Contents

GENERAL

These guidelines describe our underwriting requirements for one-to-four family conforming conventional mortgages and can be superseded by changes made by secondary market investors, Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and is not intended to replace Fannie Mae or Freddie Mac Guidelines. The guidelines are designed to establish and implement sound underwriting criteria, as well as to serve as a reference tool in tandem with the product descriptions.

Guideline references to Fannie Mae or Freddie Mac specific lending requirements must contain the corresponding AUS response. If following Fannie Mae guidelines, an acceptable DU response is required. If following Freddie Mac guidelines, an acceptable LPA response is required.

Prior to consummation, the underwriter must make a reasonable and good faith determination of the consumer's ability to repay the loan. This determination must be based on a consideration of the consumer's current or reasonably expected income, debt obligations, and assets (other than the value of the subject property) so that a monthly debt-to-income ratio or a monthly residual income amount, as appropriate, can be calculated.

When Flagstar is the creditor and/or completing the underwriting of the mortgage file, the underwriter must verify the consumer's current income, debt obligations, and assets using the more restrictive of the Flagstar Bank Conventional Underwriting Guidelines or as required by the applicable Automated Underwriting System. This verification must occur by utilizing third-party records that provide reasonably reliable evidence of the consumer's income, debt obligations and assets. All documentation submitted with the loan file is subject to review and may be considered during underwriting for qualification purposes regardless of the minimum documentation requirements addressed within these guidelines.

Recurring Obligations include, but not limited to the following:

- All installment loans
- Revolving charge accounts
- Real estate loans – *including the new loan* (PITIA)
- Alimony
- Child support
- Other continuing obligation

Flagstar Bank reserves the right to reject any loan regardless of the AUS response. When considering a loan for purchase, Flagstar Bank will evaluate all aspects of the loan file, including but not limited to, LTV/CLTV, ratios, program parameters, reserves, credit, property type and value. Although no one area of a particular loan may be weak enough to merit a denial, a compilation of several weak areas with no or limited strength to compensate can be sufficient to deny.

When Flagstar is not completing the underwriting of the mortgage file, refer to the Conventional Delegated Overlays for purchase limitations superseding Fannie Mae or Freddie Mac Selling Guides when Flagstar is not the creditor.

COMPLIANCE WITH LAWS/REGULATIONS

These guidelines are intended to be consistent with all applicable legal and regulatory requirements regarding their subject matter.

Flagstar Bank is committed to the fair and equal evaluation of credit applications. Discrimination based on the basis of the following factors is prohibited and will not be tolerated: race, color, religion, national origin, sex, marital status, family status, age (provided the applicant has the capacity to contract), disability status, sexual orientation, the fact that all or part of an applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act (including Truth-in-Lending, Equal Credit Opportunity, Fair Housing Act, Fair Credit Reporting, Fair Debt Collection Practices and Consumer Leasing Acts.)

LOAN INTEGRITY

It is the responsibility of Flagstar Bank to protect borrowers, our own company, investors, and insurers from becoming victim to mortgage fraud. Mortgage fraud is generally categorized as one of the following: fraud for housing, fraud for profit, or fraud for criminal enterprise. While the presence of one or more red flags in a file does not necessarily mean that there is fraudulent intent by parties involved in the transaction, red flags indicating a material misstatement, misrepresentation, or omission of information in relation to a mortgage loan, relied upon by Flagstar to meet the guidelines, must be addressed accordingly during the origination process.

PRODUCT DESCRIPTIONS AND RATE SHEETS

Access the *Product Guidelines* page and *Price Indicator Sheets* on tpo.flagstar.com for the most current product descriptions and rates.

LOAN REGISTRATION/LOCK

Refer to *Loan Registration and Locking a Loan*, Doc. #4101 for registration and lock procedures. The addition or deletion of a borrower, a program change or a loan parameter change (loan amount, LTV, etc.) does not require an existing non-closed loan to be re-registered.

PURCHASE COMMITMENTS

Commitments are non-transferable to any other purchaser, property, etc. Funds are reserved upon registration even if the rate and fees are not locked-in. Once the rate is locked-in, transfers are not acceptable. Any participant who knowingly does not perform or deliver a loan may be restricted from future business with Flagstar Bank.

SUBJECT ADDRESS CHANGE

If the subject property has changes, the existing loan must be withdrawn and a new loan and loan number created. New loan documents must be submitted to underwriting for consideration; documents from the withdrawn file cannot be moved to the new file.

LOAN DISCLOSURES/SUBMISSIONS

Refer to *Compliance*, Doc. #4801.

ADJUSTABLE RATE MORTGAGE (ARM) DISCLOSURE

Per Federal Regulation Z it is required that an ARM disclosure is provided at time of application, or if application is taken by telephone or through a broker, must be mailed or delivered within 3 business days following receipt of application. In order to comply with this regulation, Underwriting will condition for the ARM disclosure prior to closing.

ELECTRONIC SIGNED APPLICATION DISCLOSURES

Please refer to *Electronic Signature Policy*, Doc. #4816.

ADVERSE ACTION

Refer to *Compliance*, Doc. #4801 for information regarding adverse action letters.

A loan placed in a final HMDA status of Denied, Withdrawn or Cancelled may not reactivated. A new loan application must be submitted along with all the required documentation.

INELIGIBLE PARTICIPANTS

If any of the participants associated to the loan transaction are listed on Flagstar Bank's internal ineligible list, the loan may not be approvable

EXCEPTIONS

A loan file may be submitted to Flagstar Bank for an exception to the guidelines but not to exceed Fannie Mae or Freddie Mac Selling Guides. The exception can be reviewed only by a designated employee of the bank on a case by case basis depending on the overall loan file.

LOAN VERIFICATIONS

All Verifications of Deposit (VOD), Verbal Verifications for Employment (VVOE), Written Verifications of Employment (WVOE [form 1005]), and Verifications of Mortgage or Rent (VOM) must be sent directly by the lender and received back directly to the lender without being transmitted through the applicant or any other party. We do not allow verifications to be hand carried. Flagstar Bank reserves the right to verbally verify the information on a VVOE, WVOE, VOM or VOD with the borrower's employer/asset holder.

DAY 1 CERTAINTY AND AUTOMATED INCOME AND ASSET MODELER

- Loans using Fannie Mae Day 1 Certainty with DU or Freddie Mac Automated Income and Asset Modeler with LPA are acceptable.
- The Third-party vendor report(s) used in DU/LPA validation process must be provided.

LIENS

The mortgage must be a valid first lien on the mortgaged premises. The mortgaged premises must be free and clear of all liens and encumbrances and no rights may be outstanding that could give rise to such liens, except for liens for real estate taxes and special assessments not yet due and payable. Any additional liens to the aforementioned mortgage must be either paid off or subordinated with a recorded and approved subordination agreement.

ASSESSMENTS

A recorded subordination agreement is required if the assessment is a lien on the property.

TRANSFER FEE COVENANTS

Flagstar Bank will not purchase any loans where the property is encumbered by a Private Transfer Fee (PTF) if those covenants were created on or after February 8, 2011. If the purchase agreement or if Schedule B of the title commitment has a PTF, the loan must be denied if the PTF was created on or after February 8, 2011.

DOCUMENT EXPIRATION

The age of a document is measured from the date of the document to the date the note is signed, unless otherwise indicated.

- The maximum age of credit documents is 120 days for existing construction and 120 for new construction. Credit documents include credit reports and employment, income, and asset documentation.
- For appraisals, the maximum age is 120 days.
- For Fannie Mae on the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date. If the last paid to date is more than 45 days, it is required to obtain documentation (e.g., VOM, credit supplement, etc.).
- Generally, title commitments have a 90-day effective date, however a title commitment cannot exceed 120 days. If the title commitment exceeds 120 days, the title insurer is required to provide a gap letter (good for an additional 60 days) or an updated/new title commitment. Under no circumstances can a title commitment with a gap letter exceed 180 days.

ESCROW/IMPOUND FUNDS

Flagstar Bank requires monthly deposits of escrow funds to pay taxes, mortgage insurance premiums, hazard insurance premiums and assessments as they come due. We do not require escrow deposits for hazard insurance on condominiums that are covered by a blanket insurance policy.

ESCROW/IMPOUND WAIVER

Flagstar Bank will consider a request for a full escrow waiver or partial escrow waiver for hazard insurance only. Underwriting must approve the escrow waiver prior to closing. The application should meet the following requirements:

- LTV must be 80% or less (CA only permitted up to 90%, see limitations below);
- Allowable on owner occupied and second home properties with an *Accept* or *Approve* from LPA/DU and a minimum representative credit score of 620. No assets other than those required by LPA/DU need to be verified;
- Allowable on investment properties with an *Accept* or *Approve* from LPA/DU and a minimum representative credit score of 700. LPA/DU required assets, in addition to one-year of taxes, must be verified;
- A pricing adjustment will be charged for all approved full escrow waivers, see rate sheet and/or Flagstar pricing engine for applicable LLPA. A partial waiver for insurance only is not subject to a pricing adjustment.

ESCROW WAIVER LIMITATIONS

- For cash-out transactions, the new loan amount cannot include the financing of real estate taxes when the taxes are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation.
- The standard escrow provision must remain in the mortgage documents. Flagstar Bank may, at its discretion, enforce the requirement if the borrower fails to act responsibly.
- Due to state law, for California loans only, escrow waivers are permitted up to a 90% LTV; however, MI must be escrowed by Flagstar Bank. Under no circumstances, in any state, can MI escrows be waived when MI is required.
- Escrow waivers are not allowed on loans requiring Mortgage Insurance. Products utilizing Lender Paid Mortgage Insurance or the *NO MI* option are not eligible for escrow waivers.
- Any loan requiring flood insurance, must include flood insurance in the borrower's escrow account even if no other escrows are collected or escrows have been waived.

- It is the responsibility of the broker/correspondent to understand and be in compliance with individual state regulations regarding escrow waivers and fees.
- Transactions that are considered HPML per Compliance procedures, Doc #4801, are not eligible for an escrow waiver.

FLAGSTAR CONCENTRATION LIMIT OF MULTIPLE LOANS TO THE SAME BORROWER

Flagstar Bank will not approve or close more than 10 loans to any one borrower with an aggregate loan amount total of no more than $4,000,000. When determining if the limit has been met, new loan submissions for a borrower must take into consideration any of that borrower's outstanding loans with Flagstar Bank that are:

- Non-closed
- Closed and currently serviced by Flagstar Bank, or
- Closed but the servicing rights have been sold within the last 24 months.

If a borrower is applying for more than one loan through Flagstar Bank, all loans must be submitted to Underwriting at the same time and each loan must reference the other loan(s).

NUMBER OF FINANCED PROPERTIES

FANNIE MAE

If a new mortgage is secured by a second home or investment property, each borrower individually and all borrowers collectively may not own more than ten properties, including their principal residence, that are currently being financed. This limit applies to any combination of ownership in 1 to 4-unit properties in which the borrower is personally obligated on.

Refer to *Fannie Mae Multiple Property Program*, Doc. #5351 for all transaction in which the borrower owns 7-10 financed properties. Second Homes and Investment properties, as permitted under the Homestyle Renovation, Doc #5719 and One-Close Construction, Doc #5717, must also adhere to the financed property limitation of no more than ten properties.

FREDDIE MAC

If a new mortgage is secured by a second home or investment property, each borrower individually and all borrower collectively must not be obligated on (e.g., notes, land contracts and/or any other debt or obligation) more than ten 1 to 4-unit properties, including their principal residence, which are currently being financed. This limit applies to any combination of ownership in 1- to 4-unit properties.

- Borrowers who own more than one financed investment property, the new subject investment property mortgage must be a 15, 20, or 30-year fixed rate mortgage or a 7/1 or 10/1 ARM only.
- Ownership of a property that is held in the name of the borrower's business, and the borrower in their individual capacity, is obligated on (e.g., Notes, land contracts and/or any other debt or obligation), must be included in the total number of financed properties.

Refer to Freddie Mac *Multiple Property Program*, Doc. #5340 for all transactions in which the borrower owns 7-10 financed properties.

POWER OF ATTORNEY

A Power of Attorney (POA) is a legal document giving one-person (described as the agent or attorney-in-fact) power to legally bind the borrower enacting the POA to the mortgage transaction.

The below requirements may be disregarded only when documentation is provided that an applicable law requires Flagstar to accept the use of the POA without limitations.

Eligible Loan Purpose	Purchase and Rate-and-Term Refinance only. Cash-out transactions are not eligible. Note: POAs are not eligible on loans classified as TX 50(a)(6) liens (Overlay: Freddie Mac allows cash-out transactions with additional requirements not addressed within Flagstar guidelines, Flagstar does not allow)
Borrower Eligibility	Fannie Mae will allow a POA when property is held in the name of a Trust when one of the following is met: • The Trust agreement authorizes the trustee to use a POA to delegate powers to an agent/attorney in fact; or • The agent under the POA is the borrower creating the Trust.
Power of Attorney	• Must be specific to the transaction referencing the property address, unless the POA is a Military Durable POA. • Signatures on the POA must match signatures in the file to Flagstar Bank's satisfaction (may not be eSigned). • POA must be notarized. • The POA must executed by the borrower prior to its use by the agent. (Overlay: Freddie Mac does not require loan specific POA and allows for e-signed POA, Flagstar does not allow)
Eligible Circumstance (Freddie Mac)	For Freddie Mac transactions only, a POA is only allowable when the borrower's circumstances do not allow the borrower to be present at the closing due to a hardship, emergency or military deployment. A power of attorney may not be utilized for the convenience of the borrower. Verification must be provided indicating the circumstances to allow a POA.
Application	The application and Purchase Agreement (if applicable) must be signed by all parties of the loan. A POA may sign the initial application in one of the below circumstances: • Borrower is on military service servicing outside the U.S. or deployed on a U.S. vessel, as long as the POA expressly states the intent to secure a loan on the subject property • The agent is the spouse or domestic partner to the borrower • The agent is also a borrower on the transaction, signing in their ownership interest in the mortgaged property
Eligible Agent/ Attorney in Fact	• Family member of the borrower, or • Freddie Mac only, a person with a Fiduciary interest (i.e. person is on the loan or vested on title)
Ineligible Agent/ Attorney in Fact	Except as required by applicable law, the person acting as attorney-in-fact may not be employed by or affiliated with any party to the loan transaction other than the borrower. • Individuals employed by or affiliated the title insurance company • Any affiliate of the lender or loan originator • Any employee of the lender • Property Seller, or any person related to the seller • Real estate agent with an interest in the transaction (Overlay: Fannie Mae and Freddie Mac allow for an individual employed or engaged with the title agency to act as an agent with additional requirements to allow for Fannie Mae not addressed within Flagstar guidelines, Flagstar does not allow)

Title	The title policy must not make any exceptions to the use of a POA. See Settlement/Closing Requirements for signature requirements
Flagstar Secondary Financing	The use of a POA under a Flagstar concurrent secondary lien (e.g. HELOC) is eligible when approved under the concurrent first lien mortgage.

In all other instances, power of attorney for closing documents with a loan is prohibited unless there is an expressed written waiver executed by the Underwriting Manager.

SHORT SALE FEES PAID BY THE BORROWER

Borrowers may pay additional fees or payments in connection with acquiring a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party. Any fees that do not represent a common and customary charge must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. Examples of additional fees or payments include, but are not limited to the following:

- Short sale processing fees, also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees. This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction;
- Payment to a subordinate lien holder. This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction; and
- Payment of delinquent taxes or delinquent HOA fees.

The following documents will be required:

- Purchase agreement must disclose all fees and/or payment associated to the short sale that the borrower has agreed to pay
- Copy of the Short Sale Approval Letter
- Closing Disclosure must include all short sale fees and payments paid by the borrower.

ASSETS

Funds must be verified to substantiate that a borrower(s) has sufficient cash deposits and other assets available to complete the mortgage transaction, as well as adequate reserves after closing, when required by Fannie Mae or Freddie Mac.

ASSET DOCUMENTATION

- The number of consecutive months account statement(s) as determined by DU or LPA, unless otherwise noted in the guidelines.
- All statements must clearly identify the borrower as the account holder and include the account number, the time period covered by the statement, all deposits and withdrawal transactions (for a depository accounts) or all purchase and sale transactions (for a financial portfolio account) and the ending account balance.
- Monthly bank statements must be dated within 45 days of application.
- Quarterly statements must be dated with 90 days of application.
- Verifications of source of funds may be dated up to 120 days before the date of the note.
- Any indications of borrowed funds, such as a recently opened account, a recently received large deposit or an account balance that is considerably greater than the average balance over the

previous few months, will be investigated. See Borrowed Funds, Gifts and Large Deposit sections for additional requirements

BANK PRINTOUTS

A computer-generated transaction history, downloaded by the borrower from the Internet or by a financial institution representative from the institution's system is acceptable. The transaction history must include the below information:

- Identify the financial institution
  - Statements downloaded from the internet the presence of the URL identifying the financial institution or depository is acceptable.
  - Printouts obtained by a financial institution representative must identify the financial institution or depository
- Identify the account owner(s)
- Identify the account number, which at a minimum must include the last four digits
- Show all transactions
- Show the period covered
- Show the ending balance
- Show any outstanding loans secured by the asset

THIRD-PARTY ASSET REPORTS- FREDDIE MAC

For Freddie Mac (LPA) transactions, Flagstar will accept third-party documentation of assets from all third-party approved service providers designated by Freddie Mac, regardless if associated to LPA findings. The report must be accessed and provided to Flagstar by the Whole Broker/Correspondent as obtained directly from the provider's electronic database. A report that was produced from a manual process is not considered eligible.

The list of Freddie Mac designated third-party service providers can be found on Freddie Mac's Asset and Income Modeler page.

Asset Types for Use with Third-Party Services

- Checking accounts, Savings accounts and Money market accounts
- Borrower's business checking, savings and/or money market accounts (additional requirements when self-employed income from a business is used for qualifying still apply)
- The third-party asset documentation is not eligible if the following are being used for qualification:
  - Gift funds
  - Cash on hand (e.g. Home Possible)
  - Accounts that will be used by the borrower as income for assets a basis for repayment of obligations

TRUNCATED ASSET ACCOUNT NUMBERS

Truncated account numbers are masked numbers for the borrower's account and are acceptable for computer-generated forms, including online account or portfolio statements downloaded by the borrower from the Internet. A minimum of the last four digits of the borrower's asset account must be listed on the asset documentation.

VERIFICATION OF DEPOSIT FORM

The Request for Verification of Deposit (Form 1006 or 1006(S)] may be used to verify activity in the borrower's depository accounts when the borrower authorizes the lender to obtain, by signing the individual form(s) or a borrower's signature authorization form. The Verification of Deposit should not be handled by the borrower.

When a VOD is used for verification, the source of funds must be verified if:

- Accounts opened within the last 90 days of the application date, and/or
- Account balances that are considerably greater than the average balance reflected on the VOD.
    - Freddie Mac (LPA)- a considerable increase is defined as the current balance exceeding the average balance by more than 50% of the qualifying income on purchase transactions. Refer to Large Deposits section to documentation requirements.

LIMITED FUNDS TO CLOSE

Documentation of assets on Refinance transactions is not required under the following circumstances:

- Fannie Mae- the total funds required by DU do not exceed $500
- Freddie Mac- the required funds to close from the borrower do not exceed $500 and no reserves are required per the LPA response

ASSET TYPES

Assets types may be used for down payment, closing costs, and/or financial reserves unless otherwise indicated.

BUSINESS ASSETS

The borrower must be listed as an owner of the account and the account must be verified with a verification of deposit or bank statements.

- When income from the business is used for qualification, the factors contributing to the determination that the withdrawal will not negatively impact the business must be included on the underwriter's written analysis of the income source and amount
    - In addition to a review and analysis of the personal and business tax returns, the underwriter may review and analyze either the current financial statement (e.g. P&L or balance sheet) and/or the last three months of the business bank statements to confirm the deposits, withdrawals and balances are supportive of a viable business and are aligned with the level and type of income and expenses reported on the business tax returns.
- Fannie Mae- Large deposits are not required to be evaluated when using business assets to qualify
- Freddie Mac- Documentation of large deposits into business account is not required provided that the following:
    - Review a minimum of the most recent two months of the business account statements, and
    - Determines the deposits are typical for the borrower's business

CASH-ON-HAND

Generally, cash-on-hand is not an acceptable source of funds. See Fannie Mae HomeReady Doc #5318, Fannie Mae HomeReady-Homestyle Doc #5726, and Freddie Mac Home Possible Doc #5335, products for limitations for use of cash-on-hand.

DEPOSITORY ACCOUNTS

Checking, savings, money market, certificate of deposit are acceptable depository account types.

FOREIGN ASSETS

When the source of funds originates from assets located outside of the U.S. and its territories, those assets require the following:

- Documented evidence of the foreign assets exchanged into U.S. dollars and held in a U.S. or state regulated financial institution, and verification of the funds in U.S. dollars prior to the loan closing for all borrowers, regardless of residency status.
    - Freddie Mac only- the assets may remain in foreign based institution(s) as long as the combined value of said assets is at least 20% greater than the assets needed for closing.
- Asset statements of foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.

INDIVIDUAL DEVELOPMENT ACCOUNTS (IDA)

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home, referred to as individual development accounts, or IDAs. Funds that the borrower deposited into an individual development account may be used for either the down payment or closing costs. In some cases, "matching" funds deposited by a nonprofit agency may also be used for some or all of the borrower's down payment and closing costs (including prepaid items):

- If the nonprofit agency requires repayment of the "matching" funds, defers (or forgives) the repayment or files a lien against the property, the borrower may use the matching funds to supplement the down payment provided they have met the minimum borrower contribution requirements.
    - The minimum contributions must come from the borrower’s own funds unless:
        - The LTV/CLTV is less than or equal to 80%; or
        - The borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower’s minimum contributions.
- If the nonprofit agency does not require repayment of the "matching" funds (and does not file a lien against the property), the ratio of the agency's "matching" funds to the borrower's deposits may be 4:1 or less. The borrower may use the "matching" funds to make a cash payment for some or all of the down payment. (The funds may also be used to pay closing costs, including prepaid items.)

Documentation requirements:

- Agency may not be affiliated with seller or any party that participates in the mortgage origination process

- Describes the nonprofit agency's individual development account program to verify the rate at which the agency "matches" the borrower's deposits into the account
- Determines that the borrower has satisfied any vesting requirements of the program; and
- Show that the borrower has made regular payments into the account and that the agency made regular deposits of the matching funds into the account
- Determine the Vested balance or percentage of vesting

LIFE INSURANCE NET CASH VALUE

The net proceeds from a loan against the cash value, or from the surrender, of a life insurance policy may be used with the following requirements:

- Verify terms of the loan against the cash value of the policy or net surrender value;
- If funds are required for closing, liquidation is required and documented with a copy of the check or payout statement issued by the insurer;
- Payments on a loan do not have to be considered as long-term debt when qualifying the borrower if any penalty for failure to repay the loan is limited to the surrender of the policy. However, any additional obligation must be factored into the total debt-to-income ratio or subtracted from the borrower's financial reserves.

POOLED SAVINGS (COMMUNITY SAVINGS FUNDS)

Funds from a community savings account, or any other type of pooled savings, may be used for the down payment. Pooled savings arrangements give individuals who customarily use cash for their expenses, and do not keep their savings in depository institutions, a disciplined way of accumulating funds. In order to use funds of this nature the following requirements must be met:

- Confirmation from the party managing the pooled savings fund of the borrower's interest and available funds;
- Documentation to evidence borrower's regular participation in contributing to the savings fund;
- The borrower's obligation to continue making on-going contributions under the pooled savings arrangement should be considered as part of their total debt when calculating the debt-to-income ratio.

RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/Koegh accounts) and tax favored retirement savings accounts (401k accounts) may be used.

- Refer to DU or LPA response for requirements.
- If a retirement account is used for qualification purposes, the terms and conditions must be documented to verify the borrower's ability to withdraw.

STOCKS, BONDS AND MUTUAL FUNDS

The net value of stocks, bonds and mutual funds may be used with the following restrictions:

- Refer to DU or LPA response for requirements.
- Non-vested restricted stock and non-vested stock options are not acceptable source of funds.
- Vested Stock Options are eligible source of borrower funds and reserves, and must be documented with the following:

- Account statements covering a two-month period or direct account verification (i.e., VOD) confirming the number of vested shares and current value
- If the borrower does not receive a stock/security account statement for the stock options, the originator must:
  - Provide a statement verifying the number of vested shares owned by the borrower.
  - Provide the current stock price from a published source to determine the value.

TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source if the borrower has immediate access to them with the following requirements:

- The trust manager or trustee must verify the value of the trust account;
- Confirm the conditions under which the borrower has access to the funds;
- Confirm the effect, if any is that the withdrawal of funds from the account will have on any trust income that is used in qualifying the borrower for the mortgage must also be documented.

<u>BORROWED FUNDS</u>

BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset represent a return of equity and therefore may be used. Assets that may be used to secure funds include automobiles, artwork, collectibles, financial assets (such as savings accounts, certificates of deposit, stocks, bonds and 401k accounts) or real estate with the following requirements:

- Documentation supporting the ownership and value of the asset and which supports that the loan is secured by that asset
- Fannie Mae only- The terms of the secured loan must be documented
- Verify that the party providing the secured loan is not a party to the sale or financing of the property
- Confirm the loan proceeds have been transferred to the borrower.
  - Anticipated proceeds (e.g. cash-out refinance of a property, subject or non-subject) is not considered an eligible source of funds for reserves
- Consider monthly payments for the secured loan as debt when qualifying the borrower. If the loan does not require a payment an equivalent payment should be calculated and considered as debt. However, when the loan is secured by the borrower's financial assets, (i.e. 401k) monthly payments for the loan do not have to be considered as long-term debt when qualifying the borrower
- If the same financial asset is also used as part of the borrower's financial reserves, the adequacy of the borrower's reserves must take into consideration the fact that the value of the asset has been reduced by the proceeds from the secured loan (and any related fees).

Additional HELOC Requirements- Freddie Mac

When funds from a HELOC are being used for eligible assets in the transaction, the following must be provided:

- evidence the HELOC is secured by the borrower’s real property; and
- evidence of receipt of the distributed HELOC proceeds.

- See Home Equity Line of Credit in Liabilities for qualification requirements

BRIDGE OR SWING LOANS

A short-term loan secured by the borrower's current home that allows the proceeds to be used for closing on a new house before the present home is sold may be used with the following requirements:

- May not be cross-collateralized against the new property;
- There is no specified limitation on the term of the bridge loans;
- See monthly debt obligation section on Bridge loans for qualification requirements.

Documentation Requirements

- Provide bridge loan documents to verify collateral and terms;
- Provide settlement statement or Closing Disclosure to verify net proceeds or document proceeds have been deposited into borrower's account.

CREDIT CARD FINANCING

Cost paid early in the application process (e.g., lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees) may be charged to the borrower's credit card because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card changes before closing. Under no circumstances may credit card financing be used for the down payment.

Credit card financing for the payment of common and customary fees paid outside of closing is allowable up to a maximum of 2% of the loan amount when:

- The borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that they will be paying), or
- The credit card payment is updated to account for the new charges in the qualifying ratio calculation.

Freddie Mac

Under an employee relocation program, which specifically states the employer will reimburse the borrower for balance of fees (e.g. appraisal, credit report, origination fees) charged or paid by the borrower in conjunction with the purchase regardless for the amount, the payment is not required to be updated for the qualifying ratio nor additional assets verified.

DISASTER RELIEF GRANT OR LOAN

State and federal agencies, including the Federal Emergency Management Agency, may use grants or loans to provide immediate housing assistance for individuals who are displaced because they have uninsured property losses resulting from a widespread natural disaster that affected their locality. Disaster relief loans, which are generally administered by the Small Business Administration (SBA), are low-interest-rate loans that may be either secured or unsecured.

Borrower may use lump-sum disaster relief grants or loans to satisfy minimum contribution requirements, no borrower contribution is required.

Documentation Requirements

- Document terms of grant or loan

- Provide verification of borrower's receipt of funds from the grant or loan

EMPLOYER ASSISTANCE

Mortgage secured by a principal residence may use funds provided by an employer, for all or part of the down payment or closing costs:

- Loan is subject to the *Minimum Borrower Contribution Requirements*.
- May also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs).
- Employer assistance funds are not allowed on a second home or an investment property.
- Funds must come directly from the employer, including through an employer-affiliated credit union.
- When employer assistance is extended as a secured second mortgage, the transaction may be structured as an eligible *Community Seconds*, Doc #5932, or it must satisfy Fannie Mae's eligibility criteria for mortgages that are subject to *Subordinate Financing*.
- If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.
- If the secured second mortgage or unsecured loan does not require regular payments, there is no need to calculate an equivalent payment for consideration as part of the borrower's monthly debt.

Documentation Requirements

- That the program is an established company program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer's assistance.
- An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

Employer Assistance- Freddie Mac

Employer Assisted Homeownership (EAH) must also meet the following requirements for Freddie Mac in conjunction with those listed above:

- For funds provided in the form of gift, grants, or affordable seconds the Agency providing the assistance may not be affiliated with the seller or mortgage origination process
- Unsecured loans may be fully repayable, deferred payment or forgivable with the following requirements:
    - Funds from an unsecured loan may only be used to fund all or part of the down payment or closing costs.
    - The terms may not require repayment in full unless:
        - The borrower terminates their employment for any reason, or
        - The employer terminates the borrower for any reason other than long-term disability, elimination of position, or reduction-in-force.

   - If the monthly payment begins on or after the 61st monthly payment under the first mortgage or if repayment is due only on sale or default, the monthly payment may be excluded for the debt-to-income ratio.
     - If part of an employee relocation program, the payment is excluded if the monthly payment begins on or after the 24th monthly payment under the first mortgage
- Secured secondary financing must meet requirements of Subordinate Financing and;
   - The terms may not require repayment in full unless:
     - The borrower terminates their employment for any reason, or
     - The employer terminates the borrower for any reason other than long-term disability, elimination of position, or reduction-in-force.
   - If the monthly payment begins on or after the 61st monthly payment under the first mortgage or if repayment is due only on sale or default, the monthly payment may be excluded for the debt-to-income ratio.
     - If part of an employee relocation program, the payment is excluded if the monthly payment begins on or after the 24th monthly payment under the first mortgage.

PERSONAL UNSECURED LOANS

Generally, personal unsecured loans are not an acceptable source of funds for the down payment, closing costs or reserves. Examples of unsecured borrowed funds include signature loans, lines of credit on credit cards and overdraft protection on checking accounts.

In additions, repayment of a personal loan to the borrower is not normally an acceptable source of funds for any part of the transaction.

SMALL BUSINESS ADMINISTRATION (SBA) LOANS AND GRANTS UNDER COVID-19

Any documented proceeds from a Small Business Administration PPP loan or any other similar COVID related loan or grant to a business:

- May not be considered business assets for assessing the business stability.
- Funds may not be used as eligible funds for the down payment, closing costs and reserves.
- Unless a personal obligation for repayment is discovered, the borrower is not obligated to qualify with the business loan at this time.

CONTRIBUTIONS BY INTERESTED PARTIES

Some closing costs and prepaid settlement costs generally are paid by the property purchaser, while other costs are the responsibility of the property seller. When any costs that are normally paid by the property purchaser are paid (indirectly or directly) by someone else, they are considered to be contributions. All contributions may be paid by any interested party to the property sale transaction, although limitations will be imposed on the amount of the contributions.

CORPORATE RELOCATIONS

Borrower's employer is allowed to make a contribution for closing costs and prepaids only subject to the limitations in the *Maximum Contributions* section, Contributions from an employer cannot fund any part of a down payment.

Freddie Mac

See *Credit Card Financing* for additional flexibilities when an employee relocation program reimburses the borrower for loan costs paid through a credit card or line of credit.

DOWN PAYMENT ASSISTANCE PROGRAMS

Funds from a seller-funded down-payment programs may only be applied to eligible closing costs and prepaids, subject to IPC limits. Funds from these programs are otherwise prohibited from use toward down-payment.

INTERESTED PARTY CONTRIBUTIONS

Interested Party Contributions (IPC) are either a financing concession or a sales concession. A financing concession is a financial contribution from an interested party and provides a benefit to the borrowers in the financing transaction.

- *Financing concessions* that are paid on the borrower's behalf are subject to our IPC limits. Fees and/or closing costs that are typically paid by a seller in accordance with local custom (known as common and customary fees or costs) are not subject to these limits.
- Financing concessions in excess of *Maximum Contributions* requirements are considered sales concessions. Sales concessions may also include contributions provided by an interested party that benefit the borrower but are not integral to the financing transaction.
    - All sales concessions must be deducted from the sales price when calculating loan-to-value (LTV) and combined loan-to-value (CLTV) ratios for underwriting and eligibility purposes.

A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.

Fannie Mae Lender Contributions

Lender (the entity that closes the loan) Contributions

- Lender-sourced contributions to fund closing costs and prepaid fees that are normally the responsibility of the borrower are permitted provided the lender-sourced contribution is not:
    - used to fund any portion of the down payment
    - subject to repayment requirements, or require financial obligation apart from the subject mortgage
    - passed to the lender from a third party

FINANCING CONCESSIONS

IPCs that are payments or credits related to acquiring the property or paying for financing terms, including prepaids, are considered financing concessions.

Financing concessions include, but are not limited to: origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorney fees, survey charges, title premium or charges, real estate tax service fees, and funds to subsidize an interest rate buydown.

Financing concessions may also include prepaid items such as: interest charges (limited to no more than 30 days of interest), real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment), hazard insurance premiums (limited to no more than 14 months), initial and/or renewal mortgage insurance premiums and any escrow accruals required for renewal of borrower-purchased mortgage insurance coverage, and HOA fees for up to 12 months.

Pro-Rated Real Estate Tax Credits

In places where real estate taxes are paid in arrears a legitimate pro-rated real estate tax credit is not considered a financing concession and is not subject to IPC limits. In addition, a pro-rated real estate tax credit cannot be considered when determining if the borrower has sufficient funds for the mortgage transaction (i.e. down payment, closing costs and reserves must come from eligible sources).

Freddie Mac Real Estate Owned

Financing concessions paid by Freddie Mac, as the property seller, for transactions involving the sale of Freddie Mac REO properties are not subject to the maximum financing contribution limits. In all cases, requirements for acceptable use of financing concessions continue to apply (i.e., the concessions must not exceed the Borrower's actual Closing Costs).

Fannie Mae HomePath Purchases

When a borrower purchases a Fannie Mae HomePath property a $500 credit will be applied to the transaction when the requirements are met:

- The loan must be a purchase transaction for a principal residence underwritten with DU.
- Must obtain an appraisal for the transaction
- Seller of the property is Fannie Mae and validated as Homepath property (even though DU may identify the property as a HomePath property, verification must be completed).
- Special Feature Code (SFC 871) must be applied to the loan.

MAXIMUM CONTRIBUTIONS

For underwriting purposes, a downward adjustment must be made to the sales price of the property to reflect the amount of any contributions that exceed our limitations.

The maximum allowable contributions that interested parties may make for a conventional mortgage			
Occupancy	**LTV/HCLTV > 90%**	**LTV/HCLTV >75% and ≤ 90%**	**LTV/HCLTV ≤ 75%**
Primary Residence and Second Home	3%	6%	9%
Investment Property	2%		

PAYMENT ABATEMENTS

Payment abatement is an incentive provided to the borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower's behalf (e.g. principal, interest, taxes, insurance and/or other assessments). These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credited against the borrower's future obligations.

Payment abatements of any type are not eligible regardless of whether they are disclosed the Closing Disclosure. This prohibition applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity such, as a non-profit down payment assistance program.

The payment of HOA fees is not considered abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

PERSONAL PROPERTY

Personal property that is permanently affixed or difficult to remove should be considered as part of the sales price, may remain on the sales contract, and do not require the underwriter to establish a value. Examples include but are not limited to:

- Built-in appliances such as stoves, refrigerators and dishwashers
- Swing sets
- Above-ground pools
- Window treatment
- Pool tables
- Wet Bar

Personal property items, that are not permanently affixed or difficult to remove, must have an established value not to exceed an aggregate value of $500. Tools such as EBAY, Craig's List and Google can be used to establish a value and documentation retained in file.

Personal Property Requirement Based on Total Aggregate Value	
Total Aggregate Value	**Requirement**
Equal to or less than $500	An addendum to purchase contract indicating no value to the personal property
Over $500	Total Value impact to the LTV must be considered, ensure the following scenarios are taken into account: • If the deduction in sales price puts the LTV greater than 80%, the borrower must come in with the cash to close to maintain a LTV of 80% or less; • LTV must meet product requirements

REALTOR COMMISSION

When the borrower is a realtor and representing themselves during the purchase process, the commission earned can be used toward funds to close, with the following requirements:

- The borrower must be a licensed real estate agent
- The Closing Disclosure must reflect the commission earned by the borrower and
- The earned commission must be credit toward the mortgage loan.

SALES CONCESSIONS

IPCs that take the form of non-realty items such as cash, fully furnished home, automobiles, decorator allowances, moving costs or other "giveaways" are considered sales concessions. The value of sales concessions must be deducted from the sales price when calculating the LTV and CLTV ratios for underwriting and eligibility purposes.

UNDISCLOSED SELLER CONTRIBUTIONS

Seller contributions, such as moving expenses, payment of various fees on the borrower's behalf, silent second mortgages held by the property seller, principal and interest (P&I) abatements and other contributions not disclosed on the Closing Disclosure are often given to home buyers outside of loan closing. These undisclosed contributions tend to reduce the effective sales price of a property; therefore, they may compromise the LTV ratio for a mortgage. Consequently, a mortgage with undisclosed seller contributions is not eligible for delivery.

Funds contributed by the lender from premium pricing are not considered to be contributions and may be used toward closing costs only.

CREDITS

CREDIT FOR VALUE OF LOT

When the borrower holds title to the lot on which a property is being constructed, under a purchase transaction (e.g. there is no interim construction financing or contractor liens), the value of the lot may be credited toward the down payment for the mortgage. The borrower's equity contribution will be the difference between any outstanding liens against the lot and the recognized value of the lot. The recognized value of the lot is determined based on when the borrower acquired the lot:

- If the borrower acquired the lot more than 12 months before the date of the mortgage application—or if the borrower acquired the lot at any time as a gift or inheritance—the value of the lot will be its current appraised value.
- If the borrower acquired the lot 12 or fewer months before the date of the mortgage application, the value of the lot will be the lesser of its sales price or its current appraised value.
    - Document cash investment with copy of Closing Disclosure, warranty deed with no outstanding liens or copy of release of any prior liens.

RENT CREDIT FOR OPTIONS TO PURCHASE

The property seller may give the purchaser credit toward the down payment for a portion of previous rent payments made. Rent credit may be used toward a borrower's minimum contribution requirement, if applicable. The following requirements must be met:

- Copy of rental purchase agreement must show an original term of at least 12 months
- Acceptable verification of rental payments paid by the borrower for a minimum of 12 months
- Appraiser determination of the market rent for the subject. Credit is calculated by the difference between the market rent and the actual rent paid for the last 12 months

EARNEST MONEY DEPOSIT (EMD)

The deposit on a sales contract is an acceptable source of funds for both the down payment and the closing costs. To apply an EMD the following requirements must be met:

- If the deposit is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source:
    - A copy of the cancelled check, and
    - Required months of bank statements showing the check has cleared the account or VOD covering up to and including the date the check cleared.
- If the EMD is not required to meet a minimum contribution requirement, and the borrower has sufficient funds for closing and reserves, a cancelled check is not required.
    - Document the funds have changed hands (e.g. copy of check or letter from agent holding funds), and

- The deposit must be backed out of the balance of borrower's acceptably documented assets. Projected funds (e.g. anticipated net proceeds from sale of home) are not considered an eligible source of funds.

- Freddie Mac (LPA)- See Gift section for requirement when EMD is paid via a gift from an eligible donor.

GIFTS

Gift Funds	
Eligibility	**Requirements**
Occupancy	Principal Residence and Second Homes only
Gift Tolerance	Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to Minimum Borrower Contribution requirements being met

Acceptable Donors	• Relative defined as borrower's spouse, child or dependent, or another individual who is related to the borrower by blood, marriage, adoption, or legal guardianship
	• Fiancé(e) or Domestic Partner (related individual who shares and intends to continue sharing a committed relationship with a borrower who signs the Note)
	• Fannie Mae - One of the following non-related persons only:
	  ○ Relative of a domestic partner,
	  ○ Former relative, or
	  ○ Godparent
	• Freddie Mac- Additional acceptable donors include the following:
	  ○ An unrelated individual with close family-like ties to the borrower are additionally considered a related person
	  ○ An Estate or Trust established by a related person.

Donors with Interest in Transaction	When an otherwise acceptable donor has an affiliation with transaction as the builder, the developer, the real estate agent, or any other interested party: • Fannie Mae- gift funds are not eligible when the donor is an interested party • Freddie Mac- gift funds are eligible however IPC limits must be met Note: does not apply to gift of equity from seller(s)

Gift Letter	Gift letter signed by the donor must include:
	• Specify the dollar amount of the gift;
	  ○ letter may state the maximum potential amount of the gift (actual amount of gift funds received must still be documented and validated on the DU/LPA response)
	• Include the donor's statement that no repayment is expected; and
	• Indicate the donor's name, address, telephone number, and relationship to the borrower
	  ○ Freddie Mac- For Estates and Trusts, the gift letter must be signed by the trustee or authorized representative of the estate established by the related person including their mailing address and phone number.

Gift of Equity	A portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction. • Signed gift letter • The Closing Disclosure listing the gift of equity • An appraisal is required, value acceptance (appraisal waiver) is not eligible • May not be used toward financial reserves

Gift Funds	
Eligibility	**Requirements**
Donations from Entities	Owner-Occupied transactions only. Acceptable entities include churches, municipalities, nonprofit organizations, excluding credit unions, and public agencies. Refer to *Guidelines for Down Payment Assistance Programs*, Doc. #5936, *Community Seconds Program*, Doc. #5932, and *Gift/Grant Programs*, Doc. #5935.
Transfer of Gift Funds Prior to Close	Documentation must be provided to show transfer of gift funds from the donor's financial institution to the borrower's account or directly to the escrow or title agent with one of the following: • Copy of donor's check and the borrower's deposit slip • Copy of donor's withdrawal slip and the borrower's deposit slip. • Wire transfer to borrower with customer information matching donor information. • Certified check to borrower with letter from bank that issued check stating the funds came from the donor's account. • Evidence of electronic transfer of funds from the donor's account to the borrower's account or to the closing agent, ○ Freddie Mac- A third-party money transfer application or service (e.g. Zelle) is acceptable when evidence is provided that the funds were transferred using the application or service directly from the donor's bank account to the borrower's account or to the settlement agent • For an earnest money deposit paid by the donor directly to the builder or real estate agent, transfer of funds from the donor's account in a financial institution to the earnest money deposit holder. For example, a copy of a canceled gift check, a copy of a cashier's check or wire transfer confirmation • Fannie Mae- Verify sufficient funds to cover gift in the donor's account (e.g. checking/saving account owned by the donor)
Gift Funds Transferred Directly to the Settlement Agent	• Gift letter must be provided prior to close • Copy of an electronic transfer certified check, official check, or wire transfer with letter from settlement agent confirming receipt of funds from donor must be completed at closing. Information from agent must match gift letter. • Closing Disclosure to reflect gift funds with matching donor name
Gift Funds Transferred Directly to the Builder or Real Estate Agent as an EMD	Freddie Mac- Donor may provide the EMD directly to the builder or real estate agent. Evidence of transfer of funds from the donor's account to the deposit holder must be verified. Note: For any Mortgage where the source of the Borrower's EMD is gift funds, the EMD amount must show gift funds in LPA, and not as EMD.
Pooled Funds	When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment on a new primary residence (see Exceptions under Minimum Borrower Contribution**)** the following items must also be included: • A certification from the donor stating that they have lived with the borrower for the past 12 months and will continue to do so in the new residence; and • Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill or a bank statement.

<table>
<tr><th>Eligibility</th><th colspan="2">Gifts Received from Wedding or Graduation- Freddie Mac/LPA</th></tr>
<tr><td>Occupancy</td><td colspan="2">Principal Residence only</td></tr>
<tr><td>Eligible Donors</td><td colspan="2">Gifts from unrelated persons and/or Related Persons are eligible</td></tr>
<tr><td>Receipt of Funds</td><td colspan="2">The gift funds must be on deposit in the Borrower’s depository account within 90 days of the date of either the date of the marriage license/certificate or date of graduation</td></tr>
<tr><td rowspan="2">Supporting Documentation</td><td>Wedding</td><td>A copy of the marriage license/certificate</td></tr>
<tr><td>Graduation</td><td>Evidence of graduation from an educational institution (e.g., diploma or transcripts) that supports the date of graduation</td></tr>
</table>

PROCEEDS FROM SALE OF ASSET OR PROPERTY

ANTICIPATED OR ACTUAL NET PROCEEDS FROM SALE OF PROPERTY

If the borrower's currently owned home is listed for sale, but has not been sold, we may qualify the borrower on the basis of their anticipated sales proceeds based on the following formulas.

<table>
<tr><th>Sales Price has been established</th><th>Calculation of Net Proceeds</th></tr>
<tr><td>Yes</td><td>Sales Price – (Sales Costs + All Liens) = Estimated Proceeds</td></tr>
<tr><td>No</td><td>90% of Listing Price – All Liens = Estimated Proceeds</td></tr>
<tr><td colspan="2">The fully executed settlement statement on the existing home, before or simultaneously with the settlement on the new home, must be provided to show sufficient net cash proceeds to consummate the purchase of the subject.</td></tr>
</table>

CREDIT CARD REWARDS

Credit card reward points as acceptable funds for use towards closing costs, down payment and financial reserves, provided the reward points are converted to cash prior to the closing of the loan. The following requirements apply:

- If the credit card reward points are converted to cash and deposited into the borrower’s depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit. See Large Deposits section, when applicable.
- If the credit card reward points are converted to cash, but not deposited into a borrower’s depository account, provide evidence the reward points were available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and converted to cash prior to the closing of the loan. Asset type must be indicated as “Other”.

EMPLOYEE RELOCATION BUY-OUT

In connection with a corporate relocation plan, a copy of the executed buy-out agreement may be used to document the source of funds when the employer assumes responsibility for paying off the existing mortgage. A photocopy of a sales contract or a listing agreement may not be used as verification of the actual proceeds from the sale.

SALE OF PERSONAL ASSETS

Proceeds received from a sale of personal assets are an acceptable source of funds for the down payment, closing costs and financial reserves as long as the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. When the borrower relies on the sale of personal assets as a source of funds, documentation must be obtained to evidence of the following:

- The ownership of any asset, if the type of asset is required to be titled (e.g. automobile title)
- The value of the asset as determined by an independent and reputable source, when the proceeds represent more than 50% of the income used for qualification
    - Fannie Mae- the lesser of the estimated value or actual sales price must be used when determining the amount of funds eligible for use in the transaction
- The transfer of ownership of the asset with its sale, such as a bill of sale
- The receipt of the proceeds of the sale, such as a deposit slip, bank statement, or copy of the purchaser’s check.

Cryptocurrency

Proceeds from virtual currency, such as Bitcoin or other digital currency exchange, must be converted to U.S. currency and deposited into an eligible asset account. Documentation must show the funds coming from a digital currency account that was owned by the borrower. Cryptocurrency must be sold and loans against digital currency are not considered eligible.

SECTION 1031 TAX DEFERRED EXCHANGES

A 1031 exchange involves the selling of one real property, giving the proceeds of the sale to an exchange company and eventually taking back those funds for the purpose of purchasing another real property.

- Eligible Property Types - A 1031 exchange is only allowed on properties other than primary residences. Primary residences are not eligible. The home being sold cannot be a primary residence, nor the newly purchased property. The exchange company will typically not enter into the transaction unless they are certain that the property type is eligible.
- Benefit - The benefit is not having to pay capital gains tax on the proceeds of the sale of the first property sale.
- Exchange Companies - The following entities are not permitted to act as the exchange company; relatives and controlled business entities or the applicant’s realtor, CPA, or attorney.
- Proceeds - All proceeds from the first property sales do not need to be reinvested. Escrow may be instructed to disburse a portion of the funds to the applicant and the balance to the new title company as cash to close on the new purchase. Disbursement to the applicant at the close of the sale or unused funds at the close of the exchange will not disqualify the exchange. However, any cash received by the applicant can be recognized by the IRS as a gain and taxed accordingly.
- Required Documentation - A copy of the exchange documents, showing the borrower(s) as the owner of the funds and showing adequate funds in the exchange escrow required to close.

TRADE EQUITY

The property seller may take the borrower's existing property or an asset other than real estate in trade as part of the down payment. For Fannie Mae, the borrower must meet minimum contribution requirements from own funds prior to use of trade equity.

Documentation Requirements

- Copy of trade-in contract, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract;
- A current full appraisal to determine value;
- For real property:
    - A copy of land records to verify the ownership and existing liens.
    - The property seller must provide proof of title transfer and satisfaction of any existing liens
    - Transfer deed must be recorded

Calculation of Equity

- Subtract the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade in value agreed to by both parties.
- *For manufactured homes, refer to Manufactured Home section for trade equity requirements.*

MINIMUM BORROWER CONTRIBUTION REQUIREMENTS

Mortgage insurance companies may have additional restrictions not listed within this document. Refer to each mortgage insurance company's website for complete eligibility details.

When a mortgage has an LTV ratio of 80% or lower, or combined loan-to-value (CLTV) ratio for mortgages that have subordinate financing, gift funds from an acceptable donor may be used to make the entire down payment.

<table>
<tr><th colspan="5">Minimum Contribution Requirement from Borrower's Own Funds</th></tr>
<tr><th>Occupancy</th><th colspan="2">LTV, CLTV, or HCLTV</th><th>Fannie Mae</th><th>Freddie Mac</th></tr>
<tr><td rowspan="3">Primary Residence</td><td colspan="2">≤ 80%</td><td colspan="2">Minimum borrower contribution from the borrower's own funds is not required.</td></tr>
<tr><td rowspan="2">> 80%</td><td>1-unit</td><td colspan="2">Minimum borrower contribution from the borrower's own funds is not required.</td></tr>
<tr><td>2 to 4-unit</td><td>The borrower must make a 5% minimum borrower contribution from their own funds before gift funds may be used.</td><td>Minimum borrower contribution from the borrower's own funds is not required.</td></tr>
<tr><td rowspan="2">Second Home</td><td colspan="2">≤ 80%</td><td colspan="2">Minimum borrower contribution from the borrower's own funds is not required.</td></tr>
<tr><td colspan="2">> 80%</td><td colspan="2">The borrower must make a 5% minimum borrower contribution from their own funds before gift funds may be used.</td></tr>
<tr><td rowspan="2">Investment Property</td><td colspan="2">≤ 80%</td><td colspan="2" rowspan="2">All funds used for the transaction must be the borrower's own funds. Gift funds are not allowable</td></tr>
<tr><td colspan="2">> 80%</td></tr>
</table>

Refer to Fannie Mae HomeReady, Doc #5318, Fannie Mae HomeReady-Homestyle, #5726, and Freddie Mac Home Possible, Doc #5335, for product specific requirements.

EXCEPTIONS TO BORROWER MINIMUM CONTRIBUTIONS

Borrowers may use gift funds for some or all of the minimum contribution in the following situations:

- Borrowers may pool their funds with gift funds received from one of the following sources:
  - A relative or domestic partner who has lived with the borrower for the last 12 months
  - A fiancé or fiancée, as long as both individuals will use the home being purchased as their principal residence.

LARGE DEPOSITS

Large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan.

All large deposits, regardless of transaction type, should be reviewed for indications of recently opened liabilities resulting from borrowed funds or any indication that the funds used to cover the down payment, closing costs, or reserves generated from an unacceptable source.

If the source of a large deposit is readily identifiable on the account statement(s), such as a direct payroll deposit, the Social Security Administration, tax refund, or a transfer of funds between verified accounts, no further action is required.

Large Deposit Documentation Requirements for Down Payment, Closing Costs and/or Reserves	
Transaction Type	**Documentation Requirement**
Refinance	Though documentation and explanation are not necessarily required to use funds, the underwriter is still responsible to ensure an unverified large deposit was not a result of borrowed funds.
Purchase	If borrower does not have all documentation required to confirm the source of a deposit, a reasonable judgement may be made based on the available documentation as well as the borrower's debt-to-income ratio, income and overall credit profile. Written justification must be in file with rationale for using funds. Examples of large deposits may include a written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift. See Sale of Personal Assets section for additional requirements. Verified funds must be reduced by the amount (or portion) of the undocumented large deposit and the remaining funds must be sufficient for the down payment, closing costs, and reserves. When a single deposit consists of both verified and unverified portions, only the unverified amount is used to determine whether the deposit is considered a large deposit. • Example 1- Borrower has monthly income of $4,000. A deposit of $5,000 on the bank statement has been identified but only $2,000 can be sourced as coming from a federal tax refund. As the remaining $3,000 exceeds 50% of the borrower's income, this amount must be reduced from the borrower's account balance. • Example 2- Borrower has monthly income of $4,000. A deposit of $5,000 on the bank statement has been identified but only $3,500 can be sourced as coming from a federal tax refund. As the remaining $1,500 is less than 50% of the borrower's income, it is not considered a large deposit and no further action is required.

RESERVES

The following tables provide minimum reserve requirements based on investor and property type. Loans requiring MI must follow MI company requirements for own funds.

FANNIE MAE

Reserves in Months of PITIA for subject property	
1 to 4-Unit	Per DU

Multiple Financed Properties

If a borrower is financing a second home or investment property, DU will determine the requirement for additional reserves based on the unpaid principal balance of all mortgages and HELOCs secured against the number of other second home and investment properties financed.

Second Home and Investment Property- Reserves based on Percentage of UPB	
Total # of Financed Properties	**Percentage of aggregate UPB for other financed properties**
1-4 financed properties	2%
5-6 financed propertied	4%
7-10 financed properties	6%

The aggregate UPB calculation does not include the mortgages and HELOCs that are on

- The subject property,
- The borrower's principal residence,
- Properties that are sold or pending sale, and
- Accounts that will be paid by closing (or omitted in DU on the online loan application).

FREDDIE MAC

Reserves in Months of PITIA for subject property	
1 to 4-Units	Per LPA

Multiple Financed Properties

If a borrower is financing a second home or investment property, LPA will determine the requirement for additional reserves based on the PITIA of all mortgages and HELOCs secured against the number of other second home and investment properties financed.

Second Home and Investment Property- Reserves in Months of PITIA	
1-6 financed properties	2 months PITIA
7-10 financed properties	8 months PITIA

CREDIT AND LIABILITIES

AUTOMATED CREDIT UNDERWRITING

For conforming loans, Flagstar Bank utilizes Fannie Mae's Desktop Underwriter® (DU) and Freddie Mac's Loan Product Advisor® (LPA) automated underwriting systems (AUS). When utilizing Fannie Mae or Freddie Mac's automated underwriting systems, their credit risk system and analysis will generate a credit report and determine the overall acceptability of the borrower's credit history and will grade accordingly. In most instances, Flagstar Bank will adhere to the risk analysis decision made by the automated underwriting system(s). Flagstar Bank reserves the right to decline any loan regardless of AUS response if the loan contains no viable credit. No viable credit would include any combination of recent non-medical collections, combined with a chronic pattern of heavy late pays, charge-offs, bankruptcy, tax liens, judgments, etc. When material error(s) are present on the credit report that negatively affect the risk analysis of the automated underwriting system(s), the borrower's credit must be updated, and acceptable AUS findings must be obtained.

CREDIT SCORE REQUIREMENTS

Mortgage Insurance companies may impose their own restrictions.

FICO (Fair, Isaac and Company) scores are obtained from up to three national credit bureaus. If three scores are obtained for a borrower, the middle score is used to qualify the borrower; when two scores are obtained for a borrower, the lower score is used. If there is more than one borrower on a mortgage loan, the FICO score of the borrower with the lowest score (as calculated in accordance with the preceding sentence) is used.

MINIMUM CREDIT SCORE

Refer to product descriptions for minimum credit score requirements.

- At least one borrower must have a valid credit score, see below for additional guidelines
- Mortgage Insurance providers may impose additional credit score restrictions
- For Owner-Occupied Transactions, when the product indicates the minimum required score as NA, DU/LPA will assess the loan eligibility as follows:
    - Freddie Mac Loan Product Advisor (LPA) makes the determination of the borrower's credit reputation and the mortgage product is acceptable. The LPA response will be used to assess whether or not Freddie's minimum credit indicator score requirements have been met.
    - Fannie Mae Desktop Underwriter (DU), the minimum credit score is 620 (excludes Fannie Mae RefiNow):
        - For loan casefiles with one borrower, DU will use the representative credit score (borrower's median score) to determine the minimum score requirement is met.
        - For loan casefiles with more than one borrower, DU will determine the minimum score requirement is being met by using an average median score.

Fannie Mae Credit Score Eligibility	
Borrowers on loan application	**Average score to determine DU casefile eligibility**
Borrower scores: 590,605, 648	Average is not available Representative Score: 605
Borrower 1 scores: 590, 605, 648 Borrower 2 scores: 661, 693, 693	Average score: (605 + 693)/2 = 649 Representative Score: 605
Borrower 1 scores: 590, 605 Borrower 2 scores: 661, 693, 693	Average score: (590 + 693)/2 = 642 Representative Score: 590

REPRESENTATIVE CREDIT SCORE

The representative score, the lower median score of all borrowers. will continue to be utilized in the determination for mortgage insurance coverage, loan level pricing and loan eligibility for underwriting criteria when a minimum score is required.

BORROWER(S) WITH A VALID CREDIT SCORE

All borrowers with at least one valid credit score are eligible. Nontraditional credit may not be utilized to supplement a lack of traditional tradelines or derogatory credit when a borrower has a valid credit score.

BORROWER(S) WITHOUT A VALID CREDIT SCORE

Borrower(s) without any credit score may be eligible subject to the following requirements:

Eligibility Requirements

- At least 1 borrower on the loan must have a valid credit score that meets the product parameters.
- Purchase and Rate-and-Term Refinance transactions only.
- Subject must be a 1-unit primary residence
- All borrowers must occupy the property as their primary residence.
- The loan product must be an eligible Fixed Rate Agency Product offered by Fannie Mae or Freddie Mac
- The loan must receive a DU Approve/Eligible or LPA Accept
- All requirements of AUS must be met
- If the borrower(s) without a credit score are contributing 50% or more of the qualifying income additional nontraditional credit history is required. See below requirements for acceptable nontraditional credit

Additional Fannie Mae Restrictions

- Loan amount must meet conforming loan limits. High Balance loans are not eligible.

Additional Freddie Mac Restrictions

- When nontraditional credit requirements apply, all credit references must be from within the United States.

Nontraditional Credit Requirements for borrower(s) without a Credit Score

All borrowers without a valid credit score must document a 12-month satisfactory payment history of nontraditional credit from no less than two sources when their income is 50% or more of the qualifying income.

- At least one nontraditional credit history must be housing-related (rent) verified with either cancelled checks with copy of lease or a VOR, indicating 0x30 lates within the last 12 months.
  - At least one borrower without a credit score can document a rental history to meet this requirement. If multiple borrowers are on the loan without a credit score the other borrowers must provide two additional credit sources.
  - In the event multiple borrowers without a credit score have individual housing payments, all housing references must be verified.
  - If the housing expense is a shared obligation between two or more borrowers (e.g. both names are on the lease in which they are living), the documentation counts as a nontraditional source for each borrower.
- Secondary nontraditional credit source must verify no more than 1x30 in the last 12 months.

- Direct verification from creditor is acceptable with the following criteria indicated
  - Name of creditor along with telephone number
  - Name of payor
  - Name and position of individual providing the reference
  - Account number
  - Nature of obligation (utility, insurance, etc.)
  - Payment, outstanding balance and high balance
  - Historical account history with a format of or similar to 0x30, 0x60, etc. Alternative statements such as “current”, “paid as agreed”, or “satisfactory” are not acceptable to validate the payment history
- In lieu of verification from the creditor the borrower may provide documentation indicating the terms of the debt repayment along with a 12-month history via cancelled checks, bank statements clearly showing credit name as payee, or copies of the creditor statements showing paid.

- Each borrower must have no collections (other than medical), judgements, or liens within the most recent 24 months

CREDIT INQUIRIES

The report must list all inquiries that were made in the previous 120 days. All loan applicants will be required to provide an explanation for all inquiries that were made in the previous 90 days on their credit report and any new debt must be added to the liabilities section of the 1003 and be supported by applicable documentation. All applicants will be required to provide an explanation for all credit inquiries found during the loan process. A written explanation from a borrower may be in the form of a letter, an email, or some other form of written documentation provided by the borrower.

DISPUTED CREDIT INFORMATION

If a borrower indicates that any significant information in the credit file is inaccurate, such as reported accounts that do not belong to the borrower or derogatory information that is reported in error, the borrower should request the credit reporting company that provided the information to confirm its accuracy. If the credit reporting company confirms that the disputed information is incorrect, the information should be corrected and a new report obtained if the erroneous information significantly effects the underwriting of the file.

DISPUTED CREDIT REPORT TRADELINES

FANNIE MAE

For loans submitted to DU that receive an Approve/Eligible response, DU will assess the risk of the loan casefile using the tradelines reported as disputed by the borrower. Follow the direction of the DU response for requirements.

FREDDIE MAC

For loans submitted to LPA that have receive an Accept response and the borrower has a disputed account, it is not required to review the credit report for disputed tradelines and confirm the accuracy of the disputed tradelines. The disputed tradelines have already been included in the LPA assessment, no further action is required.

EXTENDED FRAUD ALERTS OR ACTIVE MILITARY ALERTS

Applicants with credit reports containing extended fraud alerts or active military alerts will be contacted by a Flagstar Bank employee prior to a commitment letter being issued.

When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

UNDERWRITING BORROWERS WITH FROZEN CREDIT

FANNIE MAE

Loans for a borrower with credit data frozen at one of the credit repositories, the credit report is still acceptable as long as the following requirements are met:

- Credit data is available from two repositories
- A credit score is obtained from at least one of those two repositories
- The lender requested a three in-file merged report.

FREDDIE MAC

No more than one credit repository can have frozen credit information, regardless of the LPA response.

CREDIT HISTORY

AUTHORIZED USER TRADELINES

Fannie Mae

When the credit report contains authorized user accounts the underwriter must determine the account(s) are an accurate representation of borrower's own credit reputation in order to deem the DU Approve/Eligible response as valid. If the authorized user tradelines are not an accurate reflection of the borrower's credit history, the underwriter should evaluate the borrower's credit history without the benefit of these tradelines.

Freddie Mac

The LPA feedback certificate will provide messaging requirements for authorized user account(s). If unable to document one of the requirements for each authorized user account, the findings must be deemed invalid and loan not eligible unless the following requirement can be met:

- Determination that the authorized user account(s) have an insignificant impact on the borrower’s overall credit history. The information on the credit report must represent the borrower’s own credit reputation based on the number of the borrower’s own tradelines, as well as the age of the tradeline, type, size and the payment history, as compared to the authorized user account(s). The underwriter must document the determination in the Mortgage file.

VERIFICATION OF MORTGAGE

Fannie Mae

- All mortgage tradelines must be updated within 45 days of application. If more than 45 days has elapsed since last reporting on credit, it is required to document the mortgage is current.

- Mortgage history verification is required for all mortgages not reporting on the credit report. See DU findings for acceptable history requirements (borrower may not have any 60 days lates within the last 12 months)
- Any account listed on the application as a mortgage will be assessed as mortgage through DU regardless of account type on the credit report.
- When DU identifies a potentially inaccurate mortgage delinquency on the credit report, and documented the information is inaccurate, DU may be instructed to disregard the information in the eligibility assessment as addressed in the DU findings.

Freddie Mac

- If all borrowers have a usable credit score and LPA issued an Accept response additional mortgage history verification is generally not required.

Additional Mortgage History Requirements

Additional due diligence will not generally be required to verify mortgages reporting on credit are paid current, however in the event of disclosure/discovery the below must be applied:

If …	Then…
Documentation is present in loan file (such as a payoff or statement) on any mortgage for which the borrower is obligated indicating prior late payments have been resolved with a servicer resolution (e.g. deferred balance or other loss mitigation program as a result of a COVID related forbearance) with a balanced owed for the missed payments.	The missed payments will not be treated as excessive delinquencies as defined by the agencies.
	The AUS response remains valid and loan is eligible to proceed.
For subject Refinance transactions, when documentation is present in loan file (such as a payoff) indicating prior late payments have been resolved with a servicer resolution (e.g. deferred balance or other loss mitigation program as a result of a COVID-related forbearance) with a balanced owed for the missed payments.	A rate-term refinance is eligible if the balance owed under a repayment plan, payment deferral, or other loss mitigation program is included in the payoff of the original first mortgage. Note: loans under an active loss mitigation repayment program are eligible and there is no minimum number of payments required prior to the new transaction.
	In the event the balance owed under a loss mitigation program created a secondary subordinate lien (e.g. FHA), a refinance must be treated as a cash-out.
When documentation is present in the loan file indicating the borrower is not making payments (not current) on an existing mortgage (subject or other real estate owned) at time of new loan application.	The loan will not be considered eligible if a loan is not current as of the application date, regardless of AUS response. Note: In order to determine the borrower’s circumstances or financial hardship has been resolved and ability to repay the new mortgage, a servicer resolution is required on any loan in which current missed payments under a COVID-related forbearance is disclosed.

The above policies will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, HELOCs and Manufactured Home transactions. Borrowers may not bring past-due mortgage accounts current prior to closing in order to circumvent DU/LPA response or requirements.

USE OF RENTAL HISTORY IN CREDIT ASSESSMENT

For certain first-time homebuyers, a positive rental payment history may be used for consideration in the DU/LPA risk assessment when the following requirements apply:

- The loan must be a purchase transaction secured by a principal residence.
- At least one borrower with a rent payment history must:
  - be a first-time homebuyer
  - have a usable credit score.
  - have been renting for at least 12 months with a monthly rent payment of at least $300.

In order for DU/LPA to assess the rental history the following must be completed:

- An acceptable asset verification report with 12 months of bank statement must submitted through DU/LPA,
- The amount verified must match the rental housing payment entered on the application for the applicable borrower, and
- The borrower must be an account holder and that the account provided is the asset verification report is the one from which the borrower pays rent.
- The report must be dated no more than 120 days before the Note Date. If an updated report is obtained, the Mortgage must be resubmitted to ensure assessment of the most current information.

The DU/LPA response will issue specific messages when:

- The rent payment history is used in the risk assessment; or
- An asset report is obtained, but not used, and why it was not used; or
- An asset report was not obtained but the use of a report with rent payment history could positively impact the recommendation.

Note: When a 12-month report is provided for rental history, only the most recent 60 days of account activity must be reviewed in the assessment for acceptable asset verification.

USE OF CASH FLOW IN LPA CREDIT ASSESSMENT- FREDDIE MAC

For certain mortgages, LPA will assess the transaction patterns present in the borrower's checking, savings and investment accounts and changes in account balances using data transmitted by a third-party service provider report acceptable to Freddie Mac. Cash flow analysis will not affect the debt payment-to-income ratio or related documentation requirements, nor will it be used to negatively impact the credit assessment.

To use this enhancement, the following requirements must be met:

- At least one Borrower on the transaction must have a usable credit score as determined by LPA
- At least 12 months of account data must be transmitted to LPA.

- Each asset in the verification report is owned by at least one borrower and such borrower has access to the funds
- The age of the verification report must be within 120 days of the Note date
- The most current version of the verification report is used by LPA. If an updated report is obtained, the loan must be resubmitted to LPA to ensure assessment of the most current information
- The verification report must be maintained in the loan file if the LPA Feedback Certificate includes a feedback message that positive borrower cash flow was identified and resulted in a Risk Class of Accept

A loan may receive benefit from either positive cash flow or consistent rent payment history. LPA will use the benefit that provides the biggest relief to the loan.

SIGNIFICANT DEROGATORY CREDIT EVENTS

The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk.

BANKRUPTCY, FORECLOSURE, DEED-IN-LIEU, SHORT SALE

The underwriter must determine the significance of the derogatory mortgage event and verify sufficient time has elapsed since the date of the last derogatory mortgage event based on the distribution date of the new loan.

A bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale within the past seven years, disclosed by the credit report or within the loan file, must be correctly identified in the declarations section of the application.

Fannie Mae

An acceptable response of Approve Eligible (DU) is required and must meet the required recovery time periods. See Extenuating Circumstances for requirements pertaining to additional flexibilities and reduced waiting periods for bankruptcies, foreclosures and other alternatives to foreclosure.

The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to determine the waiting period has been met. Loans receiving a Refer response due to the waiting period must obtain an updated credit report after the required time has elapsed and obtain an Approve response. Derogatory events with incomplete dates reporting or events not reporting on credit must have the required waiting periods met.
If a bankruptcy is not reported in a public record, but a tradeline is reported with a bankruptcy status of closed, verify the actual filed and discharged dates to determine that the bankruptcy meets the DU 48-month guideline.

Fannie Mae Waiting Periods for Significant Derogatory Events Bankruptcy, Foreclosure, Deed-in-Lieu, Short Sale		
Derogatory Event	**Standard Recovery Time**	**Recovery Time with Extenuating Circumstances**
Bankruptcy Chapter 7 or 11	4 years from the discharge or dismissal date	2 year waiting period is permitted from the discharge or dismissal date

Bankruptcy Chapter 13	2 years from the discharge date, or 4 years from the dismissal date	A 2-year waiting period is permitted after dismissal. No exceptions
Multiple Bankruptcy Filings	5 year waiting period is required from the most recent dismissal/discharge date if multiple bankruptcies within the last 7 years.	3 year waiting period is permitted with the most recent filing meeting extenuating circumstances
Foreclosure	7 years from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower	3 years from the completion date of the foreclosure action. Additional requirements: • Maximum LTV, CLTV, or HCLTV ratios of the lesser of 90% or the maximum LTV, CLTV, or HCLTV ratios for the product requested • The purchase of a principal residence is permitted • Rate-and-term refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time Second home and Investment purchases and all cash-out transactions, regardless of occupancy, are prohibited
Deed-In-Lieu of Foreclosure, Short sale, or Charge-off of mortgage account	4 years date of completion or sale	2 years date of completion or sale

Inaccurate Derogatory Credit Events-Fannie Mae

When DU identifies a potentially inaccurate credit event on the credit report, a bankruptcy or foreclosure, and the lender has documented the information is inaccurate, DU may be instructed to disregard the information in the eligibility assessment as addressed in the DU findings. The appropriate waiting period must be documented as being met based on the corresponding derogatory event.

Mortgage Discharged Through Bankruptcy-Fannie Mae

If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Lenders must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

Extenuating Circumstances for Bankruptcy, Foreclosure, Deed-In-Lieu, Short Sales- Fannie Mae

Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. In order to support an extenuating circumstance and follow the reduced recovery time, listed above, the following requirements must be met:

- Documentation to support borrower's claim must be provided. Examples include:
    - Copy of divorce decree
    - Medical bills
    - Notice of job layoff or severance papers
    - Additional documents that illustrate an inability to resolve the derogatory event
        - Insurance paper or claim settlements
        - Property listing agreements
        - Lease agreements
        - Tax returns covering the periods to, during and after the loss of employment
- Letter from borrower explaining the relevance of the documentation and support claims of the extenuating circumstances that led to the event. Letter to illustrate the borrower had no reasonable options other than the default on their financial obligations.
- When DU identifies a bankruptcy or foreclosure on the credit report, and the lender properly documents the extenuating circumstances, DU may be instructed to disregard the derogatory credit information as addressed in the DU findings.

Freddie Mac

For Freddie Mac mortgages with *an* Accept response from LPA, the significance of the derogatory event (bankruptcy, foreclosure, deed-in-lieu, or short sale) has been considered in the risk assessment and the borrower's credit reputation has been deemed acceptable. No further documentation or recovery time period must be met.

PAST-DUE, COLLECTIONS, CHARGE-OFF OF NON-MORTGAGE ACCOUNTS, JUDGMENTS AND LIENS

Delinquent credit disclosed by the credit report or within the loan file, must be correctly identified and/or accurately indicated in the declarations section of the application and follow the requirements per the DU/LPA findings.

Delinquent credit, including taxes, judgments, charge-offs of non-mortgage accounts, tax liens, and other liens that have the potential to affect lien position or diminish the borrower's equity, must be paid off at or prior to closing regardless of DU/LPA finding.

Federal Tax Installment Plans

For delinquent federal income taxes, the monthly payment due under an IRS income tax installment agreement can be included in the DTI ratio (in lieu of full payment), provided the following requirements are met:

- There are more than 10 months payments remaining under the agreement,
- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located,
- An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due must be provided,
- Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date the next payment owed and due date.

- Fannie Mae- at least one payment must have been made prior to closing.

Fannie Mae

- Accounts that are reported as past-due (not reported as collection accounts) must be brought current.
- For non-medical collections and non-mortgage charge-off accounts the following apply. Medical collection accounts are excluded and not required to be paid in full.
  - For 1-unit, owner-occupied properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs, regardless of the amount, provided the collection will not threaten first-lien position.
  - For 2 to 4-unit, owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to closing.
  - For investment properties, individual collections and non-mortgage charge-off accounts equal to or greater than $250, and accounts more than $1,000 must be paid in full prior to closing.

Freddie Mac

Past-due, collections, and charge-off accounts are not required to be paid off when receiving an Accept response from LPA unless they affect lien position.

LIABILITIES

Flagstar considers any debt the borrower owes to be a liability. Debt is defined as borrowed money, the repayment of which may be either secured or unsecured, with various possible repayment schedules.

RECURRING OBLIGATIONS INCLUDE

- All installment loans
- Revolving charge accounts
- Real estate loans
- Alimony
- Child support
- Other continuing obligations

Obligations to be considered as possible recurring debt may be identified on sources including but not limited to the application, credit report, paystubs, asset account statements, and legal orders.

DEBT TO INCOME RATIO (DTI)

The underwriter must include the following when computing the debt to income ratios for recurring obligations:

- Monthly housing expense(s) including rent, real estate loans, taxes, insurance and any association fees
- Additional recurring charges extending ten months or more, such as
  - Payments on installment accounts
  - Child support or separate maintenance payments
  - Revolving accounts
  - Alimony

- Debts lasting less than ten months must be included if the amount of the debt affects the consumer's ability to pay the mortgage during the months immediately after loan closing, especially if the consumer will have limited or no cash assets after loan closing.
  - Monthly payments on revolving, open-ended and/or lease, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less

ALIMONY/CHILD SUPPORT/MAINTENANCE

- When the borrower is required to pay under a legal written legal order or agreement, and
- Payments are required to continue to be made for more than 10 months.
- Child support is treated as a liability
- For alimony, when reduced from the qualifying income a copy of the divorce decree or other court order equivalent documentation must be provided.
  - Fannie Mae- Alimony must first be listed as a liability, if DU recommendation of ineligible or refer due to ratios the amount may be entered as a negative figure under the income type of Alimony
  - Freddie Mac- the alimony amount must be entered as a negative figure under the income type of Alimony

ASSOCIATION DUES

For Condominiums, Cooperatives and Planned Unit Developments, provide evidence of the amount and frequency of the HOA/Association Dues when not provided on appraisal report. Documentation may include, but is not limited to:

- Current HOA/Association statement
- Verification from the HOA/Management Company or co-op board
- Verification from the builder if the project has not been turned over to the unit owners.

AUTHORIZED USER ACCOUNTS

The borrower must qualify with the payment unless one of the following applies:

- The authorized user tradeline belongs to another borrower on the mortgage loan, or
- It can be documented someone else other than the borrower is making the payment. See Non-Mortgage Debts Paid by Others section for requirements

BRIDGE (OR SWING) LOAN

A bridge (or swing) loan that is collateralized by a borrower’s present home, so that the funds from that loan can be used for closing on a new home, may only be excluded when the following is provided:

- A fully executed sales contract for the current secured residence is received, and
- Confirmation that any financing contingencies have been cleared.

CALCULATING MONTHLY REAL ESTATE TAX PAYMENT – SUBJECT PROPERTY

Real estate tax amounts included in the monthly qualifying housing expense must be based on the value of the improvements plus the value of the land.

- Existing (not new construction) properties, except California purchases, the following documentation must be used:

- The taxes listed on the title commitment or property tax bill/cert, unless a change to taxes based on transfer of ownership is disclosed; or
- Evidence from the local assessor's office of the current tax rate calculated by the appraised value; or
- When disclosed that a property is located in a jurisdiction where transfer of ownership causes or results in a recalculation of taxes (e.g. purchase of an investment property with current homestead exemption), the monthly housing expense must include an estimate of the recalculated tax amount using the tax rate information provided on the title commitment, tax bill, tax aggregator website or local assessor's office

- New construction (or major renovation), except California purchases, and the property has not been fully assessed, the taxes must be reasonably estimated based on the purchase price or total acquisition cost of the value of the land plus purchase price and improvements, calculated using one of the following:
  - The current tax rate as obtained from the local assessor's office, tax bill, or title commitment;
  - Evidence of tax rate from a tax aggregator website, such as smartasset.com;
  - Tax certificate provided by the title company; or
  - A rate of 1.5%:
    - Cannot be used if documentation is present in file to support a higher tax rate as noted above.
    - In the event 1.5% method of calculation results in an unacceptable debt-to-income ratio, one of the documents listed above must be provided to validate the qualifying property taxes.
- California purchases only, for both new and existing properties, the property taxes must be reasonably estimated based on the purchase price or total acquisition cost of the value of the land plus purchase price and improvements, calculated using one of the following:
  - The current tax rate as obtained from the local assessor's office, tax bill, or title commitment;
  - Evidence of tax rate from a tax aggregator website, such as smartasset.com;
  - Tax certificate provided by the title company, or
  - A rate of 1.25%:
    - Cannot be used if documentation is present in file to support a higher tax rate as noted above.
    - In the event 1.25% method of calculation results in an unacceptable debt-to-income ratio, one of the documents listed above must be provided to validate the qualifying property taxes.
- If a special assessment levied against the property is not part of the annual tax payments or paid at loan closing, the monthly payment must include 1/12 of any estimated annual payment toward the assessment.
- A tax abatement may be used to qualify at a reduced monthly expense, in all states, provided there is evidence of the tax abatement and documentation to show continuance for at least 5 years after the Note date.
  - If the abatement increases annually, the annual taxes that will be required at the end of the 5th year after the first mortgage payment date must be used for qualification.

  - Freddie Mac only- If the tax exemption is due to the Borrower's age or disability, documentation verifying five years' continuance is not required, provided; however, the exemption must not have a predetermined expiration date within five years of the Note Date.

DEFERRED INSTALLMENT DEBT

Deferred installment debt must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly payment that will be payable at the end of the deferment period, a copy of the borrower's payment letter or forbearance agreement should be provided to document the payment amount to use in calculating the borrower's total monthly obligations. For information about deferred student loans, see *Student Loan* section.

GARNISHMENTS

Garnishments, generally disclosed as a deduction on paystubs, with more than 10 months remaining must be included in the monthly debt obligations.

HOME EQUITY LINES OF CREDIT

The payment on a home equity line of credit must be considered as part of the borrower's recurring monthly debt obligations.

- Fannie Mae- If the home equity line of credit does not require a payment, there is no recurring monthly debt obligation and no need to develop an equivalent payment amount.
- Freddie Mac-HELOC payments must be included in the housing expense-to-income ratio when there is an outstanding balance on the account. In the absence of a monthly payment on the credit report, and if there is no documentation indicating a monthly payment amount, 1.5% of the outstanding balance will be used to determine the qualifying payment.

INSTALLMENT DEBT

Must considered as part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining to be paid on the account.

- An installment debt with ≤ 10 monthly payments remaining should also be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet credit obligations.

LEASE PAYMENTS

The lease payments must be considered a recurring monthly debt obligation, regardless of the number of months remaining on the lease. This is because the expiration of a lease typically leads to a new lease or debt obligation.

LOAN SECURED BY FINANCIAL ASSETS

A loan secured against the borrower's financial asset such as a 401K, IRA, CD, Stocks, etc.

- The loan is not considered as part of the borrower's recurring monthly debt obligations, as long as the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan.
  - Payments on debts secured by virtual currency, such as cryptocurrency, must be included in the debt-to-income ratio and are not subject to the provisions regarding installment debts secured by financial assets.

- The value of the asset must be reduced by the proceeds from the secured loan, and any related fees, to determine remaining funds which may be applied toward asset reserves.

MORTGAGES AND PROPERTY RELATED EXPENSES

When the borrower owns additional real estate, the full PITIA the borrower is obligated to pay is considered as part of the borrower's recurring monthly debt obligations, including foreign owned properties.

OPEN 30-DAY CHARGE ACCOUNTS

An open 30-day account (account which the balance is required to be paid in full monthly) may be identified when the account does not reflect a revolving monthly payment on the credit report, lacks documentation in file to indicate a revolving monthly payment, or credit reflects the monthly payment is identical to the outstanding balance.

Fannie Mae

- The account is not included in the borrower's monthly debt obligations. Sufficient assets must be verified to cover the account balance, in addition to any funds required for closing and reserves based on the transaction type. DU findings will include the balance of the 30-day charge account in the required reserves to be verified. When a borrower is receiving cash back from the transaction the required amount will be reduced by the cash back up to the full balance of the account.

Freddie Mac

- The account is not included in the borrower's monthly debt obligations when sufficient assets to cover the account balance, in addition to any funds required for closing and reserves based on the transaction type. LPA findings will not include the balance in the assets to be verified, the balance will need to be manually calculated by adding the balance to the assets required by the AUS response. Cash back is not an eligible source of funds unless the balance is being paid off with the transaction.
- In lieu of obtaining sufficient funds to cover the balance, the full balance of an open 30-day charge account may be used as the qualifying payment and included in the debt-to-income ratio for qualification purposes.

RENTAL HOUSING PAYMENT

A borrower's monthly rental housing expense, when applicable, must be evaluated for non-occupant co-borrowers and for all second homes or investment property transactions. The obligation must be included and documented by one of the following:

- Six months cancelled checks (or equivalent payment source)
- Six months bank statements reflecting consistent payments to an organization or individual
- Direct verification of rent from a management company or individual landlord; or
- A current, fully executed lease agreement and two months cancelled checks to support the rental payment amount

Borrower(s) without a credit score who require non-traditional credit verification must meet the non-traditional credit documentation requirements.

REVOLVING CHARGE ACCOUNTS

Revolving charge accounts and lines of credit must be considered part of the borrower's recurring monthly debt obligations.

- If the credit report does not show a required minimum payment amount, use an amount equal to 5% of the outstanding balance.

STUDENT LOANS

Fannie Mae

Repayment Terms	Qualification Requirements
Repayment, Forbearance, and Deferred	• The monthly payment on the credit report • If there is no payment or payment of $0 on credit: ○ 1% of the outstanding loan balance (even if amount is lower than the amortizing payment); or ○ A fully amortizing payment using the documented loan repayment terms
Income-Driven Repayment (IDR)	• The documented payment, even if $0, as long as the loan is not in deferment

Freddie Mac

Repayment Terms	Qualification Requirements
Repayment, Forbearance, and Deferred	• The monthly payment on the credit report or other file documentation • If there is no payment or payment of $0 on credit: ○ 0.5% of the outstanding loan balance (even is amount is lower than the amortizing payment); or
Forgiveness, Cancelation, Discharge and Employment-Contingent Repayment Programs	The payment may be excluded when one of the following is met: • The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, Or • The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period; And • The borrower is eligible or approved for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and there are no known circumstances that will make the borrower ineligible in the future. Evidence of eligibility or approval must come from the loan program or employer, as applicable.

OMITTING PERSONAL LIABILITIES

BUSINESS DEBT IN BORROWER'S NAME

The borrower's business account payment, reporting on a personal credit report, does not need to be considered as part of the borrower's individual recurring monthly debt obligations if all the following requirements are met:

- The account in question does not have a history of delinquency.
- The business provides acceptable evidence that the obligation was paid out of company funds, such as 12 months of canceled company checks.
- The cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation, such as an interest expense and taxes and insurance, if applicable, equal to or greater than the amount of interest one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan. It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes or insurance expense, if any, which relates to the account in question.

COURT-ORDERED ASSIGNMENT OF DEBT

When a borrower has an outstanding debt that was assigned to another party by court order and the creditor does not release the borrower from liability;

- The contingent liability will not be considered as part of the borrower's recurring monthly debt obligation when court ordered documentation is provided.
- Although not required to evaluate the payment history for the assigned debt after the effective date of the assignment, borrower's payment history for the debt before its assignment cannot be disregarded.

CURRENT RESIDENCE PENDING SALE

The PITIA for the Borrower's current primary residence pending sale, but will not close prior to the subject transaction, may be excluded if one of the following requirements are met:

- An executed sales contract for the property-pending sale. If the executed sales contract includes a financing contingency, the mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale; or
- And executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s). There cannot be any financing contingencies and the relocation agreement must be fully executed by both the borrower and relocation company with no right to cancel.
    - For Freddie Mac an employer relocation plan with an unexecuted buy-out agreement may be used with the following requirements:

- The borrower has sufficient reserves, above those required on the LPA response, to pay the monthly payment amount for the property pending sale until the expiration date of the buy-out as indicated in the agreement, and
- The borrower(s) provide a signed statement indicating his intention to accept the buy-out agreement if the current primary residence is not sold prior to the expiration date of the agreement

EXCLUSION OF MORTGAGE AND PROPERTY RELATED EXPENSES

When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, or the borrower is a co-owner on title (subject property excluded), the monthly mortgage payment and related expenses may be excluded when all of the following requirements are met:

- The party making the payments is obligated on the mortgage debt, if applicable,
- Document that someone other than the borrower makes the complete payments on the obligated Note or related expenses (e.g. taxes, insurance, association dues, etc.) for the most recent 12 months by obtaining copies of canceled checks, bank statements, etc.,
    - Fannie Mae- If the borrower is not obligated on the Note, the related expenses are not required to be documented to exclude
    - Freddie Mac- If the borrower is not obligated on the Note, the other related expenses must be documented as paid by the other party
- Most recent 12-month payment history with no delinquencies within the most recent 12 months dated within 120 days of the Note date,
- The borrower is not using rental income from the applicable property to qualify,
- The mortgaged property must still be included in the borrower's multiple financed property count, when applicable,
- Meet guideline Reserves Requirements,
- Freddie Mac –also requires that the party making the payments is not an interested party to the subject real estate or Mortgage transaction
- See Rental Income for additional requirements when property is reporting on a 8825.

RENTAL PROPERTY REPORTED THROUGH A PARTNERSHIP OR A S CORPORATION

When a borrower is personally obligated on a mortgage debt with the gross rents and related expenses reporting through a Partnership (1065) or S Corporation (1120s) the following requirements must be met:

- The property and obligation are disclosed in the real estate section of the application.
- To omit a portion or all of the debt, Form 8825 from the business returns must be used to calculate the rental net cash flow of the property to offset the borrower's obligation, up to but not to exceed the PITIA. Any resulting loss from the calculation must be added to the borrower's total monthly obligations. No positive income may be given in the real estate section of the application.
- The mortgaged property is considered toward the total count of the borrower's financed properties.
- Total reserves required must be include the property PITIA in the calculation.

NON-MORTGAGE DEBTS PAID BY OTHERS

In order to exclude a non-mortgage debt all of the following requirements must be met:

- The most recent 12 months' cancelled checks (or bank statements) from the other party documenting a 12–month satisfactory payment history must be provided dated within 120 days of the Note date,
- There must be no delinquent payments for the debt, and
- The payer is not required to be an obligated party on the debt however they may not be an interested party to the transaction (e.g. seller or realtor).
- The underwriter must evaluate the validity of circumstances under which the payments are being made by another party. For example, payments on multiple student loans made by the borrower's parent represent a common situation. However, additional investigation and documentation might be necessary when a Borrower's multiple installment and revolving debts are being paid by the borrower's spouse who is not on the subject Mortgage.

MORTGAGE ASSUMPTIONS

When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage, this liability does not have to be counted when all of the following requirements are met:

- A copy of the executed formal assumption agreement, with or without a release of liability,
- Evidence must be provided of the transfer of ownership,
- Document timely payments have been made by the assignee during the most recent 12-month period on the assumed property. If not documented, the entire PITIA payment must be included in the borrower's total debt ratio.

PROPERTY SETTLEMENT BUY-OUT

When a borrower's interest in a property is bought-out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability. We will not require that this contingent liability be considered as part of the borrower's recurring monthly debt obligations, as long as documentation can be obtained to confirm the transfer of title to the property.

PAYOFF OR PAYDOWN OF DEBT FOR QUALIFICATION

Payoff or pay-down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments should generally not be included in the borrower's long-term debt.
- If a revolving account is to be paid off at or prior to close, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income ratio.
- If the borrower paid off an open 30-day account balance prior to closing, proof of payoff in lieu of verifying funds to cover the account balance must be provided.
- Freddie Mac- when an unverified deposit into a borrower's asset account is used to payoff or paydown an existing debt in order to qualify, the source of funds must be documented.

BORROWER ELIGIBILITY

Flagstar will purchase mortgages made to natural persons. We require that title to the property be in the name of the individual borrower(s). However, we will accept an inter vivos revocable trust as an eligible borrower under certain conditions outlined in the Closing in Trust section. A mortgage is not eligible for delivery to us if the borrower is another type of legal entity – such as a corporation, general partnership, and limited partnership or real estate syndication.

A borrower is any credit applicant(s) whose credit is used for qualifying purposes to meet loan eligibility requirements.

BORROWER(S) AGE

The borrower must have reached the age at which the mortgage note can be legally enforced in the jurisdiction in which the property is located. There is no maximum age limit for a borrower. All applicants are evaluated on their ability to meet our underwriting guidelines.

BORROWERS WITH PROHIBITED BUSINESS

Borrower(s) with any ownership in a business that is federally prohibited, regardless if the income is not being considered for qualifying, will be considered an ineligible borrower.

CLOSING IN TRUST

The following guidelines must be met in order for a loan to close in the name of a Trust or multiple Trusts:

- The trust(s) must be a living revocable trust also known as a family trust or an inter vivos trust.
- The borrowers must include an underwritten settlor (or at least one settlor if there is more than one settlor). A settlor is the individual who creates a living trust.
- Land Trusts are not eligible.
- Texas 50(a)(6) loans may not close in trust. These loans must close in an individual's name only.
- All property and occupancy types are eligible.
    - For owner occupied transactions, at least one individual establishing the trust (settlor) must occupy the subject property and sign the loan documents as a borrower.
- The title company must agree to insure over the trust with no exceptions for the trust or trustees.
- A copy of the full trust agreement must be provided.
    - Fannie Mae- allows for only the pertinent pages within the trust to be provided to document closing in trust requirements have been met.
- Title vested in Trust:
    - Fannie Mae- title to be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust
    - Freddie Mac- title to be vested in the trustee(s) on behalf of the trust (or in such as manner as is customary in the jurisdiction for the Trust)
- The settlor(s) (e.g. individuals creating the Trust) must be the primary beneficiary of the trust.
    - As long as the income or assets of least one of the grantors or settlors will be used to qualify for the mortgage and that grantor or settlor will occupy the property and sign the mortgage instruments in their individual capacity there may be more than one primary beneficiary on the trust.
- The trust document must give the trustee or trustees the authority to mortgage trust assets, to incur debt on behalf of the trust, and to hold legal title to and manage trust assets.

An attorney's opinion letter stating all above warranties are met will be required on all loans closing in trust; or *Certificate of Trust,* Doc. #3954

- For California properties, a certificate of trust is acceptable in lieu of an attorney's opinion letter. Refer to the California Trust Certificate, Doc. #3951.

CO-BORROWERS

A co-borrower is used to describe any borrower(s) other than the primary borrower who is listed on the application as a credit applicant.

NON-OCCUPANT CO-BORROWERS

Co-borrowers on principal residence transactions who do not occupy the subject property. The individual(s) may or may not have an ownership interest in the subject property as indicated on the title.

CO-SIGNERS AND GUARANTORS

Any co-borrower who does not have an ownership interest in the security property, as indicated on title, may be considered a co-signer or guarantor.

Any transaction with a co-borrower who will not occupy the subject property, the maximum LTV/CLTV/HCLTV is 95%. Non-occupant co-borrowers, co-signers, and guarantors may not have any interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

See Settlement/Closing Requirements procedures for closing document signature requirements for borrowers, co-signors and co-owners.

NON-ARMS-LENGTH TRANSACTIONS

Non-arm's-length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property including, but are not limited to:

- Applicants related by blood or marriage to the seller
- Fiancé, fiancée, or domestic partner
- Employer or business partner
- Renters buying from landlord
- Trading properties with seller
- Builder/developer

Non-arm's length transactions for the purchase of existing properties are allowed, unless specifically forbidden for the particular scenario, such as delayed financing. Non-arm's length transactions are not eligible for the following transactions:

- Second Home New Construction
- Investment Property New Construction

NUMBER OF BORROWERS

DESKTOP UNDERWRITER

The maximum number of borrowers Desktop Underwriter can assess on a single loan is four.

LOAN PRODUCT ADVISOR

The maximum number of borrowers Loan Product Advisor can assess on a single loan is five.

PRESENT ADDRESS

The borrower's present address must be within the U.S. territories, or APO military addresses located within the U.S.

RESIDENT AND IMMIGRATION STATUS

Borrowers must be U.S. Citizens or Non-U.S. citizens who are lawful permanent or non-permanent residents of the United States. Lawful and non-permanent residents are eligible under the same terms, mortgage product, transaction type, occupancy status, and loan-to-value ratios that are available to United States citizens. Borrowers that are not citizens must currently reside in the United States to be eligible. All borrowers must have a valid social security number or individual tax identification number (ITIN).

Flagstar must be able to evaluate a borrower's credit history to determine whether the borrower has demonstrated the willingness to meet credit obligations. Borrower must have a valid two-year work history, be employed within the U.S. and income must be expected to continue for the next three years

Loan requiring MI may have additional restrictions.

PERMANENT RESIDENT ALIEN

A permanent resident alien (immigrant) is an individual who is lawfully accorded the privilege of residing permanently in the United States.

Documentation and Expiration

Permanent Resident Alien status must be documented with a copy of the borrower(s)' green card

- Conditional 2-year green card- borrower must provide evidence of petition for permanent resident status if the card is expiring within 90 days of the application.
- Permanent green card with 10-year renewal- If the green card contains an expiration date, and will expire within 6 months of the application, the borrower must provide evidence of filing an I-90 form to replace the card. Note: an expired 10-year green card does not, in itself, impact the borrower's status to lawfully reside in the United States.

REFUGEES AND ASYLUM STATUS

Refugees and others seeking political asylum, who are immigrating to and seeking permanent residency in the United States, are classified under the permanent resident alien status. The INS has special immigration programs that enable these individuals to seek and accept employment while they are in the process of obtaining their permanent resident alien status, which generally will take from two to three years.

Documentation and Expiration

- Refugees and asylees may provide valid form I-94 with the indicator of refugee or asylum admission status and copy of EAD card showing classification of A03 through A05.
- Refugee and Asylum status- If an EAD card expiration is within six months of the application the borrower must show evidence they have applied for an extension

DACA STATUS

For borrower's with DACA, a work status that is under a deferred action, an unexpired employment authorization status (EAD Card C33) is required. DACA status is eligible for Fannie Mae only.

CITIZENS OF U.S. TERRITORIES

For Citizens of Micronesia, Marshall Islands or Palau, an unexpired employment authorization status (EAD Card A08) is required.

NON-PERMANENT RESIDENT ALIEN

A nonpermanent resident alien is an individual who seeks temporary entry to the United States for a specific purpose (e.g. foreign government officials, visitors for business or pleasure, aliens in transit through the United States, treaty traders and investors, students, international representatives, temporary workers and trainees, representatives of foreign information media, exchange visitors, fiancés or fiancées of U.S. citizens, intra-company transferees, and NATO officials). Due to the inability to compel payment or seek judgment, transactions with individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible.

Documentation and Expiration

All nonpermanent resident alien borrower(s) must verify they are legally present in the United States with a copy of one of the following:

- VISA
    - If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
    - If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
- EAD Card
- If expiration is within six months of the application the borrower must show evidence they have applied for an extension or provide letter from the employer indicating they will continue to sponsor their employment
- For residents of Canada or Mexico, H1-B status stamped on an unexpired passport
- For borrowers with income being used for qualification, see below for eligible VISA classifications.

<table>
<tr><th colspan="3">VISA Eligibility for Borrower's with Income for Qualification</th></tr>
<tr><td colspan="3">Borrowers with any source of income being used for qualification must have one of the following VISA classifications and submit the appropriate documentation to support they are legally able to work within the United States.
• Some VISAs automatically grant work authorization and an EAD will not be issued.
• For certain VISA classes, spouses and dependents must be issued an EAD to work within the U.S.
• When an EAD is provided it must be associated with one of the acceptable VISA classes notes below.
• Refer to uscis.gov for the further guidance on associated VISA and EAD categories.</td></tr>
<tr><th>VISA Series</th><th>Acceptable VISA Class</th><th>Description</th></tr>
</table>

A Series	A-1, A-2 and A-3 Must document that the borrower does not have diplomatic immunity.	Diplomat and foreign government official such as an ambassador, consular officer or other top government official, spouse, dependents and employees of a diplomat or official. A-2 can also classify as lower ranked foreign government employees. EAD class C01 issued to dependents.
E Series	E-1, E-2, E-3, E3D	Trade Treaty. International trader or investor, spouse and dependents. Employer Sponsored EAD class A17 issued to spouse. EAD class C02 may also be issued to dependents.
G Series	G-1, G-2, G-3, G-4, and G-5 Must document that the borrower does not have diplomatic immunity.	Employees of International Organizations and NATO. Internationally recognized staff, spouse and dependents EAD class C04 issued to spouse and dependents
H Series	H-1B, H-1B1, H-1B2, H-1B3, H-1C, and H-4	Temporary Work VISA. An individual who is in the U.S. performing services of a professional nature in a specific position for a sponsoring employer EAD class C26 issued to spouse
I Series	I	Foreign media representatives
K Series	K-1 and K-3	Finance or spouse of U.S. Citizen EAD class A06 issued to fiancé(e) or dependent of K-1. EAD class A09 issued to spouse or dependent of K-3
L Series	L-1A, L-1B, L-2	Temporary Work VISA. Intracompany transfer of an executive or an employee with specialized knowledge, spouse and dependents EAD Class A18 issued to spouses
NATO	NATO statuses 1 through 7 Must document that the borrower does not have diplomatic immunity.	Employees of International Organizations and NATO. Representative of member state to NATO, officials of NATO, support staff, spouse and dependents EAD class C07 issued to dependents
O Series	O-1 and O-2	An individual who possesses extraordinary ability in the sciences, arts, education, business, or athletics, or who has a demonstrated record of extraordinary achievement in the motion picture or television industry and has been recognized nationally or internationally for those achievements. Employer Sponsored.
R Series	R-1	Religious Workers. Employer Sponsored
TN	TN	Nonimmigrant NAFTA Professional visa (only issued to citizens of Canada and Mexico) Employer sponsored

OCCUPANCY

Inconsistencies in the loan file that raise questions about the authenticity of the proposed occupancy status as disclosed must be addressed to validate loan integrity. Examples may include but not limited to a borrower is downsizing to the new home in terms of square-footage, number of rooms, property, disposition of borrower's current principal residence, significant or unrealistic commuting distance, close proximity between subject property and current primary residence. Flagstar, at its discretion, may determine the occupancy based on its current and/or best use. Properties occupied by a party other than the borrower will be considered an investment property.

PRINCIPAL RESIDENCE

A one-to-four family property that is the borrower's primary residence. At least one of the borrowers must occupy the property.

A primary residence is the residential property physically occupied by an owner as the principal home domicile. Among the criteria one should consider in evaluating whether a property is a principal home are the following:

- It is occupied by the owner for the major portion of the year
- It is in a location relatively convenient to the owner's principal place of employment
- It is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar functions
- It possesses the physical characteristics to accommodate the owner's immediate dependent family
- The borrower states an intention to occupy the property as a primary residence within 60 days of closing
    - Freddie Mac will deem the property as owner occupied if the borrower occupies the property no later than 90 days after the Note date when a borrower is purchasing the property under an employee relocation program.

Applications for an owner-occupied transaction after closing on a previous owner-occupied transaction with Flagstar on a different property within the last 12 months will be ineligible. This guideline will not apply if the previous subject property has been sold or refinanced as a non-owner-occupied residence. For owner occupied transactions, the borrower warrants they will occupy the property for at least 12 months.

MILITARY OWNER OCCUPANCY

For a borrower who is a military service member currently on active duty and temporarily unable to occupy the home due to military service, the subject property may be considered a principal residence when a copy of the borrower's military orders is obtained. The orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument.

- Fannie Mae- Special Feature Code (SFC 754) must be applied to the loan
- Freddie Mac- Special Feature Code (SFC D76) must be applied to the loan

MORTGAGED PREMISES OCCUPIED BY BORROWER'S PARENT OR DISABLED CHILD

The following describes the conditions under which the subject may be considered a primary residence even though the borrower will not be occupying the property.

In the *Declarations* section, the non-occupying borrower may select *Yes* for the question, *Do You Intend to Occupy the Property as Your Primary Residence?*

Flagstar, at its discretion, may determine that a property is not a primary residence.

Fannie Mae

Principal Residence Conditions	
Borrower Types	**Requirements for Owner-Occupancy**
Parents wanting to provide housing for their disabled adult child	If the child is unable to work or does not have sufficient income to qualify for a mortgage on their own, the parent is considered the owner/occupant.
Children wanting to provide housing for elderly parents	If the parent is unable to work or does not have sufficient income to qualify for a mortgage on their own, the child is considered the owner/occupant. Must provide 1-year Tax Return for parents to support on fixed income and unable to qualify for housing.

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Principal Residence Conditions
Borrower(s) may provide mortgage financing for their parents
Borrower(s) may provide mortgage financing for a disabled individual when the borrower is the parent or legal guardian

SECOND HOMES

Second homes must meet the following criteria:

- Must be located a reasonable distance away from the borrower's principal residence
- Must be occupied by the borrower for some portion of the year
- Restricted to 1-unit dwellings
- Must be suitable for year-round occupancy
- The borrower must have exclusive control over the property
- Must not be subject to any timeshare arrangement or other shared ownership agreement
- Cannot be subject to any agreements that give a management firm control over the occupancy of the property
- Must not be used as a rental property. When a property is classified as a second home, rental income may not be used to qualify the borrower.

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- Allow property with seasonal limitations on year-round occupancy (e.g. lack of winter accessibility) provided the appraiser includes at least one comparable with similar seasonal limitations to demonstrate marketability
- Property may be rented out on a short-term basis provided the following requirements are met:

- The borrower must keep the subject property available for personal use for more than half of calendar year; and
- The property is not subject to rental pools or agreements that require the borrower to rent, give a management company or entity control over occupancy of the property or involve revenue sharing between owner and developer or another party. Underwriting validation must be completed to confirm (e.g. property cannot be listed on a rental property management site such as Airbnb.com, tax returns do not indicate payments to a management company which controls occupancy)
- Rental income from the subject property may not be used

Properties occupied by a party other than the borrower will be considered an investment property.

The determination of the second home status's acceptability may be scrutinized and Flagstar Bank, in its discretion, may determine that a property is not a second home.

<u>INVESTMENT PROPERTIES</u>

A one-to-four family property that the borrower does not occupy.

While rent information may not be required by AUS when the borrower qualifies without any rental income from the property, the monthly rent information is required when delivering the loan to Fannie Mae and Freddie Mac. One of the following documents are required:

- Lease agreement
- Form 1007/1000
- Letter from seller, realtor, or borrower indicating the estimated market rent
- For refinance transactions, the amount from the REO section of the 1003 can be used
- The income listed on the schedule E from the borrower's 1040's
- Zestimate from Zillow.com. The Zestimate must be retained in the mortgage file.

ELIGIBLE TRANSACTION TYPES AND TERMS

<u>PURCHASE</u>

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property.

LOAN TO VALUE

The LTV/CLTV/HCLTV is generally calculated based on the lesser of appraised value or valuation of the property.

FANNIE MAE HOMEOWNERSHIP EDUCATION REQUIREMENTS

Fannie Mae requires at least one borrower complete homebuyer education prior to closing for the following transactions:

- HomeReady Program, Doc #5318, purchase transactions when all occupying borrowers are first-time homebuyers, regardless of the LTV
- Purchase transactions with LTV/CLTV/HCLTV greater than 95% when all borrowers are first-time homebuyers.

Definition of Homeownership Education and Counseling

- Homeownership Education- Education with an established curriculum and instructional goals, provided in a group or classroom setting or via other formats, that covers such homeownership topics as the home-buying process, how to maintain a home, budgeting, and the importance of good credit.
- Housing Counseling- One-on-one assistance that addresses unique financial circumstances and housing issues, and focuses on overcoming specific obstacles to achieve housing goals such as repairing credit, locating cash for a down payment, recognizing predatory lending practices, understanding fair lending or fair housing requirements, avoiding foreclosure or resolving a financial crisis. All housing counseling involves the creation of a budget and a written action plan, and includes a homeownership education component.

All housing counseling involves the creation of a budget and a written action plan, and includes a homeownership education component.

Meeting the Homeownership Education Requirements

At least one borrower must complete the Framework Homeownership. LLC (Framework) online education program, or housing counseling, prior to the loan closing. A copy of the certificate of completion for homeownership education must be retained in the mortgage loan file.

Housing counseling must be provided by a HUD-approved agency and meet HUD standards for the delivery of this service. The following requirements apply when counseling is obtained to satisfy the homeowner education requirement:

- If a borrower opts to work with a housing counselor, completion of housing counseling prior to closing will satisfy Fannie Mae's homeownership education requirement. The lender must retain a copy of the certificate of course completion in the loan file.
- HomeReady, if the borrowers completed housing counseling prior to the execution of the sales contract, a loan-level price adjustment credit. The underwriter must manually add Special Feature Code (SFC 184) when counseling was completed prior to. The requirements of the counseling are described in the Certificate of Completion of Housing Counseling (Form 1017). This form must be signed by the counseling recipient (the borrower) and the HUD counselor if the counseling is obtained prior to the sales contract. The lender must retain a copy of the form in the loan file.

See Homeownership Education & Housing Counseling including HomeView, a Fannie Mae homeownership education course, or Fannie Mae Framework additional details.

Summary of Homeownership Education and Housing Option

	Homeownership Education	Housing Counseling
Eligible Provider	• Any qualified third-party provider, independent of the lender; which can include a mortgage insurance company (without regard to whether they provide mortgage insurance coverage for the particular transaction) • Education course provided by a Community Seconds or other down payment assistance program provider, where the program requires	HUD-approved agency

	homeownership education or counseling provided by a HUD-approved agency	
Course Content	Course content must align with NIS or HUD standards	Course content must align with HUD standards
Method of Delivery	Any method offered by an eligible provider	Any method offered per HUD standards
Date Required for Completion	Prior to loan closing	Prior to loan closing Note: There may be an additional incentive for HomeReady loans when housing counseling is completed prior to the execution of the sales contract.
Required Documentation	Certificate of course completion from the provider	• If after execution of the sales contract but prior to closing, certificate of course completion from the provider. • If prior to execution of the sales contract (HomeReady loans) Form 1017 signed by both the counseling recipient (borrower) and the HUD counselor.

FREDDIE MAC HOMEOWNERSHIP EDUCATION REQUIREMENTS

Freddie Mac requires at least one borrower to complete homeownership education for the following transactions:

- *HomePossible,* Doc #5335, when all occupying borrowers are first-time homebuyers
- *HomeOne,* Doc #5339, when all borrowers are first-time homebuyers

Meeting the Homeownership Education Requirements

At least one qualifying borrower must complete homeownership education prior to the Note date. A copy of the certificate of completion for homeownership education must be retained in the mortgage loan file. Education must be provided by one the following:

- An approved Mortgage Insurance Company- Arch, Enact, MGIC, or Radian
- A program that meets the standards of the National Industry Standards for Homeownership Education and Counseling (www.homeownershipstandards.org)
- Freddie Mac education curriculum, *CreditSmart Homebuyer U*

FREDDIE MAC LANDLORD EDUCATION REQUIREMENTS

HomePossible, Doc #5335, 2-to-4-unit purchase transactions and any transaction using rental income from an ADU requires at least one borrower participate in a landlord education program before the Note date. Landlord education must not be provided by an interested party to the transaction. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the file.

REFINANCE

CONTINUITY OF OBLIGATION- FREDDIE MAC

For all Freddie Mac (LPA) refinance transactions, a continuity of obligation must exist. An acceptable continuity of obligation, assuming that there is an outstanding lien against the property, exists when one of the following conditions is met:

- At least one borrower on the refinance mortgage was a borrower on the mortgage being refinanced; or
- At least one Borrower on the refinance mortgage held title to and resided in the mortgaged Premises as a Primary Residence for the most recent 12-month period and the mortgage file contains documentation evidencing that the borrower has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 12-month period, or
- At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged Premises (for example), in the case of divorce, separation or dissolution of a domestic partnership)
- If none of the Borrowers have been on the title to the subject property for at least six months prior to the note date of the cash-out refinance mortgage, the following requirement(s) must be met:
    - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership); or
    - Must meet the delayed financing requirements

RATE-AND-TERM (LIMITED CASH-OUT) REFINANCES

A rate-and-term or limited cash-out refinance transaction enables a borrower to pay off an existing mortgage by obtaining a new first mortgage that is secured by the same property. A limited cash-out refinance will include only those loans that involve:

- The payoff of the outstanding principal balance of an existing first mortgage
    - For Fannie Mae (DU), this may include additional amounts to pay off the loan such as prepayment penalties, deferred balances resulting from completion of a prior loss mitigation solution, and late fees.
    - For Freddie Mac (LPA), the payoff of a first mortgage, that was originated as a refinance, must have at least 30-days seasoning from Note date to Note date of the new refinance transaction.
- The payoff of the outstanding principal balance of an existing subordinate mortgage (including any prepayment penalties) that was used in whole to acquire the subject property
    - Freddie Mac only- A pay-down of the subordinate lien used to acquire the subject property is acceptable under a limited cash-out as long as the borrower qualifies with the remaining balance and the lien is subordinated.
    - Fannie Mae only: When the subordinate loan is a Community Seconds, payoff may include any required payment of the share of appreciation due to the Community Seconds provider under the terms of the shared appreciation agreement. The lender must document that the entire amount of the subordinate financing was used to acquire the property.
    - Refer to *Fannie Mae RefiNow*, Doc. #5367, and *Freddie Mac Refi Possible*, #5368, for additional restrictions.
- The payoff of non-delinquent real estate taxes and insurance.
- Fannie Mae:
    - The financing of closing costs, including prepaid expenses, if an escrow account is being established and cash back to the borrower in an amount no more than the lesser of 2% of the balance of the new refinance or $2,000, except Texas.

- If the borrower completed a cash-out transaction of the subject with a Note date 30 days of less prior to the application date of the new transaction, the loan is not eligible for a rate-and-term refinance.

- Freddie Mac:
  - The financing of closing costs, including prepaid expenses, if an escrow account is being established and cash back to the borrower in an amount no more than the greater of 1% of the balance of the new refinance or $2,000, except Texas. Eligible proceeds may not be used toward other payees.
- A short-term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage is considered a cash-out transaction. Any refinance of that loan within six months will also be considered a cash-out transaction.
- Properties currently listed for sale must be taken off the market and documentation to support the property is no longer listed must be provided prior to loan being in place in a Final Clear to Close status for loans underwritten by Flagstar and prior to note date for Delegated Correspondent.
- Transactions that pay off builder financing, refinancing a property from the builder's company to the builder's personal name, are not eligible.

REFINANCES TO BUY OUT AN OWNER'S INTEREST

Fannie Mae

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

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

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

REFINANCE OF A PROPERTY ASSESSED CLEAN ENERGY LOANS (PACE)

Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to finance residential energy-related improvements and are generally repaid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages and must be paid off. When paying off a PACE loan with first lien priority, the transaction may be treated as a rate-and-term refinancing if the following has been met.

Fannie Mae

- The mortgaged being refinanced must be owned in whole or in part or securitized by Fannie Mae.
- The existing PACE loan was obtained prior to July 6, 2010.

Freddie Mac

- The mortgaged being refinanced must be owned in whole or in part or securitized by Freddie Mac.
- Evidence must be provided that the PACE obligation is one that results in or provides for First Lien Priority.
- Special Feature Code (SFC H61) must be applied to the loan.

If the PACE loan is structured as a subordinate lien or unsecured loan, the first mortgage loan is underwritten to standard refinance guidelines.

CASH-OUT REFINANCES

A cash-out refinance transaction enables a borrower to pay off an existing mortgage by obtaining a new first mortgage that is secured by the same property, or enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it. The borrower is able to take out much of the equity they have in the property and to use the proceeds for any purpose subject to applicable LTV restrictions. The mortgage amount for cash-out refinance transactions may include the unpaid principal balance of the existing first mortgage, closing costs, points, the amount required to satisfy any outstanding subordinate mortgage liens of any age and additional cash that the borrower may use for any purpose.

- Fannie Mae and Freddie Mac consider any transaction paying off a junior lien not acquired in whole for the initial purchase transaction to be a cash-out refinance.
- All transactions that involve the payoff of a blanket mortgage (multiple properties secured under one lien) will be treated as a cash-out refinance loan and the entirety of the blanket mortgage must be paid in full.
- A property must have been purchased, or acquired, by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
  - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property, e.g. divorce, separation, or dissolution of a domestic partnership.
  - The delayed financing requirements are met.
  - Fannie Mae – If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement. In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
  - Freddie Mac- If the property has been owned by a limited liability corporation (LLC) or a limited partnership (LP), that is majority owned or controlled by the borrower since the date of the property acquisition, the time it was held by the LLC/LP may be counted toward meeting the borrower's six-month ownership requirement. In order to close the refinance transaction, title must be documented as transferred into the borrower's name prior to the Note date.
- Properties that were listed for sale must have been taken off the market and documentation to support the property is no longer listed must be provided prior to loan being in place in a Final Clear to Close status for loans underwritten by Flagstar and prior to note date for Delegated Correspondent.

- When proceeds of a cash-out refinance are used to pay off a First Lien Mortgage, the First Lien Mortgage being refinanced must be seasoned for at least 12 months (measured from the Note Date of the Mortgage being refinanced to the Note Date of the cash-out refinance Mortgage), as documented in the mortgage file (e.g., on the credit report or title commitment).
  - Fannie Mae- The seasoning requirement does not apply:
    - To any subordinate liens being paid off through the transaction
    - When buying out a co-owner pursuant to a legal agreement
  - Freddie Mac-The seasoning requirement does not apply:
    - When the First Lien Mortgage being refinanced is a Home Equity Line of Credit (HELOC).

STUDENT LOAN CASH-OUT REFINANCES – FANNIE MAE

The student loan cash-out refinance feature allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met:

- Special Feature Codes (SFC 003 and SFC 841) must be applied to the loan.
- The loan must be underwritten in DU. DU cannot specifically identify these transactions, but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind underwriters about certain requirements below; however, the underwriter must confirm the loan meets all of the requirements outside of DU.
- The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply, refer to applicable product description.
- At least one student loan must be paid off with proceeds from the subject transaction with the following criteria:
  - Proceeds must be paid directly to the student loan servicer at closing;
  - At least one borrower must be obligated on the student loan(s) being paid off, and
  - The student loan must be paid in full - partial payments are not permitted.
- The transaction may also be used to pay off one of the following:
  - An existing first mortgage loan (including an existing HELOC in first-lien position); or
  - A single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien.
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements.
- The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation.
- The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000.
- Unless otherwise stated, all other standard cash-out refinance requirements apply.

RESTRUCTURE MORTGAGE LOANS

The payoff of a restructured mortgage is eligible for refinance without additional documentation.

DELAYED FINANCING

Borrowers who purchased the subject property within the past six 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:

Delayed Financing Requirements for Eligibility		
Requirement	**Fannie Mae**	**Freddie Mac**
The new loan amount may be not more than the actual documented amount of the borrower's initial investment in purchasing the property, plus the financing of closing costs, prepaids, and points, less any gift funds used to purchase the property. Funds received as a gift used to purchase the subject may not be reimbursed with the proceeds of the new mortgage loan	√	√
The purchase was an arms-length transaction	√	√
The original purchase price is documented with a settlement statement, which confirms that no mortgage financing was used to obtain the subject property	√	√
The preliminary title search must not reflect any existing liens on the subject 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 (e.g. Heloc on another property) the Closing Disclosure 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 subject. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio. Note: Additional cash-out to the borrower is permitted only when all borrowed funds are paid in full	√	√
The source of the funds for the purchase transaction must be documented	√	√
The "as is" appraised value is used to determine the LTV/CLTV/HCTLV	√	√
All other cash-out eligibility requirements must be met and cash-out pricing is applied	√	√
The borrower(s) may have been initially purchased the property as one of the following: • A natural person • An eligible revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust • An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%	√	N/A

LAND CONTRACT REFINANCES

Purchase

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract, also known as contract or bond for deed, that was executed (signed)within the 12-month proceeding the date of the loan application the transaction will be treated as a purchase.

The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost, defined as the purchase price indicated in the land contract, plus any costs the borrower expended for rehabilitation, renovation, or energy conservation improvements, or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.

Rate-and-Term Refinance

When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract, also known as contract or bond for deed, that was executed (signed) more than 12 months before the date of the loan application the transaction will be treated as a rate-and-term refinance. 12 months seasoning must be verified with a copy of the signed land contract and 12 months canceled checks or third-party documentation evidencing payments for the most recent 12-months.

The LTV ratio for the mortgage will be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed.

Cash-Out Refinance

Cash-out refinances are not eligible when paying off a land contract.

RIGHT OF RESCISSION

Refer to *Compliance,* Doc. #4801 for information regarding right of rescission.

REFINANCE SCENARIOS

To help illustrate when a loan is a rate-and-term refinance and when it is a cash-out refinance, when a junior lien is present, either new or existing, the following table presents common loan scenarios and the appropriate agency treatment:

Common Loan Scenarios	
Scenario	**Fannie Mae and Freddie Mac Treatment**
Paying off an existing first mortgage with a new first and second, receiving no more than the rate-and-term cash back limit on the new first mortgage.	Rate/Term Refinance
Paying off an existing first mortgage and a purchase money second mortgage with a new first mortgage, receiving no more than the rate-and-term cash back limit on the new first mortgage.	Rate/Term Refinance
Paying off an existing first mortgage and a purchase money second with a new first and second, receiving no more than the rate-and-term cash back limit on the new first mortgage.	Rate/Term Refinance
Paying off an existing first and non-purchase money second (regardless of seasoning).	Cash-out Refinance
Paying off an existing first mortgage with a new first and second, receiving more than the rate-and-term cash back limit on the new first mortgage.	Cash-out Refinance

Common Loan Scenarios	
Scenario	**Fannie Mae and Freddie Mac Treatment**
Paying off an existing first mortgage and a purchase money second with a new first and second, receiving more than the rate-and-term cash back limit on the new first mortgage.	Cash-out Refinance
Paying off an existing first mortgage and a purchase money second with a new first and second receiving more than the rate-and-term cash back limit on the second mortgage.	Rate/Term Refinance (1st mortgage) Cash-out Refinance (2nd mortgage)
Paying off an existing first mortgage with a new first mortgage and a new second mortgage, receiving less than the rate-and-term cash back limit on the new first mortgage but receiving more than the rate-and-term cash back limit on the new second mortgage.	Rate/Term Refinance (1st mortgage) Cash-out Refinance (2nd mortgage)

NEW YORK CEMA

Refer to *NY CEMA Procedures*, Doc #4250, for refinance requirements.

TEXAS REFINANCES

All refinance loans in the State of Texas will be reviewed to determine the applicable guidelines under which they must be originated, underwritten, and closed. The underwriter must conduct a review of the title commitments to verify if any prior lien was a Texas Home Equity or 50(a)(6) lien.

Refinance Eligibility

Refinance loan applications must be reviewed for eligibility as follows:

- If the existing loan(s) is not a Texas Home Equity lien, the subject transaction may be considered a rate-and-term transaction without applying Texas Home Equity, TX (a)(6), requirements if the following criteria is met:
  - New loan amount is less than or equal to the unpaid principal balance plus reasonable closing costs and prepaids;
  - New loan amount is also paying off a purchase money second;
  - New loan is also paying off or down an existing secured home improvement loans (mechanic lien);
  - New loan is used to satisfy a court ordered divorce equity buyout. See Exception requirements below;
  - No cash back may be received at closing
- If it is determined that any subordinate financing to be paid off with the proceeds of the loan is not a purchase money second and also not classified as a Texas Home Equity lien, the new loan will be treated as an agency cash-out transaction however identified as non-Texas Home Equity cash-out refinance.
- If the title commitment shows a lien was originated as a Texas Home Equity lien, TX (a)(6) lien, the following criteria must be followed:
  - If the existing lien is being paid off from the proceeds of the new first mortgage, the loan will be underwritten as a Texas Home Equity cash-out refinance transaction. Even if no new cash-out is sought, the refinance is subject to the same disclosures and closing requirements as new Texas Home Equity loans as listed below.

- If an existing Texas Home Equity or 50(a)(6) lien is being fully subordinated, (only non-(a)(6) loan(s) being paid off), the new loan can be underwritten as a rate/term.
- A refinance Conversion of a TX 50(a)(6) into a Non-TX 50(a)(6) standard refinance must meet the following:
  - The refinanced loan is signed at least a year after the original home equity loan was signed
  - The refinanced loan cannot provide any additional money to the borrower other than to cover the costs to do the refinancing
  - The refinanced loan cannot exceed 80% of the fair market value of the house
  - The borrower must be provided with the Notice Concerning Refinance of Existing Home Equity loan to Non-Home Equity Loan Disclosure within 3 days of the application and at least 12 or more days before the date of refinance.

Eligible Homesteads

- The subject property must be a one-unit primary residence that is the borrower's homestead, as that term is defined under Texas law.
- The subject property must be residential and not be a farm, ranch or used for any agricultural or income producing purposes. Two-to-four-unit properties, second homes and investment properties are ineligible and must have homestead exemption removed prior to closing
- Eligible property types are attached or detached dwellings, a unit in a condominium project or a unit in a Planned Unit Development. Eligible property types may be further restricted by the applicable loan program guidelines.
- Homesteads located in urban areas must be no larger than 10 acres and may consist of one or more contiguous lots, together with any improvements thereon. A homestead is considered to be urban if the property is:
  - Located within the limits of a municipality or its extraterritorial jurisdiction or a platted subdivision
  - Served by police protection, paid or volunteer

Eligibility Criteria for all Texas 50(a)(6) Transactions

- Refinance lien, fixed-rate or intermediate term ARM with an initial fixed-rate period of not less than 2 years, fully amortizing, level payment, conventional mortgage. Balloon mortgages and short-term ARMs are not eligible.
- The maximum LTV/CLTV allowable is 80% (or less based on the applicable loan program guidelines)
- Full appraisal is required on either Form 1004 or Form 1073
- All other Fannie Mae or Freddie Mac guidelines must be met.
- See Texas Homestead Cash-Out Refinance, Doc #5907, for eligible products, additional fee limitations and closing requirements.

Applications with New Cash-Out

Loan applications intended to refinance existing mortgage indebtedness, if any, and to withdraw equity from the property will be underwritten as Texas Home Equity cash-out refinance transactions. Such loans must be originated under the guidelines laid out in Section 50(a)(6), Article XVI, of the Texas Constitution and accompanying regulations.

Exception

Fannie Mae considers a buy-out as a result of a divorce settlement to be treated as a rate-and-term refinance and allows up to a 90% LTV as long as the borrower who will be acquiring sole ownership of the property receives no cash-out of the proceeds from the transaction. A copy of the final divorce decree mandating the buy-out is necessary. Freddie Mac considers such transactions a standard cash-out refinance, non-Texas Home Equity cash-out refinance. The type of cash-out transaction, Texas Home Equity or non-Texas Home Equity, will determine the eligible loans programs, property types, loan-to-value ratios, and the disclosures and closing requirements that must be observed.

Loan applications that are not determined to fall under the requirements of Section 50(a)(6) of the Texas Constitution will follow the same eligibility standards outlined within the applicable loan program guidelines.

Miscellaneous Provisions

- All borrowers and all owners on title and their respective spouses, regardless of whether or not owners on title or spouses are also borrowers on the loan, must each sign a *Notice Concerning Extensions of Credit*, Doc. #3640 or VMP Form 8032 (TX), as defined by Section 50(a)(6), Article XVI, Texas Constitution) as a *Prior to Close* condition.
- Non-occupant co-borrowers are not allowed; all borrowers must occupy the subject property as their primary residence.
- Power of Attorney may not be used on a Texas Home Equity loan
- Borrowers may only obtain one (1) Texas Home Equity loan in any 12-month period.
- Borrowers may only obtain one (1) Texas Home Equity loan filed against the property.

Cooling Off Period

Each Texas Home Equity/50(a)(6) loan requires a cooling off period of at least 12 days prior to closing. The cooling off period begins from the latter of the application date or the date the last borrower, owner or spouse signs the *Notice Concerning Extensions of Credit*, Doc. #3640 or VMP Form 8032 (TX) (as defined by Section 50(a)(6), Article XVI, Texas Constitution).

Title Insurance

At closing, each Texas Home Equity/50(a)(6) loan requires a commitment of title insurance provided on Form T-2 and must include all standard endorsements plus the following:

- Equity Loan Mortgage Endorsement (Form T-42)
- Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1)

Texas Home Equity/50(a)(6) Right of Rescission

In addition to the Federal Right of Rescission for primary residence refinance transactions, Section 50(a)(6), Article XVI, of the Texas Constitution provides for an additional rescission period under state law for Texas Home Equity/50(a)(6) loans.

The Texas 3-day right of rescission and Federal 3-day right of rescission must run after closing. The Texas 3-day right of rescission refers to calendar days, while the Federal 3-day right of rescission refers to business days. Therefore, compliance with the Federal rescission period satisfies the Texas rescission period.

CONSTRUCTION-TO-PERMANENT FINANCING – FANNIE MAE

Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing, a short-term loan for the actual construction of the property (may or may not include the purchase of the lot), which ordinarily matures upon completion of the subject property. Under two-closing construction-to-permanent mortgages, the construction financing may be provided from a different lender than the one providing the long-term permanent mortgage. The construction-to-permanent loan must be underwritten based on the terms of the permanent mortgage. The following requirements must be met:

- The borrower must hold title to the lot and paying off interim construction financing, though may include the pay-off of additional mechanic liens used to complete the construction of the property.
- The loan file must document the appraiser's certificate of completion and a photograph of the completed property. A clear certificate of occupancy is required, unless the appraisal is completed 'as is' or there is validation that the city/county does not issue a C of O.
- The loan is only eligible through Fannie Mae and must be interfaced with a loan purpose of Construction-to-Permanent to Desktop Underwriter.
- Pay-off of existing construction loan may also include any documented construction cost overruns that were incurred outside of the interim construction financing. These construction cost overruns must be paid directly to the builder at closing, borrower paid improvements or costs may not be reimbursed.
- When the borrower is purchasing a completed property from a builder, the transactions must be treated as a purchase and do not fall under these guidelines.
- Cash-out refinances are not eligible.
- New construction properties are not eligible for value acceptance (appraisal waiver).
- Detached (Site), Desktop Underwriter will return an Approve/Ineligible, with the reason for ineligibility being the detached condominium as the property type. If the Approve/Ineligible response incudes any other reasons the loan is not eligible. Special Feature Code (SFC 588) must be applied to the loan.

MAXIMUM MORTGAGE AMOUNTS

2023 FANNIE MAE/FREDDIE MAC CONVENTIONAL LOAN LIMITS

General Loan Limits		
Units	**Contiguous States, District of Columbia and Puerto Rico[1]**	**Alaska, Guam[1], Hawaii and US Virgin Islands**
One	$726,200	$1,089,300
Two	$929,850	$1,394,775
Three	$1,123,900	$1,685,850
Four	$1,396,800	$2,095,200

The high-cost area loan limits are established for each county (or equivalent) and published on the Fannie Mae and Freddie Mac websites along with the FHFA website. The maximum limits for 2023 are:

High-Cost Area Loan Limits [2]		
Units	**Contiguous States, District of Columbia and Puerto Rico[1]**	**Alaska, Guam[1], Hawaii and US Virgin Islands**
One	$1,089,300	Not Applicable
Two	$1,394,775	
Three	$1,685,850	
Four	$2,095,200	

1. Flagstar does not currently lend in Puerto Rico or Guam.
2. A number of states (including Alaska and Hawaii), Guam, Puerto Rico, and the U.S. Virgin Islands do not have any high-cost areas in 2023.

SUBORDINATE FINANCING

Generally, first mortgages that are subject to subordinate financing are eligible if the subordinate lien is recorded and will be clearly subordinate to our mortgage lien.

- The loan file must disclose subordinate financing repayment terms to the underwriter and the appraiser.
- Any subordinate lien(s) secured by the subject, regardless of the obligated party, must be considered when calculating the CLTV/HCLTV, including business loans such as those provided by the Small Business Administration.

PURCHASE TRANSACTIONS

For purchase transactions, a copy of the approval of the subordinate financing is required to confirm eligible terms prior to closing. A copy of the note and mortgage/deed of trust will be required at time of closing.

REFINANCE TRANSACTIONS

For refinance transactions, a copy of the current note and mortgage/deed of trust must be provided. A recorded subordination agreement is required for all loans closing with subordinated financing.

ACCEPTABLE SUBORDINATE FINANCING TYPES

- Variable payment mortgages that comply with eligible terms, see below.
- Mortgages with deferred payments in connection with employer subordinate financing, see below.
- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Mortgage terms that require interest at a market rate.
  - If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.
- Eligible Community Second/Affordable Second programs. Refer to product guidelines for the Community Second Program, Doc. #5932, and Gift/Grant Program, Doc #5935.
  - Refer to Resale Restrictions for additional requirements when the Community/Affordable Second is used to subsidize the sales price.

Eligible Variable Payment Terms

Variable payments for subordinate financing (that do not otherwise qualify as eligible Community Second/Affordable Second loans) are eligible if the following provisions are met:

- With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. For HELOCs, the monthly payment does not have to remain constant.
- The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur, with the exception of employer subordinate financing that has deferred payments.

Eligible Repayment Terms for Employer Subordinate Financing

If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest-only. Employer subordinate financing may be structured in any of the following ways:

- Fully amortizing level monthly payments
- Deferred payments for some period before changing to fully amortizing level payments
- Deferred payments over the entire term
- Forgiveness of the debt over time

The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated, either voluntarily or involuntarily, before the maturity date of the subordinate financing.

UNACCEPTABLE SUBORDINATE FINANCING

- Subordinate financing with wrap-around terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage.
- Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage, (with the exception of employer subordinate financing that has deferred payments). Additionally,
    - Fannie Mae will allow subordinate financing terms when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.
    - Freddie Mac will allow a subordinate lien with less than five years if the lien is fully amortizing or a HELOC.
- Community Second liens cannot be subordinated on cash-out transactions.
- PACE liens are not eligible unless the loan is structured as an obligation that will subordinate.
- Share Appreciation liens that are not structured as an eligible Community Second program. These are programs providing down payment, closing cost assistance, and/or funding for renovations to the property, in exchange for repayment and a share in any future appreciation to the property.

MAXIMUM TOTAL LOAN-TO-VALUE RATIO

- The CLTV ratio is determined by combining the unpaid principal balances of the first mortgage and all subordinate mortgages and dividing that sum by the property's value, which is the lower of sales price or appraised value.
- HELOC: For mortgages that are subject to subordinate financing under a home equity line of credit, the High Credit Loan-to-Value (HCLTV) is obtained by dividing the sum of the first lien mortgage amount and the total HELOC credit line limit and any other secondary financing, by the lesser of the purchase price or appraised value.
  - If the credit line is being reduced to qualify, documentation must be provided prior to closing.

SMALL BUSINESS ADMINISTRATION LOANS (SBA)

Fannie Mae

Small business administration loans secured by the subject property must be treated as subordinate financing and be included in the calculation of the CLTV and HCLTV ratios. The monthly payment of the subordinate lien must also be included in the borrower's DTI ratio calculation unless the requirements of business debt in the borrower's name can be met.

Freddie Mac

The SBA must be included in the HCLTV and borrower must qualify with the payment.

DEFINING REFINANCE TRANSACTIONS BASED ON SUBORDINATE LIEN PAYOFF

The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

Underwriting Considerations		
Refinance transaction includes payoff of the first lien and	**Then lenders must underwrite the transaction as a**	**Comments**
The payoff of a purchase money second with no cash-out	Rate-and-term refinance	N/A
The payoff of a non-purchase money second, regardless of whether additional cash-out is taken	Cash-out refinance	N/A
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property and the borrower is not taking cash-out except to the extent permitted for a rate-and-term refinance transaction	Rate-and-term refinance	The subordinate financing must be factored into the comprehensive risk assessment based on the CLTV, HCLTV and total debt-to-income ratio. The subordinate lien must be re-subordinated to the new first mortgage loan.
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property and the borrower is taking cash-out	Cash-out refinance	

PRIVATE MORTGAGE INSURANCE

Mortgage insurance providers may have additional restrictions not listed within this document. Please refer to each mortgage insurance company's website for complete eligibility details.

All private mortgage insurance should be ordered in Flagstar Bank's name if table-funded. MI underwriting services are available only through Arch, MGIC, Radian, National MI and Enact.).

It is the responsibility of the loan originator to properly disclose all fees and charges to all applicants and to ultimately ensure that the lowest premium insurance is being offered. Flagstar Bank is not responsible for ensuring that the borrower is disclosed and that the loan closes with the correct MI coverage and premiums. If a loan closes with insufficient MI coverage, regardless if Flagstar Bank ordered the certificate, the originating broker or correspondent will be responsible for purchasing additional MI coverage to satisfy the investor's coverage requirement.

Private MI is required for all loans in excess of 80% LTV. The LTV and CLTV will be determined by the lesser of the appraised value or sales price. Refer to the *New York Properties* section for a deviation to this guideline regarding certain loans originated in New York.

Anytime a loan has an increase in the interest rate, the MI Company must approve the increase prior to closing and the file returned to the underwriter to be reviewed. MI must be disclosed on the Loan Estimate, First Payment Letter and Closing Disclosure.

STANDARD MORTGAGE INSURANCE

Refer to Flagstar Bank product descriptions for the standard required coverage levels for mortgage insurance for each individual product.

MONTHLY MORTGAGE INSURANCE

MI companies offer a monthly MI program. This program offers the same coverage as yearly premiums, but is billed monthly instead of prepaid annually. Flagstar Bank now orders all MI a Zero Initial Premium (ZIP/ZOMP), unless otherwise requested. This allows the borrower to pay zero up-front MI at the time of closing. The MI must still be disclosed on both the updated LE, disclosing new loan terms, such as new rate and/or MI premiums, and First Payment Letter.

FINANCED SINGLE PREMIUM MORTGAGE INSURANCE

MI guidelines apply to the LTV; MI pricing is based on the base loan amount. Program eligibility and mortgage pricing are determined based on the gross loan amount, the HCLTV including Single Financed Mortgage Insurance (SFMI). Refer to *Single Financed MI Matrix*, Doc. #5010 for additional HCLTV parameters.

- The level of required MI coverage may be based on the LTV of the mortgage before the financed MI premium is added.
- The mortgage amount after adding the financed MI premium cannot exceed the maximum mortgage amount limits set forth in the *Maximum Mortgage Amounts* section.
- The mortgage insurance policy must include an endorsement, generally referred to as the "financed mortgage insurance premium endorsement."
- The initial mortgage premium or the one-time single premium may be paid, not financed, by the lender, the borrower's employer, or the property seller. If the lender or the seller pays the mortgage insurance, the contribution must be included in the calculation of the total value of the financing concessions limits.

Radian

For Single Premium Mortgage Insurance, loans with a DTI that exceeds 45% will require a minimum credit score of 700 and is limited to a 95% LTV.

Fannie Mae Single Financed MI Requirements

- The coverage has been obtained based on the LTV ratio after any IPC adjustments, if required, have been made.

Freddie Mac Single Financed MI Requirements

- The mortgage insurance premium must be paid with a single premium payment.

LENDER PAID MORTGAGE INSURANCE (LPMI)

Refer to product descriptions for details

- MI Certificate must be ordered at the time interest rate is locked to insure correct pricing
- If loan is locked prior to obtaining the LPMI certificate, loan may be subject to re-pricing

NEW YORK PROPERTIES

The handling of MI coverage for purchase transactions with a property address in the state of New York are handled differently than the rest of the country. The rule for loans with a property address in the state of New York is as follows:

Policy for Determining If Mortgage Insurance is Required		
Property Type	**Loan Purpose**	**Policy**
SFR, 2 to 4-Unit, Condo and PUD	Purchase and all refinance transactions	The appraised value is used to determine if mortgage insurance is required.
Co-op	Purchase	The sales price is used to determine if mortgage insurance is required.
Co-op	Refinance	The appraised value is used to determine if mortgage insurance is required.

Policy for Determining the Level of Mortgage Insurance Coverage	
Property Type	**Policy**
LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation) for all property types	Irrespective of the use of appraised value or sales price for determining whether mortgage insurance is required, the standard LTV ratio calculation must be used to determine the level of mortgage insurance coverage that is required.

MORTGAGE INSURANCE RESTRICTIONS

Mortgage insurance providers may have additional restrictions not listed within this document:

- Custom Mortgage Insurance
- Any LTV above 97%

- Split Mortgage Insurance
- Loans with potential negative amortization
- Interest-only loans
- Single-Financed MI on Manufactured homes
- Properties in the Virgin Islands
- Refinances with reduced payoffs (short refinance/payoff)
- Borrower(s) with ITIN (only eligible with Enact when at least one borrower on the transaction has a valid social security number)

INCOME AND EMPLOYMENT

Employment and income are essential for loan repayment. Qualifying income should be stable, predictable, and likely to continue. The applicant must demonstrate the financial wherewithal to repay the proposed loan transaction as well as other obligations.

Verification of income and employment will depend upon product requirements, DU/LPA messaging and current Flagstar Bank policy (i.e. when a 4506-C is required, what type of verbal verification must be performed). The income information must be input correctly not only in terms of amount, but categorically, e.g. commission income in appropriate section, borrower indicated as self-employed, etc.

Loans underwritten in conjunction with LPA or DU, you must indicate to the automated underwriting system the non-occupancy of the co-borrower. If correctly identified with a non-occupant co-borrower, LPA and DU will determine the acceptability of housing and debt ratios. The maximum LTV/CLTV/HCLTV for loans with a non-occupant co-borrower underwritten with LPA or DU is 95% if an *Accept* or *Approve* response is received.

In determining whether a mortgage is eligible, the income from all borrowers who will sign the Note, to the extent that the income is considered in evaluating creditworthiness for the loan, must be reviewed and meet the standards of the guidelines.

EMPLOYMENT STABILITY

A two-year employment history must be reflected on the application, though there are circumstances when less than two years may be acceptable. The purpose of reviewing employment history is to assure that the borrower has a history of receiving stable income from employment, and other sources, and that there is reasonable expectation that the income will continue to be received in the foreseeable future.

CONVERTING FROM PART TIME TO FULL TIME

When a borrower has converted from part time to full time with the same employer, the income must be documented with a WVOE (Form 1005) to document the date the borrower transitioned to full time in order to use the current wages.

EMPLOYED BY FAMILY OR AN INTERESTED PARTY

When a borrower is employed by family or by an interested party to the transaction (e.g. seller, real estate agent, broker, etc.), individual tax returns with all supporting schedules, and a 4506-C for all applicable tax returns for prior year(s) is required to determine stability of income and potential ownership interest to document less than 25% ownership.

- Fannie Mae - The most recent two years tax returns are required
- Freddie Mac - The most recent prior year tax returns are required.

FREQUENT JOB CHANGES

Although individuals who change jobs frequently often perform equally with those who have been employed by a single employer, there may be occasions that warrant a closer examination of employment and income. For example, frequent changes in employment for reasons other than advancement, e.g. changing careers, or extended periods of unemployment may be indicative of an unsteady work history and income.

Borrowers who work in certain industries may experience frequent job changes due to the nature of the work, e.g. seasonal or unskilled labor. In these instances, borrowers should not be penalized provided they have demonstrated the ability to maintain a steady income despite the changes.

GAP IN EMPLOYMENT

All employment gap(s), regardless of the length of time, must be reviewed to determine the likelihood of stability and continuance of income. Additional information may still be required regarding prior earnings if the income is considered less predictable to support a reliable flow of income for qualifying purposes.

NEWLY EMPLOYED

For a borrower who has less than a two-year employment and income history, the borrower's income may be used for qualifying if the borrower can document they were either attending school or in a training program immediately prior to their current employment history.

RE-ENTERING THE WORK FORCE

Documentation to support stable employment history directly preceding an extended absence will be required when a borrower is re-entering the workforce.

CALCULATING INCOME

NON-FLUCTUATING INCOME

Non-Fluctuating Employment Earnings	
Pay Period	**Calculation of Income**
Annual Salary	Annual Pay divided by 12
Monthly Salary	As indicated
Semi-monthly Salary	Base Pay x 24 / 12
Bi-weekly Salary	Base Pay x 26 / 12
Weekly Salary	Base Pay x 52 / 12
Hourly	Rate of Pay x # Hours worked per week x 52 / 12

VARIABLE INCOME

Examples of less predictable income sources include hourly workers with fluctuating hours (based on hourly rate of pay and where the number of hours fluctuate each pay period), or employment that is subject to time limits, such as contract employees or tradesmen. Additional fluctuating income includes commissions, bonuses, and overtime pay.

History of Receipt

Two or more years of receipt of a particular type of variable income is recommended (may be from a combination of current and previous employment); however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history. No less than 12 months of variable earning must be received regardless if the income is derived a primary and/or secondary source of income.

Frequency of Payment

Determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis. Examples include, but are not limited to:

- If a borrower is paid an annual bonus the amount should be divided by 12 months.
- If a borrower is paid overtime the differences between current period overtime and year-to-date earnings should be reviewed and document the analysis before using the income amount in the trending analysis.

Income Trending

After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's, written verification of employment, or tax returns.

- If the trend in the amount of income is stable or increasing, the income amount should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current lower amount of variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.
    - Freddie Mac- If the decline between prior year and year to date exceeds 10%, documentation may be needed to determine the reason for the decline and support stabilization.
- In some cases, despite an ordinarily acceptable history of receipt Flagstar Bank may elect not to allow a borrower to be qualified using variable pay from overtime, commission or bonus as a function of topical media news indicating the borrower is employed in a financially troubled company or industry.
- Projected variable income that has no historical basis is not an acceptable source of income.

<u>INCOME VERIFICATION</u>

To substantiate employment and income for a salaried or commissioned borrower, confirmation of the borrower's earnings for the current year (including the most recent 30-period) and, if applicable, earnings over the past two years, must be provided.

EMPLOYMENT DOCUMENTATION

Documentation may include:

- W-2s (employee copy) based on applicable years required
- Computer generated copies of paystubs, or payroll earning statements downloaded by the borrower from the internet, for the most recent 30-day period prior to the application date must include:
    - The borrower's name or social security number
    - Total current and year-to-date earnings

    - Employer's name
    - If the borrower receives handwritten or non-computer-generated paystubs, a WVOE (Form 1005) and a 4506-C are required prior to closing
- When supplied income documentation (paystub, W-2s, and/or WVOE (Form 1005)) shows "rounded" earnings, 1040s may be required to support the income figures provided.

THIRD-PARTY INCOME REPORTS- FREDDIE MAC

For Freddie Mac (LPA) transactions, Flagstar will accept third-party documentation of income and employment from all third-party approved service providers designated by Freddie Mac. The report must be accessed and provided to Flagstar by the Whole Broker/Correspondent as obtained directly from the provider's electronic database. A report that was produced from a manual process is not considered eligible.

The list of Freddie Mac designated third-party service providers can be found on Freddie Mac's Asset and Income Modeler page.

Income Types for Use with Third-Party Services

- Base income (fixed and variable) except for the following:
    - military pay;
    - earnings from employment related to a borrower employed by family member, property seller, real estate broker or other interested third party to the transaction;
    - employed income from foreign sources; or
    - income reported on form 1099
- Additional Employed Income such as overtime, bonus and commission.

VERIFICATION OF EMPLOYMENT [FORM 1005 AND 1005(S)]

The Written Verification of Employment (Form 1005 and Form 1005(S)) may be used to document income for a salaried or commissioned borrower in lieu of a paystub and W-2 forms. The information on Form 1005 or 1005(S) must be legible, white-outs and un-initialed changes are not acceptable.

The following fields on the form are optional:

Field #	Title of Optional Field
11	Probability of continued employment
14	If overtime or bonus is applicable, is its continuance likely?
16	Date of applicant's next pay increase
17	Projected amount of next pay increase
18	Date of applicant's last pay increase
19	Amount of last pay increase
24	Reason for leaving (Part III – Verification of Previous Employment)

IRS W-2 TRANSCRIPTS IN LIEU OF W-2S

When lenders verify employment income for borrower's whose income is used to qualify for the mortgage loan, borrower-provided paystubs, and IRS W-2 forms are one option that can be utilized to document the income. In lieu of W-2 forms, other documentation options are a WVOE (Form 1005) or the final year-to-date paystub. Fannie Mae will also now permit an IRS "Wage and Income Transcript" (W-2 transcript) in lieu of the actual W-2 forms.

FOREIGN INCOME

Foreign income is income that is earned from a foreign corporation or a foreign government and is paid in foreign currency. All income must be converted to US dollars based on the exchange rate at the time of underwriting for qualifying purposes. All written communication must be presented in English or translated to English by a certified translator.

Foreign Income		
Citizenship	U.S. Citizen	May live abroad for work, must still maintain a present address within the US.*
	Permanent Resident Alien	
	Non-Permanent Resident Alien	Must currently and lawfully reside in the US.
Occupancy	Subject to underwriter's discretion	
Documentation	When a Borrower receives employed or non-employment related income from a foreign source, the income may be considered for qualifying income provided the income is reported on the Borrower's U.S. federal individual income tax return for the most recent year. • Fannie Mae- two years tax returns required • Freddie Mac- one-year tax returns required	
	Standard income documentation requirements must be provided. All income must be translated into U.S. dollars.	
Ineligible Sources	U.S. Citizen	Self-employment documentation requirements remain the same, including in some cases, the requirement for business tax returns. Self-employed borrower who earns the self-employment income from a country other than the United States and the income is not reported on the U.S. tax returns (e.g. Schedule C or Schedule E) are not eligible.
	Permanent Resident Alien	
	Non-Permanent Resident Alien	• Self-employed borrower who earns the self-employment income from a country other than the United States. • Borrowers previously self-employed who earned the self-employment from a country other than the United States in the last two years,

*An investment property address cannot be used to obtain the credit report and submit AUS

Refer to the *Resident and Immigration Status* section for additional eligibility requirements.

EMPLOYMENT VERIFICATION

VERBAL VOE REQUIREMENTS FOR HOURLY, SALARY, AND COMMISSION INCOME

The broker/correspondent must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 business days prior to the closing date.

- Alternatively, the VVOE may be obtained after closing up to the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery to Flagstar Bank.
- The broker/correspondent must independently obtain a phone number, and if possible, an address for the borrower's employee. This can be accomplished by using a telephone book, the internet or directory assistance, or by contacting the applicable licensing bureau.
- If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the

source of the phone number. The written documentation should also include the name and title of the person who performed the verification for the broker/correspondent.

- Because third party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was not more than 35 days old as of the note date. The report must be obtained within the same time frame (10 business days) as a VVOE.
- If the borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), and the union facilitates the borrower's placement in each assignment, the verbal VOE may be obtained from the union.
- An email verification of employment is an acceptable form of written verification. The Mortgage file must also include the e-mail exchange with the Borrower's employer from the independently obtained employer's work e-mail address that, at a minimum, includes all of the following:
  - Borrower's name and employer's name
  - Name and title of the individual contacted at the employer, date of contact and the individual's work e-mail address
  - Borrower's current employment status
  - In addition, the Mortgage file must include:
    - Information about the third-party source used to obtain the employer's e-mail (e.g., a reliable internet source), and
    - Name, title and employer of the representative who contacted the borrower's employer and obtained the e-mail verification
- If a borrower is in the military, a Military Leave and Earnings Statement (LES) is acceptable in lieu of a verbal VOE when dated within 120 calendar days of the Note date.

VERBAL VERIFICATION OF EMPLOYMENT FOR SELF-EMPLOYED

The existence of the business must be documented within 120 calendar days prior to the note date.

- Alternatively, the VVOE may be obtained after closing up to the time of funding/purchase of the loan. If the VVOE cannot be obtained prior to funding/purchase, the loan is ineligible for delivery to Flagstar Bank.
- The existence of the borrower's business must be verified from a third-party source. Acceptable third-party sources include the following:
  - CPA, regulatory agency, or the applicable licensing bureau, if possible, or
  - By verifying a phone listing and address for the borrower's business using the internet or directory assistance.

<u>UNACCEPTABLE SOURCES OF INCOME</u>

Income derived from any of the following may not be used in calculating qualifying income:

- Income based on future wage increases
- Draw Income
- VA Education Benefits
- Income not listed on Tax Returns or
- Income that cannot be documented and verified

- Income derived from an activity that is prohibited by federal, state or local law, rules and regulations cannot be considered. This applies to both W2 and self-employment, regardless if reporting income or loss. Income sources may include, but not limited to:
    - Medical marijuana dispensaries
    - Any business or activity related to marijuana or CBD (e.g. growing, processing, distribution, etc.) even if legally permitted under state or local law.
- Income derived from virtual currency, such as cryptocurrency, including but not limited to:
    - Income paid to or earned by the borrower in the form of cryptocurrency
    - Assets to establish income continuance such as retirement distributions, trust or dividend/interest income
    - Use in assets as a basis for repayment of obligations
    - Rental payments. When a lease is necessary the payment method on the lease must be reflected in U.S. dollars.

Special consideration may need to be given to income from sources other than wages and salaries. Specific treatment for the other types of income is discussed in more detail in the following sections.

EMPLOYMENT RELATED INCOME TYPES

AUTOMOBILE ALLOWANCES

The full amount of an automobile allowance may be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income ratio. The borrower must have received the payments for the last two consecutive years.

BONUS, OVERTIME AND COMMISSION INCOME

Bonus, Overtime and Commission income may fluctuate from year-to-year. For additional employment income requirements see Variable Income section.

HOUSING OR PARSONAGE INCOME

Housing or parsonage income, often received by ministers or clergy members, may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

Freddie Mac

For a newly hired transferred employee, purchasing a new primary residence under an employee relocation program, a housing allowance may be considered as stable income without documented evidence of 12 months receipt. Allowance must be likely to continue for three years.

MORTGAGE DIFFERENTIAL PAYMENTS

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered as acceptable stable income if the borrower's employer verifies its subsidy in writing stating the amount and duration of the payments. The payments must continue for at least three years from the date of the mortgage application. The differential payments should be added to the borrower's gross income when calculating the qualifying ratio. They cannot be used to offset directly the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower.

MILITARY INCOME

Military personnel may be entitled to different types of pay in addition to their base pay. The following to be considered stable income provided the income is likely to continue for at least three years

- Flight pay
- Hazardous duty pay
- Rations
- Clothing allowance (usually paid yearly)
- Housing allowances

Education benefits may not be used to calculate qualifying income.

Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments, allowances, estimated time in service, and the amount of net and gross pay. Also, obtain and verify the following information from the borrower's latest Leave and Earnings Statement (LES):

- Military rank
- Social Security Number
- Military address
- Length of active service to date

The tax-free income from housing (BAQ), rations, uniforms, food, flight pay, etc. can be used as income to qualify for the loan. Grossing up of this income is subject to standard. The LES statement must show at least 12 months remaining for time in servicing, otherwise the tax-free income cannot be used to qualify for the loan.

EMPLOYMENT CONTRACTS

Fannie Mae

When a borrower has an employment contract the income may be used for qualifying provided all of the following requirements have been met:

Employment Contact- Fannie Mae	
Subject	**Requirements**
Special Feature Code	Special Feature (SFC 707) must be applied to the loan
Eligible employment and income	Employment and income must meet the following requirements: • Income must be from new primary employment • Income must be fixed base income only • The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction
Start date of the new employment	• No earlier than 30 days prior to the note date or no later than 90 days after the Note Date • May be before or after the Delivery Date
Eligible loan purpose	The Mortgage must be originated for one of the following purposes: • Purchase transaction
Eligible Mortgaged Premises	The Mortgaged Premises must be a 1-unit Primary Residence

Employment Contact- Fannie Mae	
Subject	**Requirements**
Verification of additional funds	In addition to funds required to be paid by the Borrower and Borrower reserves, the underwriter must verify additional funds in the Borrower's depository and/or securities account(s) with one of the following: • Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or • Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. Resources include both financial reserves and current income. ○ Current income refers to net income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.

Required documentation	The following documentation is required:
	• Copy of the employment offer or employment contract for future employment:
	  ○ Executed by the employer and accepted and signed by the borrower
	  ○ Is non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared, and
	  ○ Includes the terms of employment, including employment start date along with type and rate of pay
	• Documentation of additional funds, as required above
	• If the start date is on or no more than 30 days prior to the note date a verbal verification of employment is required that confirms active employment status.

DU	When the years and months on job in DU are 0 or blank, DU will issue a message specifying the requirements specific to these transactions.

Freddie Mac

For borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided that all requirements for option one in the following table are met.

Employment Contract- Freddie Mac	
Subject	**Requirements**
Eligible employment and income	Employment and income must meet the following requirements: • Income must be from new primary employment or a future salary increase with the current primary employer

Employment Contract- Freddie Mac	
Subject	**Requirements**
	• Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and • The Borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction
Start date of the new employment or future salary increase, as applicable	• Must be no later than 90 days after the Note Date • May be before or after the Delivery Date
Eligible loan purpose	The Mortgage must be originated for one of the following purposes: • Purchase transaction • Rate-and-Term
Eligible Mortgaged Premises	The Mortgaged Premises must be a 1-unit Primary Residence
Verification of additional funds	In addition to funds required to be paid by the Borrower and Borrower reserves, the underwriter must verify additional funds in the Borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense (PITIA) and all other monthly liabilities multiplied by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation. The amount of the required <u>additional</u> funds may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note date and start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase. Income used to reduce reserves but not qualify the borrower must follow standard income documentation requirements (e.g., paystub, W2 and VVOE).

Required documentation	The following documentation is required:
	• Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that:
	    o Is fully executed and accepted by the Borrower
	    o Is non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared, and

Example: Borrower will start employment 60 days from Closing	
Verified gross income that will be received prior to future income	$5000
PITIA + All other liabilities	$6000
Additional Reserves 60 days plus 1 additional month	$18,000 (PITIA + liabilities x 3)
Reduction in reserves	$10,000 (income x 2)
Additional Reserved to be verified	$8,000

Employment Contract- Freddie Mac	
Subject	**Requirements**
	◦ Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings • For a future salary increase provided by the Borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted to the Borrower • A 10-day pre-closing verbal verification of employment verifying the terms of the employment offer letter, contract or future salary increase have not changed • Documentation of additional funds, as required above

RESTRICTED STOCK (RS) AND RESTRICTED STOCK UNITS (RSU) - FREDDIE MAC ONLY

Employers increasingly include RS and RSU as a component of employee compensation. RS are grants of company shares which represent equity interest in the company. RSU are grants valued in terms of company shares that do not represent equity interest in the company. Both RS and RSU are subject to a restriction period during which recipients are not permitted access to granted shares until vesting requirements are met. Vesting requirements are based on varying criteria but the most common types are:

- Performance-based (e.g., a certain percentage of total granted shares vest based on individual or corporate performance)
- Time-based (e.g., a certain percentage of total granted shares vest after a pre-determined period of employment)

Analysis of Income Fluctuation and Stability

The determination of stability for RS and RSU income used to qualify must include analysis of changes in the company's stock price as well as past and future distributions detailed in a vesting schedule. If the YTD earnings are consistent with the previous year(s) earnings or trending upward, then the underwriter must use the applicable calculation method(s) below to determine the monthly income. If the earnings are not consistent (i.e., the value of vested shares distributed decreases substantially year-over-year), additional analysis is required and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income.

Eligible Asset

Stock with limitations on its accessibility (e.g., restricted stock which has not vested and been distributed to the recipient) is not eligible source of borrower funds and may not be used reserves and/or closing costs.

RSU Income Type	Stable Monthly Income Requirements	Documentation Requirements
RS and RSU subject to performance-based vesting provisions	History of receipt: • Two years, consecutive • To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their	All of the following: • YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU, W-2 forms for the most recent two calendar years and a 10-day

RSU Income Type	Stable Monthly Income Requirements	Documentation Requirements
	current employer, without restriction Continuance: Must be likely to continue for at least the next three years. The underwriter is not required to obtain documentation to verify income continuance, absent any knowledge, information or documentation that the income is no longer being received or is likely to cease**.**	prior to close verbal verification of employment. Or all of the following: • Written verification of employment (form 1005) documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years, and a 10-day prior to close verbal verification of employment. Employment and income verifications obtained through a third-party verification service provider are permitted, providing that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU. Additional documentation requirements applicable to all documentation levels: • Evidence the stock is publicly traded; and • Documentation verifying that the vesting provisions are performance-based (e.g.RS and/or RSU agreement, offer letter); and Vesting schedule(s) currently in effect detailing past and future vesting; and • Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, includes the number of vested shares or its cash equivalent distributed to the Borrower (pre-tax)

RSU Income Type	Stable Monthly Income Requirements	Documentation Requirements
RS and RSU subject to time-based vesting provisions	History of receipt: • One year • To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the Borrower from their current employer, without restriction Continuance: Must be likely to continue for at least the next three years. The underwriter is not required to obtain documentation to verify income continuance, absent any knowledge, information or documentation that the income is no longer being received or is likely to cease.	All of the following: • YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU, W-2 forms for the most recent calendar year and a 10-day prior to close verbal verification of employment. Or all of the following: • Written verification of employment (form 1005) documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years, and a 10-day prior to close verbal verification of employment. Employment and income verifications obtained through a third-party verification service provider are permitted, providing that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU. Additional documentation requirements applicable to all documentation levels: • Evidence the stock is publicly traded; and • Documentation verifying that the vesting provisions are time-based (e.g.RS and/or RSU agreement, offer letter); and Vesting schedule(s) currently in effect detailing past and future vesting; and • Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, includes the number of vested shares or

RSU Income Type	Stable Monthly Income Requirements	Documentation Requirements
		its cash equivalent distributed to the Borrower (pre-tax)

Calculation of RS and RSU Income	Requirement and Guidance
RS and RSU subject to performance-based vesting provisions	Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), the seller must use the applicable method(s) below to calculate the monthly income: <u>RS or RSU distributed as shares</u> Multiply the 52-week average stock price as of the application received date by the total number of vested shares distributed (pre-tax) to the borrower in the past two years, then divide by 24. (e.g., if 200 vested shares were distributed (pre-tax) in the past two years and the 52-week average stock price as of the Application Received Date is $10, multiply 200 x $10 then divide by 24= $83.33 monthly income) <u>RS or RSU distributed as cash equivalent</u> Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24.
RS and RSU subject to time-based vesting provisions	Based on the form in which vested RS or RSU are distributed to the Borrower (i.e., as shares or its cash equivalent), the Seller must use the applicable method(s) below to calculate the monthly income: <u>RS or RSU distributed as shares</u> Multiply the 52-week average stock price as of the Application Received Date by the number of vested shares distributed (pre-tax) to the Borrower in the past year, then divide by 12. (e.g., if 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as

Calculation of RS and RSU Income	Requirement and Guidance
	of the Application Received Date is $10, multiply 50 x $10 then divide by 12 =$41.67 monthly income) <u>RS or RSU distributed as cash equivalent</u> Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.

SEASONAL JOB INCOME

Seasonal income, including seasonal unemployment compensation, is considered stable for qualifying use when the borrower has a two-year history of receipt of seasonal employment (e.g. outdoor laborers, landscapers, construction workers, supplemental department store works during holiday periods, etc.). Seasonal unemployment compensation should not be used to qualify the borrower unless it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's federal income tax returns.

SECONDARY EMPLOYMENT INCOME

Secondary employment or multiple-job income is generally considered stable income for qualifying use when received and documented for the last two-years.

- There is flexibility of accepting less than a two-year history, but no less than a 12-month history for a borrower if there is a strong likelihood that the borrower will continue to receive that income and there are positive factors to offset the shorter income history
- It should be determined if there has been any recent change in the borrower's overall employment status that might jeopardize the continuance of income from the second job. For example, review of borrower's historic ability to handle multiple jobs on a continuing basis.
- For part-time income or income from multiple-jobs, refer to Variable Income section for additional eligibility requirements.
- Fannie Mae (DU)- There can be no gap in employment beyond one-month in the most recent 12-month period.

TEMPORARY LEAVES OF ABSENCE (INCLUDING MATERNITY LEAVES)

Temporary leave from an employer may encompass various circumstances (e.g. family and medical, short-term disability, maternity, other temporary leaves with or without pay). During a temporary leave, a borrower's income may be reduced and/or completely interrupted during their absence from work.

If the borrower will be on temporary leave at the time of closing and the borrower's income is needed to qualify, the following must be used to determine the allowable income and confirmation of employment:

- Leave is not a result of an employer-initiated action such as a furlough or layoff
- For borrowers returning to their current employer prior to the first mortgage payment due date:
  - The borrower's regular employment gross monthly income amount that will be received upon the borrower's return to their current employer may be used.
- For borrowers returning to their current employer after the first mortgage payment due date, the lesser of below must be used for qualification:
  - The borrower's regular employment gross monthly income; or

- The borrower's temporary monthly gross leave income (if any):
  - The use of temporary leave income should be classified as "other" income, and
  - If temporary income is less than the regular employment income, the temporary income may be supplemented with available liquid reserves
    - Assets that are required for the transaction (e.g., down payment, closing costs and reserves) may not be considered as available assets to supplement the income. Assets used for income must be reduced from the available asset balance(s)
    - The number of months of supplemental assets for income is based on the number of months from the first mortgage payment date to the date the borrower will begin receiving regular employment income, rounded to the next whole month

Documentation Requirements

The following documents must be retained in the loan file:

- Verification of the Borrower's pre-leave income and employment
- Documentation from the current employer confirming the borrower's statutory right to return to work, or the employer's commitment to permit the borrower to return to work.
  - Fannie Mae- The confirmation date of return, and the borrower's post leave employment and income must be provided.
- Written statement signed by the borrower confirming that the borrower will return to their current employer stating the confirmation date of return that has been agreed upon between the borrower and the employer.

In addition, the following documentation is required for borrowers returning to the current employer after the first mortgage payment due date:

- Documentation evidencing amount, duration, and consistency of all temporary leave income sources being used to qualify the borrower, e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer, that are being received during the temporary leave
- All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet requirements of and be verified.

TIP INCOME

- Borrower has received it for the last two years and the employer indicates that the tip income will in all probability continue.
- An average of the past two years' tip income must be entered in DU or LPA as *Other Income*.
- If the income is not reported by the employer on the WVOE (Form 1005) or paystub and W-2s, the borrower may document the income reported on Form 4137 (Social Security, and Medicare Tax on Unreported Tip Income) with the most recent two years of tax returns with the Form 4137 attached.

UNEMPLOYMENT BENEFITS

Unemployment benefits, such as those received by seasonal workers, may be considered as acceptable income if the income is properly documented, has been received for the past two years, and is predictable and likely to continue (as discussed for seasonal unemployment compensation). Copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years should be used to establish a history of the receipt of these benefits.

UNION WORKERS

Union workers are members of a specific trade union and are often skilled tradespersons (e.g. electricians, plumbers, roofers, etc.) Workers can work for a single employer on a long-term basis or for more than one employer throughout the year. At the completion of a job, the Union will then refer the individual to a new employer. During the individual's course of employment with the assigned employer, they are paid directly by the employer, not the Union. Their jobs may be seasonal and it is not uncommon for individuals to receive unemployment during down time. If the borrower is in a line of work that is deemed seasonal (e.g. roofing) and is not working at the time of the loan application or closing, they may still be eligible for financing. Verify that the borrower is a member of the union and in good standing. It is not necessary to verify the union dues or count them as a liability. If the borrower is a member of a local trade union and obtains employment via these means, income can be verified by the following:

- Paystubs for the current year, two years tax returns, and two years of W-2s, or
- A WVOE (Form 1005) from the Union for earnings from all employers during the current year and a W-2 from the prior year.

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When verifying employment for borrowers who work in occupations that result in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union that facilitates the borrower's placement in each assignment can provide the following:

- Verbal verification of employment for a union member who is currently employed
- An executed employment offer of contract for future employment for a union member who is not scheduled to begin employment until after the loan closes.

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When verifying employment for a borrower who works in an industry where they may switch employers frequently, the union facilitates the next position, and the borrower has a stable and consistent employment and income history, the union may provide:

- VVOE for a union member who is currently employed or may or may not be in between employers at time of closing.

<u>NON-EMPLOYMENT RELATED INCOME TYPES</u>

ALIMONY OR CHILD SUPPORT

In order for alimony or child support to be considered as acceptable stable, income, it must continue for at least three years after the date of the mortgage application. We will accept as verification that alimony or child support will continue to be paid with a copy of the divorce decree, or separation agreement if the divorce is not final, that provides for the payment of alimony or child support and states the amount of the award and the period of time over which it will be received; any other type of written legal agreement or court decree that describes the payment terms for the alimony or child support; or any application state law that requires alimony, child support, or maintenance payments and specifies the conditions under which the payments must be made. Voluntary or proposed payments may not be used as income. When determining the acceptability of this type of income, the lender should take into consideration the stability of the borrower's regular receipt of the full payment due and any limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid. If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income when qualifying the borrower.

The borrower must provide acceptable evidence of their receipt of funds for alimony or child support or maintenance payments, such as deposit slips, court records, copies of signed federal income tax returns that were filed with the IRS or copies of the borrower's bank statements that show the regular deposit of these funds. A lender's underwriting analysis should take into consideration the regularity and timeliness of the payments, as well as whether the borrower received all or only part of the full amount that was due.

Document no less than six months of the borrower's most recent regular receipt of the full payment. To be considered stable income, full, regular, and timely payments must have been received for six months or longer. Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. When a borrower has been receiving full, regular, and timely payments for alimony or child support or maintenance for fewer than six months, the income may not be considered as stable income, although, if the income is adequately documented, the lender may use it to justify a higher qualifying ratio.

When a borrower has been receiving full or partial payments for alimony or child support or maintenance on an inconsistent or sporadic basis, the income may not be considered as stable income or be used to justify a higher qualifying ratio.

ANNUITY INCOME

Annuity income is similar to pension and Social Security income except that it may not be payable for life. A copy of the most recent updated annuity renewal statement showing the effective date, amount, frequency, and duration of the benefit payments showing income will continue for at least three years must be obtained.

CAPITAL GAINS INCOME

Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on the income from capital gains to qualify for the mortgage, copies of the borrower's signed federal income tax returns that were filed with the IRS for the past two years, including the related Capital Gains and Losses (Schedule D to IRS Form 1040) must be obtained. When the borrower's tax returns show that they have realized capital gains for the last two years, develop an average income from capital gains and use that amount as part of the borrower's qualifying income, as long as the borrower provides evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage payments.

The sale of real estate is not acceptable to be used as qualifying income unless documentation can establish that the borrower does this for a living.

DISABILITY INCOME- LONG TERM

Disability benefit payments should be treated as acceptable income unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Benefits that have a defined expiration date must have a remaining term of at least three years from the date of the mortgage application in order to be used for qualifying the borrower. For example, if a borrower is receiving disability benefits that are scheduled to be discontinued when they reach a certain age and the borrower will reach that age within three years of loan closing, the lender should not count the disability benefit as stable income. When a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the lender must use the amount of the long-term payments in determining the borrower's stable income.

Generally, long-term disability will not have defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Verification of long-term disability must be documented with one of the following:

- Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:
  - The borrower's current eligibility for the disability benefits, and
  - The amount and frequency of the disability payments, and
  - If there is contractually established termination or modification date

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- In addition to the copy of benefits as listed above, current receipt of disability must also be verified, unless one of the below circumstances exist. A bank statement must be provided if the benefit verification letter or pay statement does not support current receipt.
  - Current receipt is not required when one of the following is verified:
    - For newly established long-term disability, as long as the finalized terms of the new income document the income will commence prior to or on the first mortgage payment due date.
    - For future long-term disability that commences after the first mortgage payment due date when the borrower is currently receiving short-term disability benefits that are converting to long-term benefits. The borrower must be qualified with the lesser of the documented long-term or short-term disability payments
- If the policy has a pre-determined expiration date (e.g. policies provided by employer and private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.

Social Security income for long term disability will not have defined expiration date and must be expected to continue. See *Social Security Income* section for required documentation.

EMPLOYMENT-RELATED ASSETS AS QUALIFYING INCOME FOR FANNIE MAE (DU)

The following provides the requirements for employment-related assets that may be used as qualifying income:

Loan Parameters for Employment-Related Assets –Fannie Mae	
Parameter	**Transaction Requirements**
AUS	DU Approve/Eligible required
Maximum LTV/CLTV/HCLTV	• 70% • 80% when all asset owners are at least 62 at the time of the loan closing
Minimum Representative Credit Score	620
Loan Purpose	Purchase and rate-and-term refinance only

<table>
<tr><th colspan="3">Loan Parameters for Employment-Related Assets –Fannie Mae</th></tr>
<tr><td>Parameter</td><td colspan="2">Transaction Requirements</td></tr>
<tr><td>Occupancy</td><td colspan="2">Principal residence and second home only</td></tr>
<tr><td>Number of units</td><td colspan="2">As permitted by the occupancy type</td></tr>
<tr><td>Income Calculation/Payout Stream</td><td colspan="2">Divide “Net Documented Assets” by amortization term of the mortgage loan (in months).</td></tr>
<tr><th colspan="3">Asset Parameters</th></tr>
<tr><td>Parameter</td><td colspan="2">Requirements</td></tr>
<tr><td>Asset Requirements</td><td colspan="2">• Owned individually by the borrower, or the co-owner of the asset must also be a co-borrower of the subject property
• Assets must be liquid and available to the borrower</td></tr>
<tr><td>Eligible Assets</td><td colspan="2">• Non-self-employed severance package or non-self-employed lump sum retirement package, i.e. a lump sum distribution, must be documented with a distribution letter from the employer (1099R) and deposited to a verified asset account; or
• 401(k) or IRA, SEP, KEOGH retirement accounts, the borrower must have unrestricted access to the funds in the accounts and can only use the account if distribution is not already set up or the distribution amount is not enough to qualify. The account and its composition must be documented with the most recent monthly, quarterly, or annual statement.</td></tr>
<tr><td>Ineligible Assets</td><td colspan="2">• Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds).
• Virtual currency, such as cryptocurrency</td></tr>
<tr><td>Penalty</td><td colspan="2">If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.</td></tr>
<tr><td>Access to Funds</td><td colspan="2">A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).</td></tr>
<tr><td>Net Assets</td><td colspan="2">“Net documented assets” are equal to the sum of eligible assets minus: (a) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; (b) the amount of funds used for down payment, closing costs, and required reserves.</td></tr>
<tr><td rowspan="6">Calculation of Income</td><td colspan="2">Example: Calculation of Net Document Assets</td></tr>
<tr><td>IRA (made up of stocks and mutual funds)</td><td>$ 500,000</td></tr>
<tr><td>Minus 10% of $500,000 ($500,000 x .10) (Assumes a 10% penalty applies for early distribution, which must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)</td><td>(-) $50,000</td></tr>
<tr><td>Total eligible documented assets</td><td>(=) $ 450,000</td></tr>
<tr><td>Minus funds required for closing (down payment, closing costs, reserves)</td><td>(-) $100,000</td></tr>
<tr><td>Net Documented Assets</td><td>(=) $ 350,000</td></tr>
</table>

Loan Parameters for Employment-Related Assets –Fannie Mae		
Parameter	**Transaction Requirements**	
	Monthly income calculation ($350,000/360 (or applicable term of loan in months)) See Income Calculation/Payout Stream in table above.	$972.22/month

NON-EMPLOYMENT-RELATED ASSETS AS QUALIFYING INCOME FOR FANNIE MAE (DU)

When the borrower has liquid assets that are not employment-related, the assets may be used to qualify the borrower if the following terms are met:

Loan Parameters for Non-Employment-Related Assets- Fannie Mae	
Parameter	**Transaction Requirements**
Special Feature Code	Special Feature Code (SFC 579) must be applied to the loan
AUS	DU Approve/Eligible required.
Maximum LTV/CLTV/HCLTV	• 80% for purchase and rate-and-term refinance • 60% for cash-out refinance
Minimum Representative Credit Score	• 680 ≤ 70% LTV • 720 > 70% LTV
Occupancy	Principal Residence and Second Homes
Number of Units	• 1-2-unit Principal Residence • 1-unit Second home • Manufactured Homes are ineligible
Reserves	• Per the underwriting guidelines • The borrower's minimum reserve requirements may not be satisfied using any of the Other Financial Assets that are being converted into an income stream.
Application	• List as *Other* income of the application
Income Calculation/Payout Stream	Divide "Net Documented Assets" by term of mortgage
Restriction	Not eligible under *Fannie Mae Refi Now*, Doc. #5367
Asset Parameters	
Parameter	**Requirements**
Asset Requirements	• Owned individually by the borrower, or the co-owner of the asset must also be a co-borrower of the subject property • Assets must be liquid and available to the borrower without penalty

Minimum Asset Amount	• Purchase and Rate-and-Term Refinance:
	  ○ the lesser of one and one-half times the original UPB or $500,000
	• Cash-Out Refinance:
	  ○ $500,000

Asset Seasoning	• Purchase and Rate-and-Term Refinance
	  ○ 12 months with minimum representative credit score of 720
	  ○ 24 months with a representative credit score less than 720
	• Cash-Out Refinance

Loan Parameters for Non-Employment-Related Assets- Fannie Mae	
Parameter	**Transaction Requirements**
	○ 24 months
Eligible Assets	• Checking and savings accounts; • Investments in stocks, bonds, mutual funds, CD's, money market funds, and trust accounts; and • Cash value of a vested life insurance policy • Funds from the sale of investment properties
Ineligible Assets	• Assets that are ineligible as borrower's reserves, which includes: ○ Funds that have not been vested ○ Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death ○ Stock held in an unlisted corporation ○ Non-vested stock options and non-vested restricted stock ○ Personal unsecured loans ○ Cash proceeds from a cash-out refinance transaction on the subject property • Interest, dividends, and capital gains from Other Financial Assets (reported on the borrower's tax return) cannot be used as additional income. • Virtual currency, such as cryptocurrency
Stocks, Bonds, Mutual Funds	70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets.
Depository Accounts	100% of the value may be used to determine the income stream for demand deposit, saving accounts and certificate of deposit accounts.
Net Documented Assets	"Net documented assets" are equal to the sum of eligible assets minus: (a) the sum of the eligible documented Financial Assets minus any funds that will be used for closing or required reserves (b) 30% of the remaining value of any stocks, bonds, or mutual funds' assets (after the calculation in (a)).

Parameter	Calculation by Term of Mortgage	
Calculation of Monthly Income Stream	Accounts made up of stocks and mutual funds	$1,000,000
	Minus funds required for closing (down payment, closing costs, reserves)	(-) $150,000
	a) Subtotal	(=) $ 850,000
	Minus 30% of $850,000 ($850,000 x .30)	(-) $255,000
	(b) Net Documented Assets	(=) $ 595,000
	Monthly income calculation ($595,000/360 (or applicable term of loan in months)) See Income Calculation/Payout Stream in table below.	$1652.77/month

ASSETS AS A BASIS FOR REPAYMENT OF OBLIGATIONS FREDDIE MAC (LPA)

Assets that will be used by the Borrower for the repayment of their monthly obligations may be used to qualify the Borrower for the Mortgage, provided that the requirements listed below are met.:

Assets as a Basis for Repayment of Obligation- Freddie Mac	
Parameter	**Transaction Requirements**
AUS	LPA Accept response

Maximum LTV/CLTV/HCLTV	80%	
Loan Purpose	Purchase and rate-and-term refinance only	
Occupancy	Principal residence and second home only	
Number of units	1-2-unit principal residence and 1-unit second home	
Application	Application should include information pertaining to the borrower's employment and income, even if the borrower qualifies solely based on assets	
Income Calculation/Payout Stream	Divide "Net Documented Assets" by 240 months regardless of the loan term	
Asset Parameters		
Parameter	**Requirements**	
Ineligible Assets	The following must be subtracted from the eligible assets: • Virtual currency, such as cryptocurrency • Any funds required to complete the transaction (down payment, closing costs, and reserves) • Any gift funds and borrowed funds, and • Any portion of assets pledged as collateral for a loan or otherwise encumbered	
Eligible Assets	**Eligibility**	**Documentation**
Retirement Assets	• The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) • Borrower must be the sole owner • The asset must not currently be used as a source of income by the Borrower • As of the Note Date, the Borrower must • have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty or an additional early distribution tax • The Borrower's rights to the funds in the account must be fully vested	• Most recent retirement asset account statement • Documentation evidencing asset eligibility requirements are met
Lump-sum distribution funds not deposited to an eligible retirement asset	If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above. • Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited to a	• Employer distribution letter(s) and/or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received) • Satisfactorily documented evidence of the following: ○ Funds verified in the non-retirement account and used

	depository or non-retirement securities account • A Borrower must have been the recipient of the lump-sum distribution funds • Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution • The proceeds from the lump-sum distribution must be immediately accessible in their entirety • The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax	for qualification must have been derived from eligible retirement assets ○ Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax
Depository accounts and Securities	• The Borrower must solely own assets or, if asset is owned jointly, each asset owner must be a Borrower on the Mortgage and /or on the title to the subject property • At least one Borrower who is an account owner must be at least 62 years old • As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty • Account funds must be located in a United States- or State-regulated financial institution and verified in U.S. dollars	• Provide account statement(s) covering a two-month period or a direct account verification (i.e., VOD); or • For securities only, if the Borrower does not receive a stock/security account statement ○ Provide evidence the security is owned by the Borrower, and ○ Verify value using stock prices from a financial publication or web site Documentation evidencing asset eligibility requirements are met Sourcing deposits: • The underwriter must document the source of funds for any deposit exceeding 10% of the Borrower's total eligible assets in depository accounts and securities, and verify the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the Borrower by the amount of the deposit • When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file, the underwriter is not required to obtain additional documentation

Assets from the sale of the Borrower's business	• The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account • Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the Borrower's business • The proceeds from the sale of the business must be immediately accessible in their entirety • The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or seller-held notes to buyer of business	• Most recent three months' depository or securities account statements • Fully executed closing documents evidencing final sale of business to include sales price and net proceeds • Contract for sale of business • Most recent business tax return prior to sale of business • Satisfactorily documented evidence of the following: ○ Funds verified in the non-retirement account and used for qualification must have been derived from the sale of the Borrower's business

FOSTER CARE INCOME

Income received from a state or county-sponsored organization for providing temporary care for one or more children may be considered stable income when the DU/LPA response requirements for length of receipt and percentage of qualifying income are met.

Foster care income may be verified by:

- Letters from the organization providing the income,
- Copies of the borrower's signed federal income tax returns that were filed with the IRS, or
- Copies of the borrower's deposit slips or bank statements that confirm the regular deposits of the payments.

INTEREST AND DIVIDENDS

Interest and dividend income may be used as acceptable stable income if it is properly documented and has been received for the past two years and is expected to continue to be received for a minimum of three years from the date of the mortgage application. An average of the income received for the past two years must be used to qualifying the borrower. Copies of signed federal income tax returns that were filed with the IRS or account statements may be used to verify this income.

Interest and dividend income may be used as acceptable stable income if it is properly documented and ownership of the assets on which the interest and/or dividend income was earned is verified. Any assets used for down payment or closing costs must be subtracted from the borrower's total assets before calculating expected future interest or dividend income.

MORTGAGE CREDIT CERTIFICATES

States and other political subdivisions can issue mortgage credit certificates (MCCs) in place of or as part of, their authority to issue mortgage revenue bonds. Mortgage credit certificates enable an eligible first-time homebuyer to obtain from a lender a market-rate mortgage that will be secured by their principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. The borrower is permitted to reduce the withholding on their wages by the full amount of the tax credit to ensure they will have an adequate cash flow and the ability to make the periodic mortgage payments.

When calculating the borrower's debt-to-income ratio, the underwriter should treat the maximum possible mortgage credit certificate income available to the borrower as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. The amount that is added to the borrower's monthly income would be calculated as follows:

(Mortgage Amount) x (Note Rate) x (MCC%) / 12

Broker and Correspondent loans utilizing an MCC cannot close in Flagstar Bank's name.

NOTES RECEIVABLE

In order to use payments on notes receivable income the following requirements must be met:

- A copy of the Note to establish the amount and length of payment
- Must have a three-year continuance from the date of application
- Evidence the funds have been received for the past 12 months with one of the following:
    - Deposit slips, tax returns or copies of the borrower's bank statements that show consistent deposits of these funds.

PROFESSIONAL GAMBLER

When the borrower has income derived from gambling the following requirements must be in order to use for qualifying:

- The income must be reported as self-employed; and
- Two years tax returns must be provided to document income has not declined

PUBLIC ASSISTANCE

Income from public assistance may be considered as acceptable stable income if it is expected to continue to be received for at least three years from the date of the mortgage application. Public assistance income should be documented by letters or exhibits form the paying agency that state the amount, frequency, and duration of the benefit payments.

Section 8 Voucher Payments

For Housing Choice Voucher programs only (Section 8) there is no requirement for the voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application. Verification must be obtained from the public agency that issued the voucher to the borrower of the monthly payment amount and that the income is non-taxable.

RETIREMENT, GOVERNMENT, AND PENSION INCOME

All retirement income must be likely to continue for at least the next three years.

Document regular and continued receipt of the income as verified by one of the following:

- Letters from the organizations providing the income
- Copies of the retirement award letters
- Copies of the signed federal income tax returns
- IRS W-2 or 1099 forms

- Proof of current receipt
- Copy of a financial or bank account statement

Newly Established Retirement Income from government annuity or pension:

- Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency, and pre-determined payment amount with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms.
- The income must commence prior to or on the first Mortgage payment due date.
- Documentation must be dated no more than 120 days prior to the Note Date
- Verification of current receipt is not required

Fannie Mae

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account:

- Determine whether the income is expected to continue for at least three years after the date of the mortgage application
    - Eligible retirement balances from multiple accounts may be combined for the purposes of determining whether the three-year continuance is met
    - Virtual currency, such as cryptocurrency accounts, are not eligible
- Must document current receipt of income as verified with one the options listed above
- The borrower must have unrestricted access without penalty to the accounts

Freddie Mac

Distributions from retirement accounts recognized by the IRS (e.g. 401(k), IRA):

- May not be subject to penalty (e.g. early withdrawal penalty):
- Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt (as applicable), and history of receipt (as applicable) must be documented as follows:
    - Copy of retirement account statement, financial institution holding retirement account that verifies regular scheduled distribution arrangements, 1099(s) or equivalent documentation;
    - Copy of bank statement of equivalent document evidencing current receipt. If the retirement distributions are not scheduled monthly payments, e.g., annual, semi-annual, quarterly, the most recent distribution verified through a retirement account statement, 1099, and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt; and
    - Evidence of sufficient assets to support the qualifying income with three-year continuance.
        - Eligible retirement balances from multiple accounts may be combined for the purposes of determining whether the three-year continuance from the Note date is met.
        - Virtual currency, such as cryptocurrency accounts, are not eligible
- If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule (i.e. excise tax penalty applies if distributions are not taken), and evidence of current receipt of the required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.

- Due to the multiple variables inherent with distributions from retirement accounts including but not limited to, fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances. As with all income, the underwriter must determine that the source and amount of the income are stable. Factors that the underwriter must consider when determining that the income used to qualify the borrower is stable, and when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to the following:
    - Frequency and regularity of the distributions
    - Length of time the distributions have been taken and whether or not they establish a stable pattern of receipt over a given period of time. For example, consider whether or not the distributions are fixed amounts occurring with regular frequency or are fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed in order to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt in order to determine the amount and stability of the qualifying income while taking into consideration whether or not the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter.
    - Rules governing distributions, e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions (RMD), employer retirement plan rules, and designs governing scheduled distribution terms. Certain rules may provide support for the frequency and regularity of receipt as well as continued receipt, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount.
- A written rationale explaining the analysis used to determine that qualifying income must be provided, regardless of the underwriting path.

***ROYALTY* PAYMENTS**

Evidence showing that the borrower has received royalty payments for at least 12 months and will continue to receive them for at least three years after the date of the mortgage application in order to use the payments as qualifying income is generally required.

- Royalty contact, agreement, or statement confirming amount, frequency, and duration of the income; and
- Borrower’s most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.
- Freddie Mac/LPA- When a history of receipt averaged over 24 months can be documented with two years tax returns, the contract or agreement documenting terms is not required.

SOCIAL SECURITY INCOME

Social Security income for retirement or long-term disability that the borrower is drawing from their own account/work record will not have a defined expiration date and must be expected to continue. Social Security income based on another person's account/work record or from the borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided the lender documents a 3-year continuance.

<table>
<tr><th colspan="4">Social Security Income Documentation Requirements</th></tr>
<tr><td colspan="4">Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown below.</td></tr>
<tr><th>Type of Social Security Benefit</th><th colspan="2">Borrower is drawing Social Security benefits from own account/work record</th><th>Borrower is drawing Social Security benefits from another person’s account/work record</th></tr>
<tr><td rowspan="2">Retirement and Disability</td><td>Correspondent</td><td>• SSA Award letter and Executed SSA-3288 Consent for Release of Information
• SSA-1099
• Most recent signed tax returns, OR
• Document current receipt (e.g. bank statement)</td><td rowspan="3">• SSA Award Letter,
• Proof of current receipt, AND
• Three-year continuance (e.g., verification of beneficiary’s age)</td></tr>
<tr><td>Wholesale</td><td>• SSA-1099
• Most recent signed tax returns, OR
• Document current receipt (e.g. bank statement)</td></tr>
<tr><td>Survivor Benefits</td><td colspan="2">N/A</td></tr>
<tr><td>Supplement Security Income (SSI)</td><td colspan="2">• SSA Award Letter, AND
• Document current receipt (e.g. bank statement)</td><td>N/A</td></tr>
<tr><td colspan="4">• An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter. All survivor and dependent benefit income must be likely to continue for at least the next three years.
o Freddie Mac- The finalized terms for new income must be documented with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms dated within 120 days of the Note date. The terms that must be verified include, but are not limited to, the source, benefit type, effective date of income commencement, payment frequency, and pre-determined payment amount.
• Examples of how a borrower might draw Social Security benefits from another person’s account/work record and use the income: A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.)
• If joint tax returns or tax transcripts include income that is not associated with a borrower on the loan transaction, additional documentation supporting the amount of income from the SSA being used in qualifying, such as the SSA-1099 is required.
• Confirmation of three-year continuance does not require documentation that provides a defined expiration date and can be assessed by verifying the SSA's requirements related to the specific benefit(s) being paid. For example, if the SSA ties receipt of the benefits to the beneficiary's age, confirmation of a three-year continuance can be met by verifying that the beneficiary's age supports that benefit(s) will continue for at least three years from the date of the loan application.</td></tr>
</table>

TAX EXEMPT INCOME

When needed for qualification, if income is verified to be nontaxable and its tax-exempt status are likely to continue, the following requirements must be met to gross up the income:

- Income must be from a non-taxable source such as social security, retirement payments, child support, disability, workers compensation benefits, or certain public assistance payments
- A copy of the complete federal individual tax return for the most recent one year, or other documentation evidencing the income, or a portion of, is tax exempt must be provided.
- The non-taxable portion of the income may be grossed up by using a calculation of either
    - 25% of the tax-exempt portion of the income
    - The current federal and state income tax withholding tables

Social Security Income-Freddie Mac Only

For social security income only, 15% of the gross income received may be grossed up without further documentation validating the income is tax exempt.

Example of Social Security Income Calculation		
Gross Social Security income received monthly		$500
Taxable Portion	85% of income received is considered taxable	$500 x 85% = $425
Non-Taxable Portion	15% of the income received is considered non-taxable	$500 x 15% = $75
	Non-taxable portion grossed up by 25%	$75 x 125% = $93.75
Qualifying Income	Addition of Taxable and Non-Taxable amounts for total used for qualification	$425 + $93.75 = $518.75mo

TRUST INCOME

Trust income may be used as acceptable stable income, if the following documentation requirements are met:

Fannie Mae

- Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments
- Verify that the trust income will continue for at least three years from the date of the mortgage application (e.g. account statements), and
- Receipt of income is required. Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy.

Freddie Mac

- Copy of the fully executed trust agreement specifying the amount, frequency, and duration of payments.
- Fluctuating receipt of payments requires a two-year history of receipt as documented by two-year tax returns.
- Fixed payments require current receipt of income
    - A history of receipt is not required for the fixed trust income to be considered stable; however, the trust income must be likely to continue for at least the next three years.
- The trust income must continue for at least three years from the date of the mortgage application (e.g. account statements) in order for it to be considered as income.

Lump sum distributions made before the loan closing may be used for down-payment or closing costs, if they are verified by a copy of the check or the trustee's letter that shows the distribution amount.

VA BENEFITS

Most VA benefits are acceptable stable income if they are documented by a letter or distribution forms from the Department of Veterans Affairs and will continue for at least three years from the date of the mortgage application. Education benefits are not acceptable income because they are offset by education expenses.

RENTAL INCOME

The amount of monthly net rental income (or loss) that is considered as part of the borrower's total monthly income (or expenses) and its treatment in the calculation of the borrower's total debt-to-income ratio will vary depending on whether the borrower occupies the rental property as their principal residence.

If the net rental income (or loss) relates to the borrower's principal residence (e.g. 2-4-unit property):

- The monthly net rental income must be added to the borrower's total monthly income.
- Any net rental loss must be added to the borrower's total monthly obligations.
- 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, regardless of the obligated party.

If the net rental (or loss) relates to a property other than the borrower's principal residence:

- The monthly net rental income must be added to the borrower's total monthly income.
- Any monthly net rental loss must be added to the borrower's total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss), therefore, it should not be counted as a monthly obligation, regardless of the obligated party.
- The full PITIA for the borrower's principal residence must be counted as a monthly obligation.

RENTAL PROPERTY REPORTED THROUGH A PARTNERSHIP OR AN S CORPORATION

When a borrower is personally obligated on a mortgage debt with the gross rents and related expenses reporting through a Partnership (1065) or S Corporation (1120s) the following requirements must be met to offset the borrower' obligation:

- Property must be disclosed in the real estate section of the application,
- Form 8825 from the business returns is used to calculate the rental net cash flow of the property to offset the borrower's obligation, up to but not to exceed the PITIA
- Standard analysis of the business returns is required to determine any applicable income or loss. See Self-Employed Borrowers section for additional requirements.

RENTAL INCOME- FANNIE MAE

Fannie Mae- Rental Income from the Subject Property			
Does the Borrower Have a History of Receiving Rental Income?	**Transaction Type**	**Documentation Requirements**	**Calculating Monthly Net Rental Income (or Loss)**

No	Purchase	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s) if rented. If the property is not currently rented, lease agreements are not required and Form 1007 or Form 1025 may be used	See Fannie Mae Allowable Qualifying Income for Subject (below) for limitations The gross rental income from the property is equal to the lesser of the market rent established by the appraiser or the current rent based on the existing lease agreement(s). Net rental income equals 75% of the gross rent; the remaining 25% of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses.
Yes	Refinance	Form 1007 or Form 1025, as applicable, and either: • the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or • copies of the current lease agreement(s) if the borrower can document a qualifying exception per Fannie Mae Partial or No Rental History on Tax Returns section (below)	See Fannie Mae Allowable Qualifying Income for Subject (below) for limitations Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns; or 75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses, if allowable
No	Refinance	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s) if the borrower can document a qualifying exception per Fannie Mae Partial or No Rental History on Tax Returns section (below)	
Fannie Mae- Rental Income from Other Real Estate Owned			
Does the Borrower Have a History of Receiving Rental Income?		**Documentation Requirements**	**Calculating Monthly Net Rental Income (or Loss)**
Yes		The borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E.	Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns
No		Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception per Partial or No Rental History on Tax Returns section (below)	75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses
Fannie Mae- Partial or No Rental History on Tax Returns			

If…	Then…
the property was acquired during or subsequent to the most recent tax filing year	Confirm the purchase date using the settlement statement or other documentation. • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.
the rental property was out of service for an extended period	• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service. • Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
If there is some other situation which warrants an exception to use a lease agreement (e.g. conversion of primary to rental property)	provide an explanation and justification in the loan file
Fannie Mae- Allowable Qualifying Income for Subject Property Purchase and Refinance (2-to-4-unit primary residences and 1-to-4-unit investment properties)	
If the borrower…	**Then for qualifying purposes…**
• Currently owns a principal residence (or has a current housing expense) AND • Has at least one-year of receiving rental income or documented property management experience	There is no restriction on the amount of rental income that can be used.
• Currently owns a principal residence (or has a current housing expense) AND • Has less than one-year (or no prior history) of receiving rental income or documented property management experience	• For subject 2-4-unit principal residence, rental income is an amount not exceeding PITIA of the subject property can be added to the borrower's gross income. • For subject investment property, rental income can only be used to offset the PITIA of the subject property.
Does not own a principal residence and does not have a current housing expense	Rental income from the subject property cannot be used
A history of property management experience by obtaining one of the following: • The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365; • If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or • A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.	

RENTAL INCOME- FREDDIE MAC

Freddie Mac- Rental Income from the Subject Property			
Borrower Have a History of Receiving Rental Income?	**Transaction Type**	**Documentation Requirements**	**Calculating Monthly Net Rental Income (or Loss)**
No	Purchase	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s) If the property is not currently rented, lease agreements are not required and Form 1007 or Form 1025 may be used	See Freddie Mac Allowable Qualifying Income for Subject Investment Property Purchase (below) for limitations. The gross rental income from the property is equal to the lesser of the market rent established by the appraiser or the current rent based on the existing lease agreement(s). Net rental income equals 75% of the gross rent; the remaining 25% of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses. If higher income is needed a written analysis for discrepancy and justification for use to qualify the borrower as stable and reasonably expected to continue must be provided.
Yes	Refinance	Form 1007 or Form 1025, as applicable, and either: • the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or • copies of the current lease agreement(s) if the borrower can document a qualifying exception per Freddie Mac Partial or No Rental History on Tax Returns section (below)	Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns; or 75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses, if allowable.
No	Refinance	Form 1007 or Form 1025, as applicable, and • copies of the current lease agreement(s) if the borrower can document a qualifying exception per Freddie Mac Partial or No Rental History on Tax Returns section (below)	

		Purchase date or conversion date, as applicable, must be documented	

Freddie Mac- Rental Income from Other Real Estate Owned		
Does the Borrower Have a History of Receiving Rental Income?	**Documentation Requirements**	**Calculating Monthly Net Rental Income (or Loss)**
Yes	The borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E.	Analyze the borrower's cash flow and calculate the net rental income (or loss) per month from the returns
No	Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception per Partial or No Rental History on Tax Returns section (below)	75% of the gross rent from the lease agreement, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses; and either • Form 1007 or Form 1025, as applicable, or • Documentation (e.g. bank statements) supporting two months receipt of rental income When converting a principal residence to an investment property, see Allowable Qualifying Income (below)

Freddie Mac- Lease Agreement Requirements
When a lease agreement is provided to document rental income, the lease(s) must be current and fully executed, with a minimum original term of one year. If the lease is in the automatically renewable month-to-month phase of an original one-year (or longer) term lease, then a month-to-month term is acceptable.

Freddie Mac- Partial or No Rental History on Tax Returns	
If…	Then…
the property was acquired during or subsequent to the most recent tax filing year	confirm the purchase date using the settlement statement or other documentation. • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.
the rental property was out of service for an extended period	• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.

	• Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
converting a principal residence to an investment property	see Allowable Qualifying Income (below)
Unless the above requirements are met, a signed lease may not be used and the rental income or loss from the Schedule E must be used and annualized for qualifying purposes.	

Freddie Mac- Allowable Qualifying Income for Subject Investment Property Purchase and Converting a Principal Residence to an Investment Property	
If the borrower…	**Then for qualifying purposes…**
Currently owns a principal residence AND Has at least one-year of receiving rental income or documented property management experience	There is no restriction on the amount of rental income that can be used
Currently owns a principal residence AND Has less than one-year (or no prior history) of receiving rental income or documented property management experience	• For subject 1-to-4-unit investment properties, rental income can only be used to offset the PITIA of the subject investment property purchase. • For principal residence conversion to an investment, rental income can only offset the PITIA payment of the property
Does not own a principal residence	Rental income from the subject investment property purchase cannot be used.
A history of property management experience by obtaining one of the following: • The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365; • If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.	

RENTAL INCOME FROM AN ACCESSORY DWELLING UNIT- FREDDIE MAC

Freddie Mac- Rental Income from an Accessory Dwelling Unity (ADU)[1]	
Special Feature Code	Special Feature Code (SFC J66) must be applied to the loan
Occupancy	Owner-Occupied Primary Residence
Property	1-Unit with ADU
Loan Purpose	Purchase and Rate-Term only. Cash-Out is not eligible.
ADU Eligibility	See Accessory Dwelling Unit section to determine an acceptable ADU. In order to use rental income the property must be legal per zoning and land use requirements.
Qualifying Income	Rental income generated from an ADU may be considered in an amount up to 30% of the total stable monthly income that is used to qualify
Rental Management/ Landlord Education	For purchase transactions, at least one qualifying Borrower must participate in a landlord education program prior to the Note Date unless the Borrower has a minimum of one-year Investment

Freddie Mac- Rental Income from an Accessory Dwelling Unity (ADU)[1]		
	Property management experience or ADU rental management experience. Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the Mortgage file.	
Purchase	**Rate-Term Refinance** **ADU placed into service in the current calendar year**	**Rate-Term Refinance** **ADU owned in the prior calendar year**

A reasonable effort must be made to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the Borrower and/or any other applicable and reasonable method.
 	
If a lease is available, then:
• The lease must be used to determine the net rental income
and
• ADU rental analysis must support the income reflected on the lease
 	
If a lease is not available,
the ADU rental analysis must be used to determine the net rental income.
	• A lease must be used to determine the net rental income
	and
	• ADU rental analysis must support the income reflected on the lease
	and
	• The Mortgage file must contain documentation reflecting the date the ADU was placed in service
		• The Borrower's tax returns including Schedule E, for the most recent year must be used to determine the net rental income, except as stated below
		
		• A lease and ADU rental analysis may be used if:
		  ○ The property was out of service for any time period in the prior year and the Mortgage file contains a documented event such as a renovation and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or
		  ○ The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use
		• In either of the above instances, an ADU rental analysis is required to support the income reflected on the lease.

Lease requirements	When a lease is obtained in accordance with the minimum income documentation requirements above, the lease must be current and fully executed, with a minimum original term of one year. If the lease is documented as assigned from the property seller to the Borrower and is in the automatically renewable month-to-month phase of an original one-year (or longer) term lease, then a month-to-month term is acceptable.	

<table>
<tr><th colspan="3">Freddie Mac- Rental Income from an Accessory Dwelling Unity (ADU)[1]</th></tr>
<tr><td>Appraisal Requirements</td><td colspan="2">The following information on the ADU is required within the appraisal report:
• Information on the ADU must include the:
  ○ General condition of unit
  ○ Square feet of finished area
  ○ Total number of rooms including number of bedrooms and baths
• The appraisal report must indicate the ADU is allowed per zoning and land use requirements (i.e., legal, legal non-conforming, no zoning)
• Comparable sales within the Sales Comparison Approach section must include at least one comparable sale with an ADU that is rented
• The rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.</td></tr>
<tr><td rowspan="3">Rental Income Calculation</td><td>Lease</td><td rowspan="2">75% of the gross monthly rent or gross monthly market rent.

The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</td></tr>
<tr><td>ADU rental analysis</td></tr>
<tr><td>Schedule E</td><td>Calculate the net rental income from Schedule E</td></tr>
</table>

[1] The above requirements do not apply when the guidelines for Boarder Income from a live-in aide or permissible requirements under the Home Possible mortgage product are met.

BOARDER INCOME

Fannie Mae

Rental income from boarders in a 1-unit property that is also the borrower's principal residence or second home is not generally considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income, in an amount up to 30% of the total income that is used to qualify the borrower for the mortgage. Personal assistances typically are paid by Medical Waiver funds and include room and board, form which rental payments are made to the borrower.
- HomeReady has an additional exception, refer to *Fannie Mae HomeReady*, Doc. #5318.

Freddie Mac

Rental income from boarders in a 1-unit property that is also the borrower's principal residence, including an accessory unit, is not generally considered acceptable stable income with the exception of the following:

When a borrower with disabilities receives rental income from a live-in-aide. Personal aides typically are paid by Medical Waiver funds and include room and board, form which rental payments are made to the borrower. Must have receipt of income for the most recent 12 months and may be considered in an amount up to 30% of the total income used to qualify

INCOME REPORTING ON IRS FORM 1099- FREDDIE MAC

At times, Borrowers receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker.

Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. This income must be treated as either:

- Self-employed income in accordance with the guideline requirements below, OR
- Non-self-employed income if the IRS Schedule C from the most recent calendar year tax return evidences that:
  - Gross receipts or sales are equal to the total amount(s) reported on the IRS Form 1099(s),
  - Total expenses are ≤ 5% of gross receipts or sales, after deducting non-cash expenses (e.g., depreciation),
  - Cost of goods sold = $0, and
  - 12-month history of 1099 income and reported expenses is present

Income reported on IRS Form 1099 for services performed- Freddie Mac	
Documentation	• All 1099s for the most recent two-year period, and • YTD paystubs and/or other equivalent and reasonably reliable third-party documentation (e.g., YTD earnings statements or evidence of payments for services performed) documenting YTD income received by the Borrower, and • Pages 1 and 2 of the Borrower's federal individual income tax returns, and the applicable schedules (i.e., Schedule C, Schedule 1), covering the most recent one-year period Additional documentation may be required to support and justify the stable monthly income based on the individual circumstances.
History of Receipt	Most recent two years; however, in certain instances, a shorter history of income with this pay structure may still be considered stable with a written analysis and sufficient supporting documentation justifying the determination of stability (e.g., a prior history of employment earnings at a similar level). In no event may the history of receipt for this pay structure documented on the tax returns be less than 12 months.
Continuance	Must be likely to continue for at least the next three years
Calculation	Average must be based on the required and documented history of receipt and support a consistent level of income. The 1099 income must be reduced by the expenses (excluding non-cash items) reported on Schedule C. Apply an average of the verified expenses to the 1099 income without verified expenses.

Calculation Example	
Scenario: Borrower has an 18-month history of documented 1099 income, with 12 months of income and expenses reflected on the most recent Schedule C and reasonably reliable verification of YTD income for the most recent 6 months. Prior employment (W-2) for 5 years with similar income level and employment field.	
1099(s) reported as gross receipts/sales:	(+) $100,000
Less: Schedule C Expenses (less non-cash expenses)	(-) $ 4,000 (4%)
Subtotal (most recent year Schedule C)	$96,000

	Verified YTD 1099 income (6 months): (+) \$50,000 Less: 4% expense rate (based on most recent year Schedule C) (-) \$2,000 (4%) Subtotal (Current YTD) \$48,000 Income calculation: \$144,000 (combined subtotals) / 18 months \$8,000/mo
Verification of Employment	A 10-day VVOE must be performed to verify borrower continues to perform services for the provider of the 1099 income.

SELF-EMPLOYMENT INCOME

A Borrower who has an ownership interest of 25% or more in a business is considered to be self-employed. The business may be a sole proprietorship (schedule C), a Partnership (1065 general or limited), an S corporation (1120-S) or a corporation (1120).

A self-employed borrower income analysis worksheet must be retained with the file.

The following factors must be analyzed before approving a mortgage for a self-employed borrower:

- The stability and consistency of the borrower's business income
- The location and nature of the borrower's business
- The demand for the product or service offered by the business
- The financial strength of the business
- The ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.
- Additional consideration of the above must be taken into account when a borrower is relocations to a different geographic area

If the business does not meet these standards, business income cannot be used to qualify the borrower.

SELF-EMPLOYMENT DOCUMENTATION REQUIREMENTS

The following describes the documentation that the borrower must provide:

- The most recent two years of signed individual federal income tax returns IRS Form 1040 with all schedules and forms (or the most recent one year of signed individual federal income tax returns, if permitted);
  - Schedules and forms include, but not limited to, the most recent two years of IRS Schedule K-1(s) and W2(s) as part of the federal tax returns, as applicable (or the most recent year IRS Schedule K-1, if permitted)
- The most recent two years of business federal income tax returns, as applicable (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met; (or the most recent one year of business federal income tax returns, if permitted)

Freddie Mac

It is required to document the number of years the same business has been in operation to determine the number of year returns required. It is not acceptable to utilize a borrower's length of time within the same self-employment field to justify the use of reduced documentation. For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicated the number of years that the business has been in existence. For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on the mortgage application.

- One year personal and business returns are required if the borrower has had ownership interest of 25% or more in the same operating business for five or more years.
- Two years personal and business returned are required if the business is operating less than five years.
- A change in business structure (i.e. Schedule C to 1065) does not trigger newly self-employed and documentation must be retained in file to support.

See Tax Return Requirements for age of tax returns and additional requirements when the most recent tax filing is not yet available.

ADJUSTMENTS TO BUSINESS CASH FLOW FOR ORDINARY BUSINESS INCOME

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring. The following items should be subtracted from the business cash flow:

- Meals and entertainment exclusion,
- Other reported income that is not consistent and recurring, and
- The total amount of obligations on mortgages or notes that are payable in less than one year.
  - These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

SOLE PROPRIETORSHIPS

Sole proprietorships are unincorporated businesses. A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return. There is no associated federal business tax return.

When evaluating a sole proprietorship, review the federal income tax returns to ensure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage, and determine whether the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses

PARTNERSHIP, LLC, AND S CORPORATIONS

The borrower's proportionate share of income or loss is based on the borrower's:

- partnership percentage of Ending Capital in the business as shown on the IRS Form 1065, Schedule K-1 or
- shareholder percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1.

Only the borrower's proportionate share of the business income or loss after making the adjustment to the business cash flow can be used when qualifying the borrower for the mortgage loan.

Income or Loss Reported on Schedule K-1 (IRS Forms 1065 or 1120s)

Caution must be used when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided the borrower has one of the following:

- a documented history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify or
- adequate liquidity to support withdrawal of earnings. A written evaluation of the business income must be retained in the mortgage file.

If…	Then…
The Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify. (See below for requirements to assess ordinary business income when business returns are required)	No further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
The Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify	Must confirm the business has adequate liquidity (working capital) to support the withdrawal of earnings to include the income in the borrower's cash flow: • Quick Ratio is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities. Quick Ratio = (current assets — inventory) ÷ current liabilities • Working Capital Ratio may be more appropriate for businesses not relying on inventory to generate income. Current Ratio = current assets ÷ current liabilities For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.
The borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC	These payments can be added to the borrower's cash flow
Business tax returns are required	The underwriter must consider the type of business structure and analyze the business returns for stability and determination of the ordinary business income

EARNINGS FROM A CORPORATION (1120)

Fannie Mae

Business income (not reported on personal returns) may be considered toward qualifying income only when the borrower owns 100% of the 1120 business. Losses do not need to be subtracted from the qualifying income, however, the ability to continue receiving W-2 wages consistent with the income used for qualification must be analyzed and support the stability of the business. If unable to support, the W-2 wages should not be used to qualify.

Freddie Mac

The proportionate share of business income or loss (not reported on personal returns) is considered qualifying income/loss. Documented access to business income is required if the borrower is less than 100% owner of the 1120 business.

INCOME FROM A K-1 WITH OWNERSHIP IN THE BUSINESS <25%

Fannie Mae Ownership less than 25%

For borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S:

- When the Schedule K-1 reflects a loss, it is not required to reduce the qualifying income amount by the amount of the Schedule K-1 business loss
- Schedule K-1 may be used in qualifying the borrower provided:
    - The most recent two years tax returns and the most recent two years of IRS Schedule K-1 are obtained
    - Self-employment income policy provisions, such as adjustments to the business cash flow analysis (e.g. add back of deprecation), are not intended to extend beyond the scope of self-employment income and therefore are not applicable when the ownership is less than 25%
    - The following table provides the verification requirement for use of the K-1 income:

If…	*Then…*
The Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify,	No further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
The Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify,	Must confirm the business has adequate liquidity (working capital) to support the withdrawal of earnings to include the income in the borrower's cash flow: • Quick Ratio is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities. Quick Ratio = (current assets — inventory) ÷ current liabilities • Working Capital Ratio may be more appropriate for businesses not relying on inventory to generate income. Current Ratio = current assets ÷ current liabilities For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

If…	*Then…*
The borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC	These payments can be added to the borrower's cash flow An exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely upon the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.

Freddie Mac Ownership less than 25%

For Borrowers who hold a business ownership interest(s) of less than 25% and receive ordinary income or guaranteed payments reported on an IRS Schedule K-1 for partnerships and S - corporations income may be treated as either:

- Self-employed income in accordance with the guideline requirements, OR
- Non-self-employed income meeting the following requirements
  - Schedule K-1(s) for the most recent two calendar years
  - Documentation of all YTD income must be obtained if available (e.g., most recent YTD paystub or equivalent). If YTD information is not attainable (e.g., due to year-end payment structures), documentation and justification of income stability without this information must be provided.
  - The Borrower cannot have an ownership interest of 25% or more in any business
  - History of receipt is required for the most recent two years for ordinary business income and guaranteed payments
    - In certain instances, a shorter history of guaranteed payments may still be considered stable with a written analysis and sufficient supporting documentation justifying the determination of stability (e.g., recently changed from an employee of the same firm to a partner with a nominal ownership interest). In no event may the history be less than 12 months.
  - Historical cash distributions must be reasonably consistent with the ordinary business income
  - An average calculation of income must be based on the required and documented history of receipt and support a consistent level of income
  - Verification of current existence of business in accordance with the guidelines must be met.

SELF-EMPLOYMENT LOSS FROM A SECONDARY BUSINESS SOURCE

Is not required to account for self-employment loss when the borrower is qualified using only income that is not derived from self-employment and self-employment loss is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include, but not limited to, a salaried borrower or borrower receiving retirement income.

4506-C REQUIREMENTS

A signed, executed 4506-C is to be obtained at time of underwriting and at closing for all loans. The borrower must sign an additional form 4506-C for each partnership or corporation, prior to closing and it must state such on the form (i.e. John Smith, owner of XYZ Corporation or Partnership). IRS form 4506-C is only valid for a specific limited time. Refer to *Flagstar Bank Tax Transcript Requirements*, for execution requirements.

TAX TRANSCRIPTS

Applicable Tax transcripts will be required for the following:

- Specific products which require transcripts, regardless of income type
- See below, dependent on the application and note/disbursement date, a copy of the most recent year results may be required indicating "No Record on File" when a copy of a Tax Extension (IRS Form 4868) is being utilized.

TAX RETURN REQUIREMENTS

When tax returns are used to document income, each tax return must be signed by the borrower unless the file contains the IRS transcripts for each tax return used.

When the tax returns (or transcripts, if provided) reflect Schedule C, K-1s, and/or Schedule E - Supplemental Income and Loss (such as from rental income), the file must be documented according to the following:

- If tax transcripts are provided and reflect Self-Employed income that is not needed to qualify, a copy of the tax returns and schedules will only be required if the income is from Schedule E.
- It is not required to account for self-employment loss when the borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income.

Tax returns requirements may include, but not limited to, the following income types

Income Type	**Transcripts Require**
Self-Employed	1040
Rental Income Documented on Schedule E	1040
Employed by Family	1040
When tax returns are utilized to determine qualifying income (e.g. Dividend & Interest, Notes receivable, etc.)	1040
Fixed Income documented with award letter, 1099, bank statement, etc.	None
W2 Wage Earner (unless handwritten income documentation then the W2 transcript(s) is required.	None

MOST RECENT YEAR TAX RETURN REQUIREMENTS

When tax returns are required to document income, the most recent year's tax return is required. The most recent tax return is defined as the last return scheduled to have been filed. For example:

If today's date is…	**Then the Most recent Year's Tax Return would be…**
February 21, 2023	2021
April 19, 2023	2022

December 15, 2023	2022

FANNIE MAE

The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

<table>
<tr><th>Application Date</th><th>Disbursement Date</th><th>Documentation Required</th></tr>
<tr><td rowspan="3">October 15 [1], [current year minus 1] to April 14 [2], current year</td><td>October 15 [1] [current year minus 1] to April 14 [2], current year</td><td>The most recent year’s tax return is required.

The use of a Tax Extension (IRS Form 4868) is not permitted.</td></tr>
<tr><td>April 15 [1], current year to June 30, current year</td><td>The previous year’s tax return (the return due in April of the current year) is recommended, however the previous year(s) is also acceptable.

The originator must ask the borrower whether he or she has completed and filed his or her return with the IRS for the previous year. If the answer is yes, a copy of the return must be provided. If the answer is no, provide a signed letter from the borrower stating they have not yet filed and returns for the last one or two years, as required.

Completed and signed IRS Form 4506–C for transcripts of tax returns provided by the borrower must be in file.</td></tr>
<tr><td>July 1, current year to October 14 [2], current year</td><td rowspan="2">• The most recent year’s tax return,

OR If Borrower has not filed the 2022 tax return(s) with the IRS, all of the following:

• Documentation of Extension of Filing with one of the following
    ○ A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,
    ○ Proof of the e-filing of Form 4868, or</td></tr>
<tr><td>April 15 [1], current year to October 14 [2], current year</td><td>April 15 [1], current year to December 31, current year</td></tr>
</table>

Application Date	Disbursement Date	Documentation Required
		○ Confirmation of electronic payment(s), Including the confirmation number, of all or part of the estimated income taxes. • The underwriter must review the total tax liability reported on IRS Form 4868 or paid by the borrower and compare it with the borrower's tax liability from the previous year as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the lender to require the current returns in order to proceed. • IRS Form 4506–C transcripts[3] confirming that no transcripts are available for the applicable tax year • Returns for the last one or two years, as required.
	January 1, [current year plus 1] to April 14 [2], [current year plus 1]	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

1. Or the April/October filing dates for the year in question as published or extended by the IRS.
2. Or the day prior to the April/October filing dates for the year in question as published or extended by the IRS.
3. In lieu of transcripts, borrower provided evidence that no transcripts are available for the applicable tax year may be acceptable. The documentation provided by the borrower must clearly identify the source of information including identifying information in the Internet banner on the document.

FREDDIE MAC

The following table describes which tax-related documentation to obtain, for Freddie Mac (LPA) on the application date and Note date of the mortgage loan.

Application Date	Note Date	Documentation Required
Prior to April 18[1] of the current year	Before May 31[2] of the current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
On or After April 18[1] of current year	Prior to May 31[2] of the current year	• The most recent year's tax return • OR If Borrower has not filed the 2022 tax return(s) with the IRS, all of the following: A
All	On or After May 31 [2] through October 15 of the current year	

Application Date	Note Date	Documentation Required
		copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS, • Review of self-employed income stability (see below), • IRS Form 4506–C transcripts confirming that no transcripts are available for the applicable tax year[4], Returns for the last one or two years, as required.
All	On or After October 16 of the current year [3]	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

1. In the case of an IRS filing due date extension, the Application Received Date requirement may be extended to the IRS income tax filing due date, or May 31, whichever occurs first,
2. The Note Date requirement may be extended to the last day of the month following the IRS income tax filing due date, or June 30, whichever occurs first, except as follows: evidence of completed IRS tax filing extension(s) for 2022 tax year is required for Application Received Dates on or after the IRS income tax filing due date and Note Dates on or after last day of the month following the IRS income tax filing due date
3. Flagstar will require the most recent tax returns (e.g. 2022) for Freddie Mac (LPA) loans with a Note date on or after October 16th.
4. If the IRS IVES program is experiencing delays in receiving 4506-C results, borrower obtained transcripts may be used to meet the tax extension validation requirement.

Self-Employed Stability When Tax Returns Are Older- Freddie Mac

If the Borrower's federal individual and/or business income tax returns for the most recent calendar year are not available (e.g., Borrower and/or Borrower's business filed an IRS extension or tax returns are not yet filed with the IRS), additional documentation must be provided to document income stability.

Examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following:

- Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s)
- Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements
- Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return
- Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s)
- Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available

If the continued stability of the income cannot be determined, then the Borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination.

EXCEPTION FOR FISCAL BUSINESS RETURNS

When business tax returns are required, if the borrower's business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above tables to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

VICTIMS OF TAXPAYER IDENTIFICATION THEFT

If tax transcripts are required but cannot be obtained as the borrower(s) is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower(s) income:

- Proof of identification theft as evidenced by one of the following:
  - Proof of identification theft was reported to and received by the IRS (IRS form 14039)
  - Copy of notification from the IRS alerting the taxpayer to possible identification theft
- Additionally, provide each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:
  - W-2 or 1099 transcripts which match the W-2 or 1099 income shown on the 1040s
  - 1099 mortgage interest should match the reported interest on Schedule A or Schedule E
  - 1099-G unemployment should match reported unemployment
  - 1099-DIV and 1099-INT should match reported dividend and interest
  - Validation of prior tax year(s) income (income for current year must be in line with prior year(s)

The IRS has announced that criminals used taxpayer-specific data acquired from non-IRS sources to gain unauthorized access to information on approximately 100,000 tax accounts through the IRS "Get Transcript" application. Due to this breach, Flagstar Bank is unable to obtain the full tax transcripts for taxpayers that may have been impacted. The Reject Code 10 is being used by the IRS "Income Verification Express Service" (IVES) application when there is possible identity theft on the taxpayer's account. In cases where the IRS will not provide the transcripts to the vendor, the following documentation will be acceptable in lieu of the tax transcripts.

TAX RETURNS ARE REQUIRED TO DOCUMENT INCOME

- Tax Transcripts indicating, due to limitations, the IRS cannot process the request, taxpayer will receive a mailed notice. If any questions, call the IRS Customer Service at 800-829-1040; Note: A "no record found" or "data mismatch" is not acceptable; and
- Copy of the signed tax returns (follow AUS for the number of years to obtain); and
- Bank statement or copy of check to evidence that the tax payment made or refund received for each tax year matches the amount on the 1040; and
- Signed 4506-C for each required tax year.

W2 AND/OR 1099'S ARE REQUIRED TO DOCUMENT INCOME:

- Tax Transcripts indicating, due to limitations, the IRS cannot process the request, taxpayer will receive a mailed notice. If any questions, call the IRS Customer Service at 800-829-1040; Note: A "no record found" or "data mismatch" is not acceptable; and
- Copy of all W2's (follow AUS for the number of years to obtain); and one of the following
  - IRS Provided Transcripts mailed to the borrower and uploaded to Paperless File Manager, or

- Year End Paystub for each required with Year-to-Date earnings in line with W2's, or
- Fully Executed Verification of Employment completed by employer with Year End Figures in line with W2(s).

PROPERTY AND APPRAISAL

APPRAISALS AND VALUATIONS

A complete appraisal report that accurately reflects the market value, condition, and marketability of the property is generally required. Some loans may be eligible for alternative valuation option(s), and an appraisal may not be required. See the Value Acceptance/Appraisal Waiver, Value Acceptance + Data Report and ACE+ PDR sections for additional information.

APPRAISAL FORMS

Fannie Mae and Freddie Mac require the use of Uniform Appraisal Dataset (UAD) compliant appraisal report forms. Other appraisal report forms may be completed using the standards contained in the UAD Specification to the extent those standards are applicable to that particular form.

- All appraisals are subject to Fannie Mae/Freddie Mac and USPAP guidelines.
- Appraisals must be ordered through Loantrac Appraisal Management, refer to Doc #4903, or by an Appraiser Independence (formerly HVCC) Compliant Correspondent. Refer to *AIR Compliance Questionnaire/Checklist*, Doc. #3027 for application process details. For appraisals originally ordered by another lender, refer to the *Appraisal Portability* section.
- Flagstar will only accept an electronically submitted PDF copy of the appraisal report. The document must have an electronically reproduced signature of the appraiser and the report must comply with the applicable requirements outlined in this section.
- The following appraisal report types are accepted by Flagstar Bank:

Flagstar Acceptable Appraisal Report Forms	
Form	**Purpose**
Uniform Residential Appraisal (Form 1004/70)	Traditional interior and exterior inspection appraisal of one-unit properties, units in PUDs and units in condo projects that consist of solely detached dwellings.
Individual Condominium Unit Appraisal (Form 1073/465)	Traditional interior and exterior inspection appraisal of one-unit condominium
Small Residential Income Property Appraisal (Form 1025/72)	Traditional interior and exterior inspection appraisal of two-to-four-unit properties.
Manufactured Home Appraisal (Form 1004C/70B)	Traditional interior and exterior inspection appraisal of one-unit manufactured homes.
Individual Cooperative Interest Appraisal (Form 2090)	Traditional interior and exterior inspection appraisal of one-unit Cooperative homes.
Desktop Appraisal (1004 Desktop/70D)	Appraisal of one-unit properties and units in PUDs in which property data may be collected through secondary data sources or by someone else other than the appraiser.
Desktop Appraisal (1004 Desktop/70D)	Appraisal of one-unit properties and units in PUDs in which property data may be collected through secondary data sources or by someone else other than the appraiser.
Hybrid Appraisal (Form 1004 Hybrid/ 70H or Freddie Form 465 for Condos)	Appraisal of one-unit properties, units in PUDs, and Condos (Freddie only) based on interior and exterior property data collection.

Appraisal Update and/or Completion Report (1004D/442)	For appraisal updates and/or completion reports for all one- to four-unit properties. Note: not eligible for use in conjunction with value acceptance +data reports
Exterior-Only Appraisal (Form 2055 and Form 466 for Condo Unit)- Freddie Mac only	An appraisal report based on an exterior-only property inspection is acceptable for an appraisal update and a subsequent opinion of market value for Freddie Mac transactions.

APPRAISER ELIGIBILITY

All appraisals must be completed by a Flagstar Bank eligible appraiser. Refer to Appraiser Independence Compliance Guidelines, Doc #4906, for additional details.

APPRAISAL EXPIRATION AND UPDATES

Residential appraisal reports must be dated no more than 120 calendar days from the note date for both existing and new construction. If the appraisal is greater than 120 calendar days, but no more than 12 months, and the loan has not closed, see below for requirements.

- For loans targeted to Fannie Mae, the appraiser must perform an update on form 1004D, within four months of the Note date, which includes:
  - Inspection of the exterior of the property, and
  - Review of the current market data to determine whether the property has declined in value since the date of the original appraisal. If the appraiser indicates the property value has declined, a new appraisal will be required.
- For loans targeted to Freddie Mac, one of the following is required:
  - An appraisal update reported on Form 442, Appraisal Update, and/or Completion Report. If the appraiser indicates the property value has declined, a new appraisal will be required, or
  - A new appraisal based on an exterior-only inspection and reported on the appropriate Freddie Mac form based on the property type. If the appraiser indicates the property value has declined, a new appraisal will be required, or
  - A new appraisal based on an interior and exterior inspection and reported on the appropriate Freddie Mac form based on the property type.
- For both Fannie Mae and Freddie Mac, if the original appraisal is more than 12 months, a full new appraisal report will be required.

The appraiser who performed the original appraisal should perform the appraisal update. However, another appraiser can perform the appraisal update.

DISCLOSURE OF INFORMATION TO APPRAISERS

The appraiser must state the effect of value of any non-realty items included in a sale, such as closing costs paid by the seller or any subordination agreements with the property.

Fannie Mae

If the contract is amended after the effective date of the appraisal in a way that does not affect the description of the property, then it is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- Sale price
- Transaction terms
- Financing concessions
- Seller-paid closing costs
- Names or initials
- Closing date
- Correction of minor clerical errors such as misspellings

Disclosure of changes to financing information, such as loan fees and charges, and subordinate financing provided by interested parties only must be provided to the appraiser for purchase transactions.

Freddie Mac

The following information on the subject property, as applicable, must be provided to the appraiser in conjunction with all appraisal requests:

- The complete sales contract (A sales contract on a new home should state the base price of the house and itemize each option.)
- All financing terms, financing and sales concessions granted by anyone associated with transaction, and any gifts, buydowns and down payment assistance provided by anyone on behalf of the Borrowers, whether for purchase or refinance transactions
- Income and expense statements, property leases and a list of non-realty items that are included in the transaction, and
- Any other information that the Seller knows that may affect the value or marketability of the property. This information includes, but is not limited to, an affiliation between the property seller and purchaser, proposed changes to the use of the property, and the presence of any Contaminated Site or Hazardous Substance affecting the property or the neighborhood in which the property is located.
    - It is not required to provide the appraiser with an updated sales contract unless the updated terms impact the physical description or condition of the property. Changes to the sales contract that are not required to be provided to the appraiser include, but are not limited to:
        - Changes to the transaction terms such as sales price, financing or sale concessions, and
        - Date revisions, corrections to typographical errors, etc.

If the updates will impact the physical description or condition of the property, the appraisal must be updated.

PURCHASE CONTRACTS

The appraiser must be provided with the sales contract and all addenda for all purchase transactions to consider the financing and sales concessions in the transaction and their effect on value. If the sales contract is amended during the process, the appraiser must be provided with updated contract. The appraiser must state the total dollar amount of the loan charges and/or concessions that will be paid by the seller (or any other party who has a financial interest the sale or financing of the subject property) and provide a brief description of the items on the appraisal report form.

The appraiser must state the effect of value of any non-realty items included in a sale, such as closing costs paid by the seller or any subordination agreements with the property.

APPRAISAL EXHIBITS

All appraisal reports must include the following:

- Photographs of the subject property including:
  - Exterior photos of the front and rear view of the subject and street scene photo
  - Interior photos of the kitchen, all bathrooms and the main living area of the subject.
  - Any additional photos, as needed, to show any physical deterioration, improvement, amenities, conditions, and external influences that materially impact the value or marketability.
- Photographs of the front of each comparable sale
- Building Sketch and Floor Plans, see below for additional requirements.
- Location Map identifying subject and comparables used by the appraiser.

<table>
<tr><th colspan="2">Building Sketches and Floor Plans</th></tr>
<tr><th>Fannie Mae</th><th>Freddie Mac</th></tr>
<tr><td>Building Sketches or Floor Plans and calculations requirements:

A footprint sketch or floor plan must be computer-generated (not hand drawn) and indicate dimensions and calculations that demonstrate how the gross living area was derived. All levels of the dwelling unit(s) must be part of the exhibit. In addition, a separate footprint sketch including dimensions must be provided for each additional structure with room labels, when applicable.

If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae requires a floor plan. The floor plan must include the following:
• interior walls,
• doorways,
• staircases,
• exterior ingress/egress,
• labels for each room, and
• provide the dimensions of all exterior walls.

For a unit in a condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable)</td><td>For all appraisal reports where an interior and exterior inspection is performed, a building sketch is required. The building sketch must include dimensions and calculations reflecting the gross living area of the subject property. When the property is a 2- to 4-unit property, the sketch must also include each unit’s layout and indicate the square feet of living area per unit and the gross building area (GBA).

For attached units, an interior perimeter sketch is acceptable. Appraisers may rely on the dimensions and estimates for gross living area as shown on the plat or exhibits of Project Documents or provide legible photocopies of floor plans or individual unit plats that include the dimensions and calculations.

If the floor plan of the subject property is atypical, or functionally obsolete such that its market appeal is limited in comparison with competitive properties in the neighborhood, a floor plan sketch including interior walls with dimensions is required.</td></tr>
</table>

DETERMINING GROSS LIVING AREA (GLA)- FANNIE MAE

For appraisal requiring interior and exterior inspections, the appraiser must measure, calculate, and report gross living area and non-gross living areas (basement, additional structures, etc.) by adopting the standard established by the American National Standards Institute (ANSI). This standard does not apply to attached (apartment-style) units in PUD, condo, or co-op projects nor two-to-four-unit properties.

Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable unless otherwise noted below.

In order to verify the appraisal was completed in compliance with Fannie Mae requirements, the appraiser must specify within the report that the standard established by the American National Standards Institute (ANSI) was used.

If the appraiser is unable to adhere to the Square Footage-Method for Calculating ANSI standard they must enter "GXX001-" at the beginning of the Additional Features field of the appraisal and provide an explanation of why they were not able to comply. For example, if the appraiser is performing an appraisal in a state that requires adherence to a different measuring standard, then the loan may still be eligible for purchase by Fannie Mae.

ANSI Standards

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid. Detached structures with finished square footage must be reported on a different line in the adjustment grid and not included as part of the subject's reported gross living area. When the subject property has an area that does not meet the ANSI minimum ceiling height requirements, the additional square footage must be reported on an additional line in the adjustment grid and an appropriate market adjustment applied, if warranted. Additionally, the appraiser must provide and explanation in the report for how this area was handled in order to comply with the ANSI standard and also acknowledge any contribution of the additional square footage.

APPRAISAL ADDENDUM REQUIREMENTS FOR INVESTMENT AND 2-4 UNIT PROPERTIES – SUBJECT PROPERTY

In addition to the appropriate appraisal form, the following appraisal addendums are required for investment and 2 to 4-units when rental income is used to qualify the borrower for the mortgage loan:

SUBJECT PROPERTY		
Property Type	**Occupancy**	**Appraisal Form # Required**
1-Unit	Investment	Fannie Mae form 1007/Freddie Mac form 1000
2-4 Unit	Primary or Investment	Fannie Mae form 1025/Freddie Mac form 72 includes the Comparable Rent Schedule

COMPARABLE SALES

Comparable sales should have similar physical and legal characteristics when compared to the subject property, be appropriate for the assignment and account for all factors that affect value. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

The appraiser must fully disclose the 36-month sales history and 12-month listing history of the subject property and 12-month sales history for all comparables.

Minimum Number of Comparable Sales

A minimum of three closed comparable sales must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser.

Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS

The appraiser must generally use:

- One comparable sale from the subject subdivision or project,
- One comparable sale from outside the subject subdivision or project, and
- The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property
- In the event there are no settled comparable sales in the project or subdivision, the appraiser may use two pending sales in the subject project, subdivision, or PUD in lieu of one settled sale. The appraiser must also use at least three settled comparable sales from projects, subdivisions, or PUDs outside of the subject project, subdivision, or PUD.

If the subject property is part of a newly built or recently converted condo project, subdivision, or PUD that has 2-20 units and there are no settled or pending sales, the appraiser may use comparable sales from a competing project, subdivision, or PUD. The following requirements apply:

- the comparable sales must be from a similar type of project, subdivision, or PUD; and
- the comparable project, subdivision, or PUD must be another development that has similar units, amenities, and is a similar size to the subject.
- If the subject is not the first unit under contract in the project, the appraiser must also include one “under contract” sale from the subject’s project for comparison.

PURCHASE CONTRACTS

The appraiser must be provided with the sales contract and all addenda for all purchase transactions to consider the financing and sales concessions in the transaction and their effect on value. If the sales contract is amended during the process, the appraiser must be provided with updated contract. The appraiser must state the total dollar amount of the loan charges and/or concessions that will be paid by the seller (or any other party who has a financial interest the sale or financing of the subject property) and provide a brief description of the items on the appraisal report form.

The appraiser must state the effect of value of any non-realty items included in a sale, such as closing costs paid by the seller or any subordination agreements with the property.

EFFECTIVE AGE

When adjustments are made to the appraisal for the effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.

UNACCEPTABLE APPRAISAL PRACTICES

Examples of unacceptable appraisal practices include the following:

- Development of or reporting an opinion of market value that is not supported by market date or is misleading
- Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property
- Use of unsupported or subjective terms without providing a foundation for analysis and contextual information including, but not limited to, “high”, “low”, “good”, “bad”, fair”, “poor”, “strong”, “weak”, “rapid”, “slow”, “fast” or “average”
- Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to: "pride of ownership," "no pride of ownership," and "lack of pride of ownership"; "poor neighborhood"; "good neighborhood"; "crime-ridden area"; "desirable neighborhood or location"; or "undesirable neighborhood or location"
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited
- Misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales
- Failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales
- Selection and use of inappropriate comparable sales
- Failure to use comparable sales that are the most locationally and physically similar to the subject property
- Creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- Failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report
- Use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales
- Not supporting adjustments in the sales comparison approach
- Failure to make adjustments when they are clearly indicated
- Use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser’s verification of the information from a disinterested source

- Development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments
- Development of or reporting an appraisal in a manner that is inconsistent with the requirements of USPAP

APPRAISAL PORTABILITY

ACCEPTING AN APPRAISAL FROM ANOTHER LENDER

All requests to accept an appraisal that was ordered from another lender should be sent to appraisal.review@flagstar.com.

- Underwriting will condition for a compliance certificate from the original lender showing that the appraisal was ordered by the lender in a manner compliant with Fannie Mae and Freddie Mac Appraiser Independence Requirements. Flagstar will only accept the certificate from the original lender. Flagstar will not accept the Appraiser Independence Requirements compliance certificate directly from the customer.
- Appraisal Review will need to receive the appraisal and invoice from an AMC or a competing lender to determine if it is compliant.
- The appraiser must not appear on Flagstar's ineligible appraiser list.
- Appraisals must be submitted in a UCDP-ready MISMO 2.6 XML file. Key ID number SSR will not be acceptable in lieu of XML file.
- All reports will be reviewed for credibility by a Staff Appraiser Reviewer, and uploaded to the loan after the appraisal has been deemed acceptable. If the report is unacceptable a new appraisal is warranted. Revisions will not be requested.
- Under no circumstances, will Flagstar accept an appraisal transferred or uploaded to Flagstar by the consumer, the loan originator or any employee of the originating lender.

MULTIPLE APPRAISALS FOR SUBJECT PROPERTY

If more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must

- Adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value
- Document the reasons for relying on the appraisal
- Submit the appraisal selected by the lender through the UCDP prior to delivery.

APPRAISAL RELEASE FROM FLAGSTAR TO ANOTHER LENDER

To have a Conventional or FHA appraisal transferred to a lender other than Flagstar complete and follow the directions on the *Appraisal Release Form*, Doc. #3105. Flagstar Bank will provide a letter stating the appraisal was ordered in compliance with Appraiser Independence Requirements (AIR). VA appraisals cannot be transferred as they are ordered through WebLGY.

USE OF AN APPRAISAL FOR A SUBSEQUENT TRANSACTION

The use of an origination appraisal for a subsequent transaction is acceptable if the following requirements are met:

- The subsequent transaction may only be a rate-and-term refinance

- The appraisal report must not be more than 12 months old on the note date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the note and mortgage, then an appraisal update is required. Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update, must be met.
- The property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction

DESKTOP APPRAISALS

A desktop appraisal report (Form 1004 Desktop/70D) is permitted for certain transactions. The minimum scope of work for Form 1004 Desktop does not include a current inspection of the subject property or comparable sales by the appraiser; the appraiser relies on data obtained from alternative methods or sources to identify property characteristics and condition.

A full interior and exterior appraisal (Form 1004/70) is required when one or more of the following conditions exists:

- The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the subject property from third-party data sources in order to develop an accurate and adequately supported appraisal
- The appraiser cannot reconcile significant discrepancies (e.g., room count, gross living area, size, condition, etc.) among available data sources

<table>
<tr><th colspan="3">Desktop Appraisal Eligibility</th></tr>
<tr><th>Topic</th><th>Fannie Mae</th><th>Freddie Mac</th></tr>
<tr><td>AUS</td><td colspan="2">DU/LPA messaging will provide feedback message for desktop appraisal eligibility</td></tr>
<tr><td>Property Type</td><td colspan="2">One-Unit (including those with ADU and units in PUD).

Two-to-four units, Condos, Coops, and Manufactured home are not eligible</td></tr>
<tr><td>Occupancy</td><td colspan="2">Owner Occupied Only

Second homes and Investments are not eligible</td></tr>
<tr><td>Loan Purpose</td><td colspan="2">Purchase only (including purchase of a new construction property)

Construction loans, renovation loans and all refinances are ineligible</td></tr>
<tr><td>LTV</td><td colspan="2">LTV ratio must be less than or equal to 90%

For purposes of desktop appraisal eligibility, the LTV ratio is calculated using the sales price.</td></tr>
<tr><td>Additional Restrictions</td><td>The following are not eligible for Desktop:
• Properties with community seconds or resale restrictions with a subsidized sales price
• Property is under renovation
• The data sources used to develop the appraisal, including the sales contract, reflect the presence of physical deficiencies or an adverse condition(s) indicating the property</td><td>The following are not eligible for Desktop:
• Properties subject to resale restrictions, excluding age-based resale restrictions
• Property is under renovation
• The data sources used to develop the appraisal, including the sales contract, reflect the presence of physical deficiencies or an adverse condition(s) indicating the property has a condition rating of C5 or C6 or the quality rating is Q6.</td></tr>
</table>

	has a condition rating of C5 or C6 or the quality rating is Q6.	

FANNIE MAE VALUE ACCEPTANCE + PROPERTY DATA

Fannie Mae Value Acceptance + Property Data is permitted for certain transactions. The property data collection (PDC) consists of a full interior and exterior inspection requiring the capture of data and images throughout the subject property. If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data was obtained, in some cases it may be possible for the lender to the submit the property data to an appraiser to perform a hybrid appraisal assignment. Alternatively, a desktop or traditional full appraisal may be obtained.

Value Acceptance + Data Report Eligibility	
Topic	**Requirement**
AUS	DU resulted in an eligibility message for value acceptance + property data, Note: Property data collection must be submitted to Fannie Property Data API to confirm eligibility.
Property Type	One-Unit (including those with ADU and units in PUD). Two-to-four units, Condos, Coops, and Manufactured home are not eligible
Occupancy	Owner Occupied, Second Home and Investments.
Transaction Type	Purchase and Refinance Construction loans, construction to permanent, and renovation loans are not eligible.
Additional Restrictions	The following are not eligible: • Properties with resale restriction, including those with a subsidized sales price • Investment properties when rental income is used to qualify the borrower. • TX 50(a)(6) loans • Leaseholds • Purchase price or estimated value provided is $1 million or more • Transactions with gift of equity
Subject To Repairs	Properties subject to repairs are not eligible for use and require a full appraisal

FREDDIE MAC ACE+ PDR

Freddie Mac ACE+ PDR offers value acceptance with a property data report for certain transactions. The eligibility must be retained on the final LPA response with the offer no more than 120 days on the date of the note and the mortgage.

ACE+ PDR Eligibility	
Topic	**Requirement**
AUS	LPA last feedback message must indicate eligible for ACE+PDR
Property Type	One-Unit (including those with ADU and units in Condo and PUD). Two-to-four units and Manufactured home are not eligible
Occupancy	Owner Occupied Primary and Second homes Investments are not eligible

Transaction Type	Rate-and-Term Refinance • Owner-Occupied and Second Home up to 90% LTV/CLTV Cash-Out • Owner Occupied up to 70% LTV/CLTV • Second Home up to 60% LTV/CLTV
Exhibits	The following are required for ACE+ PDR • Floor plan with dimensions and calculations reflecting the GLA of the subject that included interior walls and representation of any functional obsolescence • Photos of the subject including front view, read view, sides property, street scene (both directions) identifying location and neighboring improvements, • Photos of all interior rooms including but not limited to the foyer, kitchen, living room, bedrooms, bathroom(s), utility room, laundry room, basement, attic accesses via a permanent staircase, etc. • Photos of interior and exterior of any significant (permanently affixed) outbuilding on the subject site, including an ADU • Photos of any physical deterioration, improvements, amenities, and any observed issues or external influences

Additional Restrictions	The following are not eligible:
	• An appraisal has already been obtained
	• Estimated value if greater than $1 million
	• Texas 50(a)(6) loans
	• Leasehold properties
	• Properties subject to resale restrictions, excluding age-based resale restrictions
	• Law or regulation requires an appraisal be obtained
	• Rental income is being used from the one-unit ADU for qualification
	• A hybrid or other appraisal is deemed warranted due to property containing any of the following characteristics
	    ○ Adverse site conditions or external factors
	    ○ Mixed-use property
	    ○ No above grade bedroom or bathrooms
	    ○ GLA less than 400 square feet
	    ○ Property is Proposed
	    ○ External obsolescence

Repairs and Inspections	The property data collector must also specify when the subject property has any required “repairs or alterations” or will require an “inspection” by a trained professional when the property data collector cannot make the determination if repairs are needed. The appropriate completion or inspection must be obtained. Note: Properties must meet standard eligibility. Properties in C5 or C6 condition are not eligible.

HYBRID APPRAISALS

A hybrid appraisal report (Form 1004 Hybrid/70H) is permitted for certain transactions. The minimum scope of work for Form 1004 Hybrid includes consideration by the appraiser of interior and exterior property data collection by a trained and vetted third party (such as a real estate agent, insurance inspector, appraiser, etc.). The appraiser relies on the data collected (and other sources if needed) to identify property characteristics including condition. A Hybrid appraisal requires the same exhibits as traditional appraisals with the inclusion of a floor plan to required standards.

Hybrid Appraisal Eligibility

Topic	Fannie Mae	Freddie Mac
Eligibility	DU determines loan is eligible for value acceptance + property data report however the loan loses the eligibility due to qualifying loan characteristics changes. Note: DU will not indicate when a loan is eligible for a 1004 Hybrid appraisal. Upon submission of data report to Fannie Mae, DU findings will update from value acceptance + data report to full appraisal when eligibility is lost. See restrictions below for additional eligibility considerations.	ACE+ PDR report reveals the subject is not eligible for the offering based on the following characteristics: • Adverse site conditions or external factors • Mixed-use property • No above grade bedrooms or bathrooms • GLA less than 400 square feet • External obsolescence Note: LPA will not indicate when a loan requires a Hybrid
Additional Restrictions:	The following are not eligible: • two- to four-unit properties; • condo (including detached condos) and co-op units; • manufactured homes; • proposed construction; construction-to-permanent loans (single-close and two-close); • Properties with resale restriction, including those with a subsidized sales price • Investment properties when rental income is used to qualify the borrower. • TX 50(a)(6) loans • Purchase price or estimated value provided is $1 million or more • Transactions with gift of equity	The following are not eligible: • Loans not otherwise eligible for ACE+ PDR • Building status is "Proposed"

VALUE ACCEPTANCE/ APPRAISAL WAIVER

When DU or LPA response indicates the loan is eligible for value acceptance (appraisal waiver: PIW or ACE/PIA) the following requirements must be met. The eligibility must be retained on the final AUS response with the offer no more than 120 days on the date of the note and the mortgage.

VALUATION ACCEPTANCE/ APPRAISAL WAIVER ELIGIBILITY

Eligibility for Use of Value Acceptance with Fannie Mae (PIW) and Appraisal Collateral Evaluation Freddie Mac (ACE/PIA)		
Requirement	**Fannie Mae**	**Freddie Mac**
AUS Response	Approve/Eligible	Accept
Appraisal Type	PIW	PIA
Property Types	1-unit properties including condominiums	
Occupancy	Owner Occupied Second Homes Investment properties	Owner Occupied Second Homes
Transaction Type	Purchase • Owner Occupied and Second Homes up to 80% LTV/CLTV Rate-and-Term Refinance	Purchase • Owner Occupied and Second Homes up to 80% LTV/CLTV

	• Owner occupied and Second Homes up to 90% LTV/CLTV • Investment properties up to 75% LTV/CLTV Cash-Out Refinance • Owner occupied up to 70% LTV/CLTV • Second Homes and Investments properties up to 60% LTV/CLTV Properties in High-Need Rural locations as identified by FHFA • See Rural High-Needs Value Acceptance/Appraisal Waiver section for requirements.	Rate-and-Term Refinance • Owner occupied and Second Homes up to 90% LTV/CLTV
Value	Fannie Mae does not specify	The following should be utilized as the value for determining appraisal waiver eligibility with LPA: • The purchase price for purchase transactions, or • The estimated value for refinance transactions

Note: Flagstar Bank does not accept Fannie Mae Value Acceptance+ Property Data, Freddie Mac ACE +PDR offerings, or Hybrid reports. A full appraisal is required unless loan is eligible for full value acceptance.

VALUE ACCEPTANCE/APPRAISAL WAIVER RESTRICTIONS

See below grid indicating property characteristics that restrict the use of an appraisal waiver for Fannie Mae and/or Freddie Mac. When a characteristic is marked as restricted a full appraisal is required.

Restrictions for Use of Value Acceptance for Fannie Mae (PIW) and Freddie Mac (ACE/PIA)		
Restriction	**Fannie Mae**	**Freddie Mac**
Properties located in New York when the LTV > 80% requiring MI	X	X
Proposed Construction or Construction-to-Permanent Transactions (one and two-time close construction)	X	X
Renovation mortgage products	X	X
2 to 4-unit properties	X	X
Texas 50(a)(6) loans	X	X
The purchase price or estimated value of the subject is equal to or greater than $1,000,000	X	
The purchase price or estimated value of the subject is greater than $1,000,000		X
Leasehold properties	X	X
Properties with Resale Restrictions • Fannie Mae- properties with deed restrictions which do not restrict the future sales price of the property only are eligible for PIW • Freddie Mac- age-restricted properties only are eligible for ACE/PIA	X	X
Cooperative Units	X	X
Manufactured Homes (including accessory units)	X	X
Loans for which the mortgage insurance provider requires an appraisal	X	X

An Appraisal is warranted based on additional information provided (e.g. sales contract, property inspection or disclosure, etc.) to indicate property is: • Located in a contaminated site or hazardous substance exists affecting the property or neighborhood in which the property is locates, or • Contains adverse physical property conditions. • Properties subject to completion	X	X
Transactions using gift of equity	X	X
Rental income from the subject is being used to qualify	X	X
Non-arm's length transaction		X
Purchase of REO Property (identified in sales contract)		X
Investment property		X
Ineligible or Caution AUS response	X	X
An appraisal has already been obtained in connection with the mortgage	X	X
The lender is required by law to obtain an appraisal • This does not apply for loans closed in Flagstar's name as the lender • Correspondents that close a transaction with value acceptance (appraisal waiver) represent and warrant the use of the appraisal alternative is compliant with the correspondent's state legal obligation	X	X

RURAL HIGH-NEEDS VALUE ACCEPTANCE/ APPRAISAL WAIVER- FANNIE MAE

In selected rural high-needs areas, Fannie Mae may offer appraisal with additional requirements through DU for certain transactions. This value acceptance (appraisal waiver) may be combined with other loan products, such as HomeReady.

Fannie Mae Rural High-Needs Value Acceptance/ Appraisal Waiver Requirements	
DU Response	Approve/Eligible
Appraisal Type	PIW
Property Types	1-unit properties (excluding manufactured homes)
Occupancy	Owner Occupied only
Transaction Type	Purchase only with LTV up to 97% and CLTV up to 105% with a Community Second
Eligibility	Property must be otherwise eligible for use of a PIW. See Appraisal Waiver Restrictions for ineligible transactions.

The following requirements must be met in order to exercise the Rural High-Needs Value Acceptance/ Appraisal Waiver:

- Obtain a home inspection to determine the property condition. Must use a professional inspector that meets the state license and education requirements for those states that regulate inspectors.
  - Confirm that the inspector has liability insurance
  - In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of ethics and to standards of practice.
- Review the inspection report to verify the property condition.

- Represent and warrant that the property is safe, sound, and structurally secure and that the property is not in C6 condition;
- Any issues that compromise safety, soundness, or structural integrity must be repaired before loan delivery

- Obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any lender-required repairs.
- Confirm that the purchase contract contains an inspection contingency that offers that borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property

GENERAL PROPERTY ELIGIBILITY

First-lien mortgages that are secured by residential properties when the dwelling consists of one-to-four units. The subject property present use must represent the highest and best use of the property as improved (or as proposed per plans and specifications).

INELIGIBLE PROPERTIES

- Properties in C5 and C6 Condition
- Properties held in Land Trusts, including Community Land Trusts
- Properties with Life Estate rights. Any properties titled with these provisions must have the rights removed prior to closing to be considered.
- Vacant land or land development properties
- Properties that are not readily accessible by roads that meet local standards
- Properties used for agricultural or Income producing farms or ranches (Property must be residential in nature to be eligible)
- Properties primarily used for commercial enterprises, including but not limited to:
  - Transient Housing Units in Condo or Cooperative projects (e.g. condo- hotels)
  - Boarding houses
  - Bed and breakfast properties
- Properties that are not suitable for year-round occupancy regardless of location (unless property meets Freddie Mac second home limitations)
- Properties located on Indian/Native American Tribal Land
- Properties located in Lava Zones 1 and 2
- Properties with evidence of activities that are federally, state, or locally prohibited (e.g. marijuana growth, processing, etc.). Property alterations cannot be made to achieve collateral eligibility
- See Environment Hazard section for additional property limitations

U.S. TERRITORIES

Flagstar Bank does not currently lend on properties located in the following U.S. Territories: Guam, Puerto Rico, American Samoa and Northern Mariana Islands.

ADDRESS DETERMINATION

Use the standardized (USPS address) but compare it to the legal description on Schedule A on the title commitment. If the legal description's city/township is different, use the legal city/township, but maintain the street address portion provided by USPS.

- The appraiser must provide the legal address on an addendum
- For multi-unit properties, it is acceptable to use the legal street address.
- The city indicated on the appraisal can be either standardized or legal.

For condominiums and Planned Unit Developments that have a unique address, i.e., street number is different for each unit), the unit number does not need to be included on the closing documents (e.g. note, mortgage, etc., if the unit number is not part of the appraisal or purchase agreement and is referenced in the legal description. If the unit number is part of the appraisal or purchase agreement and is referenced in the legal description, the unit number must then be included on the closing documents.

<u>ACCESSORY DWELLING UNITS (ADU)</u>

An accessory dwelling unit is defined as an additional living space that must provide for living, sleeping, cooking and contain bathroom facilities which may be added to or detached from the primary one-unit dwelling on the same parcel. Examples include a living area over a garage, fully independent basement unit, or guest house.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The primary dwelling property is a one-unit;
    - See below for permissible Freddie Mac tolerances for an ADU on a multi-unit property
- The property contains only one accessory unit, multiple accessory units are not permitted
- The appraiser provides a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use;
    - For Freddie Mac only- If a comparable sale with an accessory unit is not available, for properties with legal land use and zoning, the appraiser may use a neighborhood comparable without an accessory unit as long as the appraiser can justify and support such use within the appraisal report
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
    - See Rental Income for permissible use of rental income on Freddie Mac (LPA) transactions.

The following requirements should be met to define an additional living space as an acceptable accessory unit:

- Be subordinate in size to the primary dwelling
- The kitchen, at minimum, must contain cabinets, a countertop, sink with running water, and a stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable substitutes)
    - Note that a second kitchen does not by itself constitute an ADU. Other features of living, sleeping and bathing area must be present.

- Likewise, the removal of a stove does not change the ADU classification. The presence of a stove hookup is sufficient to classify as an ADU.

- The unit must have an entrance that does not require access through the primary dwelling though it may include an access to the primary residence. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.
- Contributes less to the value of the property than the primary dwelling unit

Considerations that may require the property to be appraised (Form 1025/72) and treated as multi-unit properties include, but not limited to:

- Separately metered utilities
- Unique postal address
- Rent collection
- Size of the accessory-unit relative to the main structure
- Multi-unit zoning

ACCESSORY UNITS THAT DO NOT COMPLY WITH ZONING REQUIREMENTS

If it is determined that the property contains an accessory dwelling unit that does not comply with zoning, the property is eligible under the following additional conditions:

- Confirm that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.
- The use conforms to the subject neighborhood and to the market. The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least two comparable properties that have the same non-compliant zoning use.

MANUFACTURED HOME AS AN ACCEPTABLE ACCESSORY UNIT

A manufactured home may be considered an acceptable accessory unit. In addition to the standard requirement of an accessory unit, as listed above, the below requirements must be met:

- Primary residence must be a site-built property. It is not acceptable to have two manufactured homes
- Both single and multi-width manufactured homes are acceptable. Freddie Mac requires the unit be at least 400 square feet
- The accessory unit must be legally classified as real property
- Land must be held in fee simple interest by the borrower
- The manufactured home must have been built in compliance with the Federal Manufactured Home Construction and Safety Standards (established June 16,1976 as amended and in force at the time the home was manufactured)
- The property is attached to a permanent foundation system in accordance with the manufacturer’s requirements for anchoring, support, stability and maintenance
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes
- It is encumbered by the mortgage with the primary dwelling and

- Additional requirements that appear in HUD regulations in 24 C.F.R. Part 3280 must be met
- Manufactured home accessory unit must be recorded on title as real property prior to closing or at time of purchase.
- An appraisal is required to verify compliance with all manufactured home standards, regardless of DU/LPA response offerings for value acceptance (appraisal waiver)
- The addition of or improvements to a manufactured home accessory unit are not eligible under the Homestyle Renovation product.

No exceptions will be made to the above requirements

Appraisal Requirements for Manufactured Home Accessory Units

Compliance with these standards will be evidenced by photos of either the HUD Plate of HUD Certification Label (or both) in the appraisal. If the original or alternative documentation cannot be obtained for either the Data Plate/Compliance Certificate or HUD Certification Label, the loan is not eligible.

The appraisal report for a one-unit property with a Manufactured Home accessory unit must include the following:

- Demonstrate the unit is acceptably classified as an accessory unit
- Confirmation that the HUD Data Plate/Compliance Certificate is attached to the dwelling. If not attached, the appraiser must provide the data source(s) for the HUD Data Plate/Compliance Certificate information reported.
- Freddie Mac- Confirmation that the Wind, Roof Load and Thermal Zones meet the minimum HUD requirements for the location of the subject property. If the unit does not meet these requirements, the appraiser must address.
- Confirmation that the HUD Certification Label is attached to the exterior of each section of the dwelling. If not attached, the appraiser must provide the data source(s) for the HUD Certification Label information reported.
- Manufacturer's Serial #(s)/VIN #(s)
- HUD Certification Label #(s)
- Manufacturer's Name
- Trade/Model
- Date of Manufacture
- Describe any additions or modifications made to the Manufactured Home (decks, rooms, remodeling, etc.)

ACCESSORY DWELLING UNIT ON MULTI-UNIT PROPERTY -FREDDIE MAC

For Freddie Mac/LPA transactions only, 2- and 3- unit properties are eligible with one ADU and must meet the above requirements with the additional restrictions as follows:

- Units that do not comply with zoning and land use requirements (illegal zoning) are not eligible
- A 4-unit property with an ADU is not eligible.

The appraiser must identify and report the appraisal on the appropriate form if the subject property has an ADU. Zoning and land use requirements must be considered by the appraiser to make this identification. The appraiser must also consider all property characteristics, specifically the unit's utility and the property's highest and best use, when making this determination.

If the appraiser determines the subject property has an ADU, the appraisal report must include a description of the ADU and reflect any effect the ADU has on the market value or marketability of the subject property. The description of the ADU must include, but is not limited to, the general condition of the ADU, the room count specifying the number of bedrooms and baths and the square footage of the ADU's living area.

ADDITIONS WITHOUT PERMITS

If the appraiser identifies an addition that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

MIXED-USE PROPERTIES

Mixed-use properties (e.g., beauty shops, doctor's office, small grocery, etc.) are eligible as long as the following guidelines are met:

- Property must be a 1-unit property that the borrower occupies as their principal residence
- The mix-use of the property must represent a legally permissible use of the property under local zoning requirements
- The borrowers must be both the owner and the operator of the business
- The property must be primarily residential in nature. The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residence.
- The market value of the property must be primarily a function of its residential characteristics, rather than the business use or any special business use modifications that were made.

MIXED-USE PROPERTY APPRAISAL REQUIREMENTS

The appraisal requirements for mixed-use properties must:

- provide a detailed description of the mixed-use characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the commercial use of the property; and
- report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

MULTIPLE PARCELS UNDER ONE MORTGAGE

When the security property consists of two or more parcels of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- The mortgage must be a valid first lien that covers each parcel.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable (e.g. a home built across both parcels where the lot line runs under the home is acceptable).

  - Freddie Mac only- An acceptable accessory unit is allowed on the parcel that contains the primary residence.
- Limited additional non-residential improvements, such as a garage, are acceptable on any parcel.
- Multi-dwelling unit condominiums are not eligible and must be legally combined into one parcel ID number
- Parcels must be adjoined to the other, unless they comply with the following exception:
  - The parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- When an appraisal is required, the appraiser must consider how the existence of two or more parcels, adjoining or not, influence the value use and marketability.

Flagstar may amend the security instrument to include the conditions under which the adjoining lot subsequently may be released as security for the mortgage. One such condition is that the outstanding unpaid principal balance of the mortgage must have the same, or better, relationship to the current appraised value of the property after release of the adjoining lot that the original mortgage amount had to the original value of the property at the time we purchased or securitized the mortgage. This can be the result of property appreciation or the borrower making an additional principal payment to reduce the mortgage balance to the required level.

SOLAR PANELS

Ownership and financing/leasing structure of the subject property solar panels must be determined by evaluating the credit report, copy of related solar panel documentation and title commitment to address if the related debt is reflected in the land records. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search to confirm the solar panels are not claimed as collateral by any non-mortgage lender.

Properties with solar panels financed with a PACE loan that will not subordinate are not eligible unless PACE loan is paid in full prior to or at closing.

	Solar Power Purchase Agreement (PPA)	**Solar Panel Lease**	**Solar Panels Financed as Personal Property**	**Solar Panel Financed as a Fixture to Real Estate**	**Solar Panels Owned Free and Clear**
Description	The Borrower purchases power produced by the solar panels, and the Borrower is not the owner of the solar panels.	The Borrower does not own the solar panels and the Borrower pays monthly lease payments to have access to the solar panels.	The Borrower owns the solar panels, purchased the solar panels with a note/security agreement and is entitled to power produced by the panels.		Borrower owns the solar panels and has no related debt.
Title	UCC-1 Financing Statement or lease agreement associated with the solar panels recorded in the applicable land records (e.g. precautionary filing) and claiming an interest in the solar panels but not the real estate; the Seller does not need to obtain a			UCC-1 Financing Statement recorded against title to the Mortgaged Premises (e.g. fixture filing),	There must be no UCC-1 Financing Statement or notice recorded against the

<table>
<tr><th></th><th>Solar Power Purchase Agreement (PPA)</th><th>Solar Panel Lease</th><th>Solar Panels Financed as Personal Property</th><th>Solar Panel Financed as a Fixture to Real Estate</th><th>Solar Panels Owned Free and Clear</th></tr>
<tr><td></td><td colspan="3">subordination agreement of the UCC-1 Financing Statement.</td><td>creating a lien on the real estate itself (i.e., claiming an interest in both the solar panels and the real estate, not just the solar panels); it must be subordinated or released.</td><td>Mortgage Premises.

In the event there is a UCC-1 Financing Statement, it must be released.</td></tr>
<tr><td>Appraisal</td><td colspan="3">The solar panels must not be included in the appraised value of the property.

The appraiser must comment on the marketability of the home with solar panels present and identify solar panels and system features.

Property must maintain access to an alternate source of electric power that meets the community standards</td><td>The solar panels must not be included in the appraised value of the property if the lender may repossess the solar panels for default on the financing terms.

Freddie Mac- Property must maintain access to an alternate source of electric power that meets the community standards</td><td>Seller must ensure the appraiser has recognized the existence of the solar panels and considered the solar panels in the appraiser's opinion of the market value of the property.

Freddie Mac- Property must maintain access to an alternate source of electric power that meets the community standards</td></tr>
<tr><td>Debt payment-to-income (DTI) ratio</td><td colspan="2">Lease payments for solar panels may be excluded from the monthly DTI ratio if the lease:
• Provides for delivery of a specific amount of energy for an agreed upon payment during a given period, and
• Includes a production guarantee under which the Borrower is compensated on a prorated basis when the energy produced by the solar panels is less than the level required by the lease agreement

Payments for solar panels subject to a PPA or similar type of agreement may be excluded from the monthly DTI ratio if the payment is calculated based only on the generated energy.</td><td>Payment to solar company or lender is included in the DTI ratio</td><td>Payment to solar company or lender is included in the DTI ratio</td><td>N/A – no payment required</td></tr>
</table>

<table>
<tr><th></th><th>Solar Power Purchase Agreement (PPA)</th><th>Solar Panel Lease</th><th>Solar Panels Financed as Personal Property</th><th>Solar Panel Financed as a Fixture to Real Estate</th><th>Solar Panels Owned Free and Clear</th></tr>
<tr><td>Combined Loan-to-Value (CLTV)</td><td colspan="3">Not included in the CLTV ratio</td><td>Included in the CLTV ratio</td><td>N/A</td></tr>
<tr><td>Obtain a copy of the lease, PPA or note/security agreement</td><td colspan="4">Review sufficient documentation (credit, title, appraisal and/or UCC financing statement, related promissory note and related security agreement) that reflects terms of secured loan to determine if the solar panels are recorded as part of the real property as a UCC filing against the real estate or considered personal property as collateral.

Copy of lease or power purchase agreement which must indicate all of the following:
Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and
The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner’s insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner’s property insurance policy; and
In the event of foreclosure, the lender or assignee has the discretion to
Terminate the lease/agreement and require the third-party owner to remove the equipment;
Become, without payment of any transfer or similar fee, the beneficiary of the borrower’s lease/agreement with the third party; or
Enter into a new lease/agreement with the third party under terms no less favorable that the prior owner.</td><td>N/A</td></tr>
<tr><td>Homeowner’s Insurance</td><td colspan="4">The owner of the solar panels agrees to not be a loss payee (or named insured) on the homeowner’s insurance policy covering the property.</td><td>N/A</td></tr>
</table>

UNIQUE HOUSING TYPES

Non-traditional or unique property types include, but are not limited to, "barndominiums" (barn conversions or barn-style buildings), "shouses" (living-space and work/storage combinations), berm homes, log homes and geodesic dome dwellings. The appraiser must demonstrate that the dwelling type or style is marketable and must ensure the property has an acceptable quality and condition rating.

UTILITIES

The utilities of the property must meet community standards (marketability and local codes). If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis.

OIL TANKS

Oil tanks, buried or not buried, Flagstar Bank requires properties with an oil tank to meet the following guidelines:

- The appraiser must state oil tanks are common to the area and have no adverse effect on marketability.
- The appraiser must make a statement that they detected no evidence of leakage from the oil tank.

WELL AND SEPTIC

Flagstar will not require a well and septic test unless required by the appraiser, there is evidence to suggest failure of the system, the purchase agreement requires an inspection, or appraiser notes property is in the vicinity of environmental hazards with potential for contamination based on proximity

PRIVATE WELLS

Subject properties with a water source provided by a shared well, with the well located on another property must be approved by management. A recorded shared well agreement and title commitment must be submitted for review. The shared well agreement must provide irrevocable water rights to the subject property.

OUTBUILDINGS

Descriptions of any outbuildings should be reported in the appraisal. The appraiser must demonstrate in the appraisal (e.g., through the use of comparable sales, pending sales or listings) that these characteristics are typical for residential properties in the market area.

Type of Outbuilding	Acceptability
Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings

COMMUNITY-OWNED OR PRIVATELY MAINTAINED STREETS

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If the property is located on a community-owned or privately-owned and maintained street, an adequate legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- Responsibility for payment of repairs, including each party's representative share
- Default remedies in the event a party to the agreement or covenant fails to comply with their obligations
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement, or covenant is required.

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If the property is located on a community-owned or privately-owned and maintained street, a legally enforceable agreement or covenant for maintenance of the street is not required to be recorded if all the following is met:

- The subject property must have legally appropriate ingress and egress that is recorded
- The streets serving the subject property must be maintained in a manner that generally meets community standards.
- The comparable sales should have street maintenance similar to the subject property. When differences exist between the ownership or maintenance of the subject property's streets and the comparable sale's streets, adjustments, or lack of adjustments made to the comparable sales for the differences must be explained in the comments area or on an attached addendum. In addition, the appraisal must evaluate the effect these differences have on the subject property's value or marketability.

<u>SHARED DRIVEWAYS</u>

When joint driveway is constructed across two party lines, is wholly on the subject property or wholly on the adjoining property, an easement must be recorded allowing for all present and future owners the use of the driveway without any restriction other than the restriction by reason of mutual easement owners' rights in common and duties for joint maintenance.

<u>ADDITIONAL PROPERTY CHARACTERISTICS</u>

NEIGHBORHOOD

The appraiser must report on the primary indicators of market condition for properties in the subject neighborhood by noting the trends of property values, the supply of properties in the subject neighborhood, and the marketing time for properties as of the effective date of the appraisal. The appraiser's analysis of the property must take into consideration all factors that affect value. This is particularly important in markets where value is fluctuating. The most recent and similar sales available should be used in these markets.

ZONING

Zoning of the property must constitute a legally permissible use of the land. The property must represent the highest and best use of the land. For legal nonconforming property use, the appraisal analysis must reflect any adverse effect that the nonconforming use has on the value and the marketability of the property. Comparable must have the same zoning influence.

Properties that are subject to coastal tideland, wetlands or setback laws and/or regulations that prevent the rebuilding of the property improvements if they are damaged or destroyed are ineligible. The intent of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

SITE/VIEW ADJUSTMENTS

The appraisal must include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

ADVERSE PROPERTY CONDITIONS

Any physical deficiencies stated on the appraisal that affect the health or safety of the property's occupants, including but not limits to infestations (e.g. wood-boring insects), dampness, abnormal settlement, must be corrected. The appraisal should be made "subject to" repairs or alternations, or "subject to" an inspection by a qualified professional.

PROPERTIES AFFECTED BY A DISASTER

When there are instances of disaster events such as tornados, flooding, etc. it is the responsibility of the correspondent or broker to warrant that the subject property is in an acceptable condition. See Natural Disaster Procedures, Doc #4915, for reinspection requirements.

PROJECT APPROVAL FOR CONDOMINIUM AND COOPERATIVE PROPERTIES

Refer to Conventional *Condominium Guidelines* and Conventional *Cooperative Guidelines* for project approval requirements for attached condominiums and all cooperative properties.

RESALE RESTRICTED PROPERTIES

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

Flagstar Bank must review the terms and conditions of the resale restriction.

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Allowable Resale Restrictions

- Income limits
- Age-related requirements (senior communities must comply with applicable laws)
- Purchasers must be employed by the subsidy provider
- Principal residence requirements
- First-time home buyer requirements as designated by the subsidy provider
- Residential properties that are group homes or that are principally used to serve disabled residents
- Resale price limits

Eligible Subsidy Providers

Eligible subsidy providers, or sponsors, of resale restrictions must be:

- Nonprofit organizations
- Churches
- Employers
- Universities
- Municipalities (including state, county, or local housing agencies); or entities that are otherwise administering government sponsored, federal, state, or local subsidy programs.

The subsidy provider must have established procedures for screening and processing applicants.

Eligible Borrowers for Affordability Related Deed Restrictions

Eligible borrowers must satisfy the specific eligibility criteria and resale restrictions established by the subsidy provider. If the borrower income limits for the resale restrictions differ from the income limits for Fannie Mae's HomeReady mortgage loans and the borrower income limits for the HomeReady mortgage loans are more restrictive, the HomeReady income limits apply.

Loan Eligibility and Occupancy Types

	Eligibility Based on Type of Deed Restriction	
	Affordable	**Age-Related**
Transaction Types	Purchase and Refinance	
Products	Loans must be fixed-rate or adjustable-rate mortgages with an initial fixed period of five years or more	
Borrowers	Must meet applicable criteria of the deed restriction. Age-related deed restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of investment property. (It is permissible for both affordable and age-related requirements to apply to a single loan.)	
Occupancy	Principal Residence Only	All Occupancy Types
Properties	One- and two-unit properties, PUDs, condos, and co-ops Mortgages secured by manufactured homes and three- and four-unit properties are not eligible.	One- and two-unit properties, PUDs, condos, and co-ops (second homes must be one-unit properties) Mortgages secured by manufactured homes and three- and four-unit properties are not eligible.

Default or Refinancing of Resale Restriction Loans

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure.

The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions.

The subsidy provider must exercise its right of first refusal or option to purchase within 90 days of receiving notification of the borrower default or the property foreclosure.
The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction. However, the resale restrictions may limit the cash-out amount in order to protect the subsidy invested in the property. Lenders must document that the subsidy provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the specific resale restrictions.

Duration of Resale Restrictions

Fannie Mae will purchase mortgages secured by properties subject to resale restrictions:

- When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period),
    - Upon the recordation of a deed-in-lieu of foreclosure, or
    - When the resale restrictions survive foreclosure.

There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.

If the resale restrictions survive foreclosure, the lender represents and warrants that the resale restrictions do not impair the servicer's ability to foreclose on the restricted property.

If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure.

If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.

Restrictions with a Community Second used to Subsidize the Property's Sales Price

An eligible Community Second mortgage against the property, representing the difference between the market sales price and the reduced sales price accepted by the seller (referred to as the subsidy). In most cases, the subordinate loan has deferred payments and will be forgiven at the end of a set period of time, typically the term of the first mortgage. The subordinate loan acts as a resale restriction by preventing the borrower from selling the property at a profit or obtaining a cash-out refinance. The terms of the loan may not, however, restrict the sale of the property upon foreclosure or acceptance of a deed in lieu of foreclosure

When a subordinate lien is used as a subsidy to reduce the sales price to the borrower, the "unsubsidized sales price" must be used in determining:

- the minimum down payment,
- the borrower contribution, if applicable that must be made from the borrower's own resources; and
- the level of mortgage insurance.

The unsubsidized sales price represents the market sales price, and is calculated by adding the reduced sales price plus the non-monetary subordinate loan amount secured by the government agency. The LTV and CLTV ratios are calculated using the lesser of the unsubsidized sales price or the appraised value. (Note: DU must reflect Affordable LTV findings to accurately calculate the LTV and CLTV ratios based solely on the appraised value for purchase transactions). For refinances the market value is used to determine the LTV/CLTV with the subordinate loan.

Example: The following example is provided for clarity for purchase transactions.

Assuming the market sales price equals the appraised value, and a borrower contribution of 5%:

Item	Value
Market Value (supported by appraisal) (the unsubsidized sales price)	$150,000.00
Community Seconds mortgage representing subsidy amount	$ 40,000.00
Buyer's Purchase Price; i.e., reduced sales price (the subsidized sales price)	$110,000.00
Closing Costs/Prepaids	$ 5,000.00
Total Cost to Borrower	$115,000.00
Borrower Contribution (5%)	$ 7,500.00
First Mortgage Amount (may never exceed the subsidized sales price)	$107,500.00
LTV (first mortgage divided by the market value)	71.67% (rounded to 72%)
CLTV Ratio (first mortgage plus community second subsidy divided by the market value)	98.33% (rounded to 99%)

Resale Restriction Appraisal Requirements

In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.
The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that they must include the following statement in the appraisal report:

- This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure.

In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparables with similar restrictions.

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

Title Requirements

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

Delivery of Mortgage Secured with a Resale Restrictions Survive at Foreclosure

Special Feature Code (SFC 630) must be added to identify a mortgage secured by a property with resale restrictions that remain in place or survive in the event of foreclosure or acceptance of a deed in lieu of foreclosure.

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Length of Resale Restrictions; Effect of Foreclosure or Deed-in-lieu of Foreclosure

There are no restrictions on the length of the period in which the restrictions may remain in place on the property. A mortgage secured by a property subject to a resale restriction is eligible for purchase if the resale restriction:

- Survives foreclosure or completion of a deed-in-lieu of foreclosure, or
- Terminates upon foreclosure or completion of a deed-in-lieu of foreclosure.

If the resale restrictions survive foreclosure or recordation of a deed-in-lieu of foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer after foreclosure or deed-in-lieu of foreclosure, from the foreclosing mortgage holder who obtained the property.

Whether the resale restrictions survive or terminate upon foreclosure or recordation of a deed-in-lieu of foreclosure, once Freddie Mac has acquired title to the property as an REO, the subsidy provider is not entitled to obtain any "excess proceeds" from Freddie Mac's sale or transfer of the REO property except for mortgages secured by properties subject to income-based resale restrictions, see below for tolerance.

Right of First Refusal

For properties subject to resale restrictions, there must be a right of first refusal which must run to:

- The enabling authority or jurisdiction that imposed the resale restrictions, or
- The subsidy provider or program administrator

With a time period not exceeding 120 days from the date of written notice to the parties that the restricted property is being offered for sale.

Public Land Records

The terms of the resale restrictions must appear in the public land records for the property in a manner discoverable by a routine title search.

Restrictive Agreements and Restrictive Covenants on Title

Exceptions restrictive agreements or restrictive covenants of record related to cost, use, setback, resale restrictions, right of first refusal, minimum size and building materials, and architectural, aesthetic or similar matters (other than single-family-use restrictions on 2 to 4-unit properties) are acceptable provided that the following conditions are met:

- The restrictive agreements or restrictive covenants do not create or provide for any lien that would be prior to the lien of the Home Mortgage nor provide for the elimination of the lien of the Home Mortgage.
- The terms and provisions of the restrictive agreements or restrictive covenants are commonly acceptable to private institutional mortgage investors in the area where the Mortgaged Premises are located.
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or restrictive covenant exists and that any future violation shall not result in forfeiture or reversion of title.

Payment of Financial Obligations

Any requirement in the deed restrictions requiring the owner of the property to make payments under certain circumstances or requiring repayment of financial subsidies must state that the payment obligation is subordinate to the lien of the First Lien Mortgage.

Income- Based Restrictions with an Affordable Second used to Subsidize the Property's Sales Price

An approved Community Second/Affordable Second can be used to provide financial assistance by subsidizing the property's sales price in certain affordable housing programs. The difference between the market sale price and the resale-restricted price represents the subsidy amount provided by the Affordable Second and creates the subsidized sales price. The subsidy provider for the Affordable Second may have the preemptive option to purchase the home and/or transfer this option to an eligible buyer.

The Mortgage terms for the Affordable Second typically provide for either no payments or deferred payments and the entire outstanding balance may be forgiven at some specified point in time. The terms of the Affordable Second Mortgage may not, however, restrict sale or transfer of a property once Freddie Mac has acquired title to the property as an REO.

When an Affordable Second is used to subsidize the property's sales price and income-based resale restrictions are imposed, the Affordable Second must not be used toward the Borrower's Down Payment or Closing Costs.

Appraisal Requirements for Properties with Resale Restrictions

The appraisal report must note the existence of any resale restrictions and include an analysis that addresses any impact the resale restrictions have on the property's value or marketability.

- When a resale restriction survives foreclosure or a deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on the subject value and when applicable, be supported by comparables with similar restrictions. If recent sales are not available the appraiser should then use older comparables sales from the neighborhood or consider similar restricted sales in competing neighborhoods. Comparable sales without resale restrictions must be justified by the appraiser to support their use in the appraisal report.
- When a resale restriction terminates upon foreclosure or a deed-in-lieu of foreclosure, the appraisal must reflect the market value without resale restrictions by using comparables that are not resale restricted. The appraiser must include the following statement "*This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure.*"

Additional Requirements Applicable Only to Mortgages Secured by Properties Subject to Income-Based Resale Restrictions

Eligible property types, mortgage products and mortgage purpose requirements.

- The mortgage must be secured by a 1 or 2-unit Primary Residence (not a Manufactured Home). The property must be an attached or detached dwelling unit located on an individual lot or in a Condominium Project or Planned Unit Development (PUD).
- The mortgage must be a First Lien conventional mortgage that is not a Construction Conversion Mortgage or Renovation Mortgage.

- The resale restriction controls must be administered and controlled by the subsidy provider or a program administrator.
    - Must be managed by or housed within a state or local government, a government sponsored program or non-profit corporation that is legally chartered in the State in which it is located and has a 501(c)3 tax exemption from the IRA. The subsidy provider may employ a third-party non-profit or a for-profit (as allowable by the applicable jurisdiction) corporation as a program administrator to management the program and resale restrictions.
    - The resale restrictions are imposed by State or local governments, municipalities or nonprofit entities, to create and preserve affordable housing
    - Must provide home counseling services or has established partnerships with at least one organization that does
    - Has established procedures for screening, processing applicants and approving transactions (when applicable, i.e. cash-out transactions)
    - Has procedures to approve capital improvements on the property and guidelines to allow the borrower to receive credits for any costs of capital improvements paid by the borrower that are eligible by the subsidy providers program
- Cash-out refinances are permitted only if the subsidy provider or administrator approves the transaction and the transaction meets the product requirements. Approval must be provided and state the amount of proceeds the borrower may receive.
- The minimum down payment requirement for purchases must be based on the resale-restricted price.
- Under a HomePossible mortgage, the HomePossible income limits must still be met to determine product eligibility, even if the subsidy or program limits differ.
- If the income-based resale restrictions survive foreclosure or recordation of a deed-in-lieu of foreclosure, the subsidy provider may be entitled to obtain “excess proceeds” (not to exceed an amount equal to the subsidy provided to the previous property owner by the subsidy provider and secured by a subordinate lien) from Freddie Mac’s sale or transfer of the REO property if the resale restrictions allow a foreclosing mortgage holder, who acquires title to a restricted property as real estate owned, to recover from the initial sale or transfer of the real estate owned property an amount satisfying the total indebtedness previously secured by the property, as well as any amount incurred during the real estate owned holding period attributable to the real estate owned property.

Delivery of Mortgage Secured by Properties Subject to Income Based Resale Restrictions

For income-based re-sale provide one of the following Special Feature Codes, if applicable.

- SFC 630 - Mortgages secured by properties with income- based resale restrictions only that terminate automatically upon foreclosure.
- SFC 631 - Mortgages secured by properties with income-based resale restrictions only that survive foreclosure.

ENVIRONMENTAL HAZARD

When the property is subject to environmental risk exposure, the following requirements must be met:

- The appraiser must consider and report the presence of Contaminated Sites or Hazardous Substances and other adverse environmental risk conditions. Appropriate adjustments to reflect any impact on market value, and comment on any effect on the marketability of the subject property must be included in the appraisal.

- Subject comparables must contain similar environmental characteristics as the subject to demonstrate common and marketable for the area.
- In the event a particular environmental hazard has a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, the loan will not be considered eligible.

- Fannie Mae- when the appraiser has knowledge of any hazardous conditions including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraisal must be marked "subject to" inspection by a qualified professional
- Any property made subject to inspections or conditions due to detrimental conditions, evidence of corrective action as called for by the inspector or appraiser must be completed and documented in file (e.g. mold remediation, radon testing, etc.).
- In the event the appraiser notes an environmental risk but is not able to address the condition or notes potential for contamination, Flagstar reserves the right to request a report from a licensed inspector (e.g. well inspection).
- Freddie Mac- see Hazardous Site Disclosure requirements below.
- For Condominium and Cooperative Projects, see applicable guidelines for additional requirements.

Environmental risk exposures include but are not limited to:

- Any presence of asbestos, urea-formaldehyde or any similar insulation in the dwelling
- Presence of radon, mold, or other environmental hazards
- Proximity of the property and/or its neighborhood to a Contaminated Site
- Proximity of the property to ground water contamination, chemical or petroleum spills or other Hazardous Substances that are expected to impact the area for more than one year
- Proximity of the property to areas that may affect the value or marketability of the property including, but not limited to, the following:
- Industrial sites
- Waste or water treatment facilities
- Commercial establishments (other than retail establishments that serve the residential neighborhood)
- Airport approach paths
- Floodplains
- Landslide areas
- Railroads

FREDDIE MAC HAZARDOUS SITE DISCLOSURE

Purchase transactions using LPA response requires a signed and dated Hazardous Site Disclosure, Doc #3607 (or similar document), prior to close when the underwriter is made aware of hazardous property information that may adversely affect the market value, condition, or marketability of the subject based on the below requirements:

- Disclosure is required if the hazard has not already been disclosed through a purchase agreement, property inspection or appraisal that would have already notified the borrower,
- The hazard includes, but is not limited to, the presence of any contaminate site, hazardous substance or other environment condition affecting the subject property, and
- The hazardous site issue(s) has not yet been mitigated or remediated.

FLOOD INSURANCE

Refer to *Flood Insurance*, Doc. #4603 for additional information.

HAZARD INSURANCE

Refer to *Hazard Insurance Requirements*, Doc. #4602.

TITLE INSURANCE

It is the responsibility of Flagstar to review title to ensure the bank has a first lien position that is perfected in accordance with applicable state law. Refer to *Title Insurance Policy Requirements*, Doc #4606.

LEASEHOLDS

An attorney's opinion letter stating all warranties are met will be required on all loans. Letter must specify the investor under which the warranties have been validated; Fannie Mae, Freddie Mac, or preferably both Fannie Mae and Freddie Mac. Documents affecting the leasehold estate, including a certified copy of the lease, must be provided.

FANNIE MAE LEASEHOLD REQUIREMENTS

Lender retains first-lien enforceability as part of the terms of the lease as follows:

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender's title policy.
- Properties held in Land Trusts are not eligible.
- A manufactured home is not eligible to secure a Leasehold Mortgage
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.
- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower's name, home owner's association or a co-op corporation.
- All lease rents, other payments, or assessments that have come due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sub-lessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.

- The lease must provide that the borrower will pay taxes, insurance, and homeowners' association dues related to the land in addition to those they are paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage.
- The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower and the option to either cure the default or take over the borrower's rights under the lease.
- The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable. The table below provides the requirements for establishing the purchase price of the land.

Status of Property Improvements	Purchase Price of Land
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.
Will be constructed after the lease is executed.	The purchase price of the land should be the lower of the following: • the current appraised value of the land, or • the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. For example, assume that the total original appraised value for a property was $160,000, and the land alone was valued at $40,000 (thus representing 25% of the total appraised value). If the current appraised value is $225,000, $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000).

Status of Property Improvements	Purchase Price of Land
	Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.

FREDDIE MAC LEASEHOLD REQUIREMENTS

- The Mortgage must be secured by a leasehold interest in the land where there is a demonstrated market acceptance of this type of property ownership and the property improvements to be a leasehold Mortgage.
- The leasehold estate and improvements must constitute real property including 1 to 4-unit properties, planned unit developments and condominiums.
- A manufactured home is not eligible to secure a Leasehold Mortgage
- Properties held in Land Trust are not eligible.
- The leasehold estate must be covered by an acceptable title insurance policy.
- The lease and any sublease (including all amendments) are recorded in the appropriate land records.
- The lease is in full force and effect and is binding and enforceable against the lessor (and sublessor).
- The leasehold estate and Mortgage must not be impaired by any merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests.
- The term of the leasehold estate must run at least 5 years beyond the maturity date of the Mortgage unless the fee simple vests at an earlier date
- All basic rent (amount paid for use of the leasehold estate under the terms of the lease or sublease) and amounts due to taxes, insurance, utilities and use fees or operating expenses relating to the land and improvements must be current and the borrower must not be in default under any provision of the lease nor may the lessor have claimed such as default.
- The lease must not preclude the borrower from retaining voting rights in the home owner association, if applicable.

Required Lease Provisions

- Permit mortgaging of the leasehold (or sub-leasehold) estate.
- Permit assignments of the leasehold (or sub-leasehold) estate, including any improvements on the leasehold estate, including any improvements on the leasehold estate.
- Provide that in order for a notice of lessee’s default (monetary or non-monetary) to be valid, the lessor must have sent written notice of the lessee’s default to the leasehold mortgagee not more than 30 days after such default.
- Provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee’s, or sub-lessee if applicable, account within the time permitted to lessee or take over the rights under the lease (sublease).
- The lease cannot contain default provisions allowing forfeiture or termination of the lease for nonmonetary default, except for nonpayment of the ground rent.
- The lease must provide for protection of the mortgagee’s interests including an insurable interest in the subject property unless otherwise required by law, and interest in the lease, ground lease community and leasehold estate.

- The lease may, but is not required to, include an option for the Borrower to purchase the fee interest; provide, however, there is no time limit on when the option must be exercised, and the lease and option to purchase must be assignable.

<u>MANUFACTURED HOMES</u>

Any dwelling-unit built on a permanent chassis and attached to a permanent foundation system is a manufactured home for purposes of underwriting.

- Fannie Mae and Freddie Mac Fixed-Rate transactions only, see product descriptions for eligibility
- Loans requiring mortgage insurance may have additional restrictions
- Multi-width manufactured homes only. Single-width not eligible
- Mortgages secured by manufactured homes must be held in fee simple, leasehold estates are not eligible
- Mortgages secured by manufactured homes located in condominium projects and cooperatives are ineligible
- Manufactured Homes located in a PUD are eligible for Fannie Mae and Freddie Mac
  - Fannie Mae only- when the project consists of either 1) single-wide manufactured homes within the development or 2) the project is subject to deed restrictions or any shared equity arrangements; the project must be on Fannie Mae PERS approved list. Refer to Fannie Mae CPM application page for access to approved list.
- Resale Deed Restrictions
  - Fannie Mae not eligible unless a PERS approved PUD
  - Freddie Mac- manufactured Home subject to income-based resale deed restrictions are not eligible
- Freddie Mac- manufactured homes with Community Seconds are only eligible on one-unit properties under the Home Possible program.
- Principal residences and Second Homes only, no investment properties
- Not eligible for Fannie Mae Homestyle Renovation
- Fannie Mae MH Advantage or Freddie Mac CHOICEHome properties are not eligible
- The manufactured home must be a one-unit dwelling
  - Fannie Mae cannot include an accessory dwelling unit
  - Freddie Mac accessory unit is permitted as long as the ADU is not also a manufactured home (stick built or modular only)
- Manufactured homes that have been deconstructed and moved to another property are not eligible
- Must be zoned for residential use, and not commercial or business uses
- Escrow Holdbacks for repairs or postponed improvements are not eligible
- For Fannie Mae/DU - Non-Employment Related Assets as Qualifying Income cannot be used as qualifying income source for Manufactured Homes
- The manufactured home unit must be permanently affixed to a foundation, must assume the characteristics of site-built housing and be taxed as real property
  - The wheels, axles, and trailer hitches must be removed when the unit is placed on its permanent site

    - Purchase transactions will be eligible for subsequent purchases only. New construction manufactured home or manufactured home dealer purchases are ineligible.
    - Refinance of interim construction financing of a manufactured home are ineligible.
- The manufactured home must be built in compliance with:
    - the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured and that appear in HUD regulations 24 C.F.R. Part 3280. Homes built prior to this date are not eligible
    - Compliance with these standards will be evidenced by the presence of a HUD Data Plate and HUD Certification Label.
        - The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit including a list of factory-installed equipment
        - The HUD Certification Label is a metal plate, sometimes referred to as a HUD seal or tag, located on the exterior of each section of the home. An alternative to the original HUD Certification Label(s), a verification letter with the same information contained on the HUD Certification Label(s) from the Institute for Building Technology and Safety (IBTS) may be obtained
- All loans must close with a fully executed Manufactured Home Rider

DOWN PAYMENT REQUIREMENTS FOR MANUFACTURED HOMES

A minimum down payment of 5% must come from the borrower's own funds unless:

- the LTV or CLTV ratio is less than or equal to 80%;
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.

Land Value of Manufactured Home

The borrower's equity in the land is considered the borrower's own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower's minimum down payment (or equity requirement for a refinance). The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.

How to determine the value of the land based on when and how the borrower acquired the land.		
Date of Land Purchase	**Value of Land**	**Documentation Requirements**
More than 12 months preceding the loan application.	The current appraised value	None
12 or fewer months preceding the date of the loan application.	The lesser of the sales price or the current appraised value	document the borrower's cash investment by obtaining: • a copy of the settlement statement, • a copy of the warranty deed that shows there are no outstanding liens against the property, or • a copy of the release of any prior liens(s).

The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction.	The current appraised value.	obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.

Trade Equity from the Borrower's Existing Manufactured Home

The maximum equity contribution from the traded manufactured home is 90% of the retail value for the manufactured home, based on the National Automobile Dealer Association of Manufactured Housing Appraisal Guide.

- If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12-month period.
- Any costs associated with the removal of the traded home or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.
- A lien search in the appropriate real property and personal property records to verify ownership and to determine whether there are any existing liens on the manufactured home and land, or on the home and the land if they are encumbered by separate liens is required. The seller of the new manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home

LOAN TO VALUE DETERMINATION FOR MANUFACTURED HOMES

Purchase of Existing Manufactured Homes

Purchase money transactions are those in which the mortgage proceeds are used to finance the purchase of the manufactured home or the manufactured home and the land. The land may be previously owned by the borrower, either free of any mortgage or subject to a mortgage that will be paid off with the proceeds of the new purchase money mortgage. The borrower does not receive any cash back with a purchase money transaction.

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing manufactured home that already exists on its foundation will be based on the lowest of:

- the sales price of the manufactured home and land;
- the current appraised value of the manufactured home and land; or
- If the manufactured home was built/affixed in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
    - the current appraised value of the land, or
    - the lowest price at which the land was sold during that 12-month period (if there was such a sale).

Rate-and-Term Refinance of a Manufactured Home

Proceeds may be used as follows, including finance of closing costs:

- pay off the outstanding principal balance of an existing personal property lien or first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens);

- pay off the outstanding principal balance of an existing subordinate mortgage or lien secured by the manufactured home and/or land, but only if it was used to purchase the manufactured home and/or land;
- Additional rate-and-term requirements must be met.

The maximum LTV ratio (and CLTV ratio, if applicable) for a loan secured by a manufactured home and land will be based the following:

- Fannie Mae- the lower of:
  - the current appraised value of the manufactured home and land; or
  - if the manufactured home was owned by the borrower for less than 12 months on the loan application date and:
    - if the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale);
    - if the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.
- Freddie Mac -the current appraised value of the manufactured home and land.

Cash-Out Refinance Transactions for Manufactured Home

Cash-out transactions are eligible as follows:

- The borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application.
- The LTV, CLTV, and HCLTV ratios will be based on the current appraised value of the manufactured home and land
- Involves the payoff of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens); or
- enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it, and permits the borrower to take equity out of the property in the form of mortgage proceeds that may be used for any purpose.
- Cash-out transactions are limited to primary residence transactions fixed Rate 20-yr term or less and a maximum LTV of 65%

APPRAISAL REQUIREMENTS FOR MANUFACTURED HOMES

A manufactured home must be a one-family dwelling-unit that assumes the characteristics of site-built housing and is legally classified as real property.

- The appraisal must be performed on form 1004C/70B. Value Acceptance (appraisal waivers) are not eligible for Manufactured Homes.
- A detailed and supported cost approach to value for all manufactured homes which must, at a minimum, contain the information indicated on the Form 1004C/70B.
- The appraiser must include in the appraisal report the manufacturer's name, the model name, year of manufacture, and the serial number for the subject property. This information can be verified by reviewing the Data Plate/Compliance Certificate that is located inside the manufactured home. The appraiser must also provide photos of the HUD Data Plate and HUD Certification Label(s).

- The appraiser must state the subject property is taxed as Real Property.
- The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance.
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.
- The appraisal report must indicate whether or not the site is compatible with the neighborhood, and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood
- The manufactured home must be permanently connected to a septic tank or sewage system, and to other utilities in accordance with local and state requirements.
- If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained, or privately owned and maintained.
- Incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect safety, soundness, or structural integrity, are not eligible until the necessary work is completed.
- Manufactured homes that have an addition or have had a structural modification are eligible under certain conditions.
    - If the state in which the property is located requires inspection by a state agency to approve modifications to the property, confirmation must be provided that the property has met the requirement. However, if the state does not have this requirement, then the structural modification must be inspected and be deemed structurally sound by a third party who is regulated by the state and is qualified to make the determination. In all cases, the satisfactory inspection report must be retained in the mortgage loan file.
- The appraiser must address both the marketability and comparability of a manufactured home by using comparable sales of similar manufactured homes. If at least three comparable sales of manufactured homes are not available, the appraiser may use either site-built housing or a different type of factory-built housing as one of the comparable sales. When that is the case, the appraiser must use at least two comparable sales of similar manufactured homes, explaining why site-built housing or a different type of factory-built housing is being used for the one comparable sale and make, and support, appropriate adjustments in the appraisal report.
    - If the appraiser is unable to find two comparable sales of similar manufactured homes, the mortgage is not eligible since the market value of the property cannot be adequately measured and supported.
    - The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of a factory-built home, although this type of information may be included as additional supporting documentation

TITLE AND LIEN REQUIREMENTS FOR MANUFACTURED HOMES

Visit the Fannie Mae website, Titling Requirements for Manufactured Homes, for state-specific guidelines. The financing must be evidenced by a mortgage or deed of trust recorded in the land records.

- A manufactured home loan must be secured by a perfected lien (or liens) on real property consisting of the manufactured home and the land.

- Loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable.
- The owner of the manufactured home must own the land on which the home is situated
- The manufactured home must be legally classified as real property under applicable state law, including relevant statutes, regulations, and judicial decisions
- Alta Endorsement 7, 7.1 or 7.2 or any other endorsement required in the applicable jurisdiction (e.g. T-31 endorsement in the State of Texas) for manufactured homes to be treated as real property must be included in the file.
- Except for States where insured closing protection letters are not allowed under State law or regulations, an insured closing protection letter for each Mortgage that is secured by a Manufactured Home must be included in the file.

MODULAR, PREFABRICATED, PANELIZED, AND SECTIONAL HOUSING ELIGIBILITY

MODULAR HOMES

Loans secured by modular homes should be built under the International Residential Code (IRC) that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed.

PREFABRICATED, PANELIZED, AND SECTIONAL HOMES

Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy HUD’s Federal Manufactured Home Construction and Safety Standards or the Uniform Building Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.

MODULAR, PREFABRICATED, PANELIZED, AND SECTIONAL HOUSING REQUIREMENTS

Factory-built housing such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties must:

- be built of the same quality of materials as and assume the characteristics of site-built housing,
- be legally classified as real property, and
- conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records and must represent a single real estate transaction under applicable state law. The real estate title must be perfected and obtain any needed title endorsements to document the property is classified as real property.

All factory-built units must be permanently attached to a foundation that meets the standards for local building codes where the unit will be placed and in accordance with the recommendations prescribed by the unit’s manufacturer (when applicable). If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, all such hardware must be removed prior to closing.

Modular, prefabricated, panelized, or sectional housing homes adhere to the same treatment as site-built housing. Therefore, there are no minimum requirements for width, size, roof pitch, or any other specific construction details.

MODULAR CONSTRUCTION TECHNIQUES ON MULTI-UNIT BUILDINGS

Multi-unit buildings such as condos, co-ops, and townhomes may be constructed, in whole or in part, through the use of modular construction techniques. All buildings must conform to local building codes in the jurisdiction in which they are permanently located. Units in these buildings are provided the same treatment as units in multi-unit buildings constructed with site-built techniques.

OIL, GAS, WATER, AND MINERAL RIGHTS

APPRAISAL REQUIREMENTS

If upon inspection of the property the appraiser observes active drilling, fracking, etc., the appraiser must comment that the active drilling, fracking, etc. does not materially alter the contour of the property, the usefulness, or value as of the date of the appraisal. If upon inspection of the property the appraiser does not observe any active drilling, fracking, etc., no action is required by the appraiser.

FINAL TITLE POLICY REQUIREMENTS

The final title policy must include Environmental Protection, ALTA 9 – Restrictions, Encroachments, Minerals – Loan Policy.

PLANNED UNIT DEVELOPMENTS (PUD)

For both Fannie Mae and Freddie Mac, a planned unit development (PUD) is a development that has all of the following characteristics:

- The individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowners' association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development, i.e., greenbelts, recreation facilities, and parking areas, for the common use and benefit of the unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners' association and pay mandatory assessments.
- Zoning is not a basis for classifying a project or subdivision as a PUD.
- Manufactured Homes located in a PUD are eligible for both Fannie Mae and Freddie Mac
    - Fannie Mae only - when the project consists of either 1) single-wide manufactured homes within the development or 2) the project is subject to deed restrictions or any shared equity arrangements; the project must be on Fannie Mae PERS approved list. Refer to Fannie Mae CPM application page for access to approved list.
- Cannot be an ineligible project. Refer to the Ineligible Projects section of the Conventional Condominium Guidelines

LIABILITY INSURANCE

Liability Insurance is not required for Type E Projects. Liability Insurance will not be required on Type F Projects if common areas consist of only minimal amenities, such as entrance gates, parking areas, greenbelts and grass median strips and does not include any structural improvements or amenities such as recreational facilities and retention ponds.

For the purposes of these guidelines, a condominium is not considered a PUD. If a condominium unit is located in a PUD, the lender must comply with all condominium requirements and warranties. If the

PUD unit or any PUD common property is on a leasehold estate, the project must comply with leasehold estate requirements.

PRESALE

Fannie Mae

Fannie Mae makes a distinction between an established and a new project as follows:

- A Type E PUD Project is an established planned unit development project in which control of the owners' association has been turned over to the unit purchasers. Standard property guidelines apply to an established PUD property.
- A Type F PUD Project is a new planned unit development project, or in some cases, an existing PUD project that has not had control of the owners' association turned over to the unit purchasers:
    - The project cannot have been created by the conversion of existing buildings into a PUD.
    - The project must not include any multi-dwelling units.

A review of the project is not required for a Type E or Type F if the subject property is a detached dwelling.

Freddie Mac

Freddie Mac has no pre-sale or other additional guidelines pertaining to the nature of the PUD project.

REO PROPERTIES

UNEXPIRED RIGHTS OF REDEMPTION

Certain state laws provide a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner. Flagstar will not approve and/or purchase any loan having an unexpired right of redemption unless the following conditions are met:

- the property must be located in a state where it is common and customary to sell the property during the redemption period.
- the mortgage must be paid off directly out of the redemption proceeds with no requirement for any further action or claim for repayment.
- the purchase agreement, title, and appraisal all show the same seller who is the original mortgagor.
    - title may show lis pendens notices from the bank or mortgagee
    - purchase contract may indicate a short sale

POSTPONED OR INCOMPLETE IMPROVEMENTS

New construction and existing properties with completion or repair conditions, which do not impact the ability to obtain an occupancy permit (if applicable), may be eligible for a repair escrow if the following requirements are met:

<table>
<tr><th colspan="3">Requirements for Postponed or Incomplete Improvements</th></tr>
<tr><th>Requirement</th><th>Fannie Mae with Approve</th><th>Freddie Mac with Accept</th></tr>
<tr><td>Loan Purpose</td><td colspan="2">Purchase Transactions</td></tr>
<tr><td>Occupancy</td><td colspan="2">• All occupancy types are acceptable
• LTV/CLTV/HCLTV based on product limitations</td></tr>
<tr><td>Property Type</td><td colspan="2">Manufactured Homes are not eligible</td></tr>
<tr><td>Mortgage Insurance</td><td colspan="2">MI is available through
• Arch
• MGIC
• Enact
• Radian</td></tr>
<tr><td>Repair Limits</td><td>Escrow costs of improvements must not exceed 10% of the ‘as completed’ value of the property</td><td>Escrow costs of improvements must not exceed 15%* of the ‘as completed’ value of the property.

*When the costs are between 10.01% to 15%, Special Feature Code (SFC J 52) must be applied to the loan.</td></tr>
<tr><td>Eligible Repairs</td><td colspan="2">Improvements must not affect the livability, soundness or structural integrity of the property.

New construction:
• Valid reason for postponed completion including weather related delays in cold weather states (e.g. cement work for driveways and sidewalks or landscaping such as sod or sprinklers) or shortage of materials (shortage must be verified by builder); and
• Do not impact the ability to obtain an occupancy permit (if applicable)

Existing construction:
• Minor exterior repairs with weather related delays in cold weather states (e.g. siding repairs); and/or
• Minor interior repairs such as carpet, minor plumbing leaks, cracked window glass, that are typically due to normal wear and tear; and
• Interior repairs are not eligible unless subject is an REO property.</td></tr>
<tr><td>Ineligible Repairs</td><td colspan="2">Repairs affecting soundness and safety are ineligible, including but not limited to:
• Plumbing, electrical, septic, or HVAC systems not fully functional
• Kitchen not fully functional
• Foundation cracks or settlement issues
• Water in basement
• Siding or fascia along eaves that is missing or has significant damage
• Mold of any significance
• Roof Repairs or replacement including past or present leaks.</td></tr>
<tr><td>Sales Contract</td><td colspan="2">Sales contract must be inclusive of all repairs and improvements.</td></tr>
<tr><td>Escrow Funds Determination</td><td colspan="2">Equal to 120% of the repair cost as determined by the following:
• Two bids obtained. The higher of the two bids estimates will be used.
• Fully executed contract for improvements.</td></tr>
</table>

Requirements for Postponed or Incomplete Improvements		
Requirement	**Fannie Mae with Approve**	**Freddie Mac with Accept**
	For new construction, if the builder offers a guaranteed-fixed price contract for completion of improvements, the funds held only need to equal the amount of the contract price. Note: Funds are an overage above the loan amount and does not factor into the max loan or LTV	
Escrow Account	All repair escrow accounts are to be held by Flagstar Bank, No exceptions.	
Completion of Repairs	All repairs and improvements must be completed with 180 days of the Note date.	
Appraisal	The initial appraisal must be made subject to the completed improvements and repairs. All contracts and addendums must be provided to the appraiser. A final inspection by the appraiser, with photos, to confirm repairs have been completed will be required after closing	
Underwriting Process	All repair escrows require underwriting manager approval The following must be completed: • Full amount of escrow holdback to be added to fee screen as Misc. Fee line 1319 (escrow holdback) • The following at close conditions will apply: ○ Borrower to sign the *Flagstar Escrow Holdback Agreement*, Doc. #3655. A repair escrow to be established for $_____________ for the following repairs:__________________. ○ Final inspection by the appraiser, with photos, to confirm completion of the following repairs: ___________________. Repairs to be completed within 180 days of closing date. For repairs involving mechanical work such as electrical, plumbing or heating, proof of permit required prior to escrow disbursement.	

CONVENTIONAL UNDERWRITING OVERLAYS

Bulk correspondent transactions are not subject to Flagstar's underwriting overlays except in the following categories: credit score, LTV/CLTV/HCLTV, purpose, property type, and AUS response.

The Conventional Underwriting Guidelines, include but not limited to, the following overlays to Fannie Mae or Freddie Mac Selling Guides:

UNDERWRITING METHOD

- Manual underwriting is not permitted. All loans must have an acceptable DU or LPA response.
- At least one borrower must have a valid credit score
- Minimum credit scores, see product descriptions for applicable requirements

AGE OF ASSETS

Depository Accounts must be dated within 45 days and quarterly account statements within 90 days of the application. (Freddie Mac Overlay).

EMPLOYMENT COMMENCING AFTER NOTE DATE

Agency options requiring income verification (paystub) after Note date to confirm qualifying income are not eligible: Fannie Mae Option One and Freddie Mac Option Two referenced in their Selling Guides.

INELIGIBLE PROPERTIES

The following are not accepted by Flagstar Bank:

- Properties in C5 condition (Fannie Mae overlay)
- Life Estates
- Properties in Lava Zones 1 and 2
- Land Trusts/Community Land Trusts
- Properties in Guam and Puerto Rico
- Flood Insurance required properties located in a Coastal Barrier Resources Area (CBRA) or Otherwise Protected Area (OPA)

MANUFACTURED HOMES

- Property must be a double-wide (multi-width) manufactured home
- Property must be an existing manufactured home on a permanent foundation and previously converted to real estate.
    - Purchase transactions will be eligible for subsequent purchases only. New construction manufactured home or manufactured home dealer purchases are ineligible.
- Refinance of interim construction financing of a manufactured home are ineligible.
- Manufactured Home may not be located in a Condominium or Cooperative project
- Not eligible for Single Financed Mortgage Insurance
- Fannie Mae MH Advantage and Freddie Mac CHOICEHome properties are not eligible

MANUFACTURED HOME AS AN ACCESSORY UNIT ONLY

- Manufactured home accessory unit must be recorded on title as real property prior to closing or at time of purchase.
- An appraisal is required to verify compliance with all manufactured home standards, regardless of DU/LPA response offerings for value acceptance (appraisal waiver)
- The addition of or improvements to a manufactured home accessory unit are not eligible under the Homestyle Renovation product.

REFINANCES

- Allowable cash back under a rate-and-terms transaction may not be used to pay off debt for qualification (Freddie Mac Overlay)
- For Freddie Mac (LPA), a Mortgage where the proceeds of the refinance to buy-out the equity of a co-owner is priced as a cash-out.

FLAGSTAR CONCENTRATION LIMIT OF MULTIPLE LOANS TO THE SAME BORROWER

Flagstar Bank will not approve or close more than10 loans to any one borrower with an aggregate loan amount total of no more than $4,000,000. When determining if the limit has been met, new loan submissions for a borrower must take into consideration any of that borrower’s outstanding loans with Flagstar Bank that are:

- Non-closed
- Closed and currently serviced by Flagstar Bank, or
- Closed but the servicing rights have been sold within the last 24 months.

If a borrower is applying for more than one loan through Flagstar Bank, all loans must be submitted to Underwriting at the same time and each loan must reference the other loan(s).

OCCUPANCY

If the borrower applies for an owner-occupied transaction after closing on a previous owner-occupied transaction with Flagstar on a different property in the last 12 months, the new transaction will be ineligible. This guideline will not apply if the previous property has been sold or refinanced as a non-owner-occupied residence. For owner occupied transactions, the borrower warrants they will occupy the property for at least 12 months.

POWER OF ATTORNEY

- Purchase or rate/term refinance transaction only. Not allowed on cash-out transactions. (Freddie Mac allows the use of a POA Fannie Mae does not. However, no exceptions regardless of targeted investor)
- Power of Attorney must be transaction specific unless it is a Military Durable POA (Freddie allows non-specific POA)
- Agent must be a family member or have a fiduciary interest when allowable per Freddie Mac. All other parties are ineligible from acting as an attorney-in-fact
- Electronically signed POAs are not eligible, refer to Electronic Signature Policy, Doc #4816.

TITLE COMMITMENT EFFECTIVE DATE

Generally, title commitments have a 90-day effective date, however a title commitment cannot exceed 120 days. If the title commitment exceeds 120 days, the title insurer is required to provide a gap letter (good for an additional 60 days) or an updated/new title commitment. Under no circumstances can a title commitment with a gap letter exceed 180 days.