or trust, follow the Fannie Mae Selling Guide requirements.

10.0 Alternative Documentation Programs

The documentation that is required for the Alternative Documentation Programs is used to determine whether the borrower's ability to repay the mortgage debt is reasonable.

Reasonable ability to repay the mortgage debt is based (among other information) on the borrower's employment history, income source and past credit experience which must be commensurate with the loan request. For example, information on the Credit Report must corroborate information on the application. Borrower's income source must be documented and verified by a third party and must also establish a reasonable expectation that it will continue. Inconsistencies must be investigated.

All files must include the completed initial application. All income sources must be itemized on the signed loan application when applicable.

10.1 Bank Statement Program

Borrowers who are self-employed may qualify with either 12 or 24 consecutive months of personal or business bank statements in lieu of tax returns to support their income. The program is intended for active, productive businesses. Borrowers with passive income such as rental properties, or borrowers whose business is asset speculation (i.e., fix and flip investors, day traders, etc.) are ineligible for the bank statement program. Income sources that are illegal under local, state or federal law are also ineligible.

Bank accounts must be from a US financial institution and be the most recent available at the time of application but never more than 45 days prior to application. If the bank statements reflect payments being made on obligations that are not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's DTI.

A business narrative is required from the borrower to describe the type of business and number of employees. Loans submitted with tax returns or tax transcripts are ineligible. Income from other sources that do not require tax returns are eligible (see Section 10.3 Supplemental Income Sources).

Self-Employment
Borrowers must have been self-employed for at least two years in the same business verified via a CPA/Tax Preparer, regulatory agency, applicable licensing bureau or equivalent. Borrowers who have been self-employed less than two years, but not less than one year prior to application, are eligible with an additional six months of reserves and two years previous experience in the same line of work.

Ownership
The borrower's business ownership percentage must be at least 25%. The ownership percentage must be verified via a CPA/Tax Preparer, Operating Agreement or equivalent.

Business Verification

Verification that the business is active and operating either no more than 10 business days prior to the Note Date, or after the Note Date but prior to EPM purchase is required with one of the following:

- Evidence of current work (executed contracts or signed invoices)
- Evidence of current business receipts
- Business website demonstrating activity supporting current business operations.

Large Deposits

Any deposit exceeding 50% of the average monthly deposits require a LOE and must be consistent with the business profile. If the LOE is sufficient, no sourcing is required. If the LOE is insufficient and the funds cannot be sourced, the deposit must be excluded from the total eligible deposits.

Declining Deposits

Bank statements should show a stable or increasing trend of deposits. If the trend is declining and/or irregular, additional documentation should be provided to support the stability of the income.

- 12 Months Bank Statements: decline in deposits six months over six months up to 10% allowed. An additional 12 months of statements are required if the decline is 10%.
- 24 Months Bank Statement: decline in deposits year over year >10% are ineligible.

Non-Sufficient Funds (NSF)

A maximum of three NSF instances are allowed with 12 months of statements and six are allowed with 24 months of statements. Multiple NSFs that occur on the same day will count as one instance.

Personal Bank Statements

- Comingling of personal and business receipts is not permitted in personal bank accounts. Evidence of comingling will require the loan to be submitted under the Business Bank Statement option.
- Two months of business bank statements must be provided to validate separate personal and business bank accounts and reflect transfers to the personal account.
- Deposits deemed to derive from a source other than the business including but not limited to wage income, fixed income, rental income, tax refunds and transfers between personal accounts must be excluded from the total eligible deposits.
- **Qualifying Income:** Total Eligible Deposits/12 or 24 months

Business Bank Statements

- More than three separate business accounts must use the Personal Bank Statement option.
- Transfers from other business accounts will require evidence the source of the transfer is business related.
- Transfers from personal accounts must be excluded from the total eligible deposits, as well as any deposits that are not consistent with self-employed income (credit card refunds, IRS refunds, etc.).
- **Qualifying Income:**
  Total Eligible Deposits*Ownership Percentage*Expense Factor/12 or 24 months

Expense Factor Options

The expense factor should be reasonable for the profession and consistent with the revenues and expenses in the bank statements. There are two expense factor options.

- Fixed Expense Ratio: a 50% expense ratio regardless of the business type.
- Third Party (CPA or Licensed Tax Preparer) Expense Statement
  - Expense statement must be prepared by a third party indicating business expenses as a percentage of the gross annual sales/ revenue and signed by the third party and the borrower.
  - Third party license must be verified.
  - The minimum expense factor allowed is 10%.

10.2 1099

Borrowers who are independent contractors, freelancers or otherwise self-employed in the "gig" economy may qualify with 1099 statements in lieu of tax returns or bank statements to support their income. The borrower must receive regular, ongoing compensation on a weekly, bi-weekly, monthly or quarterly basis. Income sources that are illegal under local, state or federal law are ineligible.

Income from other sources that do not require tax returns are eligible (see Section 10.3 Supplemental Income Sources).

1099 Employment

Borrowers must have minimum two year history of 1099 employment verified via a WVOE, CPA/Tax Preparer or other documentation relevant to the borrower's circumstances.

Documentation Requirements

- 1 or 2 year 1099s and most recent proof of YTD earnings via bank statements, payroll registers or paystub equivalents covering a minimum of 30 days. YTD earnings may be no less than 10% below the qualifying income.
- In the event the 1099s are issued to an entity, the borrower's ownership interest must be 100% as documented via a CPA/Tax Preparer or equivalent.
- A business narrative is required from the borrower to describe their 1099 employment including an expense factor that is related to their annual business. The minimum expense factor allowed is 10% and should be reasonable for the 1099 employment.
- 1099 transcripts are required. If the 1099s are issued to an entity and transcripts are not available, a CPR/Tax Preparer letter is required verifying that the borrower has filed a Schedule C for the past two years.
- **Qualifying Income:** 1099 Income*Expense Factor/12 or 24 months

10.3 Supplement Income Sources

Bank Statement and 1099 income may be combined with income from other sources.
The income must be separately documented on the 1003.

Alimony/Child Support

- Final divorce decree or legal separation agreement required.
- Must provide payment evidence of 6 months via cancelled checks, deposit slips or bank records.

Notes Receivable

- Copy of the note confirming amount and length of payment
- Must provide payment evidence of 12 months via cancelled checks, deposit slips or bank records.

Rental Income

- Must document proof of 100% ownership.
- Subject Property Refinance Transaction and Additional Rental Properties:
  - Current active lease or expired lease that converted to month-to-month.
  - Two months cancelled checks, deposit slips or bank records to show proof of rental payments.
  - Evidence that rent is market rate (free online source is permitted)
  - Gross rental income is 75% of the lease agreement.
- Subject Property Purchase Transaction and Departing Residence:
  - Gross rental income is the lesser of 75% of the lease agreement (if applicable) and market rent from the appraisal.
- Short Term/Variable Rental Income (Airbnb, VRBO, HomeAway):
  - Acceptable with 12 months evidence of receipt via Service Provider payment history or bank statement deposits.
  - 75% of verified monthly rental income.
  - Must be permitted in accordance with local ordinance.

Retirement Income

- Copy of award letters or letters from the organizations providing the income
- Most recent two months bank statements showing deposit of funds.

Royalty Income

- Royalty contract, agreement or statement confirming amount, frequency and duration of the income. Must document a three year continuance.
- Must provide payment evidence of 12 months via cancelled checks, deposit slips or bank records.

Trust Income

- Trust agreement required confirming amount, distribution frequency and duration of payments.
- May be used if constant payments will continue for at least the first three or five years of the mortgage term as evidenced by trust income documentation. Five years required if income source is >50% of total qualifying income.
- Cannot be setup post application unless required to start withdrawing based on age. Use 125% of the required minimum to qualify.
- Must provide payment evidence of six months via cancelled checks, deposits slips or bank records. Distributions that have been received for >=6 months can be adjusted with a letter from the plan administrator validating the increase. Increase is limited to 125% of previously received distributions. Continuance for five years at the proposed monthly amount is required if distributions represent > 50% of total qualifying income.

Wage Earner Income

- One year W2 and most recent paystub including YTD earnings covering a minimum of 30 days.
- W2 transcripts required.

11.0 Debts and Liabilities

11.1 Debt-to-Income Ratio

The qualifying total Debt-to-Income (DTI) ratio compares the borrower's total monthly debt obligations with their qualified monthly gross income.

The borrower's total monthly obligations include the following:

- Monthly Housing Expense
    - Monthly Principal and Interest Payment
    - 1/12th of the annual hazard insurance premium
    - 1/12th of the annual real estate taxes (greater of the actual or 1/12th of 1.5% of sales price if new construction)
    - 1/12th of the annual flood insurance premium (when applicable)
    - Monthly homeowner association dues, condominium maintenance fees, monthly assessments (when applicable)
    - Monthly payment for other secured financing (when applicable)
    - HELOC monthly payment as reported on credit, if the HELOC is at a 0 balance, a monthly payment does not need to be developed.
- Outstanding Monthly Obligations
    - All installment debt with over ten payments remaining.
    - All revolving debt payments.
    - Alimony, child support or maintenance payments with more than ten payments remaining.
    - Real estate net rental losses from all investment properties owned.
    - Other obligations where a monthly payment is legally required.

11.2 Installment Debt

Installment debt is the monthly obligation on accounts with fixed payments and terms (i.e., car loan, student loans, etc.). These payments must be included in the borrower's DTI ratio calculation. In some cases, the monthly payments may be excluded from the DTI calculation if there are fewer than ten monthly payments remaining to pay the debt in full and the payment is not substantial, such that the amount of the debt does not affect the borrower's ability to repay the mortgage loan during the months immediately after loan closing, especially if the consumer will have limited or no cash assets after closing. Installment debts may be paid down to ten payments in order to eliminate them from the DTI calculation.

11.3 Lease Obligations

Lease obligations, regardless of time remaining on the lease, are included in the DTI.

11.4 Student Loans

Debt payments, such as student loan or a balloon-payment note, scheduled to begin or come due within 12 months of the mortgage loan closing, must be included as a monthly debt obligation when calculating the DTI ratio. Debt payments do not have to be classified as projected obligations if the borrower provides written evidence that the debt will be deferred to a period outside the 12-month time frame. Proof of the deferment is required.

If no payment for a student loan obligation is shown on the credit report or can be otherwise verified, then use 1% of the outstanding balance as the borrower's recurring monthly debt obligation. Student loans listed as delinquent must be brought current. If a student loan is charged off, the total will be included in the cumulative charge off balance if open less than two years. If a student loan is placed for collection, get a copy of the repayment agreement, a copy of a canceled check and include the payment in the DTI.

11.5 Revolving Debt

Revolving debt is open ended debt of which the principal balance on an account may vary from month to month (i.e., department store credit cards). Monthly payments on revolving debt, regardless of the balance, are counted as a liability for qualifying purposes, even if the account appears likely to be paid off within ten months or less.

Use the minimum required payment as stated on the credit report or current statement as a liability when calculating the DTI. If no minimum required payment can be confirmed, then use the greater of 5% of the outstanding balance or $10 as a liability when calculating the DTI. If the actual monthly payment is documented from the creditor or the originator obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

In order for Revolving Debt to be excluded from the DTI ratio, documentation must be provided that the account was paid in full.

11.6 Business Debt

Business debts for which the borrower is personally liable may be excluded if a minimum of 12 months of consecutive canceled checks from the business are provided and there are no delinquencies.

11.7 Contingent and Co-Signed Liabilities

A contingent liability exists when an individual co-signs or is otherwise held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. Contingent liability applies and must be considered in the underwriting analysis if the borrower is a co- signer or co-obligor on any of the following:

- A car loan
- A student loan
- A mortgage
- Any other obligations

Debts where the borrower is a co-signer, or where a contingent liability exists, may be excluded from the borrower's monthly obligations only when:

- There is no history of delinquency on the subject obligation.
- Documentation has been provided verifying that the primary obligor made regular payments for, at least, the previous 12 months. This may be, but is not limited to, 12 months of cancelled checks from the primary obligor.

If these requirements cannot be satisfied, then the liability must be indicated on the application and considered as a monthly debt payment for mortgage eligibility purposes.

11.8 Asset Secured Loans

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) may be excluded from the total debt ratio provided the borrower can repay the debt by liquidating the asset. Value of the asset must be reduced by the amount of the debt when calculating total assets/reserves.

11.9 Open Thirty (30) Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.

11.10 Alimony/Child Support/Maintenance

Monthly alimony, child support and separate maintenance fees, payments and obligations must be considered for qualifying purposes unless these obligations will be satisfied within ten months or less. Since there are tax consequences of alimony payments, the monthly alimony obligation may be treated as a reduction from the borrower's gross income when calculating the DTI ratio, rather than treating it as a monthly debt obligation.

12.0 Assets and Source of Funds

12.1 Source of Funds

- The borrower must have sufficient assets to meet the requirements for down payment, pre-paid items, closing costs and reserves.
- The verification of assets (including the source of funds) may not be greater than 120 days old at the time of closing. If funds are required for closing, then the most recent account statement(s) at the time of the validation of funds will be required.
- Assets may be verified using the most recent monthly or quarterly account statement for each bank, brokerage, mutual fund account or investment portfolio.
- Any deposit exceeding 50% of the average monthly deposits (bank statement program) or 50% of the total monthly qualifying income (non-bank statement programs) require a LOE. If the LOE is sufficient, no sourcing is required. If the LOE is insufficient and the funds cannot be sourced, the deposit must be subtracted from the asset amount.
- Acceptable sources of verified funds include:
    - Bank deposits
    - Stocks, stock options, bonds, and mutual funds. Stocks and bonds may be used at 70% of value for reserves.
    - Home Equity Line of Credit (HELOC)
    - Life Insurance surrender value if used for cash to close must be liquidated. If used for reserves no liquidation is required.
    - Sale of real property.
    - Sale of personal property with supporting documentation.
    - Disbursement from a Trust Fund.
    - Disbursement from an IRA/401K.
    - Disaster relief grants. Borrowers may use lump sum grant for down payment. No minimum contribution is required. Grant may not be used for closing costs or reserve requirements. Document that payment received is an actual grant and not a loan. Subordinate lien against the property is ineligible.
    - Vested Retirement Accounts may be used at 70% value for reserves.
- Business funds can be used for down payment and cash reserves for self-employed borrowers if the borrower(s) own at least 50% of the business. The ownership percentage must be verified via CPA/Tax Preparer, Operating Agreement or equivalent and all non-borrowing owners must provide a signed and dated letter acknowledging the transaction and confirming the borrower’s access to the funds. The balance of the business assets must be multiplied by the ownership percentage to determine the borrower’s portion of business assets allowed for the transaction. A signed letter from the CPA/Tax Preparer or an underwriter cash flow analysis is required to confirm that the withdrawal will not negatively impact the business.

12.2 Cash Reserves

All loans require a minimum cash reserve. Reserves are based on the PITIA (fully amortizing loans) or ITIA (interest only loans) of the subject property. Reserves must be verified and comprised of liquid assets that the borrower can readily access. Cash-out proceeds from the subject transaction are an acceptable source to meet the reserve requirement. Gift funds are not an acceptable source to meet the reserve requirement.

12.3 Gift Funds

Gift funds can be used for down payment or closing costs. The following parameters apply:

- Signed gift letter is provided, indicating:
    - Donor's relationship to borrower (donor must be related to the borrower)
    - Donor's address, and phone number
    - Dollar amount of gift
    - Certification it is an outright gift with no repayment required.
- Evidence of the donor's ability to provide funds, with 30 days sourcing and seasoning.
- Evidence of transfer of funds such as a cancelled check or evidence of wire transfer from donor to borrower. Documentation must also include a bank statement or other evidence from the depository institution that receives the funds.
- Borrower minimum contribution is 5% of purchase price from their own source of seasoned funds for LTV/CLTV >80%.

Gifts of equity may be given provided all of the following are met:

- Signed gift letter is provided.
- Gift of equity is listed on the HUD-1 or Closing Disclosure.

Gift funds not permitted:

- From any donor other than a relative or family member of the borrower.
- From any donor that is a party to the transaction, (other than a gift of equity from the seller).
- From any donor that is a real estate builder, developer or in the business of owning, financing, or selling real estate.
- Investment properties

13.0 Property

13.1 Eligible Property Types

- 1 unit (Attached, Detached, PUD & Townhouse) and 2 unit owner-occupied properties.
- 1 unit second homes
- 1-4 unit investment properties
- Low/mid/high-rise new and established agency warrantable condominiums.
- Condominiums which are otherwise warrantable but ineligible due to only one of the following are eligible for delivery. Condominiums located in Florida must meet all Agency requirements and are not eligible as non-warrantable condominiums.
  - Investor concentration up to 70%.
  - Commercial space up to 50% provided it is common and customary to the area and does not have an adverse impact on marketability.
  - Single owner/entity concentration up to 50%.
  - At least 30% of the units must be sold or under bona fide contract.
  - Annual budget allocation to reserves <10% permitted if the appraisal report notes no significant repairs are needed and the following reserves balance thresholds are met.
    - >=7% to 9.99% annual budget is allocated to reserves, then the Reserve Fund balance must equal 50% of the annual budgeting income.
    - >=5% to 6.99% annual budget is allocated to reserves, then the Reserve Fund balance must equal 75% of the annual budgeting income.
    - >=3% to 4.99% annual budget is allocated to reserves, then the Reserve Fund Balance must equal 100% of the annual budgeting income.
- All cooperatives (co-ops) must be located in the New York five boroughs or Nassau, Suffolk, Rockland and Westchester counties only and meet FNMA requirements including but not limited to the following.
  - Investment properties not allowed.
  - Subordinate financing not allowed.
- Properties with age-related deed restrictions are acceptable provided:
  - Senior Communities comply with applicable laws.
  - Appraiser notates that the age-related deed restriction was considered in the valuation of the property.
- Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparable sales with similar acreage.
- Rural Properties
  A property designated by the United States Department of Agriculture as rural, indicated by the appraisal as rural, or containing any of the following characteristics, is usually considered a rural property:

Rural Properties (continued):

- Neighborhood is less than 25% built-up.
- Area around the subject is zoned agricultural.
- The photographs of the subject show a dirt road.
- Comparable sales are more than five miles away from the subject property.
- Subject is located in a community with a population of less than 25,000.
- Distance to schools and/or amenities are greater than 25 miles.
- Subject property and or comparable sales have lot sizes greater than ten acres.
- Subject property and or comparable sales have outbuilding or large storage sheds.

Rural properties must comply with the following criteria:

- The primary use must be residential.
- The property must not be agricultural, or otherwise providing a source of income to the borrower or for the subject loan.
- The lot size and acreage must be typical for the area and similar to the surrounding properties.
- The maximum acreage allowed is 20 acres.
- The present use must be the "highest and best use" for the subject property.
- The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.
- Subject property cannot be subject to any idle acreage tax benefit or other tax incentive program.

13.2 Ineligible Property Types

- Manufactured or Mobile Homes
- Geodesic/Dome Homes
- Earth/Burm Homes
- Condotels or Condo Hotels
- Log Homes
- Timeshares
- Unique Properties
- Commercially Zoned Properties
- Mixed Use Properties
- Properties Greater than 20 Acres
- Farms/Working Farms
- Properties located in Puerto Rico, Guam, US Virgin Islands and Maryland
- Properties located in Lava Zones

13.3 Declining Markets

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

13.4 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 and eligibility requirements.
- Appraised value must be "as-is" and not subject to future improvements. Property must be in average or better condition.
- The appraisal must be completed within 120 days of closing. After 120 days an appraisal update can be utilized in lieu of a new appraisal but, in all cases, the original appraisal cannot exceed 180 days.
- When an appraisal report will be more than 120 days old on the date of the note, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. A new appraisal report is required for any appraisal > 180 days old. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), with interior and exterior photos.
    - If the appraiser indicates on the Form 1004D that the property value has declined, then the Originator must obtain a new appraisal for the property.
    - If the appraiser indicates on the Form 1004D that the property value has not declined, then the Originator may proceed with the loan in process without requiring any additional fieldwork.
- One full appraisal is required on all loans. Two full appraisals are required for loan amounts > $2,000,000 and loans subject to the two appraisal requirement in 12 C.F.R. § 1026.35 of Regulation Z. The lower of the two appraised values will be used to determine the LTV/CLTV/HCLTV, unless the sales price is lower than both appraisals (in which case the sales price will be used to determine loan to value). Appraisals must be completed by two different, independent appraisers.
- Appraisals transferred or assigned from another lender are acceptable unless ordered by the borrower.

13.5 Third Party Appraisal Review

- The seller must order a Collateral Desktop Analysis (CDA) from Clear Capital for each loan that does not include two appraisals. A copy of the appraisal desk review report should be submitted in the loan file.
- If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; however, the seller has the option to order a Field Review to support value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan remains ineligible for purchase.

13.6 Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone to be eligible for purchase:

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

14.0 Additional Loan Attributes and Policies

14.1 Secondary/Subordinate Financing

- Allowed up to maximum CLTV per matrix. 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).

14.2 Chain of Title

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

14.3 Balloon Mortgage

Balloon mortgages are not eligible for purchase.

14.4 Temporary Rate Buydowns

Temporary Rate Buydowns are not eligible for purchase.

14.5 Prepayment Penalty

Allowed on investment properties held for business purposes.

The following structures may be used:

- **Six Months Interest**: The prepayment penalty (PPP) term may vary from one to five years. The PPP charge will be equal to six months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The PPP is applicable regardless of the reason for the prepayment of principal including prepayments resulting from the sale or refinance of the subject property or curtailments that exceed 20% of the original balance in any 12 month period.
- **Fixed Percentage or Declining Structure:** The PPP charge will be equal to the percentage in effect at the time of the prepayment on the amount of the prepayment that exceeds 20% of the original principal balance. The PPP is applicable regardless of the reason for the prepayment of principal including prepayments resulting from the sale or refinance of the subject property or curtailments that exceed 20% of the original balance in any 12 month period.

The following fixed or declining structures may be used:

5 Year Term

- 5% / 5% / 5% / 5% / 5%
- 5% / 4% / 3% / 2% / 1%

4 Year Term

- 5% / 5% / 5% / 5%

3 Year Term

- 5% / 5% / 5%
- 5% / 4% / 3%
- 3% / 2% / 1%

2 Year Term

- 5% / 5%
- 5% / 4%
- 2% / 1%

1 Year Term

- 5%
- 1%

Prepayment penalties are not required but there may be price adjustments for loans without a PPP, including loans where EPM does not allow a PPP and loans with a PPP that does not meet the structures above.

EPM does not allow prepayment penalties in the following states.

- AK
- IL
- KS
- MN
- NM
- NJ

EPM allows prepayment penalties with restrictions in the following states.

- LA: restricted to declining structures only if the term is greater than 1 year.
- MI: restricted to a maximum term of 1 year with a maximum penalty of 1% of the balance at the time of prepayment.
- MO: restricted to a maximum term of 2 years with a maximum penalty of 2% of the balance at the time of prepayment.
- MS: restricted to declining structures only if the term is greater than 1 year.
- OH: not allowed on loan amounts <=$112,957 or applicable state limit. Restricted to a maximum term of 1 year with a maximum penalty of 1% of the original principal amount.
- PA: not allowed on 1 and 2 unit properties with loan amounts <=$319,777 or applicable state limit.
- RI: restricted to a maximum term of 1 year with a maximum penalty of 1% of the balance at the time of prepayment.

These requirements do not constitute legal advice and the Seller is responsible for compliance with all applicable federal and state laws, regulations and restrictions.

14.6 Financing Concessions (Seller Paid Closing Costs)

Financing concessions are considered to be funds originating from an interested party to pay closing costs on a purchase transaction.

Allowable financing concessions include any of the following:

- Permanently reduce the interest rate on the mortgage.
- Make contributions related to the mortgage financing charges which traditionally would be paid by the borrower, including but not limited to the payment of discount points, loan fees, commitment fees and/or origination fees, property taxes, and insurance escrows.

- Pay the cost of other items traditionally paid by the borrower such as application fees, appraisal fees, transfer taxes, tax stamps, attorney fees, surveys, non-recurring closing costs and title insurance.
- HOA Dues are not allowed to be included in an interested party contribution.
- Maximum third party concessions (as a percentage of the purchase price) are equal to 6% for LTV/CLTV <=80% and 3% for LTV/CLTV >80%.

The dollar amount of financing concessions in excess of the allowable percentage as indicated above is deducted from the purchase price prior to determining the adjusted LTV/CLTV/HCLTV.

14.7 Hazard Insurance

- 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 purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

14.8 Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. This is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing. The amount of flood insurance must be at least equal to the lesser of the loan amount or the maximum coverage available under the appropriate National Flood Insurance Administration program.

14.9 Escrows

Unless required by applicable state law, escrow waivers are permitted.

Flood insurance premiums are required to be escrowed on mortgages made, increased, extended or renewed after Jan. 1, 2016, for customers in special flood hazard areas, as designated on Federal Emergency Management Agency maps. Loans secured by properties that are covered by a blanket condo, HOA or similar group policy are not subject to escrow provided the policy meets the requirements under the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters) and Homeowner Flood Insurance Affordability Act of 2014 (HFIAA).

15.0 Title and Closing Documentation

15.1 Forms

- Fannie Mae documents can be utilized for closing. Fannie Mae does not offer current documentation (i.e. interest only products), a document vendor such as Doc Magic or Encompass should be utilized.
- Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument.

15.2 Title

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

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, and ARM loan types.
- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- The title insurance policy must ensure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- Any existing tax or mechanic’s liens must be paid in full through escrow.

APPENDIX A: Business Purpose &Occupancy Affidavit

LOAN #:________________________________(the "Loan")

BORROWER(S) NAME:____

PROPERTY ADDRESS: (the "Property"):____

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. I have applied for this Loan and am seeking financing for the Property, subject to the terms and conditions of certain documentation related to the Loan (the "Loan Documents"), for business purposes only. I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. The proceeds of the Loan will be used to purchase, improve, or maintain the Property. If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. I understand that Lender originating the Loan in reliance upon this Affidavit. If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or inconnection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an event of default under the terms of this Loan and the related Loan Documents, and may result in the immediate acceleration of my debtand the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. I understand that the agreements and covenants contained herein shall survive the closing of the Loan.
6. I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non- owner-occupied real property. I understand that this means that the Loan may not be subject to the requirements ofcertain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.
7. I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.

APPENDIX A:
BUSINESS PURPOSE & OCCUPANCY AFFIDAVIT (THE "AFFIDAVIT")

Initial(s):		Attestation and Acknowledgment: The Property is not and will not be occupied by me or any family member, or if Borrower is an entity, any member or owner of the Borrower entity.

BORROWER(S) / BORROWING ENTITY MEMBERS:

By:______________________________ By:______________________________

Name:______________________________ Name:______________________________

Title:______________________________ Title:______________________________

Date:______________________________ Date:______________________________

By:______________________________ By:______________________________

Name:______________________________ Name:______________________________

Title:______________________________ Title:______________________________

Date:______________________________ Date:______________________________

ACKNOWLEDGMENT

State of ______________________________

County of ______________________________

On ____________ before me, ______________________________ (insert name and title of the officer) personally appeared ______________________________ , who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of ________________ that the foregoing paragraph is true and correct.

WITNESS MY HAND AND OFFICIAL SEAL.

Signature ______________________________ (Seal)