

The logo for NQM Funding. It features the letters 'NQM' in a bold, black, sans-serif font. The letter 'Q' is stylized with a blue upper curve and a red lower curve. To the right of 'NQM' is the word 'FUNDING' in a smaller, black, sans-serif font.

# **Underwriting Guidelines**

**Effective 11/03/2025**

<b>INTRODUCTION.....</b>	<b>11</b>
FAIR LENDING STATEMENT .....	11
RESPONSIBLE LENDING STATEMENT .....	11
ZERO TOLERANCE – FRAUD .....	12
<b>GUIDELINES AND PROGRAMS.....</b>	<b>13</b>
GUIDELINES .....	13
NON-QM PROGRAMS .....	13
DSCR PROGRAMS.....	13
<b>GENERAL UNDERWRITING REQUIREMENTS.....</b>	<b>14</b>
AGE OF LOAN DOCUMENTATION .....	14
MORTGAGE INSURANCE.....	14
DAILY SIMPLE INTEREST .....	14
GEOGRAPHIC RESTRICTIONS .....	14
ALTERNATIVE LOAN PROGRAM ANALYSIS.....	15
ESCROW WAIVERS.....	15
EXPOSURE .....	15
EXCEPTIONS.....	15
<b>COMPLIANCE .....</b>	<b>16</b>
HIGHER PRICED MORTGAGE LOANS (HPML).....	16
STATE AND FEDERAL HIGH COST LOANS .....	17
NEW YORK SUBPRIME LOANS .....	17
PREPAYMENT PENALTIES, POINTS, AND FEES .....	18
PRINCIPAL CURTAILMENT .....	18
MAXIMUM INTEREST CREDIT .....	19
<b>OCCUPANCY TYPES .....</b>	<b>19</b>
PRIMARY RESIDENCE .....	19
SECOND HOME.....	19
INVESTMENT PROPERTY & BUSINESS PURPOSE LOANS.....	19
BUSINESS PURPOSE FORMS .....	20
<b>TRANSACTION TYPES.....</b>	<b>20</b>
PURCHASE.....	20
FOR SALE BY OWNER.....	20
REFINANCE GENERAL .....	20
BENEFIT TO BORROWER.....	20
RATE & TERM REFINANCE.....	21
DETERMINING LOAN TO VALUE.....	21
PROPERTIES LISTED FOR SALE .....	21
CASH-OUT REFINANCE.....	22
ELIGIBILITY REQUIREMENTS.....	22
OWNERSHIP REQUIREMENTS.....	22

SEASONING.....	22
DETERMINING LOAN TO VALUE.....	23
PROPERTIES LISTED FOR SALE .....	23
DELAYED FINANCING .....	23
DEBT CONSOLIDATION .....	24
DETERMINING LOAN TO VALUE.....	24
PROPERTIES LISTED FOR SALE .....	24
ASSUMABILITY .....	25
2-1 TEMPORARY BUYDOWN .....	25
FLIP TRANSACTIONS.....	25
NON-ARM'S LENGTH TRANSACTIONS.....	26
INHERITED PROPERTIES AND PROPERTY BUYOUTS.....	27
LAND CONTRACT/CONTRACT FOR DEED.....	27
LEASE WITH PURCHASE OPTION .....	28
PERMANENT FINANCING FOR NEW CONSTRUCTION.....	28
SUBORDINATE FINANCING .....	28
<b>INELIGIBLE SENIOR LIEN CRITERIA</b> .....	29
NEW YORK CEMAS .....	29
FOREIGN NOTARIES .....	30
<b>BORROWER ELIGIBILITY .....</b>	<b>30</b>
U.S. CITIZENS .....	30
PERMANENT RESIDENT ALIENS .....	30
ITIN.....	31
ITIN – DOCUMENTATION REQUIREMENTS .....	31
ITIN - ELIGIBILITY.....	31
DACA.....	31
TEMPORARY PROTECTED STATUS .....	31
NON-PERMANENT RESIDENT ALIENS.....	32
EMPLOYMENT AUTHORIZATION.....	32
VISA .....	33
FOREIGN NATIONALS .....	33
ACH PAYMENTS.....	34
EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY.....	34
BORROWERS/ <b>GUARANTORS</b> .....	34
CUSTOMER IDENTIFICATION (CIP).....	34
FRAUD REPORT AND BACKGROUND CHECK .....	34
INELIGIBLE BORROWERS.....	35
CO-BORROWERS.....	35
NON-OCCUPANT CO-BORROWERS.....	35
FIRST TIME HOMEBUYER (FTHB).....	36
EMPLOYEE LOANS.....	36
POWER OF ATTORNEY.....	36
<b>VESTING AND OWNERSHIP .....</b>	<b>36</b>
VESTING REQUIREMENTS.....	36
INTER VIVOS REVOCABLE TRUST .....	37

ENTITY VESTING.....	38
REQUIREMENTS – ENTITY VESTING .....	38
DOCUMENTATION – ENTITY VESTING .....	38
SIGNATURE REQUIREMENTS – ENTITY VESTING .....	39
<b>LEASEHOLD ESTATES .....</b>	<b>40</b>
LEASE REQUIREMENTS .....	40
ADDITIONAL ELIGIBILITY REQUIREMENTS .....	41
ESTABLISHING LAND PURCHASE PRICE.....	41
<b>CREDIT .....</b>	<b>42</b>
CREDIT REPORT.....	42
FRAUD ALERTS .....	42
CREDIT REPORT SECURITY FREEZE.....	43
CREDIT INQUIRIES.....	43
PAST DUE ACCOUNTS .....	43
CREDIT RESCORING .....	43
GAP CREDIT REPORT .....	43
QUALIFYING CREDIT SCORE.....	44
REPRESENTATIVE SCORE.....	44
FULL AND ALT DOC.....	44
DSCR LOANS .....	44
TRADELINE REQUIREMENTS.....	45
STANDARD TRADELINES.....	45
LIMITED TRADELINES .....	45
NON-TRADITIONAL CREDIT.....	45
FOREIGN CREDIT .....	46
<b>HOUSING HISTORY .....</b>	<b>46</b>
HOUSING HISTORY VERIFICATION (NON – DSCR) .....	46
HOUSING HISTORY VERIFICATION (DSCR ONLY) .....	47
BALLOON MORTGAGES WITH EXPIRED MATURITY .....	47
INCOMPLETE HOUSING HISTORY (NON-DSCR) .....	47
RENT FREE (NON-DSCR).....	48
EVIDENCE OF PRIMARY RESIDENCE AND RENT-FREE SCENARIO (DSCR ONLY).....	48
<b>HOUSING EVENTS AND PRIOR BANKRUPTCY.....</b>	<b>48</b>
SEASONING (HOUSING EVENT / BANKRUPTCY).....	49
WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT .....	49
<b>LIABILITIES.....</b>	<b>50</b>
INSTALLMENT DEBT .....	50
REVOLVING DEBT .....	50
AUTHORIZED USER ACCOUNTS .....	50
BUSINESS DEBT .....	50
CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS.....	51
COLLECTIONS AND CHARGE-OFFS.....	51
CONSUMER CREDIT COUNSELING SERVICE (CCCS) .....	52

CONTINGENT LIABILITIES.....	52
CURRENT RESIDENCE PENDING SALE.....	52
DEBTS PAID BY OTHERS.....	52
DELINQUENT CREDIT BELONGING TO EX-SPOUSE.....	53
DISPUTED ACCOUNTS.....	53
JUDGMENTS, LIENS AND IRS TAX REPAYMENT PLANS.....	53
LAWSUIT/PENDING LITIGATION .....	54
LEASE OBLIGATIONS .....	54
MATERIAL RECURRING NON-DEBT OBLIGATIONS.....	54
OPEN 30-DAY CHARGE ACCOUNTS.....	54
RETIREMENT/SAVINGS PLAN LOANS.....	54
STUDENT LOANS.....	55
TIMESHARES.....	55
UNDISCLOSED DEBTS.....	55
<b>EMPLOYMENT.....</b>	<b>55</b>
EMPLOYMENT HISTORY .....	55
FREQUENT JOB CHANGES.....	55
GAPS IN EMPLOYMENT.....	55
WRITTEN VERIFICATION OF EMPLOYMENT (WVOE).....	56
VERBAL VERIFICATION OF EMPLOYMENT (VVOE) .....	56
VERIFICATION OF SELF- EMPLOYMENT.....	56
<b>FULL DOCUMENTATION.....</b>	<b>56</b>
WAGE EARNERS ( FULL DOC – FLEX SUPREME, FLEX SELECT AND SUPER JUMBO) .....	57
WAGE EARNERS (FULL DOC – ITIN).....	57
WAGE EARNERS (FULL DOC – FOREIGN NATIONALS) .....	57
IRS 4506-C TAX TRANSCRIPTS (FULL DOC) .....	57
SELF-EMPLOYMENT INCOME (S/E FULL DOC) .....	58
STABILITY AND CONTINUANCE OF SELF-EMPLOYMENT (S/E FULL DOC).....	58
DOCUMENTATION REQUIREMENTS (S/E FULL DOC – NON-FOREIGN NATIONAL) .....	58
QUALIFYING INCOME (S/E FULL DOC – NON-FOREIGN NATIONAL) .....	58
DOCUMENTATION REQUIREMENTS (S/E FULL DOC – FOREIGN NATIONAL).....	59
1099 INCOME (FULL DOC) .....	59
REDUCED DOCUMENTATION FOR SECONDARY BUSINESS.....	59
OTHER INCOME .....	59
UNACCEPTABLE INCOME SOURCES .....	59
ANNUITY INCOME.....	60
AUTOMOBILE ALLOWANCE.....	60
BONUS AND OVERTIME.....	60
CAPITAL GAINS.....	60
CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME.....	60
COMMISSION INCOME.....	61
DECLINING INCOME.....	61
DISABILITY INCOME.....	61
DIVIDEND/INTEREST INCOME.....	62
EMPLOYMENT BY A RELATIVE .....	62

FOREIGN INCOME.....	62
FORTHCOMING RETIREMENT.....	62
FOSTER CARE INCOME.....	63
HOURLY WAGES.....	63
LUMP-SUM DISTRIBUTIONS.....	63
HOUSING ALLOWANCE.....	63
NON-TAXABLE INCOME.....	63
NOTES RECEIVABLE INCOME.....	63
PART-TIME/SECOND JOB INCOME.....	64
PENSION/RETIREMENT.....	64
PUBLIC ASSISTANCE.....	64
RENTAL INCOME – FULL DOC.....	64
RESTRICTED STOCK UNITS (RSU).....	66
SEASONAL INCOME.....	66
SOCIAL SECURITY INCOME.....	67
TEACHER INCOME.....	67
TIPS AND GRATUITIES.....	67
TRAILING SPOUSE OR CO-BORROWER INCOME/RELOCATION.....	67
TRUST INCOME.....	67
UNEMPLOYMENT COMPENSATION.....	68
VA SURVIVORS' BENEFITS/DEPENDENT CARE.....	68
<b>ALTERNATIVE DOCUMENTATION (ALT DOC).....</b>	<b>68</b>
COMBINATION OF OTHER INCOME SOURCES (ALT DOC).....	68
BANK STATEMENT GENERAL REQUIREMENTS (ALT DOC).....	68
BANK STATEMENT ANALYSIS.....	69
UNDERWRITING NSFS.....	70
PERSONAL BANK STATEMENTS (ALT DOC).....	71
CALCULATING QUALIFYING INCOME.....	72
CO-MINGLED ACCOUNTS.....	72
BUSINESS BANK STATEMENTS (ALT DOC).....	72
CALCULATING QUALIFYING INCOME.....	72
OPTION 1: 50% EXPENSE RATIO.....	72
OPTION 2: THIRD PARTY P&L EXPENSE STATEMENT.....	72
OPTION 3: THIRD-PARTY PREPARED EXPENSE STATEMENT.....	73
P&L PLUS 2 MONTHS BANK STATEMENTS (ALT DOC).....	73
P&L ONLY (ALT DOC).....	73
CPA/TAX PREPARER'S VERIFICATION.....	74
IRS FORM 1099 (ALT DOC).....	74
ASSET UTILIZATION (ALT DOC).....	74
QUALIFIED ASSETS.....	74
NET QUALIFIED ASSET CALCULATION.....	75
WRITTEN VERIFICATION OF EMPLOYMENT (WVOE) (ALT DOC).....	75
<b>RATIOS AND QUALIFYING – FULL AND ALT DOC.....</b>	<b>76</b>
DEBT TO INCOME RATIO (DTI).....	76
NON – QM PRODUCT TERMS.....	77

SECOND LIEN SELECT SENIOR LIEN QUALIFYING TERMS.....	77
DSCR PRODUCT TERMS.....	77
<b>DSCR RATIOS AND RENTAL INCOME REQUIREMENTS – I-4 UNIT RESIDENTIAL .....</b>	<b>78</b>
DSCR RATIO .....	78
LEASE AND OCCUPANCY REQUIREMENTS – DSCR SUPREME AND INVESTOR DSCR.....	78
SHORT TERM RENTALS – DSCR SUPREME AND INVESTOR DSCR.....	78
LONG TERM RENTALS – DSCR SUPREME AND INVESTOR DSCR.....	79
NO RATIO RENTAL INCOME REQUIREMENTS.....	79
MIXED USE AND MULTI 5-10 UNIT RENTAL INCOME REQUIREMENTS.....	80
RENTAL INCOME REQUIREMENTS .....	80
LEASE REQUIREMENTS.....	80
OCCUPANCY REQUIREMENTS .....	80
ELIGIBLE TENANTS.....	80
<b>ASSETS .....</b>	<b>81</b>
ASSET DOCUMENTATION .....	81
BUSINESS ASSETS .....	81
FOREIGN ASSETS .....	81
OTHER ASSETS.....	82
BORROWED FUNDS SECURED BY AN ASSET.....	82
CERTIFICATE OF DEPOSIT (CD).....	82
COLLEGE SAVINGS ACCOUNT – 529 PLAN.....	82
CRYPTO CURRENCY.....	83
EARNST MONEY/CASH DEPOSIT ON SALES CONTRACT.....	83
EMPLOYER ASSISTANCE.....	83
GIFT FUNDS.....	84
GIFT OF EQUITY .....	85
INTERESTED PARTY CONTRIBUTIONS.....	85
LIFE INSURANCE.....	86
NET PROCEEDS FROM SALE OF REAL ESTATE.....	86
RENT CREDIT FOR LEASE WITH PURCHASE OPTION (RENT TO OWN).....	86
RETIREMENT ACCOUNTS.....	86
SALE OF PERSONAL ASSETS.....	87
SPOUSAL ACCOUNTS.....	87
STOCK OPTIONS .....	87
STOCKS, BONDS, AND MUTUAL FUNDS.....	87
TRUST ACCOUNTS.....	88
UNACCEPTABLE FUNDS.....	88
RESERVES.....	88
<b>APPRAISALS.....</b>	<b>88</b>
APPRAISAL REQUIREMENTS.....	88
EXCLUSIONARY LIST .....	89
APPRAISAL INDEPENDENCE POLICY STATEMENT.....	89
APPRAISER QUALIFICATIONS.....	90
ELECTRONIC SUBMISSION OF APPRAISAL REPORT .....	90
REQUEST FOR APPRAISAL RECONSIDERATION .....	90

AGE OF APPRAISAL AND APPRAISAL UPDATES.....	90
APPRAISAL TRANSFER POLICY .....	91
APPRAISAL REPORT REQUIREMENTS.....	92
APPRAISAL REQUIREMENTS 1-4 UNIT RESIDENTIAL.....	92
APPRAISAL REQUIREMENTS MIXED AND MULTI 5-10 UNIT .....	93
SECOND APPRAISAL REQUIREMENTS.....	94
ORDERING / AUTHORIZING A SECOND APPRAISAL.....	94
CHARGES FOR SECOND APPRAISAL OR INSPECTION.....	94
APPRAISAL REVIEW PROCESS.....	95
APPRAISAL REVIEW PROCESS – 1-4 UNIT RESIDENTIAL PROPERTIES .....	95
APPRAISAL REVIEW PROCESS – MIXED AND MULTI 5-10 UNIT PROPERTIES.....	95
<b>PROPERTY CONSIDERATIONS .....</b>	<b>95</b>
MINIMUM PROPERTY STANDARDS.....	95
ACCESSORY DWELLING UNITS (ADU).....	96
RENTAL INCOME ON ADU.....	96
DAMPNESS.....	96
DECLINING MARKETS .....	96
DEED RESTRICTIONS.....	97
DEFERRED MAINTENANCE.....	97
ESCROW HOLDBACKS.....	97
FLOOD ZONES.....	97
FOUNDATION SETTLEMENT.....	98
HEATING SYSTEMS.....	98
LAND VALUE AND ACREAGE.....	98
MIXED-USE PROPERTIES (PRIMARY RESIDENCE).....	98
MODULAR HOMES.....	99
MULTIPLE DWELLINGS ON ONE LOT .....	99
MULTIPLE PARCELS.....	99
PEST INFESTATION.....	99
NEW CONSTRUCTION .....	100
PRIVATE ROADS.....	100
PUD (PLANNED UNIT DEVELOPMENT) .....	100
RURAL PROPERTIES .....	100
SOLAR PANELS .....	101
UNCONVENTIONAL FLOOR PLANS.....	102
UNPERMITTED ADDITIONS.....	102
WATER SUPPLY .....	103
ZONING AND LAND-USE REGULATIONS.....	103
<b>PROPERTY TYPES .....</b>	<b>103</b>
<b>CONDOMINIUMS - GENERAL .....</b>	<b>104</b>
GENERAL CONDOMINIUM REQUIREMENTS (CONDO).....	104
PROJECT INSURANCE (CONDO).....	105
UNIT SQUARE FOOTAGE (CONDO).....	105
RIGHT OF FIRST REFUSAL / SUPERIOR LIEN RIGHTS (CONDO).....	105
CONDO PROJECT TYPE DEFINITIONS (CONDO) .....	105



ESTABLISHED VS NEW PROJECT (CONDO) .....	105
WARRANTABLE VS NON-WARRANTABLE (CONDO) .....	106
REVIEW TYPES (CONDO) .....	106
MINIMUM DOCUMENTATION REQUIREMENTS (CONDO) .....	106
PROJECT REVIEW EXPIRATION DATES (CONDO) .....	106
PROJECT REVIEW WAIVER .....	107
INELIGIBLE PROJECTS .....	107
PROJECTS IN NEED OF CRITICAL REPAIRS .....	108
SPECIAL ASSESSMENTS .....	109
INSPECTION REPORTS .....	110
<b>WARRANTABLE CONDOMINIUMS .....</b>	<b>110</b>
WARRANTABLE CONDOMINIUM INSURANCE REQUIREMENTS .....	110
LIMITED REVIEW AND FNMA APPROVED PROJECTS - WARRANTABLE .....	110
MINIMUM DOCUMENTATION REQUIREMENTS – WARRANTABLE LIMITED REVIEW .....	110
FNMA APPROVED PROJECTS, TYPE T - WARRANTABLE .....	110
LIMITED REVIEW ELIGIBILITY REQUIREMENTS, PROJECT TYPE Q - WARRANTABLE .....	111
LIMITED REVIEW AND OCCUPANCY - WARRANTABLE .....	111
FULL REVIEW - WARRANTABLE .....	111
MINIMUM DOCUMENTATION – WARRANTABLE FULL REVIEW .....	111
FULL REVIEW ELIGIBILITY REQUIREMENTS - WARRANTABLE .....	112
NEW PROJECT DOCUMENTATION REQUIREMENTS - WARRANTABLE .....	112
NEW PROJECT ELIGIBILITY REQUIREMENTS - WARRANTABLE .....	112
<b>NON-WARRANTABLE CONDOMINIUMS .....</b>	<b>113</b>
MAXIMUM CONCENTRATION EXPOSURE – NON-WARRANTABLE CONDO .....	113
NON-WARRANTABLE CONDO ELIGIBLE ATTRIBUTES .....	113
SINGLE ENTITY OWNERSHIP – NON-WARRANTABLE .....	113
THIRD PARTY OWNED AMENITIES, MANDATORY CLUB DUES – NON- WARRANTABLE .....	114
PROJECTS IN LITIGATION – NON-WARRANTABLE .....	114
COMBINED UNITS – NON-WARRANTABLE .....	114
NEW PROJECTS - NON-WARRANTABLE .....	114
INSURANCE REQUIREMENTS - NON-WARRANTABLE .....	115
<b>CONDOTELS .....</b>	<b>115</b>
CONDOTEL GENERAL INFORMATION .....	115
ADDITIONAL CONDOTEL REQUIREMENTS .....	115
<b>SITE CONDOMINIUMS .....</b>	<b>116</b>
<b>COOPERATIVES (CO-OP) .....</b>	<b>116</b>
CO-OP PROJECT REQUIREMENTS .....	116
CO-OP CALCULATING THE LTV RATIO .....	116
CO-OP LOAN DOCUMENTATION REQUIREMENTS .....	117
DELEGATED CORRESPONDENT RESPONSIBILITIES (CO-OP) .....	117
<b>MANUFACTURED HOUSING .....</b>	<b>118</b>
<b>DISASTER AREAS .....</b>	<b>118</b>

PROPERTY APPRAISED PRIOR TO DISASTER INCIDENT.....	119
PROPERTY APPRAISED AFTER DISASTER INCIDENT .....	119
DISASTER INCIDENT OCCURS AFTER CLOSING, PRIOR TO FUNDING.....	119
DISASTER EFFECTIVE TIME PERIOD .....	119
<b>PROPERTY INSURANCE .....</b>	<b>119</b>
HAZARD INSURANCE .....	119
MINIMUM HAZARD INSURANCE COVERAGE.....	119
DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE .....	120
DEDUCTIBLE AMOUNT.....	120
EVIDENCE OF HAZARD INSURANCE.....	120
OPTIONAL COVERAGE .....	121
RENT LOSS INSURANCE (DSCR).....	121
CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS .....	121
CONDO PROJECTS .....	121
PUD PROJECTS .....	121
COVERAGE REQUIREMENTS .....	121
SPECIAL COVERAGE REQUIREMENTS.....	122
REQUIRED COVERAGE AMOUNT .....	122
POLICIES COVERING MULTIPLE PROJECTS.....	123
DEDUCTIBLE AMOUNT.....	123
GENERAL LIABILITY COVERAGE.....	123
FIDELITY BOND COVERAGE .....	123
NON-WARRANTABLE CONDO INSURANCE ALLOWANCES.....	123
FLOOD INSURANCE.....	125
FLOOD CERTIFICATE .....	125
MINIMUM FLOOD INSURANCE COVERAGE .....	125
ACCEPTABLE FLOOD INSURANCE POLICIES .....	125
PROJECT FLOOD INSURANCE REQUIREMENTS.....	125
DEDUCTIBLE AMOUNT.....	126
EVIDENCE OF FLOOD INSURANCE.....	126
NAMED INSURED FOR PROPERTY AND FLOOD INSURANCE .....	126
NOTICE OF CANCELLATION FOR PROPERTY INSURANCE .....	127
MORTGAGEE / LOSS PAYEE CLAUSE.....	127
LOSS PAYEE CLAUSE .....	127
MORTGAGEE CLAUSE REQUIREMENTS BY PROPERTY TYPE .....	127
TITLE INSURANCE.....	127
TITLE POLICY REQUIREMENTS.....	127
BORROWER INFORMATION.....	127
COVERAGE AMOUNT .....	128
INSURED NAME.....	128
AGE OF REPORT .....	128
VESTING.....	128
GAP COVERAGE .....	128
TITLE POLICY FORMS .....	128
TITLE POLICY UNDERWRITER.....	128
TITLE COMMITMENT REVIEW.....	129

SURVEY REQUIREMENTS.....	129
<b>TEXAS HOME EQUITY LOANS (CASH-OUT REFI TEXAS).....</b>	<b>130</b>
TEXAS HOME EQUITY - SELLER CERTIFICATION .....	130
TEXAS HOME EQUITY - GENERAL REQUIREMENTS .....	130
TEXAS HOME EQUITY - LOAN PARAMETERS.....	131
TEXAS HOME EQUITY - RESTRICTIONS.....	131
TEXAS HOME EQUITY - OCCUPANCY .....	131
TEXAS HOME EQUITY - BORROWERS.....	131
TEXAS HOME EQUITY - NON-BORROWING SPOUSE .....	132
TEXAS HOME EQUITY - POWER OF ATTORNEY .....	132
TEXAS HOME EQUITY - PAYOFF OF DEBT.....	132
TEXAS HOME EQUITY - SECONDARY FINANCING .....	132
TEXAS HOME EQUITY - PROPERTY CHARACTERISTICS .....	133
TEXAS HOME EQUITY - URBAN AND RURAL HOMESTEAD DEFINITIONS.....	133
TEXAS HOME EQUITY - 12-DAY COOLING OFF PERIOD .....	134
TEXAS HOME EQUITY - CLOSING DISCLOSURE AND FINAL LOAN APPLICATION.....	134
TEXAS HOME EQUITY - POINTS AND FEES.....	134
TEXAS HOME EQUITY - ATTORNEY REVIEW.....	135
TEXAS HOME EQUITY - TITLE.....	135
TEXAS HOME EQUITY - SURVEY .....	135
TEXAS HOME EQUITY - DOCUMENTS .....	135
TEXAS HOME EQUITY – 50(F)(2) REFINANCING AN EXISTING HOME EQUITY LOAN.....	136
<b>FORMS AND TOOLS .....</b>	<b>137</b>
<b>CHANGE HISTORY.....</b>	<b>138</b>

## INTRODUCTION

NQM Funding, LLC ("NQM Funding or NQMF") is a licensed mortgage lender. Our Corporate headquarters are located at 4800 North Federal Highway, Building E, Suite 200 in Boca Raton, FL 33431.

The business we generate is primarily through relationships with lenders, brokers, real estate agents, and builders. We promote customer relationships and have elected to recruit and hire a team of mortgage professionals with existing relationships and are seeking to work for a company with a strong back-end support system and experienced operations and secondary market acumen.

## FAIR LENDING STATEMENT

NQM Funding believes making a loan to a borrower is more than just a business transaction. NQM Funding, LLC wants to make loans that are good for the borrower as well as compliant with the housing industry laws and regulations.

Steps taken to ensure compliance with responsible lending practices include but are not limited to:

- Spot checks during Production which may occur at any time.
  - Validation during the closing process regarding correct disclosures, LE, fees, etc. to comply with RESPA requirements.
- HMDA reporting is completed as required and reviewed periodically throughout the year to ensure no negative or predatory trends are emerging.

## RESPONSIBLE LENDING STATEMENT

The primary focus of our lending program is the borrower's ability to repay the mortgage obligation. Loans originated or purchased by NQMF should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, lenders must make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Lenders must verify information using third-party records that provide reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to comply:

- Current or expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.
- Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
- Monthly mortgage payment for this loan.
- Monthly payment on any simultaneous loans secured by the same property.
- Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent.
- Debts, alimony, and child support obligations
- Monthly debt-to-income ratio or residual income
- Credit history



NQM Funding, LLC will not purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though NQM Funding, LLC may choose to purchase a loan that does not adhere to the formal requirements of the ATR rule. NQM Funding, LLC, will only purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.

## **ZERO TOLERANCE – FRAUD**

All employees, independent contractors, brokers and lender partners of NQM Funding are fully responsible for the content and quality of each application and all data on those applications taken and submitted to NQM Funding.

The price paid by those who participate in or are impacted by loan fraud is even more costly, impacting borrowers, family members, neighborhoods, and the nation's overall economy. If a borrower cannot legitimately qualify for a loan or afford a particular property, it is a disservice to encourage or enable them to buy a property they cannot afford and may lose to foreclosure. Closing a loan for a borrower, without verifying they can afford it, is considered predatory lending.

Potential consequences that may be incurred by an employee or company found or suspected of being a participant in a fraudulent loan transaction include:

- Criminal prosecution including time in jail.
- Loss of License(s).
- Loss of lender access due to industry exchange of information between lenders, mortgage insurance companies including submission of information to investors (Fannie Mae/Freddie Mac), police agencies, and state licensing agencies.
- Loss of approval status and potential civil action by NQM Funding, LLC.
- Civil action by applicant/borrower or other parties to the transaction.

NQM Funding, LLC will not tolerate loan fraud. NQM Funding stands behind the quality of its loan production and expects our lending partners and employees to do the same. NQM Funding practices a zero-tolerance policy of any predatory lending, loan fraud and/or misrepresentation. We perform pre-funding, post-funding file reviews, and data integrity reverification to ensure the loan meets quality standards.

## GUIDELINES AND PROGRAMS

### GUIDELINES

These NQM Funding, LLC Underwriting Guidelines (“the Guidelines”) coupled with each of the Program Matrices for the Programs listed below (“Matrix or Matrices”), provide the comprehensive requirements for NQM Lending, LLC to close or purchase a loan.

**Where these Guidelines are silent, defer to FNMA Guidelines.**

### NON-QM PROGRAMS

- Flex Supreme
  - The Flex Supreme Program is designed for the most qualified borrowers from an income and credit standpoint, with less complex transactions.
- Flex Select (including Express - DU)
  - The Flex Select Program is designed to cover the widest range of income documentation types, housing history, and other program specific options.
  - FNMA DU results must be Approve/Eligible or Approve/Ineligible with the Ineligible results for items such as loan size, LTV limits, loan purpose or feature. DU cannot be ineligible for a credit event or due to risk factors.
  - Extenuating circumstances for derogatory credit is not permitted.
  - Client negotiated variances with Fannie Mae are not permitted.
  - See Program Guide for full details.
- Super Jumbo
  - The Super Jumbo Program is a specialty program for high-net-worth borrowers with solid and stable income and credit, as well as considerable assets to cover down payment, closing costs and reserves.
- Select ITIN
  - The Select ITIN Program is designed specifically for the ITIN borrower (including DACA) to provide financing solutions for this specific group of borrowers.
- Foreign National
  - The Foreign National Program is designed to cover a range of income documentation types, and other program specific options for the Foreign National Borrower.
  - Foreign Nationals are eligible for DSCR (excluding Multi & Mixed) under the Foreign National Program.
  - For Multi & Mixed-Use properties, see the Multi & Mixed Program.
- Second Lien Select
  - The Second Lien Select Program is designed to cover a range of options for the borrower who desires a closed end second lien loan.

### DSCR PROGRAMS

- DSCR Supreme
  - The DSCR Supreme Program is designed for the most qualified borrowers from a credit standpoint, with less complex transactions.
- Investor DSCR
  - The Investor DSCR Program is designed to cover the widest range of options available to the DSCR investor.
- Investor DSCR No-Ratio



- The Investor DSCR No Ratio Program is designed to offer certain DSCR options when the rental income is not sufficient to cover the cover the monthly payments. This program allows investors additional options .
- Multi & Mixed (Mixed-Use 2-8 Units and Residential 5-10 Units)
  - The DSCR Multi & Mixed Program is designed specifically for the investors who want to use DSCR income for a multi-unit or mixed use property.

## GENERAL UNDERWRITING REQUIREMENTS

These NQM Funding, LLC Non-QM and DSCR Underwriting Guidelines ("the Guidelines"), coupled with each of the Program matrices, provide the requirements for NQM Lending, LLC to close or purchase a loan.

## AGE OF LOAN DOCUMENTATION

Credit reports must be dated within 120 days of the note date.  
Income and Asset Documentation must be dated within 90 days of the note date.

## MORTGAGE INSURANCE

Mortgage Insurance is not required on any of our Programs.

## DAILY SIMPLE INTEREST

Loans where interest is calculated based on daily simple interest are not eligible on any of our Programs.

## GEOGRAPHIC RESTRICTIONS

<b>DC</b>	● Investment Properties are ineligible, including DSCR.
<b>FL</b>	● Foreign Nationals and Non-Permanent Resident Aliens from the Peoples Republic of China are ineligible. ● Charlotte, Lee, Hendry, and Glades Counties: Investment Properties are ineligible, including DSCR.
<b>HI</b>	● Permitted for Delegated Correspondents only. Ineligible for Non-Delegated Correspondent and Wholesale.
<b>IL</b>	● Cook County: all occupancies are ineligible. ● Kane, Peoria and Will Counties: Ineligible for TRID loans – Restriction does not apply to Correspondents.
<b>IN</b>	● Indianapolis: Investment Properties are ineligible, including DSCR.
<b>MD</b>	● Baltimore City: all occupancies are ineligible.
<b>MS</b>	● Closed end second liens ineligible.
<b>NJ</b>	● Closed end second liens are ineligible. ● Patterson: Investment Properties are ineligible, including DSCR.
<b>NY</b>	● Effective July 29, 2025, NQMF has temporarily halted wholesale originations for all TRID loans in the state of New York. Please note that correspondent loans (delegated and non-delegated) and business purpose loans remain unaffected. ● All originations are restricted as follows: <ul style="list-style-type: none"><li>○ Closed end second liens are ineligible.</li><li>○ Brooklyn: Investment Properties are ineligible, including DSCR.</li></ul>

	<ul style="list-style-type: none"> <li>Orange County: all occupancies are ineligible.</li> <li>No 5/6 ARMs on Investment Property loans below the FNMA loan limit. <ul style="list-style-type: none"> <li>See NY Subprime section for requirements.</li> </ul> </li> <li>Short Term Rentals (STRs) are ineligible in the five (5) New York City Boroughs (Manhattan, Brooklyn, The Bronx, Queens and Staten Island).</li> </ul>
<b>TX</b>	<ul style="list-style-type: none"> <li>Second Liens are ineligible.</li> <li>Lubbock: Investment Properties are ineligible, including DSCR.</li> </ul>

## ALTERNATIVE LOAN PROGRAM ANALYSIS

Loan applications are to be reviewed for approval under a traditional conventional conforming or FHA loan Program available to the Client. The *NQM Funding, LLC Alternative Program Analysis Form, or something similar, must be provided* to ensure borrowers are proceeding under the appropriate loan Program.

The following loans are exempt from this requirement:

- Business Purpose Loans
- Foreign National Loans
- Loans qualified using Alternative Documentation

## ESCROW WAIVERS

Waiving escrows is permitted as follows:

- Non-HPML loans
- 0x30x12 housing/rental history
- Flex Supreme and Flex Select: O/O and 2<sup>nd</sup> Homes permitted up to 80% LTV
  - CA: escrow waiver > 80% LTV up to 90% LTV is permitted with a Min 700 Score
- Investment Properties: 660 Min Score. Not permitted on No Ratio or DSCR Mixed/Multi loans.

### Flood Insurance:

- Flood Insurance premiums for properties located in zones A or V must be escrowed. It is permissible to waive taxes and insurance escrows in these instances provided the above requirements are met and the loan is priced with an escrow waiver.
- In addition, elective flood policies are not required to be escrowed.

## EXPOSURE

NQMF tracks exposure to individual borrowers, which includes entities and guarantors, by social security number or EIN number, and applies the following exposure limits:

- All Programs except Investor DSCR – No Ratio, the limits are capped at the lesser of the amounts listed below.
  - Max \$10M or 10 loans in aggregate
  - Max \$5M or 5 any cash-out transaction & DSCR Multi- Mixed Program loans.
- Investor DSCR No Ratio:
  - Max \$ 7.5M or 10 loans in aggregate
  - Maximum \$5M or 5 cash-out transactions

## EXCEPTIONS





Exceptions to published guidelines are considered on a case-by-case basis. Exception Requests must be submitted in writing using the NQM Funding, LLC (NQMF) **Exception Request Form** and must include a minimum of two compensating factors.

It is in the sole discretion of NQMF to approve or deny any exception request. Approval of the exception does not guarantee final loan approval. The loan must still undergo a full underwriting review for final approval.

Credit committee may grant a maximum 5% LTV exception but never more than 5% above the related cohort (i.e., credit score, loan amount and LTV) as per the related Program Matrix.

Exceptions are not eligible for Flex Supreme, DSCR Supreme, Flex Select – P&L Only, Flex Select Express (DU), Super Jumbo and the Second Lien Select Programs.

Top Compensating Factors for Exception Consideration
<ul style="list-style-type: none"><li>• Significant Gross Disposable Income</li><li>• DSCR Ratio Above 1.15%</li><li>• Significant Reserves (beyond requirements)</li><li>• DTI well below Program max</li><li>• Lengthy &amp; deep credit history of solid performance</li><li>• Demonstrated capacity to carry a heavy debt load with on time performance</li><li>• Credit score well above Program minimum with solid performance</li><li>• LTV well below Program Max</li><li>• Long, Clean Mortgage History</li><li>• Significant time on the same job</li></ul>

## COMPLIANCE

### HIGHER PRICED MORTGAGE LOANS (HPML)

Higher Priced Mortgage Loans are permitted with certain restrictions:

- Escrow accounts are required.
- A Full Interior/Exterior Appraisal is required to include a certification from the appraiser indicating that the appraisal was prepared in accordance with the requirements of title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12 U.S.C. 3331 ET SEQ.), and any implementing regulations.
- On a purchase transaction, a second appraisal is required if:
  - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
  - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
  - The second appraisal must be obtained prior to the note date.
  - The second appraisal must be provided to the borrower (standard delivery requirements apply).



- The cost of the second appraisal may not be passed along to the borrower.
- *Note that the timelines are measured from the date the seller became the legal owner of the property and the date all parties signed the purchase agreement.*
- If the seller acquired the property through the following methods, a second appraisal is not required:
  - Bridge loans (for 12 months or less),
  - Reverse mortgages,
  - Loans for the initial construction of a dwelling – note that this is for a true construction loan, not for the end loan purchase of a newly constructed property,
  - A local, state, or federal government agency,
  - Through a foreclosure or deed in lieu, or
  - Inheritance or through a dissolution of marriage, civil union or domestic partnership, or through the partition of the seller's joint or marital assets.

## STATE AND FEDERAL HIGH COST LOANS

NQM Funding, LLC does not permit high cost mortgages, except for certain Second Lien loans. See [Second Lien Select Program - General Requirements](#) for restrictions and requirements.

In addition, except for loans that comply with New York Subprime regulations, any loan that meets the definition of “high cost,” “high risk,” “covered,” “subprime” or any similar designation under state or local law is not permitted.

States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a “high-cost mortgage” (or equivalent terms) under state law. As a matter of policy, NQM Funding, LLC does not purchase or originate 1<sup>st</sup> Lien loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

## NEW YORK SUBPRIME LOANS

- NY Subprime loans will be eligible provided ALL the following requirements are met:
  - **Disclosures requirements:**
    - *Borrower's Choice of Attorney Disclosure*
    - *Consumer Caution and Homeownership Counseling Notice*
    - *NYSDFS List of Approved Housing Counselors (no signature required)*
    - All the above must be delivered to the borrower prior to Closing.
    - Signature on the first two (2) documents will be required or if mailed out, evidence of mailing at least three (3) days prior to Closing.
    - Signatures/evidence of delivery must be for all borrowers on the loan.
  - **Mavent:**
    - Loan must NOT fail the *High Cost (NY Part 41)* test. NQM Funding, LLC does not allow NY High-Cost Loans.
    - Loans must NOT fail the *High Cost (NY)* test. NQM Funding, LLC does not allow NY High-Cost Loans.
      - Note, these are two separate Mavent tests.
    - Higher Rate review is where the subprime designation will show up:
      - A “fail” is permitted for the Fixed Loan > 15 Year Term test (63900)
      - ALL other tests under the Higher-Rate Review must PASS for the loan to be eligible.
  - **Closing Documentation Requirements:**

- Must include a legend on the top of the mortgage in 12-point/font type stating, *"This mortgage is a subprime home loan subject to New York's subprime home loan laws."*
- **Loan Program Requirements:**
  - Fixed Rate
  - No PPP
  - Escrow impounds for taxes /insurance are required.
  - Refinance loans:
    - ❖ Must have a documented sufficient NTB, AND
    - ❖ Must not be a flip of a loan originated within 6 months, AND
    - ❖ May not pay off a special mortgage guaranteed through a state, tribal or local government, or nonprofit organization, which either bears a below-market interest rate at the time of origination, or has nonstandard payment terms beneficial to the borrower, and where, because of refinancing, the borrower will lose 1 or more of the special benefits.
- **Correspondent Clients:**
  - Must ensure the correct Disclosures are generated with their Disclosure Package. Fillable PDFs of the required NY Subprime Disclosure are posted on the Portal.

## PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds. In addition, except for Investment Property transactions, points and fees may not exceed the lesser of state regulations or 5%, excluding prepayment penalties.

States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, NQM Funding, LLC, does not purchase loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

- Prepayment penalties are required on Investment Property transactions where permitted by applicable local law.
- Correspondents may treat Investment Properties as Non-TRID however, an LLPA will be charged for not having a prepayment penalty as per the Rate Sheet.
- Buydown options are available to reduce or remove prepayment penalties. Refer to the appropriate NQM Funding, LLC Rate Sheet for details.
- Prepayment penalties on Primary Residence and Second Home transactions are prohibited.
- Refer to the Business Purpose Licensing & PPP Restrictions PDF in the Documents Tab of our Client Portal for all state requirements.
- Refer to the respective rate sheet for minimum requirements for prepayment penalties.

## PRINCIPAL CURTAILMENT

A curtailment may be applied to refund the overpayment of fees or charges paid by the borrower, in any amount.

If the borrower receives more cash back than is permitted for Cash Out Refinance refinances, a curtailment to reduce the amount of cash back to the borrower to bring the loan in compliance



may be applied however the maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount.

## MAXIMUM INTEREST CREDIT

NQM Funding allows an interest credit through the 5th of the month.

## OCCUPANCY TYPES

### PRIMARY RESIDENCE

A Primary Residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

To qualify as a Primary Residence, the transaction must meet each of the following criteria:

- Property is in the same general area as the borrower's employment.
- Borrower intends to occupy the subject property for the majority of the year.
- Property possesses physical characteristics that accommodate the borrower's family.

### SECOND HOME

A Second Home is a dwelling occupied by the borrower in addition to their Primary Residence (may also be referred to as a vacation home). Second homes are restricted to a 1-unit dwelling.

Typical Second Homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's Primary Residence.
- Must be occupied by the borrower or members of the borrower's family for a portion of the year.
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.

## INVESTMENT PROPERTY & BUSINESS PURPOSE LOANS

An Investment Property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

A business purpose loan is an Investment Property where funds are used solely for business purposes and is considered a Non-TRID transaction. **The Property must not and cannot be occupied by a borrower, any member of the borrower's LLC, or any family member.**

- Retail / Wholesale
  - Investment properties and all DSCR loans must be Business Purpose and processed as non-TRID transactions.
- Correspondent



- o Loans may be processed as TRID or non-TRID transactions (Business Purpose Loans).

## BUSINESS PURPOSE FORMS

- Business Purpose & Occupancy Affidavit is required on all Business Purpose loans. All borrowers are required to sign to declare that the property is, or will be, for commercial business or investment purpose only.
- Compliance Agreement – DSCR Loans or equivalent form, is required. Form is borrower(s) agreement to furnish the Lender and its successors and/or assigns with current copies of all Lease Agreements within a reasonable time upon request. This form will be executed at closing on retail and wholesale transactions and is to be provided at the time of purchase on correspondent loans.
- The Business Rider to the Mortgage/Deed of Trust must be executed at closing on retail and wholesale transactions.

## TRANSACTION TYPES

### PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

An assignment of the purchase contract is not permitted unless the individual assigning the contract is assigning the rights to an entity in which the individual has an ownership interest.

### FOR SALE BY OWNER

- Not permitted on DSCR Mixed Use & Multi 5-10 unit transactions.

### REFINANCE GENERAL

Rate & Term Refinance, cash-out refinance, and debt consolidation transactions are allowed.

Debt Consolidation available on Flex Select only. See [Debt Consolidation](#).

### BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all Primary Residence and Second Home refinance transactions must have a measurable benefit to the borrower.

When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction



- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to.

## **RATE & TERM REFINANCE**

A Rate & Term Refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a Rate & Term Refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
  - For closed end seconds, the loan is at least six months seasoned as determined by the time between the note date of the subordinate lien and the note date of the new mortgage.
  - For HELOCs and other open-ended lines of credit, the loan is at least six months seasoned and there has been less than \$5,000 in total draws over the past 6 months.

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a Rate & Term Refinance and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.

On Rate & Term Refinance transactions, the borrower may only receive cash back in an amount not to exceed the lesser of 2% of the new mortgage balance or \$5,000. Borrowers may pay off debt through the transaction up to the Rate & Term Refinance limits.

## **DETERMINING LOAN TO VALUE**

The appraised value is used to determine loan-to-value, regardless of the acquisition date. If the refinance is completed within six months of a prior refinance, there must be a minimum of 10% savings in payment to demonstrate sufficient benefit to the borrower.

## **PROPERTIES LISTED FOR SALE**

- Primary Residence or Second Home rate and term refinance:
  - The subject property must be taken off the market on or before the application date. The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.
- Investment properties:
  - The property must be taken off the market prior to closing provided the new loan has a prepayment penalty.
- If the new loan does not have a prepayment penalty (including when a PPP is not permitted due to state laws), the property must be taken off the market on or before the application date.
- On all occupancy types: if the property was listed for sale in the six (6) months prior to the application date, the value will be based on the lesser of the appraised value or the lowest listing price.

## CASH-OUT REFINANCE

While maintaining the property is an acceptable use for Cash Out Refinance proceeds, major renovations or rehabs, tear downs etc., on the subject property that could deem the property uninhabitable would render the property as ineligible.

### ELIGIBILITY REQUIREMENTS

The following requirements apply to a Cash Out Refinance:

- A cash-out refinance is a refinance that does not meet the Rate & Term Refinance definition.
- A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.
- A signed Borrower Certification of Business Purpose disclosing the purpose of the cash-out must be obtained on Business Purpose loans.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in [Rate & Term Refinance](#)
- Paying off delinquent real estate taxes (60 or more days past due)
- The amount of any non-mortgage related debt paid off through closing (ineligible on business purpose loans)
- Additional cash in hand reflected on the settlement statement.

### OWNERSHIP REQUIREMENTS

At least one borrower on the new loan must have been a titleholder on the subject property (not required to be a borrower) for at least six (6) months prior to the disbursement date of the new loan, unless one of the following exceptions apply:

- There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- See [Delayed Financing](#) section.
- If the property was owned prior to closing by a limited liability corporation (LLC), partnership, or corporation that is majority-owned or controlled by the borrower(s), the time held by the entity may be counted towards meeting the borrower's six-month ownership requirement.
- If the new transaction is for a Primary Residence or Second Home transaction, ownership must be transferred out of the entity's name at/prior to closing.
- If the property was owned prior to closing by an Inter Vivos Revocable Trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

### SEASONING

- Note date is used to calculate seasoning requirements.
- A minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property unless otherwise specified in a product section or matrices.
- The most recent mortgage transaction includes either the most recent purchase of the property (including land only) or a subsequent refinance of the property. This requirement does not apply in the following situations:
  - Delayed Financing
  - When buying out a co-owner pursuant to a legal agreement



- o Title changes from a single member LLC to the borrower where the borrower owns the LLC.

## DETERMINING LOAN TO VALUE

- Properties owned  $\geq 6$  months to  $< 12$  months, the appraised value may be utilized to determine property value (this does not apply to Condotels, or Foreign Nationals Loans).
- If the new appraised value is more than 120% of the acquisition cost, the appraisal should show signs of recent improvements justifying the increase in value.
- If the property was acquired  $\leq 6$  months, Cash Out Refinance is only eligible for Delayed Financing purposes.

Condotels and Foreign Nationals require the lesser of the current appraised value or previous purchase price plus documented improvements to be used when determining LTV on properties acquired in the most recent 12 months.

## PROPERTIES LISTED FOR SALE

- Primary Residence or Second Home cash-out refinance:
  - o The subject property must be taken off the market on or before the application date.
  - o The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.
- Investment properties:
  - o The property must be taken off the market prior to closing provided the new loan has a prepayment penalty.
  - o If the new loan does not have a prepayment penalty (including when a PPP is not permitted due to state laws), a Cash Out Refinance is ineligible. The loan must be completed as a rate and term refinance.
- On all occupancy types: if the property was listed for sale in the six (6) months prior to the application date, the value will be based on the lesser of the appraised value or the lowest listing price.

## DELAYED FINANCING

Cash Out on properties purchased by the borrower and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction.
- Settlement statement from purchase confirms no mortgage financing used to acquire subject except for instances in which the borrower has obtained a short term and/or hard money type loan which is being paid through proceeds. A copy of the note is required to verify the terms.
- In Texas on an owner-occupied transaction, delayed financing is only eligible when the property was purchased entirely in cash; the payoff of a short term and/or hard money loan is ineligible.
- Source of funds used for purchase are documented, such as bank statements, personal loan documents, or a HELOC / loan on another property.
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured to another property), the settlement statement for the refinance transaction must reflect that all Cash Out Refinance proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property.
- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new loan.
- The new loan amount can be no more than the actual documented amount of the borrower's





initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.

- The appraised value will be used for LTV purposes, subject to any restrictions in the [properties listed for sale](#) section of the guide.

## DEBT CONSOLIDATION

A debt consolidation refinance transaction involves the repayment of existing liens and additional consumer debt is considered a cash-out transaction.

Consumer debt being consolidated is paid directly through the closing and referenced on the Closing Statement. Transactions in Texas must comply with the requirements set forth in [Texas Home Equity Loans](#).

The following requirements apply to debt consolidation transactions:

- Primary Residences with full or alternative documentation
- Traditional full doc only for Second Home transactions
- DTI  $\leq$  50%
- Consumer debt must be no more than 0x60 in the past 6 months.
- Minimum 3-month reserves after closing (no additional reserves required for other loan features)
- Cash to the borrower must not exceed the lesser of 2% of the new mortgage balance or \$5,000.
- Non-mortgage debt being paid off with the new loan is limited to a maximum of \$250,000.
- Non-occupant co-borrowers are not allowed.
- Ineligible for Investment Properties.

Debt consolidation transactions must result in the following benefits to the borrower:

- Total monthly debt payments are lowered by at least 10%; and
- Closing costs must be recouped within 60 months, excluding taxes, insurance, prepaids and interest.
  - If the borrower is not saving 10% the loan must be treated as a cash-out refinance.

## DETERMINING LOAN TO VALUE

For properties owned between (6) to (12) months, the appraised value may be utilized to determine property value with restrictions.

- The loan amount may not exceed 100% of the acquisition cost plus documented improvements, or
- The new appraised value may not exceed 120% of the acquisition cost.

If the property was acquired  $\leq$  6 months from application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

## PROPERTIES LISTED FOR SALE

On a debt consolidation loan, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

If the property was listed for sale within six (6) months prior to the application date, the lesser of the lowest list price or the current appraised value will be used to determine loan-to-value.

## ASSUMABILITY

Loans must not be assumable. This applies to all 1<sup>st</sup> and second lien loans regardless of loan Program.

## 2-1 TEMPORARY BUYDOWN

A 2-1 buydown is a mortgage loan option in which the seller of the home or the builder, reduces the homebuyer's interest rate for the first two years of the loan. In year one, the interest rate is 2% less than the original note rate. In year two, the interest rate is 1% less. The seller or builder covers the difference between what the payments typically would be and the adjusted, bought-down rate.

- Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown)
- Temporary Buydowns must be considered in the Interested Party Limitations. See [Interested Party Contributions](#) for limitations.
- Seller or Builder Funded buydowns permitted.
- Lender Paid or 3rd Party Buydown (Excluding Real Estate Agents, Brokerages, Borrower, or relatives) are permitted for Correspondent Clients only.

### Other buydown requirements:

- Buydowns are considered a credit and must be disclosed on the LE/CD as such.
- Buydown must be disclosed in the sales contract.
- Loans must be locked indicating the buydown.
- An executed buydown agreement between the parties is required in the loan package.
- The Mortgage Instruments must reflect the permanent payment terms, not the terms of the buydown. If the terms of the buydown are reflected, the loan is ineligible for origination or purchase.
- All other terms and details (including Buydown Agreement) must follow [FNMA guidelines B2-1.4-.04](#).

## FLIP TRANSACTIONS

When the subject property is being resold within 180 days of its acquisition by the Seller with more than a 20% increase in value, the transaction is considered a "flip". To determine the 180-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

New construction by a production builder is considered a flip transaction if the developer acquired the lot in the last 180 days and the purchase price has increased by more than 120%.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction including but not limited to the spouse of the Seller or Borrower being the Realtor on the transaction.
- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
  - Note, however, that For Sale by Owner transactions are not permitted on DSCR

#### Mixed Use and Multi 5-10 Unit Transactions.

- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.
- If the value of the property being purchased after being rehabbed appraises at more than 20% of the seller's acquisition cost and the 6-months seasoning requirement is not met, one (1) full interior/exterior appraisal and a Clear Capital Desk Review is required, unless the loan is an HPML Purchase Transaction in which case the below requirement applies.
- HPML Purchase Transactions:
- On a purchase transaction, a second appraisal is required if:
  - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
  - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
  - The second appraisal must be obtained prior to the note date.
  - The second appraisal must be provided to the borrower (standard delivery requirements apply).
  - The cost of the second appraisal may not be passed along to the borrower.
- Timelines are measured from the date the seller became the legal owner of the property and the date all parties signed the purchase agreement.
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: <https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/>. If the seller acquired the property through the following methods, a second appraisal is not required:
  - Bridge loans (for 12 months or less),
  - Reverse mortgages,
  - A local, state, or federal government agency,
  - Through a foreclosure or deed in lieu, or
  - Inheritance or through a dissolution of marriage, civil union or domestic partnership, or through the partition of the seller's joint or marital assets.

## NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan.

See [Employee Loans](#)

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Renters purchasing from current landlord
- Buyer trading properties with the seller
- Property seller foreclosure bailouts (Builder bailout loans are ineligible.)
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.

Non-arm's length transactions are subject to all the following:

- Relationship must be fully disclosed.
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
- Letter is not required when borrower is purchasing the property they have been residing in, i.e., lease purchase or tenant-purchase situations.



- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- NQM Funding, LLC must be satisfied that the transaction makes sense.
- All liens on title are to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property.

The following additional requirements apply only to family sales:

- Verification that the borrower has not been in title to the property in the past 24 months.
- Payoff statement for the subject property may not show any signs that the transaction is a bailout.
- Gift of Equity is eligible on a Primary Residence only. See [Gift of Equity](#).

## INHERITED PROPERTIES AND PROPERTY BUYOUTS

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out.

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained.
- Equity owners must be paid through settlement.
- Subject property has cleared probate, and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value.

## LAND CONTRACT/CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered Rate & Term Refinance.

If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase.

The following requirements apply:

- Primary Residence only when the land contract is unrecorded. Second homes and investment homes are permitted only when the Land Contract has been recorded for a minimum of 12 months prior to closing on the new transaction.
- Copy of fully executed land contract and payoff(s) to be obtained.
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history.
- Liens on title to be paid in full and reflected on settlement statement at closing.
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash Out and non-arm's length transactions not eligible
- If the Land Contract was recorded, it is not considered a Non-Arm's Length Transaction.
- If the Land Contract has been in effect for more than 12 months, the borrower will not be



considered a First Time Homebuyer (FTHB).

### LEASE WITH PURCHASE OPTION

Lease with purchase option (aka rent credit with option to purchase) transactions are allowed for Primary Residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See [Rent Credit for Lease with Purchase Option](#) for detailed requirements.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments
- If they have been in the lease purchase agreement for more than 12 months, the borrower will not be considered a First Time Homebuyer (FTHB).

### PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

When a refinance transaction is used, the borrower must hold legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

A construction-to-permanent transaction may be closed as a purchase, Rate & Term Refinance or cash-out refinance. All construction work must be complete. See [New Construction](#).

- Lots owned  $\geq 12$  months from application date for the subject transaction, LTV is based on the current appraised value.
- Lots owned  $< 12$  months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

### SUBORDINATE FINANCING

Secondary or subordinate financing may be allowed to the maximum CLTVs listed on the applicable matrices with the following requirements.

- Purchase and refinance transactions with a new simultaneous second lien are eligible when HCLTV does not exceed max LTV/HCLTV stated in the most restrictive of the 1st or second lien product matrices.
- Refinance transactions with existing second lien may be re-subordinated. The HCLTV may not exceed:
  - 90% on a Primary Residence and
  - 85% on a Second Home
  - 80% on an Investment Property ONLY when used in combination with the Second Lien Select Program. Subordinate Financing on any first lien where the subordinate lien is not a Second Lien Select will be ineligible for purchase.
- The second lien must be institutional. HELOC line limits may be paid down to meet HCLTV caps. Lines reduced or balances paid down must be fully documented including source of



funds.

- Borrowers who currently have a second lien with an interest only payment, must be qualified with the fully amortizing payment.

If the subordinate financing is part of a simultaneous closing, the following is required:

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

If the subordinate financing is for an existing lien being re-subordinated, the following is required:

- Evidence of the repayment terms of the existing second lien.
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

The following requirements apply to all subordinate liens:

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included in the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

Subordinate liens can be paid off as part of closing. See [Rate & Term Refinance](#) and [Cash Out Refinance](#) for more information.

### INELIGIBLE SENIOR LIEN CRITERIA

When the new loan is closing through the Second Lien Select Program, confirmation the senior lien does not include any of these ineligible criteria:

- Active forbearance or deferment
- Negative amortization
- Reverse Mortgage
- Balloon Loan where the balloon payment is due during the amortization period of the new second lien
- Private party mortgage
- Mortgage not reported on the credit report

### NEW YORK CEMAS

Consolidated Extension and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the State of New York.

NQM Funding, LLC approved attorneys must be used to review and prepare CEMA documentation on wholesale and retail transactions. Please refer to the NQM Funding, LLC Approved New York Attorney List in the Documents tab on the client Portal.

- Correspondents are responsible for utilizing attorneys with an expertise in reviewing and preparing CEMA documents.

- Lost Note Affidavits may not be used for any CEMA.

## FOREIGN NOTARIES

Documents signed outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille.

- Use the following link to determine if the country is part of the Hague Convention:  
<https://travel.state.gov/content/travel/en/International-Parental-Child-Abduction/abductions/hague-abduction-country-list.html>
- Model Apostille forms can be found on the following link:  
<https://www.hcch.net/en/instruments/specialised-sections/apostille>

## BORROWER ELIGIBILITY

### U.S. CITIZENS

All U.S. citizens are eligible for financing.

### PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-551 – Permanent Resident Card (Green Card) that does not have an expiration date.
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired.
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions when the Green Card is expiring within 90 days of the two year conditional expiration date.
- Un-expired Foreign Passport with an unexpired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

## ITIN

### ITIN – DOCUMENTATION REQUIREMENTS

- Government photo ID from US or eligible country of origin. Examples include:
  - Government license, passport, matricular consular, etc.
  - A Visa is not required in addition to the above requirements for an ITIN.
- ITIN Card or Letter from the IRS:
  - ITIN is required to be assigned to the borrower prior to application
- All documentation in the file must support the borrower's ITIN number and cannot reference a complete Social Security Number belonging to another individual.
- Evidence of unexpired ITIN can be accomplished as follows:
  - **Full Doc/1099 loans:** Current executed transcripts will validate the borrower's current ITIN status.
  - **Alt Doc loans:** Provide one of the following:
    - IRS letter dated less than three years ago
    - Fully executed W7, including agent's signature
    - Letter from Tax Preparer confirming they have filed the borrower's most recent tax return with the IRS.

### ITIN - ELIGIBILITY

- ITIN is eligible with the Select ITIN Program only. See related Program Matrix
- At least one borrower on the loan must be an ITIN
- ITIN must be valid and there must be at least 2 years consistent ITIN payments reporting to the IRS. This can be validated with the borrower's current ITIN # along with a 2-year employment history.
- Minimum loan size \$125,000
- Maximum DTI 50%
- Ineligible for Express (DU)
- Escrow impounds are required
- Not permitted to vest as follows:
  - Irrevocable or Blind Trusts
  - Inter-Vivo Revocable Trust
  - Entity Vesting: LLC, Corporation or Partnership

## DACA

DACA borrowers are eligible with ITIN / SSN with Valid U.S. driver's license along with EAD card (Category C33) evidencing their DACA status and permission to work in the United States.

- All DACA loans must be qualified under the Select ITIN Program.

### TEMPORARY PROTECTED STATUS

If the TPS status of the country of origin has been vacated or shortened, the borrower is ineligible. Updates must be monitored through the following link to ensure Temporary Protected Status



(TPS) associated with the borrower's country of origin is still in effect and has not been vacated:  
<https://www.uscis.gov/humanitarian/temporary-protected-status>

## NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. Citizen authorized to live and work in the U.S. on a temporary basis.

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Any Borrower not meeting the below criteria is not eligible:

- A valid Social Security Number
- Employment Authorization or VISA (as per below)
- Residency / Employment Requirements:
  - 2 years employment in the same line of work and 2 years of residency (in the U.S. or abroad); or
  - Borrowers transferred by a company with offices in both a foreign country and the U.S.:
    - Documentation of transfer executed on corporate letterhead required.
    - First paycheck required to be in file prior to closing.
  - Borrowers who have been offered and sponsored for employment in the U.S. under an H1-B VISA:
    - Documentation of sponsorship required along with VISA.
    - First paycheck required to be in the file prior to closing.

## EMPLOYMENT AUTHORIZATION

The borrower's Employment Authorization must be documented by one of the following:

- Form I-766 Employment Authorization Document (EAD):
  - If the Borrower's Employment Authorization expires within three (3) months of the loan application, one of the following must be provided:
    - A letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship. The employer on the loan application must be the same as on the unexpired visa.
    - Evidence of at least one prior EAD renewal must be provided, along with evidence the borrower has timely filed Form I-765.
- Form I-765 Application for Employment Authorization:
  - Must reflect approval status in the Action Block in the upper right corner of the form
  - Form I-797, I-797A, I-797B, or I-797C conveying approval status
  - Petitioner must match name on the application

The EAD documentation is acceptable for up to 540 days if an automatic extension has been granted.

Acceptable Documentation to Support the Borrower's Legal Status for borrowers granted Asylum:

- Form I-765 Employment Authorization referencing C08.
- After being granted asylum in the U.S., DHS issues Form I-94, an Arrival/Departure Record to asylees. Form I-94 will contain a stamp or notation, such as "asylum granted indefinitely" or the appropriate provision of the law (8CFR 274a.12(a)(5) or INA 208) to show their employment authorization.
- The asylee does not need to present a foreign passport with Form I-94.
- An Asylee can also present an electronic Form I-94 with an admission class of "AY."

## VISA

- If an EAD is not provided, a copy of the Visa permitting employment authorization is to be provided.
  - Visa types allowed for all Programs (except DSCR No-Ratio):
    - A-1, A-2, E-1, E-2, E-2, E-3, EB-5, G-1 through G-5, H-1, H1-B, NATO, L-1 O-1, R-1, TN
  - DSCR No Ratio: (U.S. Credit)- allow for the following Visa types:
    - E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, TN (NAFTA), R-1
- If the visa expires within three (3) months following the closing date, additional documentation is required:
  - Evidence that the proper extension steps have been followed per the USCIS along with proof of payment receipt and proof that the extension was done in the period required by USCIS (ex. I-797 with a valid extension date along with an I-94 Form).
- Visa Waiver:
  - Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/U.S.-visas/tourism-visit/visa-waiver-Program.html>.

## FOREIGN NATIONALS

- If a non-U.S. Citizen is borrowing with a U.S. Citizen, foreign national documentation requirements still apply.
- The following documentation is required:
  - Copy of the borrower's valid and unexpired passport and:
  - Copy of the borrower's unexpired visa OR an I-797 form (Notice of Action) with valid extension dates and I-94 Form (Arrival/Departure Record), or
  - Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa.
    - Participating countries can be found at <https://travel.state.gov/content/travel/en/U.S.-visas/tourism-visit/visa-waiver-program.html>.
- Citizens of Canada traveling to the United States do not require a nonimmigrant visa. A list of nonimmigrant Visa types is located on the U.S. Department of State website:
  - <https://travel.state.gov/content/travel/en/U.S.-visas/visa-information-resources/all-visa-categories.html>
- All parties (Borrower's and Seller's) involved on the transaction must be screened through exclusionary lists and must be cleared through OFAC's SND list:
  - <http://sdnsearch.ofac.treas.gov/>
- Borrowers from OFAC sanctioned countries are ineligible:
  - <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>
- Individuals with Diplomatic immunity are not eligible. Immunity status is listed on the reverse side of the U.S. issued ID card or at: <https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm>
- Documents signed outside of the United States must be notarized by a U.S. embassy or consular official.

## ACH PAYMENTS

- Automatic Payment Authorization (ACH) Form is required for all Foreign National borrowers. Funds must be from a U.S. Bank.
  - The executed ACH enrollment for payment of Principal, Interest, Taxes and Insurance must be provided.
  - The ACH enrollment form must include the bank routing number, account number, and account type. Borrowers may select a date within the grace period stated on the Note.
- To set up the Automatic Payment Authorization (ACH), a copy of the borrower's cancelled check to validate the bank's routing and account number and the executed ACH form are required prior to or no later than closing.

## EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved in each transaction must be screened through any exclusionary list used by the seller and the NQMF Ineligible Party List located in the NQMF Portal. The seller should apply its exclusionary list policy to any loans originated under these guidelines.

Borrowers and Guarantors from OFAC sanctioned countries are ineligible for the Foreign National Program. The search is to be completed through the U.S. Department of Treasury Office of Foreign Asset Control: <https://ofac.treasury.gov/sanctions-programs-and-country-information>  
This does not apply to Permanent or Non-Permanent Resident Aliens

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at: <http://www.state.gov/s/cpr/rls/>.

## BORROWERS/GUARANTORS

- A borrower/Guarantor is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage/deed of trust and note.
- If two or more individuals own the property jointly, and are jointly and severally liable for the note, all are borrowers.
- A maximum of four (4) borrowers/guarantors are permitted on any transaction.

## CUSTOMER IDENTIFICATION (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers. Sellers are to follow the published CIP procedures for each seller to ensure the identity of all borrowers has been documented.

## FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers and/or guarantors. Report findings must cover standard areas of quality control including, but not limited to borrower validation, social security number verification, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the seller.

If the seller cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the seller is acceptable. The Certification



must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the seller's underwriting staff or operations management personnel.

In addition to the fraud and background check requirements, NQM Funding, LLC will provide evidence via an unsuccessful return if background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

## INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Entities (may qualify for vesting only)
- Borrowers with diplomatic immunity or otherwise excluded from U.S. Jurisdiction
- Residents of any country not permitted to transact business with U.S. companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts (Inter vivos revocable trusts may be eligible for vesting only)
- Individuals appearing on Exclusionary Lists such as NQMF Ineligible List, HUD's Limited Denial of Participation (LDP) list, or the General Services Administration (GSA) Excluded Party List.
- Borrowers less than 18 years old.

## CO-BORROWERS

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note.

All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards.

- All co-borrowers must take title to the subject property. A related Business Entity or Inter Vivos Revocable Trust may have an ownership interest in title to the subject property.
- Co-borrowers may not be an interested party to the transaction. Examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is eligible.)

## NON-OCCUPANT CO-BORROWERS

A Non-Occupant Co-Borrower is eligible as follows:

- Primary occupancy only
- Purchase and Rate & Term Refinance only (non-occupant must be on the current mortgage for a Rate & Term Refinance refinance)
- See Program Guides for Maximum LTVs permitted
- Max 50% Total DTI
- Max 65% DTI for Occupying Borrower on manually underwritten loans only.
- When using Express (DU), ratios for the Occupant and Non-Occupant Co-Borrower may be blended and all income may be from the Non-Occupant Co-Borrower
- Maximum loan amount \$1,000,000
- The primary wage earner's score will be used to qualify, whether it is the Occupant or Non-Occupant Co-Borrower.

## FIRST TIME HOMEBUYER (FTHB)

A First Time Homebuyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 3 year period.

If a spouse is on the deed of a principal residence in the last 3 years, they are not a First Time Homebuyer.

If either borrower has had ownership interest, as defined above, the loan is not subject to the First Time Homebuyer (FTHB) restrictions.

See Program Matrices for restrictions.

## EMPLOYEE LOANS

Loans to employees of the Client are allowed. Transactions must meet the following requirements:

- Primary Residence and Second Homes only.
- Loan must be originated as a Full Documentation type only.
- Loans must adhere to non-arm's length transaction guidelines.
- Officers of the Seller are eligible on an exception basis only.

## POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when following requirements are met:

- POA is specific to the transaction
- Signed and Notarized Recorded with the mortgage/deed of trust.
- Contains an expiration date.
- Used only to execute the final loan documents.
- Borrower who executed the POA signed the initial 1003.
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may function as Power of Attorney.
- POA is ineligible on Cash Out Refinance, Foreign National, or when title is vested in a trust or an entity.

## VESTING AND OWNERSHIP

### VESTING REQUIREMENTS

Acceptable forms of vesting include:

- Individuals
- Joint Tenants
- Tenants in Common
  - Ineligible for condominiums
  - DSCR No Ratio Program: eligible only if all parties vested match the borrowers on the loan
- [Inter Vivos Revocable Trust](#)
- [Investment Property Only:](#)
  - Limited Liability Company (LLC)



- Limited and General Partnerships
- Corporations
- S Corporations

#### INELIGIBLE FORMS OF VESTING:

- Land Trusts
- Blind Trusts
- Life Estates
- Non-Profit Corporations
- IRA's
- Irrevocable Trust

#### **INTER VIVOS REVOCABLE TRUST**

Inter Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers). One or more natural persons must establish the trust, solely or jointly. The primary beneficiary of the trust must be the individual(s) who establish the trust. The trust must become effective during the lifetime of the person establishing the trust.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage. A Power of Attorney is ineligible on loans when title is vested in a trust.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to function as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the individual parties establishing the trust must use personal income or assets to apply and qualify for the mortgage.

A copy of the trust is required, or a signed attorney's opinion letter may be obtained in lieu of the trust documents. The attorney's opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed.
- Settler(s) of the trust
- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees
- Name of trustees
- Manner in which vesting will be held.

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.



The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

Trust Certs are allowed when permitted by the state.

Closing Documents must be executed in compliance with FNMA signature requirements for Mortgages to Inter Vivos Trusts : <https://selling-guide.fanniemae.com/sel/e-2-04/signature-requirements-mortgages-inter-vivos-revocable-trusts>

## ENTITY VESTING

Ownership or title vesting in the name of an LLC, partnership, or corporation (collectively 'Entity') is acceptable on Investment Property transactions only. While only individual owners of the Entity must qualify as the borrowers/**guarantors**, ownership of the subject property may vest in an Entity.

### REQUIREMENTS – ENTITY VESTING

To vest ownership in an Entity, the following requirements must be met:

- Entity is limited to a maximum of four owners or members.
- Personal Guaranties are required from all borrowers on the loan along with any individual with 50% or greater ownership in the entity.
- **Guarantor(s) must have the authority to execute loan documents on behalf of the entity.**
- If the operating agreement does not state an authorized signer, then all entity owners must apply as a borrower and complete a 1003 as an individual applicant.
- The loan application, credit report, income, and assets for the **guarantor(s)** will be used to determine qualification and pricing.
- Entity must be domiciled in the U.S.
- Layered Entities will be permitted as follows:
  - LLC documentation requirements must be met for each of the layered entities.
  - A maximum of two (2) layers will be considered.
  - Not permitted on No Ratio Loans.

### DOCUMENTATION – ENTITY VESTING

The following Entity documentation must be provided:

- **Limited Liability Company (LLC)**
  - Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
  - Evidence of Certificate of Good Standing (not required if the entity was formed in the last 12 months. Example: Certification of Good Standing or screen shot from the state website).
  - If all members are not borrowers, evidence the borrower has authority to sign on behalf of the entity, which can be validated through the Operating Agreement or Certificate of Authorization. If not available, a Borrowing Certificate is required.
  - Corporate documents that contain a list of owners along with titles
  - Tax Identification Number (EIN)
    - Single member LLC may use the EIN or the guarantor's social security number
    - Multiple member LLCs require an EIN
- **Corporation**

- Filed Certificate/Articles of Incorporation (and all amendments)
- By-Laws (and all amendments)
- Evidence of Good Standing issued by the Secretary of State where the corporation is incorporated, regardless of when the entity was formed (example: Certificate of Good Standing or screen shot from state website).
- Tax Identification Number (EIN)
- Borrower Resolution/Corporate Resolution granting authority of signer to enter a loan obligation.
- Receipt of current year franchise tax payment or clear search

- **Partnership**

- Filed Partnership Certificate (if a general partnership, filing with the SOS may be required)
- Partnership Agreement and all amendments.
- Evidence of Good Standing issued by the Secretary of State where the partnership is registered, regardless of when the entity was formed (example: Certificate of Good Standing or screen shot from state website).
- Tax Identification Number (EIN) Limited partner consents (where required by partnership agreement).

## SIGNATURE REQUIREMENTS – ENTITY VESTING

Documents must be completed and signed as follows:

- **Loan Application (1003)**

- Completed and signed **by each guarantor.**
- The application must include the subject property (when the transaction is a refinance) along with the **guarantor's** Primary Residence on the Schedule of Real Estate owned. Other properties owned by the **guarantor** are not required to be disclosed on the application.

- **Personal Guaranty**

- Is not required when all members of the entity sign the Note personally AND for the entity and sign the mortgage as a member of the entity.
- If the above is not true, then:
  - Personal Guaranty is required and must be executed by all **guarantors.**
  - The guaranty for any non-borrower with a 50% or greater ownership in the entity may be executed prior to closing, any terms referenced on the guaranty must reference the final terms on the loan.
- Spousal Consent to Pledge in community property states (AK, AZ, ID, LA, NM, TX, WA, WI).

- **Disclosures** (GFE/LE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each individual **guarantor.**
- **CD or HUD 1** - completed and signed by the **guarantors.**
- **Other Closing Documents** (Final TIL, Business Purpose and Occupancy Affidavit, etc.) - completed by the **Guarantor(s).**
- **Note** - must be completed by the guarantor(s) when accompanied by a Personal Guaranty OR by all members of the Entity both individually and as members when a Personal Guaranty is not executed.
- **Deed of Trust/Mortgage, and all attached Riders** - must be completed by **guarantor(s).**



### Entity Signature Requirement Examples:

- [Authorized Signatory] may be replaced by a different title as specified in the Member Consent (e.g., Managing member, Member, etc.).
- Example 1:
  - Borrower: SS Properties, LLC by Steve Smith, Single Member of LLC
  - Signature Block of Note, Security Instrument, and all Riders:
    - SS Properties, LLC a [ \_\_\_\_\_ ] limited liability company
    - Steve Smith
    - By: Steve Smith
    - Title: [ \_\_\_\_\_ ]
- Example 2:
  - Borrower: SS Properties, LLC by Steve Smith and Mary Smith, two Members of LLC; both Members are Authorized Signatories of LLC.
  - Signature Block of Note, Security Instrument, and all Riders:
    - SS Properties, LLC a [ \_\_\_\_\_ ] limited liability company
    - Steve Smith
    - By: Steve Smith
    - Title: [ \_\_\_\_\_ ]
    - And
    - SS Properties, LLC a [ \_\_\_\_\_ ] limited liability company
    - Mary Smith
    - By: Mary Smith
    - Title: [ \_\_\_\_\_ ]

## LEASEHOLD ESTATES

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance.

- 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, be subject to the mortgage lien, and be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.
- Leasehold condominiums are ineligible.

## LEASE REQUIREMENTS

The following requirements must be met for leases associated with leasehold estate mortgage loans:

- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage unless fee simple title will vest at an earlier date in the borrower's name.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times 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 sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners'

association.

- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is 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 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.

### ADDITIONAL ELIGIBILITY REQUIREMENTS

The following requirements must be met before a lender can deliver a leasehold estate mortgage for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease, nor may the lessor have claimed such a default.

### ESTABLISHING LAND PURCHASE PRICE

STATUS OF PROPERTY IMPROVEMENTS	PURCHASE PRICE OF LAND
<b>Already Constructed at the time the lease is executed.</b>	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
<b>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).</b>	<p>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.</p> <p>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.</p> <p>Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p>

<b>Will be constructed after the lease is executed</b>	<p>The purchase price of the land should be the lower of the following:</p> <ul style="list-style-type: none"> <li>• the current appraised value of the land, or</li> <li>• 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.</li> </ul> <p>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).</p> <p><u>Note:</u> If the lease is tied to an external index, the initial <b>land value</b> may not exceed 40% of the combined appraised value of the land and improvements.</p>
--	--

## CREDIT

### CREDIT REPORT

A tri-merge or Residential Mortgage Credit Report (RMCR) is required for all borrowers/**guarantors** on a loan, with the exception of Foreign National Borrowers qualifying with Foreign Credit.

The credit report should provide merged credit information from the 3 major national credit repositories. Acceptable credit reporting agencies include Experian, TransUnion, and Equifax.

A valid Social Security number (SSN) is required for all borrowers/**guarantors** on the loan, with the exception of ITIN and Foreign National Borrowers.

The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

### FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws.

## CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report will be obtained to reflect current and updated information from all repositories.

## CREDIT INQUIRIES

A signed letter of explanation from the borrower is required for all inquiries within the most recent 90 days for debts not already shown on the credit report. If new credit was granted, documentation must be obtained to support the current balance and payment. The monthly payment must be included in the DTI. This is not required for DSCR transactions.

## PAST DUE ACCOUNTS

Past due active consumer debts can be no more than 30 days past due at the time of closing.

## CREDIT RESCORING

Credit Rescoring:

- Eligible on Business Purpose loans only.
- Credit rescoring for all other loan transactions involving Primary Residence and Second Home occupancies are ineligible for the purpose of increasing the credit score to qualify, except to correct a reporting error as indicated in the permissible scenarios listed below.

Permissible scenarios for Primary Residence and Second Home transactions in which an updated credit report would be eligible (These rare instances must be acceptable at the sole discretion of the Underwriter based on the documentation provided):

- Borrower disputed erroneously reported account activity:
  - Mortgage, Installment, or Revolving account with current balance does not belong to the borrower(s)
  - Delinquent account does not belong to the borrower(s)
  - Borrower's account was paid off prior to making loan application; however, credit report shows a current balance and payment.
  - The creditor must acknowledge responsibility for the reporting error in writing (no exceptions); the reporting agency must correct the error; and borrower must provide evidence of the investigation and corrective action.
  - All credit reports pulled during the loan process must be in the loan file.
  - The credit report date has expired according to the Age of Documentation Policy.

## GAP CREDIT REPORT

A credit refresh or undisclosed debt monitoring report dated within 30 days of closing is required, unless the original credit report is dated within 30 days from the Note Date. Evidence of undisclosed debt monitoring report is permitted to satisfy this requirement. DSCR loans are excluded from this requirement.

## QUALIFYING CREDIT SCORE

See the NQMF Program Matrices for specific minimum credit score requirements by program.

## REPRESENTATIVE SCORE

- Middle of three scores or lower of two scores is the representative score.
- In instances where only one score is permitted per Program Guides, that score is the representative score.

## FULL AND ALT DOC

- The primary wage earner's score will be used for qualifying purposes.
- When qualifying income is equal for multiple borrowers on the loan, the highest representative score will be used.
- Flex Supreme, Flex Select, Select ITIN and Second Lien Select (Piggyback only):
  - When the primary wage earner has three scores, minimum trade lines are waived.
  - When the primary wage earner has less than three scores:
    - When 2 scores are obtained:
      - Standard Tradelines must be met, OR
      - For Flex Select Only, qualify using Limited Trades, OR
      - ITIN or Non-Permanent Resident may qualify using Non-Traditional Credit
    - 1 score is only permitted for ITIN Borrowers when Standard Tradelines are met.
    - No score is permitted for Foreign Nationals only using Foreign Credit.
- Super Jumbo and Select Lien Select (Stand-alone): Standard Tradelines are required.

## DSCR LOANS

- DSCR Supreme, Investor DSCR and Mixed and Multi:
  - For Individual Borrowers, the highest representative score will be used for qualifying.
  - For Entity Vesting:
    - Use the representative score for the borrower/guarantor with the highest percentage of ownership. For equal ownership, use the highest representative score.
    - Minimum 25% ownership for the member whose score is used for qualifying.
- No Ratio:
  - For Individual Borrowers, the lowest representative score will be used for qualifying.
  - For Entity Vesting:
    - Use the representative score for the borrower/guarantor with the highest percentage of ownership. For equal ownership, use the lowest representative score.
- DSCR Supreme, Investor DSCR and DSCR Mixed and Multi:
  - When all borrowers have three scores, minimum tradelines are waived.
  - When borrowers have 2 scores, Standard Tradelines must be met.
  - If borrower has less than 2 scores, loan is not eligible unless the loan is a Foreign National qualifying with Foreign Credit.
- DSCR No Ratio: Standard Tradelines are required.

## TRADELINE REQUIREMENTS

### STANDARD TRADELINES

When Standard Tradelines are required based on the Qualifying Credit Score details above, the following are required.

- 3 tradelines reporting for 12+ months with activity in the last 12 months, OR
- 2 tradelines reporting for 24+ months with activity in the last 12 months, OR
- 24 month mortgage history reporting on the credit report with a 0x30x12 history.
- Only the primary borrower must meet the tradeline requirements.
- Spouses may combine tradelines.

### ELIGIBLE TRADELINES:

- The tradeline must be reflected on the borrower's credit report.
- The account must have been active in the past 12 months and may be opened or closed. A supplement may be used to update the account activity.
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months.
- An acceptable 12 or 24 month housing history not reporting on credit may be used as a tradeline.

### INELIGIBLE TRADELINES:

- Credit lines on which the borrower is not obligated to make payments on.
- Deferred loans not requiring a payment.
- Authorized user accounts.
- Collections or charge-offs.

### LIMITED TRADELINES

- Flex Select
- Primary Residence only
- 660 score, minimum 2 scores required
- Max LTV 80%
- Minimum 10% borrower own funds required
- Max DTI 43%
- 12 month 0x30 housing / rental history required
- There are no additional minimum tradelines that are required provided the above guidelines are met

### NON-TRADITIONAL CREDIT

- Eligible for ITIN and Non-Permanent Residents as follows:
  - Minimum of 2 credit scores are required
  - Loan amount < = \$1,500,000
  - 3 Credit References covering the most recent 12 months from the date of the application, supported with canceled checks or bank statements.
  - Acceptable trades may be mortgage/rental verifications; utilities such as electricity, gas, water, telephone service, television, and internet providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of non-traditional credit.

- It is permissible to combine trades from the credit report with non-traditional credit to meet the tradeline requirement.

## FOREIGN CREDIT

- A borrower qualifying with foreign credit may or may not have a U.S. credit report with no credit score, a single credit score, or a credit score with insufficient tradelines.
- Maximum LTV is 75% for an owner-occupied property, 75% for a Second Home, and 70% for an Investment Property.
- Must establish an acceptable credit history demonstrating either 2 open tradelines reporting for 2 years with activity in the most recent 12 months displaying or three open trades with a 12+ month rating. In either example trades must experience no derogatory payments.
- This can be accomplished through a combination of ANY of the following:
  - Tradelines evidenced on an international credit report if a U.S. credit report cannot be produced or does not reflect sufficient trades; and/or
  - Alternative tradelines consisting of two of the following:
    - Credit reference letter(s) from the borrower's country of origin with the following info:
      - State the type and length of the relationship, how the accounts are held, and status of the account.
      - Contact information must be provided for the person signing the letter; and
      - An unaffiliated certified translator must translate all documents. Google translator is ineligible.
    - A 2 year housing history can be used as a tradeline. If a Primary Residence is owned free and clear but taxes and insurance are paid for 12 months or more, this can be used for one of the tradelines.
- **NOTE: When using Foreign Credit to qualify, the loan must be priced as a Foreign National loan.**

## HOUSING HISTORY

All programs require verification of the borrower's housing history.

### HOUSING HISTORY VERIFICATION (NON – DSCR)

Mortgage and rental payments not reflected on the credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM).

- A combined total of all late mortgage and rental payments for all properties in the past 12 months will be used to determine the housing history.
- Rolling delinquent payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.
- If the borrower is making payments to an individual or interested party, one of the following is required:
  - A VOM/VOR along with the consecutive most recent 6 months of canceled checks, bank statements, Venmo/Paypal documentation or
  - A copy of the note/lease along with the consecutive most recent 12 months of canceled checks, bank statements, or Venmo/Paypal documentation.
- When qualifying under Select Express (DU), DU may waive the requirement for a rental history



on certain casefiles. Even when DU waives this requirement, NQMF still requires documentation to support a 12 month housing history, however it is permissible to allow the waiver of cancelled checks for private party VORs when eligible per DU.

- Properties held in the name of an LLC in which the borrower is personally obligated on the note must be included in the ratios and have the mortgage history documented.
- All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify the account is current.
- Borrowers are considered to have a housing history under the following circumstances.
  - Borrower(s) who own their Primary Residence free and clear.
  - Borrowers living in the marital home.
  - Borrower(s) who sold a Primary Residence within the past 12 months and are currently residing rent free until subject transaction closes.

### HOUSING HISTORY VERIFICATION (DSCR ONLY)

- Mortgage and rental payments on the subject and Primary Residence not reflected on the original credit report must be documented via an institutional third-party (Verification of Rent or Verification of Mortgage (VOR/VOM)).
- An updated mortgage history reporting current as of the funding date of the new transaction is only required for the subject property and the Primary Residence.
- Any mortgage tradeline reporting on the credit report for properties owned by the borrower/**guarantor** must be included when reviewing the housing history eligibility.
- Any non-subject or non-Primary Residence mortgages not reported to the credit report do not have to be documented.
- The combined housing payment history may not exceed 1x30 in the past 12 months and be current at closing when the DSCR is .75 or greater. No Ratio loans require a 0x30x12 combined housing history.
- If the borrower/**guarantor** is making payments to an individual or interested party, one of the following is required:
  - A VOM/VOR along with the consecutive most recent 6 months of canceled checks, bank statements, Venmo/Paypal documentation or
  - A copy of the note/lease along with the consecutive most recent 12 months of canceled checks, bank statements, or Venmo/Paypal documentation.

### BALLOON MORTGAGES WITH EXPIRED MATURITY

Balloon mortgages with an expired maturity date can be considered as follows:

- The extension is executed prior to the balloon's maturity and any required payments since the extension were made as expected. This would be considered as a 0x30., or
- The extension was executed after the balloon's maturity but prior to closing, and the borrower continued to make timely monthly payments. This would be considered as a 0x30, or
- The extension was not executed, but the VOM indicates the loan is paid as agreed, the payoff does not include deferred payments or interest, and the maturity date of the balloon was within 180 days of the new note date. This would be considered as 1x30.
- In all instances, it is not permissible for deferred payments or interest to be rolled into the payoff.

### INCOMPLETE HOUSING HISTORY (NON-DSCR)

Borrowers who do not have a complete 12-month housing history, such as those who have only





been renting or have had a mortgage for a portion of the year, are subject to the following restrictions:

- 10% minimum borrower contribution
- Maximum LTV of 80%
- VOR/VOM must demonstrate a paid as agreed history, unless otherwise noted in these Guidelines. Private party verifications must follow the requirements in the housing history verification section.

Note this does not apply to the inability to document the housing history for a portion of the year. All months in which the borrower has rented and/or had a housing history must be documented.

### RENT FREE (NON-DSCR)

For borrowers who are living rent free, a rent-free letter must be provided from the property owner. Additionally, they must meet the 10% minimum borrower contribution, max LTV of 80% requirement.

Rent free is not eligible with the Second Lien Select Program.

### EVIDENCE OF PRIMARY RESIDENCE AND RENT-FREE SCENARIO (DSCR ONLY)

- All borrowers/guarantors must presently maintain a Primary Residence.
- Borrowers/Guarantors who own a Primary Residence must provide proof of ownership or evidence they are living in a property owned or rented by their spouse/domestic partner.
- Borrowers/Guarantors who rent a Primary Residence must provide evidence of an active lease in place.
- Rent-free circumstances in which the borrower/guarantor is not residing with their spouse/domestic partner, will be considered on non-DSCR Multi & Mixed transactions as follows:
  - Refinance transactions:
    - Provided the borrower/guarantor has an established address supported by a rent-free letter from the property owner and there is no suggestion of occupancy in the subject property.
  - Purchase transactions:
    - When the subject property is in a different geographic area from the residence, or
    - The borrower/guarantor is an experienced investor with existing REOs
- Primary Residence should be supported by one of the following characteristics:
  - A different geographic location from the subject property; or
  - General appeal and location of the Primary Residence is superior to subject property.

### HOUSING EVENTS AND PRIOR BANKRUPTCY

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Forbearance
- Modification
- 1x120 mortgage history

- Charged off second mortgage or junior lien

## SEASONING (HOUSING EVENT / BANKRUPTCY)

See Program Matrices for seasoning requirements per program.

- Seasoning of a foreclosure is the date the Judge signed the court documents.
- Seasoning for a deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.
- For a 120-day mortgage late, seasoning is from the date the mortgage was brought current.
- Seasoning for a modification is from the date the modification was executed.
- If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.
- For Chapter 13 Bankruptcy, the lookback period varies depending on if the bankruptcy was discharged or dismissed:
  - If the bankruptcy was discharged, the filing date would be used for the lookback period, and the bankruptcy must be discharged for a minimum of 12 months.
  - If the bankruptcy was dismissed, the dismissal date is used for the lookback period
- Charged off second or junior liens are subject to foreclosure seasoning periods, based on the date of the charge-off.
- Borrowers with unrelated multiple significant credit events are ineligible.
- Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.
- Restructured Mortgage loans that resulted in any type of partial forgiveness, principal curtailment, or conversion are ineligible.
- Housing events caused by a FEMA declared natural disaster does not count as a credit event instance.

A mortgage modification is considered any of the following:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecured.

All borrowers must have reestablished acceptable credit verified after the credit event.

## WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT

Housing Events and bankruptcies in the most recent 2 years must be explained by the borrower with a signed letter of explanation. Explanation letters for medical collections, revolving late or collections are not required.



For DSCR No Ratio loans, all derogatory revolving and installment accounts 60 days delinquent within four years of closing require a full explanation.

## LIABILITIES

### INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full prior to or at closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement, direct verification from the creditor, or the CD can be used for verification the debt was paid off. Installment debt may also be paid down to qualify.

### REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the debt-to-income ratio calculation. A credit supplement can be obtained to verify what the minimum payment is if it is not reflected on the credit report.

Revolving accounts can be paid off prior to or at closing and do not need to be closed to exclude the monthly payment from the DTI. Supporting documentation, such as a credit supplement, direct verification from the creditor, or the CD can be used for verification the debt was paid off. See [Asset Documentation](#) for sourcing and seasoning requirements.

### AUTHORIZED USER ACCOUNTS

Authorized user accounts should not be considered in the borrower's debt-to-income ratio.

### BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio.

Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 6 months canceled checks drawn against the business account; along with

- business financials reflecting the business expense; or
- Business bank statement showing assets remain after funds to close and reserve requirements are met with a balance greater than or equal to the balance of the debt.

If the debt is less than 3 months old, the payment must be included in the debt-to-income ratio unless it is a vehicle and there is evidence the previous vehicle was paid by the business.

## CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten (10) months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

Note: For loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the alimony or separate maintenance payment, the lender must enter the amount of the monthly obligation as a negative alimony or separate maintenance income amount. If the borrower also receives alimony or separate maintenance income, the amounts should be combined and entered as a net amount.

## COLLECTIONS AND CHARGE-OFFS

Delinquent credit, such as charge-offs of non-mortgage accounts are to be considered as follows.

The following accounts may remain open (except DSCR No Ratio):

- Collections and charge-offs < 24 months old with a cumulative balance of \$5,000
- All medical collections
- Collections from factoring companies when the original debt can be verified on the credit report.

Collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs are included in DTI (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

NOTE: Investor DSCR No Ratio Program: non-title charge-offs and collections within three years and exceeding \$5,000 (individually or aggregate) must be paid. Medical collections less than \$15,000 are not required to be paid.

## CONSUMER CREDIT COUNSELING SERVICE (CCCS)

- Borrower enrollment in CCCS is allowed when a minimum of 12 months has elapsed on the plan and evidence of timely payments for the most recent 12 months is provided.
- The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.
- If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in [Collections and Charge-offs](#). The monthly CCCS plan payment must be included in the DTI calculation.
- If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.
- For DSCR Consumer Credit Counseling must be completed for a minimum of 24 months from the closing date.

## CONTINGENT LIABILITIES

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the debt-to-income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner (i.e., divorce): file must include the court order and evidence of transfer of ownership.
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership.
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party.

The payment history for the assigned debt after the effective date of the assignment does not need to be evaluated.

## CURRENT RESIDENCE PENDING SALE

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

The current principal residence's PITIA is not required to be used in qualifying the borrower if the following documentation is provided:

- The executed sales contract for the current residence; and
- Evidence that any financing contingencies have been cleared.

## DEBTS PAID BY OTHERS

When a borrower is obligated on a non-mortgage debt but is not the party repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies when the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor).

To exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' consecutive canceled checks (or bank statements) must be obtained from the other party making the payments showing no delinquent payments.

When a borrower is obligated on a mortgage debt but is not the party who is repaying the debt,



the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt,
- There are no delinquencies in the most recent 12 months, and
- The borrower is not using rental income from the applicable property to qualify.

## DELINQUENT CREDIT BELONGING TO EX-SPOUSE

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse.
- Delinquent payments occurred after the date of the divorce or separation.
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and if applicable, evidence of buyout as part of court proceedings.

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse and the collection occurred after the debt was assigned.

See also [Contingent Liabilities](#).

## DISPUTED ACCOUNTS

When the credit report contains tradelines disputed by the borrower:

- If the tradeline is paid as agreed, no further action is needed.
- If the disputed account has a zero balance or is being paid at closing, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is \$2,500 or less, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is over \$2,500, the credit file should be documented with a credit supplement showing the dispute has been resolved.

## JUDGMENTS, LIENS AND IRS TAX REPAYMENT PLANS

Judgments, Liens and IRS Tax Repayment Plans must be paid off prior to or at closing unless the requirements listed below are met.

Adverse credit that will impact title must be paid in full as title must ensure our lien position without exception.

### Refinance

Tax liens and IRS repayment plans cannot be resubordinated but may remain open when:

- A copy of the repayment agreement is obtained.
- A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
- The maximum payment required under the plan is included in the debt-to-income ratio.

### Purchase

Tax liens and IRS Repayment Plans on the non-subject property may remain open on purchase transactions only (additional LTV reductions may be required based on the size of the lien). All the following requirements must be met:



- A copy of the repayment agreement is obtained.
- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided.
- The maximum payment required under the plan is included in the debt-to-income ratio; and
- When a tax lien remains open, the title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

NOTE: Investor DSCR No Ratio Program IRS tax payment plans approved by the IRS are eligible provided they are current and do not carry a lien on the property.

- A copy of the approved repayment plan is required.
- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided.

### **LAWSUIT/PENDING LITIGATION**

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required.

- The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed.
- The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

### **LEASE OBLIGATIONS**

Car Lease obligations must be included in the debt-to-income ratio calculation, regardless of time remaining on the lease.

If a vehicle lease is paid off to qualify, evidence that the car was purchased is required. Paying off the remaining lease balance is not considered paying off the debt.

### **MATERIAL RECURRING NON-DEBT OBLIGATIONS**

Documentation of material recurring non-debt obligations should be done consistent with seller's ability to repay policies and in a form acceptable to NQM Funding, LLC.

### **OPEN 30-DAY CHARGE ACCOUNTS**

- For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be the required monthly payment.
- Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.
- If the borrower paid off the account balance prior to closing or at closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

### **RETIREMENT/SAVINGS PLAN LOANS**



- Repayment for loans against a financial asset (retirement/savings plan, insurance policy) can be excluded from the total debt-to-income ratio provided the debt can be repaid by liquidating the asset.
- The value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

## STUDENT LOANS

- Student loan payments must be included regardless of deferment or repayment in the DTI. If a payment amount is not identified, 1% of the current loan balance may be used.
- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is \$0. The borrower may then qualify with a \$0 payment.

## TIMESHARES

For credit review purposes, timeshare obligations will be considered installment loans.

## UNDISCLOSED DEBTS

- If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.
- If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed letter of explanation from the borrower is sufficient.
- If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

## EMPLOYMENT

### EMPLOYMENT HISTORY

Unless stated otherwise under the related Program, employment must be stable with at least a 2 year history in the same job or in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years.

### FREQUENT JOB CHANGES

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

### GAPS IN EMPLOYMENT

- Borrowers should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24.



- Recent graduates and borrowers re-entering the workforce after an extended period are allowed, assuming they have been back to work for 6 months.
- Illness and childbirth are not considered as gaps in employment.

### WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

Income and employment for wage earners may be obtained via direct written verification from the borrower's employer (FNMA Form 1005).

- The verification should be signed by a member of the company's human resource department or one of the business owners or officers.
- At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary.

### VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all the following criteria:

- Completed within 10 business days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of the person processing the VVOE.
- Include the name, position and phone number of the person providing the verification (employer)
- The telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

When a VVOE is completed through a third-party vendor, because their databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the Note Date.

### VERIFICATION OF SELF-EMPLOYMENT

- For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 30 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:
  - CPA, regulatory agency, or applicable licensing bureau
  - Secretary of State listing reflecting current year registration
  - Verification of a phone and address listing using the Internet.
  - In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e., consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.

### FULL DOCUMENTATION

For all income sources, borrowers are qualified based on calculated stable monthly income. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

### **WAGE EARNERS (FULL DOC – FLEX SUPREME, FLEX SELECT AND SUPER JUMBO)**

Income must be verified with the following:

- 30 days of paystubs, 1 or 2 years W-2 or an electronic verification of employment, W-2 transcripts when an electronic verification of employment is not provided, and a fully executed and signed IRS Form-4506C.
  - Pay stubs and W-2s should be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
  - If pay stubs reflect garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.

### **WAGE EARNERS (FULL DOC – ITIN)**

Income must be verified with the following:

- Fully written verification of employment, signed IRS 4506C and 1 or 2 years Tax Transcripts.
- Providing documentation with a complete Social Security Number not belonging to the borrower will render the file ineligible for purchase.

### **WAGE EARNERS (FULL DOC – FOREIGN NATIONALS)**

Income must be verified with the following:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent)
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification).
- An unaffiliated certified translator must translate all documents.

### **IRS 4506-C TAX TRANSCRIPTS (FULL DOC)**

A signed IRS 4506-C must be completed and signed by all borrowers qualifying as full doc. The form must request the appropriate type of transcript based on the level of loan documentation (W-2s, tax transcripts, etc.).

One of the following is required:

- Wage earner's employment and income documented through a FNMA DU Validation Electronic Verification of Employment vendor (i.e., Blend, Equifax, Experian, Finicity, Truework), OR
- Transcripts executed for 1 or 2 years, depending on the qualifying doc type.

In the event the most recent years transcripts are not available, one of the following is required:

- The prior 1 or 2 years tax transcripts, OR
- All the following:

- The prior year's transcripts when qualifying as a two-year full documentation,
  - Copy of the e-filing certificate for the most recent year,
  - Proof the check cleared for any taxes due, or proof of receipt of the tax refund, and
  - Tax Transcript reflecting "No Record Found."
- The transcripts must be reviewed and compared to the qualifying income to confirm consistency. The results should be equal to or greater than the income used to qualify the loan. Any inconsistencies between the transcripts and the qualifying income should be addressed.

### SELF-EMPLOYMENT INCOME (S/E FULL DOC)

- FNMA Liquidity Test is not required.
- A borrower is considered self-employed with 25% or more ownership interest in a business.

### STABILITY AND CONTINUANCE OF SELF-EMPLOYMENT (S/E FULL DOC)

- Originators must verify the borrower's self-employment for the most recent consecutive two (2) full years in the same business.
  - See [Flex Select – Income Requirements](#) for options for certain borrowers self-employed between one (1) and two (2) years.
- It is considered acceptable when the self-employment business filing has changed (example: sole proprietorship to corporation), provided the business name and ownership percentage have remained the same and the business has been in existence for the most recent consecutive two (2) full years.
- Borrowers receiving 1099 income (filing as Schedule C or E) are eligible provided that the 1099 income is from the same source, covering the most recent two (2) full years.

### DOCUMENTATION REQUIREMENTS (S/E FULL DOC – NON-FOREIGN NATIONAL)

- Documents required include all of the following:
  - Tax returns (personal and business) for the most recent one or two years, including all schedules;
  - **If the tax return date is more than 120 days from the Note Date**, borrower signed and dated year-to-date profit and loss statement through the most recent month preceding the loan application;
  - Signed and processed IRS form 4506-C for tax transcripts;
  - Verification of the existence of the business within 30 business days of closing.
- If the borrower pays themselves a salary, one or two years of W2s should be provided.

### QUALIFYING INCOME (S/E FULL DOC – NON-FOREIGN NATIONAL)

- Qualifying income is determined from the Tax Returns, and the P&L is used to determine the stability of that income. The bank statements for the most recent two (2) months must reflect deposits that support the sales from the P&L and the qualifying income.
- When analyzing Tax Returns, the following may be added back to compute the qualifying income:
  - Depreciation
  - Depletion

- Business use of the home
- Amortization/casualty loss
- Nonrecurring losses: note that nonrecurring income must be excluded
- Net operating losses being carried forward from prior years

### **DOCUMENTATION REQUIREMENTS (S/E FULL DOC – FOREIGN NATIONAL)**

- Borrowers who have been self-employed for at least 2 years are eligible.
- The following items must be obtained:
  - Letter from a CPA providing income for the last 2 years and year to date earnings.
  - A copy of the Accountant's current license is required.
  - Self-employed business and CPA are to be independently verified (via Lexis Nexis, D&B international business search, google, or other means of verification).
- An unaffiliated certified translator must translate all documents.
- Verbal verification of employment is not required.

### **1099 INCOME (FULL DOC)**

- Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's schedule C.
- Documents required for determining income are:
  - Tax returns for the most recent 1 or 2 years, including all schedules; and
  - 1 or 2 years 1099s, and
  - Written VOE or paystub confirming year to date income if more than 90 days since the most recent 1099,
  - Signed and processed IRS form 4506-C (1099 transcripts); and
  - Verification of the employment within 30 business days of closing.

### **REDUCED DOCUMENTATION FOR SECONDARY BUSINESS**

Business tax returns, associated schedules, and profit and loss statements may be waived when all of the following requirements are met for Flex Select or Flex Supreme:

- Income/loss referenced on Tax Returns is generated from a secondary business that is not the borrower's primary income source; and
- Income/loss from each separate business is  $\leq 10\%$  of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements must be obtained. Discretion may be used whether or not to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

### **OTHER INCOME**

### **UNACCEPTABLE INCOME SOURCES**

- Gambling winnings (except lottery continuing for 5 years or more)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income

- Expense account reimbursement

## ANNUITY INCOME

Annuity income can be used for qualification when the following requirements are met:

- 12-month history must be verified using 1099s, tax returns, and/or bank statements
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.
- For annuity distributions from a 401(k) or pension. See [Pension/Retirement](#).

## AUTOMOBILE ALLOWANCE

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. The full amount of the allowance must be added to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

## BONUS AND OVERTIME

- Bonus and overtime can be used to qualify if the borrower has received the income for the past 2 years and it is likely to continue. An average of bonus or overtime income should be used, provided the income is consistent and increasing
- A written Verification of Employment (FNMA Form 1005 or Electronic Verification of Employment) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent 2 years.
- If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

## CAPITAL GAINS

- When income from capital gains is used to qualify the borrower, Tax Returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain is a one-time occurrence, it should not be considered when calculating income available.
- For the income to be considered stable and likely to continue, sufficient assets must be documented to show the borrower will continue receiving capital gains for a minimum of 3 years from note date. If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.
- In addition, if assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

## CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME

For child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.

- Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.
- Note: NQM Funding, LLC expects lenders originating loans for sale to NQM Funding, LLC to make appropriate disclosures, as required under the Equal Credit Opportunity Act, that child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

### COMMISSION INCOME

Commission earnings should be averaged over the most recent 2 years and require the following documentation:

- Most recent year-to-date pay stub reflecting the commission earnings; and
- W-2 forms covering the most recent 2 year period or a complete written Verification of Employment.

A borrower on their current job for less than 2 years with a minimum 2 year history of receiving commission in the same line of work may also qualify to use commission earnings.

- If there are large fluctuations, the borrower must provide a signed, written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a decline in earnings from one year to the next.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

### DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

- A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2 year period must be used and may not be averaged.

### DISABILITY INCOME

Long-term and short-term disability income can be used for qualification. The following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and there is no evidence the income is not likely to continue.
- A copy of the most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

- Signed letter from borrower stating intent to return to work once the disability no longer exists.



- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists.
- The letter must identify the borrower's position and rate of pay upon return. If the future employment income is less than the disability income, the lower income amount must be used to qualify for the loan.

In documenting disability income, lenders originating loans for sale to NQM Funding, LLC must not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

## **DIVIDEND/INTEREST INCOME**

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

- Document a two (2) year history of income, as verified by:
  - Tax Returns; or
  - Copies of the account statements

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should be averaged over the period verified when current earnings are consistent with historical dividend and interest earnings.

## **EMPLOYMENT BY A RELATIVE**

Income for borrowers who are employed by a relative must be verified with one of the following:

- Tax Returns for the most recent 2 years with transcripts or
- W-2s for the most recent 2 years with transcripts; and
- Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2 year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required.

## **FOREIGN INCOME**

Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Two years U.S. Tax Returns reflecting the foreign income
- Standard income stability and continuance requirements must be met.
- Standard documentation requirements apply based on the type of income.
- Income from sanctioned countries administered by OFAC is ineligible.

## **FORTHCOMING RETIREMENT**

- Any borrower presently employed but anticipating retirement within 3 years from note date must be evaluated upon the verified anticipated retirement income.
- Effective income for borrowers planning to retire (or end employment for other reasons) during the period must include the amount of documented retirement or other benefits to be

- received, Social Security payments, or other payments expected to be received in retirement.
- A combination of present earnings and future retirement income does not represent a supportable level of earnings.

### **FOSTER CARE INCOME**

- Income derived from foster care payments may be considered if there is a 2 year history of receipt and there is no evidence the income is not expected to continue.
- The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposits of the payments, or by providing Tax Returns for the most recent 2 years. The documentation received must clearly show the number of foster children involved, their ages, and length of care.
- Income must be averaged over the 2 year period and may not be considered for children who will reach the age of 19 within 3 years.

### **HOURLY WAGES**

Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history lookback period. If there is an indication of declining income, the current income is used instead of the average.

### **LUMP-SUM DISTRIBUTIONS**

Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source.

### **HOUSING ALLOWANCE**

- Housing allowance received can be considered income for qualifying the borrower.
  - Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income.
  - The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance.
  - Housing allowance is non-taxable income and can be grossed up for qualifying.

### **NON-TAXABLE INCOME**

- Non-taxable income can be grossed up by 25%.
  - Examples of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.
- Certain income types may contain both taxable and non-taxable income. Tax Returns may be required to accurately determine the non-taxable portion.
- Income may not be grossed up for calculating Residual Income.

### **NOTES RECEIVABLE INCOME**

Income from notes receivable can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 2 years and



can verify that the income will continue for at least 3 years from note on the new mortgage.

- A copy of the note confirming the amount, frequency and duration of payments is required along with Tax Returns for the most recent 2 year period (including Schedule B) or 12 months' bank statements showing consistent deposits of funds. Income from a recently executed note/contract (less than 12 months) may not be used as qualifying income.

## **PART-TIME/SECOND JOB INCOME**

Verification of a minimum history of two years from secondary employment is recommended, however income that has been received for at least one year may be considered if there are positive factors to offset the shorter income history.

## **PENSION/RETIREMENT**

Pension and retirement income must be verified with any of the following:

- Letters from the organization providing the income.
- Copy of retirement award letters.
- Tax Returns for the most recent 1 or 2 years
- W-2 forms or 1099 forms for the most recent 1 or 2 years
- Bank statements reflecting regular deposits for the most recent 2 months.

Proof of Continuance:

- If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.
- If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves.

## **PUBLIC ASSISTANCE**

Income from government assistance Programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

- The applicant must provide a copy of a benefits awards letter as evidence of eligibility.
  - This documentation must verify the amount of assistance, duration of payment and what portion, if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letters or copies of grant statements.
- Compliance with the requirements of the Equal Credit Opportunity Act and applicable state anti-discrimination laws is required.

## **RENTAL INCOME – FULL DOC**

### **RENTAL INCOME ON THE TAX RETURNS**

- When Tax Returns are used for qualifying, rental income should be calculated using the FNMA Cash Flow Analysis Method. When income is being qualified using two years, an average of income should be used unless the rental income is declining, in which case the most recent year's income should be used for qualifying.

- Cash Flow Analysis of Schedule E should be completed as follows:
  - Gross Rents and Royalties received:
    - Less total expenses
    - Plus Depreciation
    - Plus Insurance
    - Plus Mortgage Interest
    - Plus Taxes
    - Plus HOA fees (if included on Schedule E)
- Subtotal divided by 12 or 24 months depending on the doc type.
- Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
- Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.

### **RENTAL INCOME NOT ON TAX RETURNS**

In instances when Tax Returns are not provided in the loan file, rental income should be documented in the following manner:

- Evidence of borrower's ownership of the property
- For a refinance and/or to document rental income on other REOs:
  - Lease agreement
  - Two months bank statements demonstrating receipt of rental income.
  - Evidence the rental amount is at market rate, which can be documented via a 1007 or through an online source.
  - 75% of the rental amount on the lease is used for qualifying.
  - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
  - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.
- Rental income from a new property being acquired through a purchase transaction:
  - 75% of the appraiser's opinion of market rent on FNMA Form 1007 or Form 1025, as applicable
  - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt.
  - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss.
- Rental Income from a Departing Residence:
  - 75% of the rental amount on the lease if used for qualifying.
  - Evidence the rental amount is at market rate, which can be documented through an online source or a 1007.

### **SHORT TERM RENTAL (NON DSCR)**

Short Term Rental (STR) income received directly from a home-sharing service (such as Airbnb, VRBO, HomeAway) may be used for qualification when the following requirements are met on Full and Alt Doc loans

- Short Term Rentals are properties leased on either a nightly, weekly, monthly, or seasonal basis.
- All STRs require evidence from third party vendor (such as Property Guard, Vrolio or equivalent), validating that the governing municipality where the subject STR is located allows properties to be rented as a STRs; Rental Income Documentation Options:
  - Option 1: Lesser of 1007/1025 completed using either long-term or short-term market

rents.

- When the 1007/1025 is prepared with the use of short-term rentals, the appraiser is required to address the seasonality of the subject property Short Term Rental market in computing the market rent. If the appraiser fails to appropriately address for seasonality, gross rents should be reduced by a 50% vacancy.
- On a refinance, a screen shot of the online listing must show the property is actively marketed as a short-term rental.
- **Option 2:** 12-month lookback period to determine avg rents or annual or monthly statements from AirBNB or similar service.
- **Option 3:** Tax Return along with a Schedule E.

## RESTRICTED STOCK UNITS (RSU)

Restricted stock units (RSUs) are issued to an employee as a form of compensation based on either performance or time on the job. To be used as qualifying income, the restricted stock must have vested and been distributed to the borrower without restrictions.

### For performance-based awards:

- A minimum of 24 months history of restricted stock income from the current employer is recommended. Restricted stock income received from 12 to 24 months from the current employer may be considered acceptable if there are positive factors to offset the shorter income such as:
  - Future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or
  - Restricted stock income received from the previous 5 years from any employer.

### For time-based awards:

- A minimum of 12 months history of restricted stock income from current employer

Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered as eligible income until vested.

### RSU Documentation

- The following documentation is required:
  - Evidence that stock is publicly traded;
  - Current vesting schedule reflecting past and future vesting;
  - Brokerage or bank statement showing receipt of previous year(s) distribution of restricted stock and,
  - The number of vested shares or cash equivalent; and
  - A completed WVOE that shows restricted stock distributions, or the borrower's recent paystub and year end W2s or paystubs showing the stock distributions.

## SEASONAL INCOME

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

- A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers being rehired. Seasonal income should be averaged over a 2 year period.

## SOCIAL SECURITY INCOME

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, all the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

See also [Non-Taxable](#) Income above.

## TEACHER INCOME

Teachers are paid on a 9-month, 10-month or 12-month basis.

- The pay structure should be determined when calculating the monthly income.
- If uncertainty exists, the borrower may provide a copy of their contract or the school district's personnel office may provide verbal confirmation.

## TIPS AND GRATUITIES

Tips and gratuity income can be considered if receipt of such income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.). Income should be received for at least 2 years and documented as follows:

- Year to Date paystub, and
- 2 years W2s and W2 Transcripts, and
- Written Verification of Employment.

## TRAILING SPOUSE OR CO-BORROWER INCOME/RELOCATION

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is ineligible as qualifying income.

## TRUST INCOME

Trust income can be used for qualification as follows:

- Variable trust payments require a 24-month history of receipt and must be documented with Tax Returns.
- Fixed trust payments require either:
  - A minimum 12-month history of receipt; OR
  - A minimum of one payment received prior to closing provided:
    - The payments are fixed, AND
    - The borrower is not the grantor of the trust.

In either case, proof of current receipt of the income is required and must be documented with a current bank statement or equivalent documentation.

Continuance of the trust income must comply with standard income requirements:

- When trust income is derived from rental income, evidence of three-year continuance is not required.
- When the income is a fixed payment from a depleting asset, three years' continuance is required.

## UNEMPLOYMENT COMPENSATION

- Income derived from unemployment compensation is ineligible due to the limited duration of its receipt.
- Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction).
- The income can be used to qualify on with a 2 year employment history in the same field of work and a 2 year history of receipt of unemployment compensation. Income should be averaged over the period verified.

## VA SURVIVORS' BENEFITS/DEPENDENT CARE

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.

## ALTERNATIVE DOCUMENTATION (ALT DOC)

### COMBINATION OF OTHER INCOME SOURCES (ALT DOC)

- W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in [Wage Earners](#) along with a processed 4506-C verifying the W-2 earnings only.
- Rental Income: Borrowers using Bank Statement Documentation, who also receive rental income as a secondary source, are eligible to qualify using both sources of income. When considered, a 25% vacancy factor can be used with evidence of deposits of the rent and copies of the lease. The deposits must be verified through 2-month bank statements from a separate account other than the one used to calculate the self-employed income.

### BANK STATEMENT GENERAL REQUIREMENTS (ALT DOC)

Self-employed borrowers are eligible for either Personal Bank Statement Documentation or Business Bank Statement Documentation. The following restrictions apply to both documentation types:

Borrowers must be self-employed for at least 2 years; and the business must be existence for a minimum of 2 years as evidenced by a letter from either the business tax professional, regulatory agency or licensing bureau. For Flex Select, borrowers with less than 2 years as self-employed may be eligible under one of the following 2 options:

- Option 1:
  - Must be self-employed for a minimum of 18 months and must have a minimum of

- three (3) years prior experience in the same line of business.
  - See applicable restrictions below.
- **Option 2:**
  - Self-employed borrowers in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that has been in existence for less than two (2) years, but greater than one (1) year provided the borrower meets the following requirements:
    - Borrower has at least three (3) years of documented previous experience in the same profession, or
    - Evidence of formal education in a related field, and
  - See applicable restrictions below.
- **For Option 1 and Option 2, the following restrictions apply:**
  - Minimum 700 score
  - Max LTV of 80% Primary Residence 75% Second Home ; 70% for Investment Properties
  - Ineligible for Express(DU) or Super Jumbo
- For borrowers who are independent contractors and do not necessarily own their own business, they may be qualified using bank statement documentation and must follow the co-mingled accounts guidance. Evidence of filing tax returns and a Schedule C for 2+ years must be provided by their CPA / licensed tax preparer , as well as an Expense Factor and/or P&L supporting their expenses.
- See Calculating Qualifying Income for [Personal Bank Statements](#) and [Business Bank Statements](#) below for more detail.
- The Employment Section of the application must include a minimum of 2 years employment history.
- Non-Permanent Resident Aliens without U.S. Credit and Foreign Nationals are ineligible.
- Non-Profits and Not for Profits are ineligible.
- At least one of the borrowers must be self-employed.
- All borrowers are required to be account holders of the bank accounts throughout the 12 or 24 months being used to qualify.
- Verify the business is active and operating within 30 days of closing with either a phone listing and/or business address using directory assistance or internet search. In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e., consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.

**NOTE:** Tax returns and 4506-C are not required. If Tax returns and/or Transcripts are provided, the loan will be ineligible.

## BANK STATEMENT ANALYSIS

### **Requirements:**

- Statements must be consecutive and reflect the most recent months available.
- The most recent bank statement used for the Bank Statement Analysis must be within 90 days of the Note Date.
- All Programs using bank statements to qualify, in the event updated bank statements are provided to source additional assets and/or funds to close, the Bank Statement Analysis would not need to be updated to reflect those updated statements provided the statements in file

are not expired as of the note date.

- Transaction Histories are not acceptable in lieu of bank statements.
- Bank statements provided through a Fintech company working on behalf of the bank can be used provided the bank statement reflects the actual bank information, otherwise an internet search is required to confirm the relationship.
- Asset Statements received via a third-party asset verification vendor are acceptable as long as:
  - The information provided conforms to the information that would be provided on bank statements, and
  - Provider is an authorized FNMA DU Validation vendor. A list of approved vendors can be found at: <https://singlefamily.fanniemae.com/applications-technology/desktop-underwriter-validation-service/du-validation-service-verification-report-vendors>
- Statements must support stable and predictable deposits.
- Statements should show a trend of ending balances that are stable or increasing over time.
- Excessive declining income or negative ending balances may preclude the borrower from bank statement eligibility at underwriter's discretion.
- Any supporting documentation, such as a P&L statement used in conjunction with the bank statements, must align with the dates of the bank statements used for qualifying.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, See [Undisclosed Debts](#) for additional guidance.

#### **Deposits:**

- ATM deposits may be included if a consistent pattern of deposits is present.
- Large deposits greater than 50% of the average gross deposits over a 12 or 24 month period must be sourced or excluded.
- Deposits received directly from family members are considered non-business income and will be excluded.
- Deposits received from businesses owned by family members will be considered on a case by case basis.
- Decreasing or negative ending balances must be explained.
- Any deposit deemed non-business income will be excluded from the income analysis.
- Transfers from other accounts on personal/comingled account statements must be documented or excluded. Net transfers between accounts must be excluded when multiple accounts are used for qualifying.
- Transfers from other accounts on business account statements must be documented or excluded only if above the large deposit threshold, or if the deposits appear not to be business income (i.e., proceeds from a loan, online transfers from other accounts owned by the borrower, refunded expenses, tax refunds, another source of documentable income, etc.).
- Wire transfer deposits on personal account/co-mingled statements must be sourced as business income or excluded.
- Wire transfer deposits on business account statements must be sourced only if above the large deposit threshold, or if the deposits appear not to be business income (i.e., proceeds from a loan, refunded expenses, tax refunds, another source of documentable income, etc.).

#### **UNDERWRITING NSFS**

The borrower must satisfactorily explain NSF activity in the past 12 months. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility at underwriter's discretion.

- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered unless tied to Overdraft protection. NSF Fees associated with a pre-arranged link



to a savings account, line of credit, or when managed according to a banking institution's standard policy are acceptable when:

- **Overdraft protection from a depository/checking account:** Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
- **Overdraft protection from a line of credit:** Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
- **Overdraft protection as standard policy from a banking institution:** Occurrences may be excluded if the standard policy of the banking institution automatically provides clients with overdraft protection services that are not linked to another account, and the overdrawn transactions are paid in full and not returned as NSF on or after the transaction date.
  - Bounced check NSF fees are not considered when it's a customer's check that was returned.
- **Occurrences included in the analysis are subject to the following tolerances:**
  - An occurrence is defined as one or more checks returned the same day excluding customer checks that were returned. NSFS are reviewed for the past 12-month period only.
  - If there are two (2) or more occurrences in the most recent two (2) month period, up to five (5) occurrences are allowed in the most recent twelve (12) month period.
  - If there are zero (0) occurrences in the most recent three (3) month period, up to seven (7) occurrences in the most recent twelve (12) month period is acceptable.
- The Underwriter, at their discretion, may consider tolerance deviations outside of the above with a sufficient letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified. The underwriter will review the letter to ensure the explanation supports the viability of income and overall strength of the transaction.

## PERSONAL BANK STATEMENTS (ALT DOC)

Borrowers may provide either 12 or 24 consecutive months of personal bank statements.

The following documentation is required (See also [Bank Statement General Requirements](#)):

- 12 or 24 months complete personal bank statements from the same account
- Most recent 2 months of business bank statements if available. If a business account does not exist, see Co-mingled Accounts below.
- To consider allowing 100% of deposits, evidence of online transfer/check from the business account to the personal account must be evident.
- When using 100% of online transfer/check deposits going from the business account to the personal account, all other deposits are excluded.
- A pattern/history of deposits from the business account to the personal account must be established.
- When personal accounts are jointly owned and the other party is not an owner of the business and/or a borrower on the loan, all deposits not able to be readily identifiable as business income must be excluded.



## CALCULATING QUALIFYING INCOME

- Qualifying income using Personal Bank Statement Documentation is the sum of total eligible deposits divided by 12 or 24 months.
- Only transfers or deposits from the business account(s) are considered eligible deposits.

## CO-MINGLED ACCOUNTS

Co-mingled accounts are defined as a single account reflecting both personal and business expenses. Co-mingled accounts are considered a business bank statement from an Expense Methods standpoint as listed under the Business Bank statements section below.

## BUSINESS BANK STATEMENTS (ALT DOC)

Borrowers may provide either 12 or 24 consecutive months of business bank statements.

**The following documentation is required** (see also Calculating Qualifying Income below):

- 12 or 24 months complete business bank statements from the same account
- Multiple bank accounts may be used for multiple businesses.
- Multiple bank accounts may also be used if a borrower shows they closed the initial account to use another.
- Multiple bank accounts may be used for the same business, provided transfers amount accounts are excluded.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- Required Expense Statement Documentation applicable to Calculation Option chosen (see Calculating Qualifying Income below for requirements).
- Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income eligible for the transaction.
- Verification that borrower is minimum 25% owner of business:
  - Ownership percentage must be documented via Licensed tax preparer , CPA letter, Operating Agreement, or equivalent.
  - All non-borrowing owners of the business or the CFO, licensed tax preparer , or CPA for the company must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes.

## CALCULATING QUALIFYING INCOME

To calculate qualifying income using Business Bank Statement Documentation, choose one of the documentation options below applicable to the Expense Statement method chosen:

### OPTION 1: 50% EXPENSE RATIO

Qualifying Income is the monthly net income from deposits less the 50% expense ratio.

### OPTION 2: THIRD PARTY P&L EXPENSE STATEMENT

- Qualifying Income is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense ratio calculated by the P&L Statement provided by CPA or licensed tax preparer and divided by either 12 or 24 months.
  - Qualifying Income is the monthly net income from deposits less the P&L expense ratio (minimum 20%)

- Required P&L Documentation:
  - P&L Statement is used to calculate the expense ratio for a 12 or 24 month bank statement program.
  - P&L Statement must be signed and dated by the CPA / EA or PTIN licensed tax preparer or PTIN.
    - The individual who signs the P&L Statement must attest that they have prepared the borrower's most recent tax returns.

### OPTION 3: THIRD-PARTY PREPARED EXPENSE STATEMENT

Qualifying Income is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense ratio provided by CPA or licensed tax preparer and divided by either 12 or 24 months.

- The Expense Statement must be prepared and signed by a third party (CPA or licensed tax preparer) specifying business expenses as a percentage of the gross annual sales/revenue. The licensed tax preparer must attest they have either prepared or reviewed the borrower's most recent Tax Return
- A minimum 20% Expense Ratio is required.

### P&L PLUS 2 MONTHS BANK STATEMENTS (ALT DOC)

- 12 or 24 month P&L, prepared by CPA, EA, or PTIN licensed tax preparer.
- Minimum of 2 months business or comingled bank statements are required to support income.
- The P&L must be dated within 90 days of the application date.
- CPA/EA / PTIN Licensed tax preparer must attest to the fact they have prepared the borrower's most recent Tax Returns.
- Qualifying income is the monthly net income from the P&L divided by the number of months covered by the P&L. The monthly gross revenue from the P&L must be supported by the bank statements provided. The total monthly average deposits from the bank statements, minus any disallowed deposits, must be no more than 20% less than the monthly gross revenue on the P&L.
- Depreciation, depletion and amortization/casualty losses listed on the P&L may be added back to the applicant's income.
- When evaluating the P&L, the expenses are expected to be at least 20% of gross revenue. In the event less than 20% is reflected in expenses, the net income will be adjusted to reflect a 20% expense level when qualifying.

### P&L ONLY (ALT DOC)

- For Wholesale loans, a verbal verification is required prior to closing.
- 12 or 24 month P&L prepared and signed by CPA/EA or PTIN licensed tax preparer .
- The P&L must be dated within 90 days of the application date.
- CPA/EA / PTIN licensed tax preparer must attest to the fact they have prepared the borrower's most recent tax returns.
- Qualifying income is the monthly net income from the P&L divided by the number of months covered by the P&L.
- Depreciation, depletion and amortization/casualty losses listed on the P&L may be added back to the applicant's income.
- When evaluating the P&L, the expenses are expected to be at least 20% of gross revenue. In the event less than 20% is reflected in expenses, the net income will be adjusted to reflect a 20% expense level when qualifying.

## CPA/TAX PREPARER'S VERIFICATION

Tax Preparers must have a PTIN Number when available. If the state does not require a PTIN Number, it must be from a verifiable 3rd party tax preparer (verified by a business through the internet or state website). This applies to all instances where a tax preparer is permitted.

CPA license verification must be completed through an online search such as <https://cpaverify.org/>. If unable to verify online, sufficient documentation must be provided to validate the license.

## IRS FORM 1099 (ALT DOC)

1099 Income documentation eligibility is limited to individual borrowers being paid via a 1099 who are not the business owner of the entity issuing the 1099. Self-employed borrowers who are business owners paying their earnings via a 1099 are not eligible for this income documentation type.

### Documentation Requirements:

- Provide one of the following when the 1099 is > 90 days from the Note Date:
  - Evidence of year-to-date earnings via YTD bank statements,
  - A printout of YTD wages from their employer/employers, or
  - The NQM Funding, LLC VOE (or similar form) with YTD income completed by each employer

### Qualification:

- A 10% automatic expense ratio will apply when the 1099 is paid to the borrower individually.
- In the event the 1099 is paid to the borrower's business, the loan may be considered, however an Expense Letter from the borrower's CPA/ EA / PTIN licensed tax preparer is required to determine the qualifying income.

## ASSET UTILIZATION (ALT DOC)

### QUALIFIED ASSETS

Qualified Assets can be comprised of publicly traded stocks, bonds, mutual funds, vested amount of retirement accounts and bank or investment accounts.

- Three (3) months' seasoning of all assets is required (Three most recent and consecutive statements).
- All individuals listed on the asset account must be on the note and mortgage.
- Assets held in the name of a business are not eligible to be used for the asset utilization calculation.
- Asset statements utilized for asset utilization cannot be used to document any other income source.

Assets held in a trust are eligible if the following requirements are met:

- If the funds are held in a revocable trust, the borrower is the trustee.
- If the funds are held in an irrevocable trust, the borrower is the beneficiary and the borrower has immediate access to the assets of the trust.

### Qualified Assets:



The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the value of publicly traded stocks & bonds
- Vested Retirement Accounts:
  - 70% for Borrowers 59 ½ or older
  - 60% for Borrowers < 59 ½
- Certificates of Deposits calculated at 100% of the pre-maturity surrendering value of the CD, minus any penalty that has been accumulated upon early withdrawal.

#### Ineligible Asset Sources:

- Business assets
- Unseasoned foreign assets
- College savings accounts i.e., 529 plans
- Proceeds from sale of real estate not seasoned 3 months
- Privately traded or restricted/ non-vested stocks
- Assets which produce income already included in the income calculation.
  - See related Program Guides for details

### **NET QUALIFIED ASSET CALCULATION**

- Qualified assets less funds used for down payment, closing costs, and prepaids, when used as the sole source of income.
- Qualified assets less funds used for down payment, closing costs, prepaids AND reserves, when used as supplemental income.

#### DTI Calculation for Flex Supreme and Flex Select:

- When the DTI without Asset Utilization is  $\leq 60\%$ :
  - Monthly Income Calculation = Net Qualified Assets / 36 Months
- When the DTI without Asset Utilization is  $> 60\%$  or when the borrower's entire income is comprised of income from assets:
  - Monthly Income Calculation = Net Qualified Assets / 60 Months

#### DTI Calculation for ITIN and Foreign National:

- Monthly Income Calculation = Net Qualified Assets / 60 Months
- Additional Requirement for Foreign National:
  - Borrower must have the lesser of the below net of down payment, closing costs and reserves:
    - 1.5 times the loan balance OR
    - \$1,000,000

#### DTI Calculation for Super Jumbo:

- Monthly Income Calculation = Net Qualified Assets / 84 Months

### **WRITTEN VERIFICATION OF EMPLOYMENT (WVOE) (ALT DOC)**

- WVOE – FNMA 1005 completed with the past 2 years of income/employment. The form must be completed by Human Resources, Payroll or an Officer of the Company.
- Verification of delivery and receipt of the FNMA Form 1005 must comprise the following form of documentation: Physical mail, Fed-Ex, facsimile, or email communication. Physical mail, Fed-Ex, and facsimile must come directly from the employer's address. Email communication must properly identify the Company representative.

- Two (2) most recent months of bank statements reflecting deposits from the employment verified via the WVOE in both statements. The deposits must support at least 65% of the gross wages reflected on the WVOE.
- One-year history with the same employer with minimum two (2) years in the same line of work.
- Minimum credit score of 680.
- 0x30x12 housing history is required; borrowers without a housing history must qualify under a different documentation type.
- Primary Residence Max 80% LTV; Second Homes and Investment Property Max 75% LTV.
- Maximum loan amount of \$1,500,000
- Family members or related individuals may not employ borrowers.
- W2s, Tax Returns, Paystubs, 4506-C are not required.

## RESIDUAL INCOME

As noted in the Program requirements, minimum residual income thresholds apply to HPML loans or when the DTI is > 43% on Primary Residence and Second Homes only using the following calculation:

$$\text{Residual Income} = \text{Gross Monthly Income} - \text{Total Monthly Obligations}$$

The initial 1003 should reflect the number of members in the household for all borrowers on the transaction.

Number of Household Members	Minimum Residual Income*
1 Person	\$1,500
2 People	\$2,500
For each additional household member	\$150

**\*Instructions for using the Household Members table above:** For the household member count, include all related and unrelated members of the household who depend on the borrower(s) for support.

## RATIOS AND QUALIFYING – FULL AND ALT DOC

### DEBT TO INCOME RATIO (DTI)

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income. The maximum DTI varies by Program and can be found on the applicable matrix.

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues, including Mandatory Membership Dues
- Any subordinate financing payments on mortgages secured by the subject property.

## NON – QM PRODUCT TERMS

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over terms listed below. For example, a 40-year loan with a 10-year-interest only period would be qualified with the 30-year amortizing payment.

PRODUCT	QUALIFYING RATE*	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
<b>5/6 ARM</b>	Higher of Fully indexed or Note Rate	360	N/A	360	30-day avg SOFR	2/1/5
<b>5/6 ARM I/O</b>	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	2/1/5
<b>5/6 ARM I/O</b>	Higher of Fully indexed or Note Rate	480*	120	360	30-day avg SOFR	2/1/5
<b>7/6 ARM</b>	Note Rate	360	NA	360	30-day avg SOFR	5/1/5
<b>7/6 ARM I/O</b>	Note Rate	360	120	240	30-day avg SOFR	5/1/5
<b>7/6 ARM I/O</b>	Note Rate	480*	120	360	30-day avg SOFR	5/1/5
<b>15 YR FIXED</b>	Note Rate	180	N/A	180	NA	NA
<b>30 YR FIXED</b>	Note Rate	360	N/A	360	NA	NA
<b>30 YR FIXED I/O</b>	Note Rate	360	120	240	NA	NA
<b>40 YR FIXED **</b>	Note Rate	480	N/A	480	N/A	N/A
<b>40 YR FIXED I/O</b>	Note Rate	480*	120	360	NA	NA

\*Buydowns: Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown)

\*\*40 Year fixed:

- The borrower qualifies with a DTI of below 50% calculated using the payment under a 40-year amortization, and
- The borrower qualifies with a DTI of below 55% calculated using the payment under a 30-year amortization.

## SECOND LIEN SELECT SENIOR LIEN QUALIFYING TERMS

- When the new loan is a Stand Alone 2<sup>nd</sup> and the existing 1<sup>st</sup> is an Interest Only, qualify using the IO payment to a max DTI of 45%
- For 1<sup>st</sup> lien ARMs with < 3 years fixed period remaining are to be qualified using the fully indexed payment.

## DSCR PRODUCT TERMS

The DSCR PITIA is computed using interest only payment, taxes, insurances and association dues based on the qualifying terms described below.

PRODUCT	QUALIFYING RATE*	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
<b>5/6 ARM</b>	Note Rate	360	N/A	360	30-day avg SOFR	2/1/5
<b>7/6 ARM</b>	Note Rate	360	NA	360	30-day avg SOFR	5/1/5
<b>15 YR FIXED</b>	Note Rate	180	N/A	180	NA	NA
<b>30 YR FIXED</b>	Note Rate	360	N/A	360	NA	NA
<b>30 YR FIXED I/O</b>	Note Rate	360	120	240	NA	NA
<b>40 YR FIXED *</b>	Note Rate	480	N/A	480	N/A	N/A
<b>40 YR FIXED I/O</b>	Note Rate	480*	120	360	NA	NA

\*If applicable, Buydowns: Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown).

## DSCR RATIOS AND RENTAL INCOME REQUIREMENTS – I-4 UNIT RESIDENTIAL

### DSCR RATIO

- DSCR Ratio Calculation:
  - DSCR Ratio = Short or Long Term Gross Rental Income / PITIA Fully Amortizing or ITIA (for IO Loans).

### LEASE AND OCCUPANCY REQUIREMENTS – DSCR SUPREME AND INVESTOR DSCR

General Requirements:

- For all purchase transactions, it is acceptable for property to be vacant; gross market rents from the 1007 / 1025 will be used.
  - If the property is currently tenant occupied, the 1007/1025 must reflect the terms of the current lease
- All refinance transactions require the property to be leased. Vacant property is not eligible except for:
  - Properties leased through short term rental agencies; or
  - With evidence that property has been recently rehabbed and is currently listed for rent. Or
  - Delayed financing.
- Property cannot be occupied by the borrower(s), any member of the borrower's LLC or any family member.

### SHORT TERM RENTALS – DSCR SUPREME AND INVESTOR DSCR

Short Term Rentals:

- Defined as properties leased on a nightly, weekly, monthly, or seasonal basis.
- Min DSCR >= 1.15



- Max LTV: Lesser of 75% or the Matrix LTV/CLTV
- Evidence is required from a third party vendor (such as Property Guard, Vrolio or equivalent) validating that the governing municipality where the subject property is located allows properties to be rented as STRs.
- 1007/1025 or Alternative Short Term Rental Analysis developed by an AMC is required, regardless of how the STR income is computed.

#### Short Term Gross Rental Income Options:

- 1007/1025 or
- Alternative Short Term Rent Analysis form developed by an AMC or
- 12-month look back on rents received using bank statements or third party rental statements.
- When using the 1007/1025 or alternative Short Term Rent Analysis, the market rents must account for the seasonality of the subject property's rents.

#### Geographic Restrictions:

- Not permitted in the five (5) New York City Boroughs.

### LONG TERM RENTALS – DSCR SUPREME AND INVESTOR DSCR

#### Monthly gross rents are calculated as follows:

- If using the lesser of market rents or the lease, nothing further is required
- If using a higher lease amount, evidence of 2 months of receipt is required, and the lease must be within 120% of market rents. If the actual rent exceeds 120% of the market rents, the rents are capped at 120%.
- If using a higher estimated market rent from the 1007/1025, it must be within 120% of the lease amount. If the estimated market rent exceeds the lease by more than 120%, the estimated market rent is capped at 120%.

#### Refinance:

- FNMA 1007/1025 required, along with one (1) of the following:
  - Executed lease with no less than 1 month remaining at the time of closing for all units in the subject property
    - Month to month tenancy is not subject to this requirement with sufficient evidence to support continuance, such as a signed extension letter, bank statements to support deposits, or 1007/1025 which includes a review of the current lease(s) confirming month to month.
  - Evidence property is listed for rent for delayed financing and/or recently renovated properties.

### NO RATIO RENTAL INCOME REQUIREMENTS

- For purchase transactions, it is acceptable for the property to be vacant.
- Vacant properties on a refinance are not eligible.
- If the property is currently tenant occupied, the 1007/1025 must reflect the terms of the lease.
- Gross market rents are calculated using the lesser of the lease amount or market rents from the 1007/1025.
- A copy of the lease is not required.
- Property cannot be occupied by the borrower(s), any member of the borrower's LLC or any family member.
- Short term rentals are ineligible.



## MIXED USE AND MULTI 5-10 UNIT RENTAL INCOME REQUIREMENTS

### RENTAL INCOME REQUIREMENTS

- Use lower of Estimated market rent or lease agreement on a refinance.
- Purchases use the estimated market rent.
- For leases that have converted to month-to-month, provide 2 months bank statements to support rental income.
- Reduce qualifying rents by any management fee reflected on the appraisal report.
- 2-8 Units Mixed Use:
  - Income from commercial space must not exceed 49% of the total property income.

### LEASE REQUIREMENTS

- For Purchase, Rate & Term Refinance and Cash-Out transactions, all units must be either leased or in lease ready condition meaning the properties have been cleaned, no renovations or repairs to the properties are needed and the properties are immediately available to be leased to an eligible tenant.
- On purchase transactions, copies of the leases are not required.
- Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of two months or the period after the lease expired.
- Corporate lease agreements are acceptable with lease terms consistent with typical market standards and will be subject to standard market rent verification.
- Lease agreements that allow single room occupancy or boarder leases are not permitted.
- Short term rentals are not permitted.
- Third party sale and leaseback agreements or contract for deed transactions will not be permitted.
- All leases must be in U.S. Dollars.

### OCCUPANCY REQUIREMENTS

- Vacant Unit(s) – Use 75% of the market rents to qualify.
  - Max 1 vacancy on a 2-3 Unit property.
  - Max 2 vacancies on a 4+ Unit property.
  - On a purchase, a max of 3 vacancies is permitted on a 7+ unit property.
- Must provide evidence vacant units are activity listed for rent or have a recently executed lease in place.
- All units must be in lease-ready condition.

### ELIGIBLE TENANTS

- Neither the borrower(s) nor the borrower's immediate family shall at any time occupy the residential units.
- Borrowers must attest that all residential tenants are non-borrower affiliated.
- Commercial units may be occupied by the borrower's business, however in that instance the lesser of market rents or the amount of rent from the lease will be used when calculating the DSCR for the borrower occupied units.

## ASSETS

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff, and applicable reserves. A borrower's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances. Assets must be dated within 90 days of the note date.

### ASSET DOCUMENTATION

Assets required for down-payment, closing costs and reserves may be documented as follows:

- One-month account statement, or most recent quarterly statement. Statements must include:
  - Opening and closing balances
  - Borrower listed as account holder
  - Account number
  - Statement date and period covered
  - Current balances in U.S. dollars
- Written Verification of Deposit, completed by the financial institution.
- Accounts verified using a FNMA approved third-party vendor.
- Non-Borrowing parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also [Spousal Accounts](#).
- Large deposits, defined as > 50% of the total gross income for all borrowers, must be documented on Full and Alt Doc purchase transactions when personal accounts are used.
- Large deposits are not required to be sourced on refinances or DSCR transactions.
- When using bank statements for income, large deposits must be documented in accordance with the [Bank Statement Analysis Requirements](#).

Note: All pages of any statements provided for Asset Documentation are required. Summaries will not be accepted.

### BUSINESS ASSETS

Business assets are eligible as follows:

- Unless required by the related Program, the borrower must have minimum 25% ownership and must be an owner on the business account.
- The balance of the business assets must be multiplied by the borrower's ownership percentage of the business unless the other business owners provide a letter stating the borrower has full access to the funds. In that instance, 100% of the funds may be used.
  - Borrower ownership is to be documented via a CPA letter, Operating Agreement or equivalent.

### FOREIGN ASSETS

Foreign Assets may be verified from a letter of reference on company letterhead from a verifiable banking institution. Contact information for the person signing the letter must be provided, and the letter must state the type of relationship, length of the relationship, how accounts are held and the current balance. An unaffiliated certified translator must translate all documents.

Foreign Assets may be used for down payment, closing costs, and reserves.

- If the borrower has a valid Social Security (SSN) all funds required for down payment, closing costs, and reserves must be seasoned for 30 days.
  - If the borrower does not have a valid SSN (i.e., ITIN or Foreign National using foreign

- assets), 60 days' seasoning is required.
- o Foreign assets deposited into a U.S. institution within 60 days of application is acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides.
- o It must also be established that the funds belonged to the borrower before the date of transfer.
- Assets required for closing (down payment and closing costs) must also be seasoned in a U.S. depository institution for 10 days prior to closing or wired directly to the closing agent (a foreign bank that is in the U.S. e.g., RBC is considered in a U.S. Depository).
- Assets required for reserves:
  - o The funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained.
  - o Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance.

## OTHER ASSETS

### BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, publicly traded stocks and/or bonds, and 401(k) accounts.

- The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.
- The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).
- If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

### CERTIFICATE OF DEPOSIT (CD)

Certificates of Deposits are eligible for closing costs, reserves, or asset utilization subject to the following guidance:

- Value to be calculated at 100% of the pre-maturity surrendering value of the CD, minus any penalty that has been accumulated upon early withdrawal.

### COLLEGE SAVINGS ACCOUNT – 529 PLAN

Typically, a 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account, and the account is revocable.

- A copy of the plan is required to ensure it is a savings plan, and not a prepaid tuition plan. 529 accounts may be used to satisfy reserve requirements at 60% of the value.

## CRYPTO CURRENCY

Crypto Currency – such as Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves.

### **Down payment and Closing Costs**

- Must be liquidated and deposited into an established U.S. bank account.

### **Reserves**

- Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings.
- Current valuation, within 30 days of the loan note date, can only be determined from the Coinbase exchange.
- 60% of the current valuation will be considered eligible funds.

Note: Crypto Currency is not accepted as a Qualified Asset for Asset Utilization.

## EARNST MONEY/CASH DEPOSIT ON SALES CONTRACT

If earnest money is needed to meet the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source. Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check.
- Certification from the deposit holder acknowledging receipt of funds.
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit.
- If funds were given over 12 months ago per the sales contract, then an escrow letter will suffice for sourcing of any funds given greater than 12 months from the closing date.

If the earnest money check has cleared the bank, bank statements should cover the period up to and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with a processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

## EMPLOYER ASSISTANCE

Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage or deferred payment second mortgage or unsecured loan, and shared appreciation down payment assistance are permitted. Funds must come directly from the employer, may be used for down payment / closing costs subject to minimum Borrower contributions, may be used for reserves except for unsecured loans and are only eligible for Primary Residence. Any obligation for the borrower that arises from receipt of this assistance must be included in qualifying the borrower.

### **Documentation Requirements:**

- That the Assistance 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).

## **GIFT FUNDS**

### **Gift Funds are acceptable as follows:**

- For Primary Residence and Second Home loans:
  - Max LTV per the matrix permitted with 5% minimum borrower contribution for an Owner Occupied Property or 10% for a Second Home on Flex Supreme, Flex Select and Select ITIN.
  - Max LTV per the matrix permitted with 20% minimum borrower contribution on Super Jumbo.
  - 100% gift funds are eligible for downpayment and closing costs on Flex Select, and Flex Supreme using Full or Alt Doc up to a maximum of 80% LTV.
  - 100% gift funds are eligible for downpayment and closing costs on Select ITIN to a maximum of 75% LTV.
- For Investment Properties:
  - Max LTV per the matrix permitted with a 10% minimum borrower contribution.
- Funds from a spouse or domestic partner are not considered gift funds. See [Spousal Accounts](#) for additional criteria when using funds held solely in the name of a spouse.
- Maximum loan amount of \$1,000,000 on a Foreign National when gift funds are used.

### **Gift Requirements**

- Gift funds can be used for down payment and closing costs.
- Gift funds may not be used to meet reserve requirements, with the exception of Foreign National loans.
- Gifts from a business account are eligible provided:
  - Borrower owns 100% of the business and
  - A letter from the CPA that states that the use of funds will not negatively impact the business.
- Gift funds for the purpose of paying off or reducing debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.

### **Eligible Gift Donors**

A gift can be provided by:

- A relative, defined as an individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

### **Gift Documentation Requirements**

A signed gift letter is required to with the following information:

- Donor's name, address, phone, and relationship to borrower (donor must be a relative, spouse or domestic partner); and
- Dollar amount of gift; and
- Donor's statement that no repayment is expected.

### **Verifying Donor Ability and Transfer of the Gift Funds**

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip.
- Copy of the donor's withdrawal slip and the borrower's deposit slip.
- Copy of the donor's check to the closing agent.
- Evidence of wire transfer from donor to borrower
- Settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

## GIFT OF EQUITY

Gifts of equity can be used for down payment or to pay closing costs (including prepaid items).

### Requirements

- Primary Residence transactions only.
- Borrower contribution is not required.
- Six (6) months of reserves required of borrower's own funds.
- Signed Gift of Equity letter containing the following:
  - Donor's relationship to Borrower, (Gift of equity must be from immediate family member).
  - Indicate that the gift is being provided in the form of a gift of equity.
- All liens on title to be paid in full and reflected on the settlement statement.
- Gift of equity must be listed on the settlement statement.
- The gift of equity is not subject to interested party contributions.
- All Non-ARMS length requirements must be met.

## INTERESTED PARTY CONTRIBUTIONS

MAXIMUM CONTRIBUTIONS – FIRST LIEN AND PIGGYBACK SECOND LIEN		
Occupancy	LTV	Max %
Primary Residence and Second Homes	≤ 75%	9%
	75.01% - 90%	6%
Investment Properties	ALL	6%
<i>Note: Percentage is based on of the lower of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.</i>		

- IPCs not permitted on Stand Alone Second Liens

Sales concessions include:

- Financing concessions more than the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded).

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

## LIFE INSURANCE

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

- If the funds are needed for the down payment or closing costs, sellers must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.
- If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.
- Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves.
- If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio.
- If additional obligations are indicated, the amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

## NET PROCEEDS FROM SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final signed settlement statement verifying sufficient net proceeds must be obtained.

## RENT CREDIT FOR LEASE WITH PURCHASE OPTION (RENT TO OWN)

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See [Lease with Purchase Option](#) for full requirements.

### **Required Documentation**

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rents as determined by the subject property appraisal.

## RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment.

status.

- If the retirement assets are in the form of publicly traded stocks, bonds, or mutual funds, the account must meet the requirements of [Stocks, Bonds, and Mutual Funds](#) for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.
- If the borrower intends to use the retirement account to also satisfy income requirements. See also [Proof of Continuance](#).

## SALE OF PERSONAL ASSETS

Proceeds from the sale of personal assets are an acceptable source of funds for down payment, closing costs, and reserves, provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction.

The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source.
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.

## SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in [Asset Documentation](#).

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements unless the spouse is also on title.

## STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- A statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price.

## STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of publicly traded stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.

- When used for the down payment or closing costs, if the value of the asset is at least 20% more than the portion of the amount of funds needed from the stocks, bonds, or mutual funds for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.



- When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

## TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, both of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

See [Trust Income](#) if trust is also being used as a source of income to qualify the borrower.

## UNACCEPTABLE FUNDS

- Cash-on-hand
- Custodial accounts that are irrevocable trusts like Uniform Transfer to Minor Act (UTMA)
- Down Payment Assistance (DPA) programs
- Gift or grant funds which must be repaid
- Sweat equity
- Section 8 Voucher Assistance
- Unsecured loans or cash advances

## RESERVES

Reserves are measured by the number of months of housing expense a borrower can pay using his or her financial assets. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

- Net proceeds from cash-out transactions can be used to meet the reserve requirements.
- Gift funds may only be considered as reserves for Foreign Nationals.
- 1031 Exchange funds cannot be used towards reserves.

Reserves from a person that is party to the transaction are not considered a gift. They must be on the Contract and Title on a purchase and must be on Title at time of application for a refinance.

See related Program Matrices for eligibility.

## APPRAISALS

### APPRAISAL REQUIREMENTS

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The client is responsible for all the following:

- Ensuring the accuracy and completeness of the appraisal and its assessment of the

- marketability of the property
- Reviewing the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.
- Loans originating from the Wholesale or Retail channels should refer to the Appraisal Policies and Procedures for further guidance.

### EXCLUSIONARY LIST

- Appraisals from an appraiser or Appraisal Firm on the NQMF Exclusionary List are not permitted. Please refer to the NQMF Ineligible List on the portal.

### APPRAISAL INDEPENDENCE POLICY STATEMENT

It is the policy of NQM Funding, LLC to comply with all the requirements of the Appraiser Independence Policy provisions of Dodd-Frank as adopted by Fannie Mae, Freddie Mac, and the mortgage industry in general. NQM Funding, LLC, will only accept appraisals completed by appraisers who are properly licensed or certified in the state in which the property is to be appraised is located.

- Appraisal orders may not contain any estimated or requested value.
- Comparable sales may not be suggested to the appraiser.
- The appraisal must be ordered online through the appraisal company's website, with proof of same retained in the e-loan file.
- Appraisal order date may NOT be prior to initial signed dated borrowers Application and "Intent to Proceed" issued with the initial application and disclosure package.
  - The Intent to Proceed is not required to be completed on a business purpose loan prior to appraisal ordering.
- A copy of the appraisal is required to be sent to the borrower on all loans regardless of whether the loan is closed, canceled, or denied. Borrowers must receive a copy of their appraisal within 3 business days of the time it is delivered to the lender from the appraisal management company and/or appraiser.
- Except for when transferred appraisal is provided, Retail and Wholesale Appraisals are to be ordered through the NQM Funding, LLC appraisal desk.
- Correspondents are responsible for ensuring appraisal orders through their approved AMCs or fee panel appraisals comply with the Dodd-Frank Appraisal Independent Policy.



- The AMCs are responsible for ensuring that appraisers selected are fully licensed, insured and meet all NQM Funding, LLC requirements.
  - Any noted aberrations or concerns are referred to the AMC for discussion and resolution, which can result in removing appraisers from being eligible to perform for NQM Funding, LLC.

## APPRAISER QUALIFICATIONS

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The seller may choose to use an appraisal management company; however, the seller must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal if the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment.

## ELECTRONIC SUBMISSION OF APPRAISAL REPORT

Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

## REQUEST FOR APPRAISAL RECONSIDERATION

If there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file, Corporate Appraisal Management will review and may authorize a second appraisal order in cooperation with Underwriting Management.

The *Appraisal Reconsideration Form* (located on the Intranet under Forms) must be completed and submitted with any documentation via email to the Appraisal Management Area.

AMCs have their own Reconsideration Form, and the appropriate form must be used if a dispute is being requested for any appraisal ordered through an AMC.

## AGE OF APPRAISAL AND APPRAISAL UPDATES

#### Residential Appraisal (1-4 Units)

- The appraisal must be dated within 365 days of the Note date. A recertification of value is required if the report exceeds 120 days of the Note Date. See the [Appraisal Report Requirements](#) section for details.

When an appraisal report will be more than 4 months old (120 days) on the date of the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), a photograph of the front of the subject property must be included.

- If the appraiser indicates on Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork.

The original appraiser should complete the appraisal update; however, sellers may use substitute appraisers. When substitute appraisers complete updates, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The seller must note in the file why the original appraiser was not used.

#### Commercial Appraisal (5-10-units Multi-family or 2-8-units Mixed-Use)

Appraisals dated fewer than 120 days prior to the Note date are acceptable. After 120 days, a new appraisal is required.

### APPRAISAL TRANSFER POLICY

Transferred appraisals on wholesale transactions are only allowed when the client has received approval from NQM Funding, LLC. To ensure compliance with the Appraiser Independence Requirements, the following items are required for consideration:

- Evidence appraisal was ordered according to Appraisal Independence Requirements,
- Appraisal Invoice along with proof of payment unless being paid through closing,
- Transfer Letter, signed by an employee of the transferring lender who is not in a production capacity (i.e., Loan Officer, Loan Officer Assistants, etc. are not eligible to sign the transfer letter),
- SSRs, and
- MISMO .XML format of the full appraisal including color photos.

Transferred Appraisals are fully reviewed by underwriting, which may still reject the appraisal if not deemed acceptable.

#### **Unacceptable Transfers:**

- Double Transfers or Beyond: Appraisals that have been transferred more than once (e.g., Lender A > Lender B > NQM Funding, LLC) will not be accepted
- Subject to appraisals
- Expired Appraisals
- Mixed/Multi (5-10 Unit) Appraisals



NQM Funding, LLC will transfer appraisals out upon request on denied or withdrawn loans, and will provide appropriate documentation, AIR certs and transfer letters as needed.

## APPRAISAL REPORT REQUIREMENTS

### APPRAISAL REQUIREMENTS 1-4 UNIT RESIDENTIAL

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form for One Unit Properties (FNMA Form 1004)
- Small Residential Income Property Appraisal Report for 2-4 Unit Residential Properties (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (when updates are needed for 1-4 Unit Residential Properties FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit Investment Properties when rental income is used to qualifying (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all Investment Properties (FNMA Form 3170)

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condominium project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data such as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparable used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.
- A copy of the appraiser's Errors and Omissions Insurance Policy, valid as of the date of the appraisal report, must be included with the appraisal unless confirmation is obtained from the AMC that a copy is on file with them.

## APPRAISAL REQUIREMENTS MIXED AND MULTI 5-10 UNIT

### APPRAISAL REPORT REQUIREMENTS

#### Residential 5-10 units:

- FHLMC 71A
- FHLMC 71B for loan amounts < \$750,000
- Narrative report

#### Mixed Use 2-8 units:

- FHLMC 71A
- FHLMC 71B for loan amounts < \$750,000
- General Purpose Commercial Form (ex. GP Commercial Summary Form)
- Narrative Report

#### The following are required with each report:

- Full interior inspection of each unit
- Rent roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Appraiser's qualifications

### PROPERTY REQUIREMENTS

- Commercial Unit Requirements:
  - For properties with less than 5 units, at least one must be commercial
  - 2-3 Units: Max 1 commercial unit
  - 4-5 Units: Max 2 commercial units
  - 6-8 Units: Max 3 commercial units
  - Commercial space does not exceed 49% of the total building area
  - Commercial space limited to the first floor only
- Residential or commercial zoning acceptable
- Rural properties are not permitted
- No fair or poor ratings
- No environmental issues such as storage of hazardous materials, such as dry cleaners/laundromats
- No health or safety issues as noted by the appraiser such as broken windows, stairs, etc.
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance such as foundation, plumbing, roof, electrical, etc.
- Must be accessible and available for year round use
- Property usage must represent highest and best use
- Minimum 400 square feet per unit
- Each unit must contain a full kitchen and bathroom

### PROHIBITED PROPERTY USE

Properties that contain one or more commercial establishments in any of the following businesses are prohibited:

- Adult activities (including bars where food is not served and/or any establishment where one must be an adult to enter)
- Any activity not permitted by law, ordinance, or regulation.
- Day care or childcare.
- Gambling activities.
- Manufacturing, distribution, and warehouse.
- Marijuana related activities.
- Medical activities not under the supervision of a licensed doctor, dentist, chiropractor, psychologist, nurse practitioner, or nutritionist.
- Transient boarding, rooming house or similar.
- Vehicle repair or vehicle related, including storage.
- Dry cleaners or laundromats.
- Other property uses outside of character for the neighborhood in which the property is located, which present higher than ordinary risks for safety, or which are controversial within their community.

## SECOND APPRAISAL REQUIREMENTS

Second appraisals are required as follows:

- For residential 1-4 unit properties with a loan amount > \$2,000,000
- For Mixed and Multi 5-10 unit properties with a loan amount > \$2,000,000 when Form 71A or Commercial Narrative report is not provided
- An HPML subject to the [Flipping Provision](#)
- As required based on the [Appraisal Review Process](#)

The lesser of the two values will be used for qualifying purposes.

## ORDERING / AUTHORIZING A SECOND APPRAISAL

Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction when not required per program guidelines is generally not allowed except under specific circumstances.

If a second appraisal is required, the same process is followed to order the appraisal. The lower of the two values is used to determine LTV eligibility.

If the Underwriter requires a second appraisal or review appraisal because they identify flaws or issues with the initial appraisal, a second appraisal may be ordered.

Should a second appraisal be ordered after underwriting review (or as noted, approved and allowed by senior management), the valuation shall be determined by the second appraisal, regardless of whether the value is higher or lower than the original appraisal. In other words, if the second appraisal returns a higher or lower value than the first appraisal, the second appraisal will be used to establish value; cannot revert to original appraisal.

## CHARGES FOR SECOND APPRAISAL OR INSPECTION

Second appraisals and/or inspections, unless previously disclosed on the Loan Estimate on TRID loans, may not be charged to the borrower in most cases. It is advised to correctly disclose appraisal, second appraisal and/or inspection fees (if required by Program or if anticipated to be required) at the time the initial Loan Estimate is issued.



Should a Program change necessitate a second appraisal or inspection, a correctly completed re-disclosure and Change of Circumstance must be completed to enable the amount to be charged to the borrowers.

## APPRAISAL REVIEW PROCESS

### APPRAISAL REVIEW PROCESS – 1-4 UNIT RESIDENTIAL PROPERTIES

The Appraisal Review Process requires a secondary appraisal product to support the appraisal value for the transaction. Acceptable review products include:

- FNMA SSR Score of 2.5 or less
- House Canary AVM with an FSD maximum of 0.10 with a value of no more than 10% below the appraised value (**Not Permitted on No Ratio**). Note that an AVM is not permitted to override a desk or field review.
- Clear Capital Desk Review. A 10% tolerance is permitted. If the desk review value is more than 10% below the appraised value, a field or second appraisal must be obtained.
- Field Review
- Second Full Appraisal

When a field review or second appraisal is obtained:

- The lesser of the two values will be used for qualifying
- The reports must be completed by different, independent appraisers

The following transactions require a second full appraisal:

- Loan amounts > \$2,000,000
- HPML purchase transactions subject to flipping. See [HPML section for details](#).

NQM Funding, LLC reserves the right to request additional appraisal products at their discretion based on review of the appraisal and loan file.

### APPRAISAL REVIEW PROCESS – MIXED AND MULTI 5-10 UNIT PROPERTIES

- Commercial Broker Price Opinion (BPO) required based upon sales approach unless two full appraisals are provided.
- In Pennsylvania and North Carolina, a commercial evaluation product is used instead of a BPO.
- If the value from the BPO is more than 10% below the appraised value, then the value of the BPO is used for LTV purposes.

## PROPERTY CONSIDERATIONS

### MINIMUM PROPERTY STANDARDS

All properties must meet all the following requirements:

- Average or better than average condition
- Contain a kitchen and a bathroom
- Designed and available for year around residential use



- Does not have any environmental hazard that would impact marketability
- Free of all health and safety violations
- Improved real property
- Heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated
- Subject property is not in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property
- Subject property represents the “highest and best” use

## ACCESSORY DWELLING UNITS (ADU)

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all the following are met:

- Property is typical, readily acceptable, and common in the subject’s market area.
- Property must conform to all zoning laws and/or regulations.
- The ADU is not required to be “permitted” provided the appraiser indicates the improvements represent a legal use of the property and were completed in a skillful manner.
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability.
- Property is a Single Family Residence with one ADU.
  - Single Family Residences with more than one ADU or 2-4 unit properties with an ADU are eligible when the property is in a municipality allowing for such a set up.
    - The appraiser must specifically confirm compliance with local regulations.
  - Appraisal contains 2 comparables with similar additional accessory units.
  - Accessory units must be substantially smaller than the primary dwelling or must be treated as a 2-4 Unit for eligibility purposes.
  - If all the above are not met, the accessory unit must be given no value.

## RENTAL INCOME ON ADU

If zoning (current or grandfathered) permits an ADU, the rental income may be included subject to the following:

- Appraisal reflects the accessory unit is legal and the appraiser report includes at least one comparable with ADU.
  - Refinance – the market rent for the ADU should be documented on FNMA Form 1007 and the file must include a copy of the current lease with two months proof of current receipt.
  - Purchase – the market rent for the ADU should be documented on FNMA Form 1007.

## DAMPNESS

- If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem.
- Generally, a structural engineer’s report is required to determine the source of the dampness.
- The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

## DECLINING MARKETS

The appraiser must identify if the subject property is in a declining market.



- A 5% Max LTV reduction applies to properties in declining markets unless the LTV is 65% or less.
- See Program Matrices for full details and any further restrictions.

## DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

### Age Restricted Communities

Deed restrictions must be reviewed to ensure all the following requirements are met:  
Appraisal supports property is common and typical for the market area.

- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

### Limitations on Ability to Sell/Right of First Refusal

Any right of first refusal in the condominium project documents will not adversely impact the rights of a mortgagee or its assignee to:

- Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage,
- Accept a Deed or Assignment in lieu of Foreclosure in the event of Default by a mortgagor, or
- Sell or lease a unit acquired by the mortgagee or its assignee.

## DEFERRED MAINTENANCE

Property must be in average or better condition. Properties in C5 or C6 condition are not acceptable. Structural deferred maintenance is ineligible. Non-structural deferred maintenance can be considered provided:

- The deficiencies are not excessive; and
- The deficiencies do not represent a health or safety concern; and
- The appraisal report is completed as-is with an appropriate adjustment for the current condition of the property.

For additional deferred maintenance guidance for condominiums, see [Projects in need of Critical Repair](#) for further details.

## ESCROW HOLDBACKS

If permitted in the related Program, escrows for work to be completed may be considered on a case-by-case basis per Underwriter discretion.

On Correspondent Transactions, an escrow for work to be completed is permitted provided that a FNMA Form 1004D is obtained showing all work is completed prior to loan delivery and the escrow is closed out.

## FLOOD ZONES



The appraisal should indicate if the property is in a flood zone. See [Flood Insurance](#) for additional information on flood certifications and flood insurance.

## FOUNDATION SETTLEMENT

- If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property.
- Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing.
- A structural engineer's report is generally required to assess the situation and determine the appropriate course of action.
- Properties with evidence of sinkhole activity are ineligible for financing.

## HEATING SYSTEMS

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- the heat source is typical for the area.
- the heat source is permanently attached.
- the heat source is adequate for the dwelling.
- the heat source is externally vented.

## LAND VALUE AND ACREAGE

Acreage and land value must be typical and common for the subject's market.

- Maximum acreage permitted is 20 acres unless others restricted by the related Program:
- Investment property transactions are limited to 5 acres, except for DSCR loans which are capped at a maximum of 2 acres.

Special consideration should be taken for properties with land values that exceed 50% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area. See [Rural Properties](#).

## MIXED-USE PROPERTIES (PRIMARY RESIDENCE)

Properties that have a business use in addition to their Primary Residence use are allowed (i.e., property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office).

The following criteria must be met:

- The property must be a 1-unit single family dwelling used as a Primary Residence.
- The borrower 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 residential property.

The appraisal must address the following:

- Provide a detailed description of the mixed-use characteristics of the subject property.
- Indicate that the mixed-use property is a legal, permissible use of the property under the local zoning requirements.

- Report any adverse impact on marketability market resistance to the commercial use of the property; and
- Report the market value of the property based on the residential characteristics, rather than on the business use or any special business-use modifications that were made.

## MODULAR HOMES

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing must meet all the following requirements:

- Must assume the characteristics of site-built housing; and
  - Must be legally classified as real property; and
  - Must conform to all local building codes in the jurisdiction in which they are permanently located.
- Modular homes are considered single family homes from a guidelines and pricing standpoint.

## MULTIPLE DWELLINGS ON ONE LOT

- Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations.
- They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented.
- The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales. See also [Accessory Dwelling Units](#).

## MULTIPLE PARCELS

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if 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.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

## PEST INFESTATION

If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

## NEW CONSTRUCTION

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable.
- Proposed improvements are ineligible.
- Certificate of Occupancy, when required per municipality
- Taxes must be based on the improved value. Unless otherwise documented from the title company, use 1.5% of the purchase price or the documented tax rate for qualifying.

## PRIVATE ROADS

Properties on private roads are acceptable subject to the following:

- If subject is on a private road and is also in a PUD or Condo development with an HOA, no further action is required.
- A legally enforceable agreement or covenant for maintenance of the street is in place that includes provisions for the 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 his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners, OR
- 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. Any maintenance costs are to be included in the borrower's housing payment (PITIA).

## PUD (PLANNED UNIT DEVELOPMENT)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all the following requirements must be met:

- Each unit owner's membership in the owners' association must be automatic and non-severable.
- The payment of assessments related to the unit must be mandatory.
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.

The subject unit must not be part of a condominium or Co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

## RURAL PROPERTIES

A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:

- Neighborhood is less than 25% built-up.
- Area around the subject is zoned agricultural.
- Photographs of the subject show a dirt road.



- Comparable are more than 5 miles away from the subject.
- Subject is in a community with a population of less than 25,000.
- Distance to schools and/or amenities are greater than 25 miles.
- Subject property and or comparable have lot sizes greater than 10 acres.
- Subject property and comparable have outbuilding or large storage sheds.

Rural properties must comply with all the following criteria:

- Acreage includes road frontage and subject property.
- Property must not be agricultural or provide a source of income to the borrower.
- Lot size and acreage must be typical for the area and like surrounding properties.
- Property cannot be subject to idle acreage tax benefit, tax abatements or other tax incentive program.
- Present use as per the appraisal must be the “highest and best use” for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

See Program Matrices for eligibility and LTV restrictions.

## SOLAR PANELS

Properties with solar panels are eligible for financing.

### **When solar panels are owned and financed and collateralized with a UCC lien on title, the following applies:**

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement for the solar panel loan. Include any monthly obligation in the DTI.
- The value of the solar panel may be included in the appraised value, provided the panels cannot be repossessed for default on the financing terms.
- Include the balance of the solar panel lien in the LTV/CLTV ratio. If unable to obtain the current balance of the lien, include the original loan amount in the LTV/CLTV ratio. The UCC fixture filing must be subordinated with one of the following:
  - Subordination Agreement
  - UCC Termination. Debt obligation and LTV/CLTV must still consider the solar loan unless evidence is provided to verify the debt has been paid down to zero.

### **When solar panels are owned and financed without a UCC lien on title, the following applies:**

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement for the solar panel loan. Include any monthly obligation in the DTI.
- Ensure the appraiser did not provide a contributory value for the solar panels.
- Do not include the panels in the LTV/CLTV ratio calculation.
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC lien was paid in full, otherwise the financed balance must be included in the LTV/CLTV.

**A PACE (Property Assessed Clean Energy)** loan allows for repayment of the solar debt through the homeowner's real estate tax bill. PACE loans may also be referred to as a HERO loan.

### **The following applies when a PACE loan exists:**

- Properties with solar panels and other energy efficient items financed with a PACE loan are

not eligible if the PACE loan is not paid in full prior to or at closing.

- Any property tax statements that reflect PACE, HERO, or equivalent will require proof of payoff. If loan proceeds are used to pay off the lien, the loan is considered a Cash Out Refinance.

When solar panels are leased or covered by a power purchase agreement, the following applies:

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- A copy of the lease or power purchase agreement must be obtained.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
  - provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.

**The lease or power purchase agreement must indicate that:**

- any damage that occurs because 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).
- the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property 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 agreement and require 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 than the prior owner.

## UNCONVENTIONAL FLOOR PLANS

- Properties with unusual floor plans or functional obsolescence are eligible if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments.
- A floor plan sketch is required for all appraisals.

## UNPERMITTED ADDITIONS

If the appraiser notes that additions or modifications were made without required permits, the following requirements apply:

- The appraiser should comment that the unpermitted addition/modification appears to be done in a professional/ skillful manner.

## WATER SUPPLY

Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption).
- The water certification(s) for existing properties can be no more than 120 days old on the date of closing. If new construction, the report may be one-year old as of the date of closing.

## ZONING AND LAND-USE REGULATIONS

Property improvements must constitute a legally permissible use of the land based on the zoning ordinance.

If the improvements represent a legal, non-conforming use of land, the appraisal analysis must reflect any adverse effect that the non-conforming has on the value and marketability of the property.

- Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction.
- The intent of certain land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines.
- Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintain the dwelling are ineligible.

## PROPERTY TYPES

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 Unit Multi-Family Properties*	Yes
Condominium (low-rise and high-rise)*	Yes
Non-Warrantable Condominiums*	Yes
Condotels *	Yes
Site Condominium	Yes
Modular Homes	Yes
Log Homes - Log exterior façade only with like comps,	Yes



not true log cabins. Must also have fully functioning HVAC system, water source, gas or electric, and be suitable for year-round occupancy.	
Mixed-Use Properties	Yes
Assisted Living/Continuing Care Facilities	No
Baltimore City Row Homes	No
Boarding Houses	No
Co-operative Units (Co-op)	Yes (Delegated Correspondent only)
Farms or Hobby Farms	No
Leasehold Condominiums	No
Properties receiving tax abatements or incentives for farming	No
Properties located on islands not connected to the mainland by a bridge	Will be considered on a case-by-case basis
Manufactured Homes	Yes (Delegated Correspondent only)
Properties Subject to Rent Control Regulations eligible when the restriction is only due to limiting the increase of rents to a certain percentage per year	No
Unique Properties (Earth Homes, Barndominiums, Churches, Berm Homes, Dome Homes, etc.)	No
Timeshares	No
*Considered depending on Program.	

## CONDOMINIUMS - GENERAL

### GENERAL CONDOMINIUM REQUIREMENTS (CONDO)

It is important to note that NQM Funding, LLC, uses the Fannie Mae Project Standards guideline as a baseline for its condominium project reviews, however certain guideline overlays may apply. Any project that is warrantable under Fannie Mae guidelines is eligible, except when NQM Funding, LLC guidelines contradict FNMA, NQM Funding, LLC guidelines shall control and supersede. Guidelines are subject to change at NQM Funding, LLC's discretion.

A condominium project is one in which individual owners hold title to unit of air space in the project along with an undivided interest in the real estate that is designated as the "common area" for the project. The units in the project must be owned in fee simple, and the unit owners must have the sole ownership interest in and rights to the use of the project's facilities, common elements, and limited common elements.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

## PROJECT INSURANCE (CONDO)

All Projects must meet all applicable Project Insurance requirements further detailed in insurance section of guidelines. See [Insurance](#) section.

## UNIT SQUARE FOOTAGE (CONDO)

A minimum unit square footage is not required; however, units must contain a full-size kitchen and kitchen appliances to be eligible for financing. In addition, similar sized comparables from competing projects must be provided to demonstrate market acceptance for units with < 400 square feet.

## RIGHT OF FIRST REFUSAL / SUPERIOR LIEN RIGHTS (CONDO)

Project documents may not give a unit owner or any other party priority over the rights of the first mortgagee.

## CONDO PROJECT TYPE DEFINITIONS (CONDO)

- Detached Condo Units (site condominium/land condominium); subject unit is built completely detached, resembling a single family residence on its own lot and does not share partition walls with any other unit the project, and the legal title to the unit is declared to be condominium unit.
  - Detached condominium units qualify for Project Review Waiver
  - The project may be comprised of solely detached units or a mix of detached and attached condominium units, so long as the subject unit transaction is a detached condominium.
  - The project may be established or new.
- Two to Four Unit Condo Projects:
  - Project must have no more than 4 units total and can be a mix of residential and commercial units. Note: 4 residential units and 1 or more commercial unit(s) does not qualify for Waiver of Project Review.
- Project with five (5) or more units:
  - Any project with five (5) units, whether units are attached or detached.

## ESTABLISHED VS NEW PROJECT (CONDO)

- Established project is a project in which all the following apply:
  - At least 90% of the total units in the project have been conveyed to unit purchasers.
  - The project is 100% complete, including all units and common elements, and the project is not subject to additional phasing or annexation.
  - Control of the HOA has been turned over to the unit owners.
  - Unless the 80% Rule is met; Developer maintains ownership of 20% of the units and leases the units it owns to tenants, thereby meeting FNMA Single Entity rule. Construction must be complete, and Control of HOA must have been transferred to unit owners
- New Project is a project in which any of the following apply:
  - Less than 90% of units conveyed (sold and closed) to individual unit owners; with exception of projects that meet the 80% rule above.
  - Developer is in control of the HOA.
  - Construction is not 100% complete including: buildings, “common area”, and

amenities or the project is subject to additional phase annexation or additional construction.

## WARRANTABLE VS NON-WARRANTABLE (CONDO)

- A Warrantable Condominium project is one of which a warranty can be made by the Condo Specialist upon review of the condominium documents and loan file criteria that the condominium meets FNMA Guide requirements.
  - Warranty must meet FNMA Guidelines for both the project type and loan parameters.
- Unavailable projects in Fannie Mae's condominium database, Condo Project Manager (CPM), are automatically considered Non-Warrantable.
- Non-Warrantable Condominium project is one of which a warranty cannot be made to the FNMA Guidelines and therefore is "Non-Warrantable."

## REVIEW TYPES (CONDO)

- **Waiver of Review (FNMA Type V):**
  - Project's that meet the definition of \*Detached Condo Unit or \*2 to 4 condominium unit as described above do not require an HOA Questionnaire
  - Unit types used for condotel purposes do not qualify for waiver of project review and may be subject to Condotel requirements
- **Warrantable Review of Project with 5+ Units in the Project:**
  - Limited Review, FNMA Type Q.
  - Full Review Established, FNMA Type S.
  - Full Review New, FNMA Type R.
  - Fannie Mae Approved, FNMA Type T.
- **Non-Warrantable:**
  - New and Established Projects of Project with 5+ Units in the Project
  - New and Established Projects, including 2 to 4 unit Condos and 5+ Unit Projects
- Condotel, New and Established Projects, including, 2 to 4 unit Condos and 5+ Unit Projects

## MINIMUM DOCUMENTATION REQUIREMENTS (CONDO)

**Refer to the related documents in the NQMF portal.**

- Condo Review Quick Reference
- Condo Review & Exception Form
- HOA Questionnaire: All loans secured by condominium projects require a completed Homeowners Association (HOA) questionnaire. Limited Review forms are not acceptable.
- Master Insurance Policy: Insurance Certificate; Declaration Pages evidencing Coverage may be requested to clarify coverage.
- Non-Warrantable Condo Reviews include varying degrees of complexity. The documents most commonly requested in connection with a Non-Warrantable review are found on the Condo Review and Exception Form.

## PROJECT REVIEW EXPIRATION DATES (CONDO)

All questionnaires must be dated within 90 days of the time of submission to condominium desk)

- **Limited Review - Warrantable**

- Per loan file, expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Full Review for Established - Warrantable**
  - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Full Review for New Projects - Warrantable**
  - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Non-warrantable - Established**
  - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Non-warrantable - New**
  - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.

## PROJECT REVIEW WAIVER

### Detached / Site condominium

- Whether project consists entirely of detached (site) units or a mixture of both detached and attached condominium units, if the subject is a Detached Condo unit, a project review is not required, and subject is eligible for single-family dwelling LTV/CLTV.
- Detached Condo Units are subject to one-to-four unit Property Insurance Requirements (may also be covered by HOA Master Property Insurance Policy if HOA has provided coverage that meets requirements for the Detached Unit).

**2 to 4 Unit condominium projects** will not require a project review provided the following are met:

- Project is not a condominium hotel, houseboat, or timeshare or segmented-ownership project.
- Standard condominium project insurance requirements apply.
- Project has been created and exists in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.

## INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the U.S. Securities and Exchange Commission.
- Leasehold condominiums.
- Timeshare or condominium projects with restrictions on owner's ability to occupy the unit.
  - Condotels with a maximum occupancy term of 30 days per short term rental is permitted (unit deed must be a single deed and not fragmented).
- Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Fragmented or segmented ownership.
- Houseboat project.
- Manufactured Home Condominium projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all the units. Condominium Units with ADU's may be considered on a case-by-case basis.
- Affordable Housing units, units with resale restrictions
- A common-interest apartment or Tenants in Common Project:
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment

unit in the building.

- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA (on new projects this applies when the developer intends to maintain control of amenities after project becomes Established per guideline definition).
  - Except in the case of a Condotel, where Developer is the Hotel Parcel Owner.
- Any project that has non-conforming zoning (cannot be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in need of Critical Repairs (see detailed section below).
- Any project currently under an evacuation order due to unsafe conditions.
- Any project with unfunded repairs totaling more than \$10,000 per unit.
  - Special Assessments and Loans are acceptable means to fund projects

The following additional requirements apply to projects with five or more units:

- Projects with significant deferred maintenance are not eligible, such as:
- Projects with a full or partial evacuation of the building to complete repairs for more than 7 days or an unknown period
- Projects with deficiencies, defects or substantial damage, or deferred maintenance that;
  - Are severe enough to affect the safety, soundness, structural integrity or habitability of the improvements.
  - Impedes the “safe and sound” functioning of one or more of the building’s major structural or mechanical elements, including but not limited to; foundation, roof, load bearing structures, electrical systems, HVAC or plumbing.
- Projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-inspections.
- A project that has a Building Recertification, or other Local Government Authority Mandated Repairs presently due, and HOA is actively working on repairs related to Engineer’s and Inspection reports, may be eligible for lending if the HOA, Management, and its Engineer clearly demonstrate that there is no safety or structural soundness issues, and is safe for occupancy while repairs are ongoing. Review of the Inspection Report and determining the severity of the findings and repairs is subject to Condo Desk determination.
- See [Projects in Need of Critical Repair](#) section for more details.

## PROJECTS IN NEED OF CRITICAL REPAIRS

Loans secured by units in condominium projects with significant deferred maintenance that affects the structural soundness, safety, or habitability or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible.

If the HOA questionnaire indicates that a report was completed within the last 3 years and the HOA, or HOA management company, indicates no safety issues report, or repairs have been completed, related requirements for the project in need of critical repairs may be waived.

Documentation required for review:

- Engineer’s or Inspection Report conducted within the last 3 years.
- Engineer’s Letter of Explanation indicating whether the project is safe for occupancy while repairs are on-going.
- Contractor’s bid, with cost estimate and description of proposed repair methods
- Detailed Status of Repairs Letter, completed by Engineer, Contractor or HOA Management Company, indicating the following:

- All repairs that have been completed to date
- All outstanding / not yet completed repairs; confirm whether any outstanding repairs are structural or safety related.
- Estimated time for completion of repairs.

These projects are ineligible until the required repairs to cure unsafe conditions have been made and documented. Acceptable documentation may include an updated engineer or inspection report, city inspection showing passed, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance may include deficiencies that meet one or more of the following criteria:

- Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period.
- The project has deficiencies, defects, substantial damage, or deferred maintenance that:
  - Are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
  - Impedes the "safe and sound " functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible (this refers to projects that attempted work, and local governing authority failed the work upon inspection. To the contrary, projects that are actively working on mandated repairs per requirements in engineer's report may be eligible under guidelines and/or an exception if necessary.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property.

Also, if damage or deferred maintenance is isolated to one or more units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated; damage from a small fire impacting the interior of a specific unit; mandated balcony repairs or elevated elements that do not impact our subject unit; or subject unit's building repairs have been completed even though repairs are outstanding in different portions or other buildings in the project. However, if the subject property unit is affected, our standard requirements for property condition apply.

## **SPECIAL ASSESSMENTS**

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.

The loan file must be documented with the following (answering on the HOA questionnaire acceptable, additional letter of explanation may be requested):

- The reason for the special assessment.
- The total amount assessed and repayment terms.
- Evidence to support no negative impact to the financial stability, viability, condition, and marketability of the project.



- (Underwriter to determine) borrower qualification with any outstanding special assessment payment.

The financial documents of the HOA may be required for review to confirm the association can fund any repairs.

If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs guidance for projects with Critical Repairs applies. Additionally, If the client or appraiser indicates there is an adverse impact, the project is ineligible.

## INSPECTION REPORTS

If a structural, electrical, and/or mechanical inspection was completed within 3 years of the project review, a copy of the report must be provided, however may be waived if HOA indicates all required repairs indicated in the report are 100% complete. The report cannot indicate any critical repairs are needed, and no evacuation orders are in effect.

If the inspection report indicates ongoing repairs, a letter from the engineer indicating the project is safe for occupancy while the repairs are being completed should be provided.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. A review of the engineer's Phase II, completion report, or letter from an authorized person/ entity acting on behalf of the HOA is needed to determine if the repairs are completed. Findings must state Safety, Soundness, Structural Integrity, or Habitability concerns of the project are satisfied.

## WARRANTABLE CONDOMINIUMS

When a Program indicates the condominium must be warrantable, or if condominium project is eligible for warrantable review, FNMA Condo Guidelines must be followed to ensure warrantability.

## WARRANTABLE CONDOMINIUM INSURANCE REQUIREMENTS

Project must meet all applicable insurance requirements as defined in Fannie Mae Selling Guide Subpart B7, Insurance.

## LIMITED REVIEW AND FNMA APPROVED PROJECTS - WARRANTABLE

### MINIMUM DOCUMENTATION REQUIREMENTS – WARRANTABLE LIMITED REVIEW

- HOA Questionnaire.
- Master Insurance Policy.

### FNMA APPROVED PROJECTS, TYPE T - WARRANTABLE

- Project must not have any Critical Repairs or Ineligible Deferred Maintenance.
- Project must not have litigation that is not considered a minor matter.
- Project Master Insurance Policy must continue to meet Fannie Mae Insurance guidelines.

## LIMITED REVIEW ELIGIBILITY REQUIREMENTS, PROJECT TYPE Q - WARRANTABLE

- Project must meet definition of Established Project.
- Project is not an ineligible project per FNMA Guidelines, B4-2.1-03.
- General Liability Insurance and Fidelity Bond Insurance waived for Limited Review.
- Loan Criteria, Occupancy type and related LTV must meet FNMA's occupancy and LTV requirements for Limited Review Eligibility; Geographical Restrictions Apply:
  - FNMA Limited Review Process
  - FNMA Geographical Restrictions
- Investor concentration waived for limited review.
- Commercial space square footage cannot exceed 35% of the project or building in which the subject is located.
- Amenities: HOA or affiliated association must own amenities.
- Delinquency count: must demonstrate that no more than 15% of units are 60+ days delinquent on special assessments only.
- Single entity ownership allowed up to 20% for projects with 21 or more units or a maximum of 2 units for projects with 5 to 20 units.
- Project must not have an outstanding Building Recertification, or Local Government Mandated Repair. Project must not have failed a mandated inspection or repair.
- Litigation in which HOA is named as a party must meet Fannie's definition of a minor matter.

## LIMITED REVIEW AND OCCUPANCY - WARRANTABLE

- Established Condo Projects (For Projects outside of Florida) with 5+ attached units
  - Maximum LTV/CLTV/HCLTV Ratios
    - Principal residence 85%/85%/90
    - Second home 75%/75%/75
    - Investment property 75%/75%/75
- Established Condo Projects (Florida Projects) with 5+ attached units
  - Maximum LTV/CLTV/HCLTV Ratios
    - Principal residence 75%/90%/90%
    - Second home 70%/75%/75%
    - Investment property: 70%/75%/75%

## FULL REVIEW - WARRANTABLE

## MINIMUM DOCUMENTATION – WARRANTABLE FULL REVIEW

- HOA Questionnaire
- Budget for Current Fiscal Year
- Balance Sheet dated within the past 90 days.
- Master Insurance Policy including property, fidelity/crime, and general liability.
- Flood Insurance (if applicable).
- HO- 6 policy if master policy “is not walls in”.



## FULL REVIEW ELIGIBILITY REQUIREMENTS - WARRANTABLE

- Project must not be an ineligible project per FNMA guides B4-2.1-03.
- Budget must demonstrate a minimum 10% reserve requirement. Reserve study may be provided for consideration of sufficient reserve funding when the 10% is not allocated in the current fiscal year's budget. Qualifying utility expenses may be removed from reserve calculation.
- Contiguous Land: Project must be built on contiguous land.
- Amenities: HOA or affiliated HOA must own amenities. Parking may be owned by a third party, so long as third party is not the original developer, and parking may be subject to a license agreement.
- Investor Concentration:
  - Primary and Secondary Occupancy type transactions: investor concentration requirements waived.
  - Investment Occupancy type transactions: investment occupancy ratio must be 50% or less.
- Commercial Space: square footage cannot exceed 35% of the project or building in which the subject is located .
- Delinquency Count: must demonstrate that no more than 15% of units are 60+ days delinquent in regular dues and/or special assessment.
- Single Entity Ownership: allowed up to 20% for projects with 21 or more units or a maximum of 2 units for projects with 5 to 20 units.
- Project must not have an outstanding Building Recertification, or Local Government Mandated Repair. Project must not have failed a mandated inspection or repair.
- Litigation: in which HOA is named as a party must meet Fannie's definition of a minor matter.

## NEW PROJECT DOCUMENTATION REQUIREMENTS - WARRANTABLE

### Additional Required Documentation:

- CC&R's/Declaration of Condo/Master Deed.
- Bylaws/Declaration of Trust.
- Articles of Incorporation, if applicable.
- Rules and Regulations, if applicable.
- Public Offering Plan or Prospectus, if applicable.
- Phasing Schedule, if Applicable.
- Additional document requests may be needed as determined by the underwriter.

## NEW PROJECT ELIGIBILITY REQUIREMENTS - WARRANTABLE

In addition to the Full Review Eligibility Requirements listed above, project must meet the following criteria:

- Project must have been created in accordance with all local and state laws.
- Governing Documents must evidence all Mortgagee protections required by FNMA on PERS form 1054 (form completion is not required but is a quick reference tool for required language for the governing documents).
- Fannie Mae PERS Approval required for the following project types:
  - New Projects in Florida or any other Geographically restricted areas noted in FNMA guidelines.
  - Non-Gut-Rehab Condo Conversions.
- Pre-sale 50% per subject legal phase, consisting of Primary and Secondary Occupancy Type purchases.
- Subject Legal Phase construction must be substantially complete. Substantial Completion

means building exterior is weather tight, interior dry wall is up with no exposed framing, and is waiting for buyer selections for fixtures, cabinets, wall covering and flooring.

- Subject Legal Phase Common Area Construction is 100% complete, or Developer provides “common area” completion bond.
- Amenities within the Subject Legal Phase must be 100% complete.

## **NON-WARRANTABLE CONDOMINIUMS**

Condominiums listed with a status of “unavailable” in Condo Project Manager (CPM) are not allowed, unless the “unavailable” reason is for a characteristic explicitly deemed acceptable as per these guidelines.

- This requirement does not apply to Condotel Projects.
- Exceptions may be considered for projects that are unavailable and characteristics are not expressly acceptable per the below guidelines.

### **MAXIMUM CONCENTRATION EXPOSURE – NON-WARRANTABLE CONDO**

NQM Funding, LLC’s project exposure in condominium projects shall be \$5,000,000 or 20% of the total units in the project, whichever is lower.

- Notwithstanding, with compensating factors, the \$5,000,000 maximum may be waived without an exception. no loan shall be made for more than 20% of the total number of units in the project without exception consideration.

### **NON-WARRANTABLE CONDO ELIGIBLE ATTRIBUTES**

Non-warrantable condominiums are eligible with the following attributes:

- Max Concentration, when a project is between 5 and 20 units in size, one owner may finance two units in the project.
- Commercial space square footage allowed up to 50% of total project, or building in which the subject is located .
- Delinquency Count: Must demonstrate that no more than 25% of units are 60+ days delinquent in regular dues and/or special assessment.
- Investor concentration allowed up to 70%. A higher percentage is permitted when the subject transaction is an Investment Property.
- The project developer may be in control of the condominium association provided the Master Agreement allows the homeowners to take control upon either a predetermined percentage of unit sales or within a defined period.

### **SINGLE ENTITY OWNERSHIP – NON-WARRANTABLE**

- Single entity ownership allowed up to 49% of the project; except for Condotel Projects where the Developer of Condotel may own a greater percentage of the units for rental income purposes.
  - The following may be excluded from the single-entity ownership calculation:
    - Units owned by the project sponsor or developer and are vacant and are being actively marketed for sale; or
    - Units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.
  - Exceptions may be considered for Single Entity, which owns 50% or more of the units.

For exception consideration, provide the following information:

- HOA letter of explanation stating if the single entity is the developer, a REIT, a private investor or a sponsor.
- Documentation to support whether the single entity is current on all HOA dues payments. If not, provide the delinquency information.
- Documentation on the single entity's intent on selling any of the units currently owned. If they intend on selling any units, provide the marketing strategy.
- Confirmation as to whether or not the subject unit is one of the single entity owned units.
- Clarification as to what the current occupancy type of the subject unit is.
- Evidence as to whether the Single Entity has a Right Of First Refusal. If so, clarify if the ROFR is actively being exercised.

### THIRD PARTY OWNED AMENITIES, MANDATORY CLUB DUES – NON-WARRANTABLE

- Subject Units in areas such as golf courses, with pool clubs, or other amenities that are subject to a mandatory membership fee are acceptable. The fees must be included in the borrower's debt to income ratio. Note: Developer retained ownership amenities are not acceptable for Non-Warrantable Review types.
- These restrictions do not apply to Condotels

### PROJECTS IN LITIGATION – NON-WARRANTABLE

- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature, do not affect the marketability of the project units, and potential damages do not exceed 25% of HOA reserves, or documentation that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.

### COMBINED UNITS – NON-WARRANTABLE

- Projects with Combined Units may be eligible under non-warrantable when HOA has not amended governing documents:
  - Related work must be permitted, with final Certificate of Occupancy issued from the city.
  - Related units must be evidenced on one title deed.
  - Related unit deeds cannot be partially released from mortgage or deed of trust.

### NEW PROJECTS - NON-WARRANTABLE

#### **Presale: units under contract or sold and closed with title conveyed.**

- Presale must be 25% of Owner Occupied or 2<sup>nd</sup> Home Occupancy types for the Subject legal phase the first 18 months of marketing.
- Project must have been marketed for less than 18 months. Start of marketing date shall be the day marketing of sales began, or no later than the date of the first purchase contract for sale.
- Presale must be 30% Owner Occupied and 2<sup>nd</sup> Home Occupancy types for subject legal phase and 40% Presale overall within the first 24 months. of marketing. Definition of marketing period as defined above.
- Presale must be 50% overall after 24 months. of marketing. Developer must meet Single Entity Guidelines above.

- Projects with Rent Control or other local laws that slow the presale of units will be considered on a case-by-case basis.
- Subject Legal Phase construction must be substantially complete. Substantial Completion means building exterior is weather tight, interior dry wall is up with no exposed framing, and is waiting for buyer selections for fixtures, cabinets, wall covering and flooring.
- Subject Legal Phase Common Area Construction is 100% complete, or
  - Developer provides the “common area” completion bond.
  - Developer evidences funds in escrow dedicated to the “common area” completion.
- Amenities within the Subject Legal Phase must be 100% complete.
- Condo Conversion that is Non-Gut-Rehab and conversion took place within the last 18 months:
  - Subject to pre-sale requirements.
  - Subject to Single Entity requirements.
  - Engineer’s Report and evidence of recommended repairs must be provided.
  - Reserve Study must be provided.

### INSURANCE REQUIREMENTS - NON-WARRANTABLE

See [Non-Warrantable Insurance](#) section for details.

## CONDOTELS

### CONDOTEL GENERAL INFORMATION

- Available with Flex Select, Investor DSCR and Foreign National Programs. Refer to the related Program Matrices for LTV Limits and additional eligibility requirements.
- See the Condominium Section for further requirements not detailed out below.
- The property MUST be in a resort area or must be affiliated with a national hotel chain.
- Condotels are managed and operated as a hotel or motel, even though the units are individually owned.
- Projects with names that include the words “hotel,” “motel,” “resort,” or “lodge” can be considered Condotels, unless name is related to historical preservation of a converted project.
- Properties that include registration services which offer rentals of units on a daily, weekly, or monthly basis. Note that the ability to rent units on a shorter-term basis without hotel elements, such as having a front desk and/or housekeeping service, does not necessarily render the project a condotel.
- Hotel or motel conversions (or conversions of other similar transient properties.)
- Properties that have obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

### ADDITIONAL CONDOTEL REQUIREMENTS

- A minimum unit square footage is not required; however, units must contain a full-size kitchen and kitchen appliances to be eligible for financing. In addition, similarly sized comparable from competing projects must be provided to demonstrate market acceptance for units with < 400 square feet.
- Must have at least one separate bedroom;
- Exceptions considered for studios and square footage on a case by case basis.

## SITE CONDOMINIUMS

- Subject unit must consist of a single family dwelling with no attached structure (e.g., garage, walls).
- Underwriters are responsible for review of Detached/Site Condominiums.
- Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Condominium Project Questionnaire is not required.
- Appraisals for site condominiums may be documented on FNMA Form 1073 or 1004. When documented on the 1004 form, the appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.
- Standard Condominium insurance requirements apply when detached unit is covered by a master insurance policy. If each dwelling is covered by its own insurance, underwriter does not need to confirm Master Insurance Policy coverage.

## COOPERATIVES (CO-OP)

A Co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The file must contain evidence regarding the project's compliance with Section 216 ([FNMA Guides B4-2.3-02, Co-op Project Eligibility \(08/06/2025\)](#) for more specifics).

If the co-op project does not meet Section 216 requirements, NQM Funding will not purchase the Co-op loan.

## CO-OP PROJECT REQUIREMENTS

- The Co-op housing project must be designed primarily for residential use.
- Must consist of two (2) or more units and be in an area that has demonstrated market acceptance for the co-op form of ownership as reflected by the availability of similar comparable sales for Co-op units in the market area.
- All projects must be owned fee simple.
- The project premises must be free and clear of liens and encumbrances.

## CO-OP CALCULATING THE LTV RATIO

- The method for calculating the LTV ratio for a Co-op loan is based on whether the borrower assumes their pro rata share of the blanket mortgage or does not. In those markets where the borrower assumes their pro rata share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of
- The sales price for the Co-op unit (unencumbered by the unit's pro rata share of the Co-op project's blanket mortgage(s)), or
- The appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's pro rata share of the project's blanket mortgage(s)).
- In those markets where the borrower does not assume their pro rata share of the blanket mortgage, then the LTV ratio is determined by dividing the original loan amount by the lower of:
  - The sales price for the Co-op unit, or
  - the appraised value of the Co-op stock or shares and the related occupancy rights.

## CO-OP LOAN DOCUMENTATION REQUIREMENTS

In addition to standard loan delivery documentation

- Security Agreement Against Stock Certificate
- Stock Certificate
- Stock Power (1. Borrower to Member and two. Member to Correspondent)
- Proprietary lease
- Assignment of Proprietary Lease (1. Borrower to Member and 2. Member to Correspondent)
- UCC-1
- UCC-3 (Extension)
- UCC-1 (Assignment)
- Recognition Agreement
- Fully completed, signed and dated FNMA Form 1074 (Co-op Questionnaire).

## DELEGATED CORRESPONDENT RESPONSIBILITIES (CO-OP)

- The Delegated Correspondent is responsible for determining that the co-op corporations hold title to the property of the co-op project, including dwelling units. Co-op projects where the borrower (not the co-op corporation) owns his or her dwelling unit in the project will not be eligible.
- Co-op share loans in these projects are commonly referred to as “land-home” or “land- lease” Co-op projects and are not acceptable.
- The Co-op corporation must have good and marketable title to the property, including the dwelling units and amenities.
- Newly constructed or conversion of existing buildings are allowed.
  - All units, “common areas,” and facilities within the project must be 100% complete.
  - The project cannot be subject to additional phasing or annexation.
  - All construction and rehabilitation for the project must be completed in a professional manner.
  - Manufactured housing is ineligible.
- Stock, share, or other contractual agreements evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.
- The project’s most recent operating budget audited financial statements, or corporate Tax Returns must be consistent with the nature of the project, provide for adequate cash flow to service the current debt and operating expenses, and must provide for adequate replacement and operating reserves.
  - If the most recent budget is not available, the lender may rely on a review of the Co-op corporation’s most recent audited financial statements or corporate Tax Returns to determine that the financial requirements in this section have been met.
  - The project must have a good financial record, with no more than 15% of the owners being more than 60 days delinquent in the payment of their financial obligations to the Co-op corporation.
- If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three (3) years, the lender must evaluate the impact the expiration of such benefit will have on the project.
  - If the benefit is scheduled to expire within three (3) years from the note date, the lender must include the higher monthly fees in the borrower’s monthly liabilities for debt-to-income ratio qualifying purposes. The units in the project must be owned in

fee simple.

- The Co-op corporation must have the sole ownership interest in the project's facilities,
- Common elements, and limited common elements, except as noted below.
- Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:
  - A description of the shared amenities subject to the arrangement;
  - A description of the terms under which unit owners in the project may use the shared amenities;
  - Provisions for the funding, management, and upkeep of the shared amenities; and
  - Provisions to resolve conflicts between the residential projects regarding the amenities.
  - Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.
- The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

## MANUFACTURED HOUSING

- The home must be at least 750 square feet and 20 feet wide
- The home must be constructed to the "HUD Code" i.e., the federal manufactured home construction and safety standards for manufactured housing,
- The home must be on a permanent chassis, installed on a permanent foundation system, and titled as real property.
- The home may not be older than 15 years old.
- The home may not need more than 5% of the property value (per the appraisal)
- The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit.
- The home must not be subject to a ground lease or located on leased land.
- The sales price of a new manufactured home may include bona fide and documented costs associated with transportation, site preparation, and dwelling installation at the site.
- Any post manufacturing add-ons or modifications that are permanently attached to the subject property require a structural inspection.

## DISASTER AREAS

Appropriate steps must be taken to identify areas impacted by disasters to ensure the subject property has not been adversely affected. The Disaster Policy applies to properties located in FEMA declared disaster areas in which individual assistance has been granted, which can be found on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed. Damage to the subject property must meet requirements in [Deferred Maintenance](#).



## PROPERTY APPRAISED PRIOR TO DISASTER INCIDENT

If the appraisal effective date is prior to the disaster incident, the following documentation is required:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- An exterior inspection completed by licensed third-party professional:
  - Exterior Inspection must certify the condition of the subject property and identify any impact to habitability or marketability related to the named disaster.
  - Inspection report must include photographs (the front, street view, and any damage to subject property.
  - Inspection report and evidence of inspector licensing must be retained in loan file.

If the appraisal was complete at the time of the disaster but 'subject to completion' or 'subject to repairs,' an Appraisal Update and/or Completion Report (FNMA Form 1004D) is required in addition to the inspections listed above. Note that both inspections may be done on the same 1004D form provided the appraiser specifies the 1004D covers both the required repair work and the post-disaster inspection.

## PROPERTY APPRAISED AFTER DISASTER INCIDENT

When the appraisal effective date is after the disaster incident, no additional documentation is required.

## DISASTER INCIDENT OCCURS AFTER CLOSING, PRIOR TO FUNDING

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent) that names the disaster that required the inspection; or
- Appraisal Update and/or Completion Report (FNMA Form 1004D) that names the disaster that required the report

## DISASTER EFFECTIVE TIME PERIOD

Guidelines for disaster areas should be followed for 60 days from the incident period ending date or the date the adverse event occurred, whichever is later.

## PROPERTY INSURANCE

### HAZARD INSURANCE

#### MINIMUM HAZARD INSURANCE COVERAGE

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion. Required perils include:

- Fire or lightning
- Explosion





- Windstorm (including named storms)
- Hail
- Smoke
- Aircraft
- Vehicles
- Riot or civil commotion

The coverage must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.

### **DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE**

Hazard insurance coverage should be in the amount of the lesser of:

- The unpaid principal balance of the mortgage or
- 100% Replacement Cost Coverage as stated on the policy declaration page.

If the above requirements are not met, it will be acceptable to provide coverage equal to at least 100% of the insurable value of improvements, as established by the property insurer through a Replacement Cost Estimator of equivalent.

Note: If the policy does not cover the unpaid principal balance, have guaranteed replacement cost or a replacement cost estimate is not provided, a processor's certification verifying the insurer's coverage is equal to 100% of the insurable value of improvements as indicated by the insurance agent or representative is acceptable. The certification must include the insurance company's complete information, subject property address, confirm the replacement cost amount determined by the insurer, and be signed and dated by the processor.

### **DEDUCTIBLE AMOUNT**

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

### **EVIDENCE OF HAZARD INSURANCE**

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies).

Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number

- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible.
- Loss payee clause as applicable
- Signed and dated by agent.

## OPTIONAL COVERAGE

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable if any part of the coverage that exceeds the required coverage is not obligated for renewal.

## RENT LOSS INSURANCE (DSCR)

Rent Loss Insurance for the subject property is required and must equal at least 6 months of PITIA. Blanket policies covering the subject property are eligible. Please see DSCR Supreme and Investor DSCR Program Matrices for waiver option.

## CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS

### CONDO PROJECTS

The master property or flood insurance policy must designate the HOA as the named insured. If the condominium’s legal documents permit it, the master property or flood insurance policy can specify an authorized representative of the HOA, including trustee, as the named insured.

### PUD PROJECTS

If the PUD’s master insurance policy covers all the residential buildings in the project, follow coverage for units in a condominium project. The master property or flood insurance policy must designate the HOA as the named insured.

## COVERAGE REQUIREMENTS

- The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, a policy that includes the “broad form” covered causes of loss is acceptable.
- If the master policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone policy which provides adequate coverage for the limited or excluded peril.
- Required perils include:
  - o Fire or lightning
  - o Explosion
  - o Windstorm (including named storms)
  - o Hail
  - o Smoke

- o Aircraft
  - o Riot or civil commotion
  - o Vandalism
  - o Sprinkler leakage
  - o Sinkhole Collapse
  - o Volcanic action
  - o Falling objects
  - o Weight of snow, ice or sleet
  - o Water damage
- The policy must be provided for claims to be settled on a replacement cost basis. Policies written on an actual cash value basis are not acceptable.

### SPECIAL COVERAGE REQUIREMENTS

The following special coverage requirements apply to both warrantable condominiums and PUD Master Insurance Policies.

- Inflation Guard Coverage: the coverage is not required if it is not obtainable in the insurance market available to the association. In addition, inflation guard coverage is not required when the policy has guaranteed replacement cost or extended replacement cost.
- Building Ordinance or Law Coverage: the coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. Coverage is not required if it is not obtainable in the insurance market to the association. When required, the coverage must include:
  - o Coverage A: loss to the undamaged portion of a building,
  - o Coverage B: demolition costs, and
  - o Coverage C: increased cost of construction.
- Boiler and Machinery/Equipment Breakdown Coverage: this coverage is required if the project development has central heating or cooling. The coverage may be included in the property coverage form, obtained as an endorsement to the master policy, or the HOA may purchase a stand-alone policy. This coverage is not required when each unit is metered individually, or with evidence that coverage is not obtainable to the HOA in the insurance market.
  - o When required, the amount must equal the lesser of \$2m or the replacement cost value of the building(s) housing the boiler or machinery.

### REQUIRED COVERAGE AMOUNT

Insurance must cover 100% of the replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost – the insurer agrees to pay more than the property’s insurable replacement cost, or
- Replacement Cost – the insurer agrees to pay up to 100% of the property’s insurable replacement cost.

To the extent the master property insurance policy does not cover the interior or improvements of a unit in a project development, the borrower must maintain individual property insurance policy. The coverage must be sufficient to restore the unit to its condition prior to a loss event. Sufficient coverage should be based on the best information known or available, which may include information obtained from the borrower, in collaboration with the insurer, the HOA, or other appropriate resources to make such a determination.

## **POLICIES COVERING MULTIPLE PROJECTS**

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects.

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets the defined requirements.

- If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to the defined coverage amounts. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master property insurance requirements for project developments must be met.

## **DEDUCTIBLE AMOUNT**

The maximum deductible for the following policies is 5%; however, a deductible of up to 10% is permitted on non-warrantable projects when the HOA budget is sufficient to cover the deductible.

- Policies covering the common elements in a PUD or Condo Project,
- Losses related to individual PUD units covered by a blanket policy for the project,
- Separate wind-loss policies,
- Blanket policies that cover both the individual unit and the common elements.

## **GENERAL LIABILITY COVERAGE**

Project liability insurance requirements of \$1,000,000 per occurrence is required.

## **FIDELITY BOND COVERAGE**

Fidelity bond coverage is required for condominium projects over 20 units:

- Warrantable Project
- New Projects

When required, the coverage must be at least equal to the greater of 3 months HOA dues or the minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

## **NON-WARRANTABLE CONDO INSURANCE ALLOWANCES**

- Deductibles greater than 5% and equal to or less than 10% are permitted when the HOA budget is sufficient to cover the deductible.
  - Budget must demonstrate that Reserve allocation is 10% or more.
  - or Balance Sheet must demonstrate that potential cost of deductible is equal to or less than 50% of HOA's funds held in Reserve Accounts
- Deductibles Charged Per Unit:
  - Per unit deductible for any Peril, where per unit cost of deductible exceeds 5% of the face value of the insurance coverage amount, is acceptable when Borrower's HO6 Insurance can provided the coverage:
    - Property Coverage shows that Peril type with per unit deductible is covered at an equal or higher amount (for example, Water Peril deductible is \$50,000 per unit on the master policy, therefore HO6 must cover Water Peril of at least \$50,000 or more).

- Loss Assessment Coverage to be provided in an amount equal to per unit deductible amount (in same example, Loss Assessment coverage is provided on HO6 policy at \$50,000).
- Actual Cash Value (ACV) Endorsement for Roof Component only (if actual cash value applies to the entire project, the project is ineligible):
  - ACV Endorsement is acceptable when Roofs are less than a certain age and are covered at Replacement Cost. For example, a Building roof is 14 years of age, ACV would take effect at 15 years or older) that insurance is acceptable. However, If subject unit's building's roof exceeds ACV age limit, as evidenced by Reserve Study analysis, or completed re-roof building permit and signed off job card/city inspection, project would be ineligible.
  - Roof is older than allowed cut-off; however HOA demonstrates that the funds required for a full roof replacement are set aside and adequately funded in the HOA's Reserve Account and confirmed by a Reserve Study (example, age of roof is 20 years old, and per reserve study roof is to be replaced at the 25 year mark, and Reserve Study shows that the roof component is 100% funded)
    - If ACV Endorsement exists and components are not 100% funded, project is not eligible
- Coinsurance Clause: 80/90/100% coinsurance clause is acceptable when an Agreed Amount or Agreed Value Endorsement is included in the policy that waives the coinsurance penalty that would normally be assessed at the time of a claim or confirmation is received that the HOA's Master Insurance Policy is covered at 100% of replacement cost value.
- Named Windstorm and Hurricane Coverage:
  - The following states must demonstrate Named Windstorm and Hurricane coverage at full replacement cost value:
    - Alabama
    - Florida
    - Georgia
    - Hawaii
    - Louisiana
    - Mississippi
    - North Carolina
    - South Carolina
    - Texas
    - Virginia
  - Where an Insurance Provider can demonstrate that Named Windstorm or Hurricane coverage is not typical for the geographic region separate specific Named Windstorm and Hurricane coverage requirements are waived, or
  - Insurance Provider can provide a Risk Model Assessment demonstrating that a lower coverage amount is sufficient to separate specific Named Windstorm and Hurricane coverage requirements can match the risk model.
- Master Insurance Policies covering multiple projects:
  - Pooled Policies; Policies with unaffiliated projects covered under one policy program. Except as described below, unaffiliated projects may not share a master property insurance policy.
  - Policy demonstrates that it provides Replacement Cost sufficient to rebuild the project in the event of a total loss
  - Provided Schedule of Locations and Values to determine eligibility:
    - Amount of coverage dedicated to subject unit Project
    - Coverage amount is not shared with any other property (i.e., policy amount is \$1B and covers properties valued at \$1B altogether. If policy amount is \$1B and total properties covered are valued more than \$1B, policy is ineligible).

- If the project is ineligible, per the example above, exception may be considered. Consideration documentation required: Entire Schedule of Locations and Values, a detailed description of how the policy settles claims per loss claim event, and whether coverage depletes or is available for each loss claim event

## **FLOOD INSURANCE**

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas).

- Properties in Flood Zone A or V must be in a community which participates in the FEMA Program to be eligible for financing. NQM Funding, LLC aligns with Fannie Mae on Flood Insurance, and it is only required when a mortgage loan is secured by a property located in:
  - A Special Flood Hazard Area (SFHA), or
  - A Coastal Barrier System (CBRS) or Otherwise Protected Area (OPA)

## **FLOOD CERTIFICATE**

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

Flood insurance requirement can be waived if:

- Subject property improvements are not in Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- The Flood Certificate, Section B4 "Flood Zone" field is marked as "None" and Section B5 "No NFIP Map" is checked (true); and the "No" box in Section D "Determination" is checked validating the property is not in a FEMA flood zone containing the letters A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

## **MINIMUM FLOOD INSURANCE COVERAGE**

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

## **ACCEPTABLE FLOOD INSURANCE POLICIES**

Flood insurance policy must be one of the following:

- A standard policy issued under NFIP; or
- A policy issued by a private insurer if the terms and amount of coverage are at least equal to that provided under a NFIP policy based on a review of the full policy issued by the private insurer.

## **PROJECT FLOOD INSURANCE REQUIREMENTS**

- The flood policy for a PUD or condominium project must cover at minimum the subject unit's



building and any common element buildings and any other common elements and property, including machinery and equipment that are part of the building.

- The amount of flood insurance coverage for a PUD or condominium project should be at least equal to the lesser of 80% of the replacement cost value or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP) per unit.

### DEDUCTIBLE AMOUNT

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condominium project is \$25,000.

### EVIDENCE OF FLOOD INSURANCE

Flood insurance must be maintained throughout the duration of the loan. If definitive evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower's premium check, the insurance agent's paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower.
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent.

### NAMED INSURED FOR PROPERTY AND FLOOD INSURANCE

- 1-4 Unit Properties or Individual Units in a Project Development
  - The individual property or flood insurance policy last name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and the ability to receive benefits is not impaired.
- Condo Projects
  - The master property or flood insurance policy must designate the HOA as the named insured. If the condominiums legal documents permitted the master property or flood insurance policy can specify an authorized representative of the HOA, including its insured trustee, as the name insured.
- PUD Projects
  - The master property or flood insurance policy must designate the HOA as the named insured.

## NOTICE OF CANCELLATION FOR PROPERTY INSURANCE

The policy must require the insurer to notify in writing the named insured and mortgagee(s) before it cancels the policy.

## MORTGAGEE / LOSS PAYEE CLAUSE

### LOSS PAYEE CLAUSE

- **For all loans except properties in New York:**  
NQM Funding, LLC ISAOA/ATIMA  
4800 N Federal Hwy, Bldg. E, Suite 200  
Boca Raton, FL 33431
- **For properties located in New York:**  
Great Home Mortgage of New York ISAOA/ATIMA (In lieu of true name NP, Inc.)  
4800 N. Federal Hwy, Bldg. E, Suite 200  
Boca Raton, FL 33431

## MORTGAGEE CLAUSE REQUIREMENTS BY PROPERTY TYPE

### 1-4 Unit Properties

- The applicable insurance policy must include (or have attached) a "standard" or "union" mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A loss payable clause in lieu of a mortgagee clause is not acceptable.

### Unit in a project development

- If a unit owner or shareholder maintains an individual property insurance policy (as indicated by the project's legal documents) or if an individual property insurance policy is required in accordance with Determining if a Master Property Insurance Policy is required ([B7-3-03, Master Property Insurance Requirements for Project Developments](#)) for interior coverage, it must include the standard mortgagee clause as defined above.
- If an individual flood insurance policy is required in accordance with Requirements for Project Developments ([B7-3-06, Flood Insurance Requirements for All Property Types](#)), it must include the standard mortgagee clause as defined above.

## TITLE INSURANCE

### TITLE POLICY REQUIREMENTS

- Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.
- Preliminary title must indicate that the final title policy will be issued after funding.
- The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

## BORROWER INFORMATION

- All borrower names must be indicated on the title commitment. If the borrower's marital status





- appears to be different than the FNMA Form 1003, the discrepancy must be addressed.
- The property seller's name must be cross-referenced to the purchase agreement and valuation chain of title.

## COVERAGE AMOUNT

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

## INSURED NAME

Title policy must ensure the seller as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

## AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 90 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

## VESTING

Final title policy vesting should reflect the name(s) of the individual borrower(s). See [Vesting and Ownership](#).

## GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

## TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to FNMA or Freddie Mac (FHLMC).

## TITLE POLICY UNDERWRITER

A title insurer must be:

- Duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- Further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as:
  - An acceptable rating from a rating agency,

- Financial strength of the title insurer,
- Adequate reserves, or
- Record related to satisfactory title claim resolution.

Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa.

## **TITLE COMMITMENT REVIEW**

### **CHAIN OF TITLE**

- All files are to contain a 24-month title history from an acceptable source.
- Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided.
- The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

### **TITLE EXCEPTIONS**

The following items are allowable title exceptions:

- Customary public utility subsurface easements: the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights if they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.
- Municipals and local searches, when provided, must be cleared/resolved prior to loan funding or purchase.

## **SURVEY REQUIREMENTS**

- If surveys are not commonly required in a particular jurisdiction, an ALTA 9 endorsement can be obtained.
  - If neither a survey nor the ALTA 9 endorsement are customary in a particular location, title must not have a survey exception.



- If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.
- Surveys should be reviewed for easements, encroachments, flood zone impacts, and boundary violations, based on the location of the dwelling on the property.

## TEXAS HOME EQUITY LOANS (CASH-OUT REFI TEXAS)

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. Texas 50(a)(4) allows for a rate or term refinance of an existing Texas Home Equity loan.

All Texas Home Equity transactions must comply with the more restrictive of the NQM Funding, LLC Loan Purchase Eligibility Guidelines or Texas Home Equity Loans Requirements.

## TEXAS HOME EQUITY - SELLER CERTIFICATION

The seller certifies that with respect to all the Texas Section 50(a)(6) mortgages delivered to NQM Funding, LLC:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The seller has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that seller failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages. Such a process must be adequate to ensure that the seller will correct the failure to comply by one of the authorized means no later than the 60th day after the date the seller is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the seller regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The seller certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the seller given to NQM Funding, LLC connection with each Texas Section 50(a)(6) mortgage.

## TEXAS HOME EQUITY - GENERAL REQUIREMENTS

The following parameters apply to Texas Section 50(a)(6) mortgages:

- Eligible Products:
  - 40 Year Fixed Rate Term (Fully amortizing)
  - 30 Year Fixed Rate Term (Fully amortizing)



- Full Documentation, 1099, P&L Only, P&L with a minimum of two (2) months Bank Statements, Personal Bank Statement, Business Bank Statement and Asset Utilization Documentation allowed.
- Maximum LTV/CLTV 80/80%
- 1-unit properties only

### TEXAS HOME EQUITY - LOAN PARAMETERS

The following are considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work)
- Loans using proceeds to pay off federal tax debt liens.
- Loans using proceeds to pay property tax liens on the property securing the new loan.
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property.
- Loans with any cash back to the borrower.

The following are NOT considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay current taxes due on the property securing the loan.
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement).
- Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount (new loan must have a new title policy issued without exception to the financing of the prepayment fee).
- Loans that include the payment of HOA dues if the title company requires them to be paid.
- Investment Property loans in Texas and Business purpose loans (DSCR) Note NQM Funding, LLC will allow Investment Properties in Texas.

### TEXAS HOME EQUITY - RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans may not be refinanced more than once a year (>12 months)
- There can be only one outstanding 50(a)(6) loan on a property at any given time.
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off.
- The 50(a)(6) loan may not be used to acquire the property or to finance construction.

### TEXAS HOME EQUITY - OCCUPANCY

Texas Home Equity loans are eligible on Primary Residences only. All borrowers on the loan must be in title and occupy the subject property as their Primary Residence.

Cash Out transactions are eligible on Second Homes and Investment Properties in Texas if they were never previously Texas A6 loans.

### TEXAS HOME EQUITY - BORROWERS

The following borrowers are eligible on Texas Home Equity loans. All borrowers must maintain Primary Residence occupancy in the subject property:

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens



The following borrowers are ineligible:

- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- Foreign Nationals
- Corporations, partnerships, or LLCs
- Trusts

### **TEXAS HOME EQUITY - NON-BORROWING SPOUSE**

A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following:

- Notice Concerning Extension of Credit and an application signed by all property owners. The signing of both documents starts the 12-day “cooling off” period.
- Security Instrument (including any Riders)
- Truth-in-Lending (TIL) Disclosure Statement
- Right of Rescission Notice
- Discount Point Disclosure
- Acknowledgment of Fair Market Value
- Premium Pricing Disclosure
- All owners must sign the application and the Notice Concerning Equity Loan Extension of Credit (English or Spanish). The signing of both documents starts the 12-day ‘cooling off’ period.
- Notice of Presentment of CD One Day Before Closing
- Texas Home Equity Affidavit and Agreement
- Owner’s Affidavit of Compliance
- Receipt of Copies of Documents
- Certificate of Non-Cancellation of Loan

### **TEXAS HOME EQUITY - POWER OF ATTORNEY**

Power of Attorney is ineligible.

### **TEXAS HOME EQUITY - PAYOFF OF DEBT**

NQM Funding, LLC may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- NQM Funding, LLC may not require any other seller-owned debt to be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other sellers/creditors is required to qualify the borrower, then those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.
- Debts that are elected to be for paid off by the borrower but are not required to be paid off to qualify the borrower, may be disbursed directly to the borrower.
- Installment debts a payoff is required.
- Revolving debt uses the balance on the credit report.

### **TEXAS HOME EQUITY - SECONDARY FINANCING**

New subordinate financing is ineligible, but existing subordinate financing may remain in place. See

## TEXAS HOME EQUITY - PROPERTY CHARACTERISTICS

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in the state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

## TEXAS HOME EQUITY - URBAN AND RURAL HOMESTEAD DEFINITIONS

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may exceed 10 acres. However, the lot size must be typical and common with highest and best use as residential. In no case may the lot size exceed 20 acres.
PROPERTY LOCATION AND SERVICES	Property must be located: <ul style="list-style-type: none"> <li>- Within municipal boundaries, or</li> <li>- Its extraterritorial jurisdiction, or</li> <li>- A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality:               <ul style="list-style-type: none"> <li>• Electric</li> <li>• Natural gas</li> <li>• Sewer</li> <li>• Storm sewer</li> <li>• Water</li> </ul> </li> </ul>	The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is in one of those types of areas: <ul style="list-style-type: none"> <li>- It is not served by police protection or paid, or volunteer fire protection provided by the municipality or under contract to a municipality, and</li> <li>- The municipality provides directly or under contract less than three (3) of the following services:               <ul style="list-style-type: none"> <li>• Electric</li> <li>• Natural gas</li> <li>• Sewer</li> <li>• Storm sewer</li> <li>• Water</li> </ul> </li> </ul>

Properties determined to be 'Urban' cannot exceed 10 acres. Property determined to be 'Rural' may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

## TEXAS HOME EQUITY - 12-DAY COOLING OFF PERIOD

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English.

And an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Equity Loan Extension of Credit.
- E consent signatures are acceptable.
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non-borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
  - The date the initial loan application is signed, or
  - The date that the Notice Concerning Equity Loan Extension of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

## TEXAS HOME EQUITY - CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The seller is responsible for ensuring all timing requirements under Regulation Z and state law are complied with.

Borrowers must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

## TEXAS HOME EQUITY - POINTS AND FEES

Borrower paid fees are limited to 2% of the principal balance (including the origination fee). The following are not included in the 2% limitation:

- Lender paid closing costs.
- Per diem interest
- Bona fide discount points are used to reduce the interest rate.
- Escrow/impound funds.
- Appraisal fee paid to third-party appraiser.
- Surveys (completed by state registered or licensed surveyors)
- A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law; or if a mortgagee title policy is not issued, a title examination report (if cost is less than the state base premium for a mortgagee title policy without endorsements)

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment.

Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

## TEXAS HOME EQUITY - ATTORNEY REVIEW

All documents must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by NQM Funding, LLC).

- McGlinchey Stafford and Youngblood & Associates
- Polonsky Betel Green, LLP
- Brown, Fowler, Alsip
- Beadle, Newman, & Lawler
- Gregg & Valby, LLC
- Black, Mann and Graham, LLP
- Robertson Anschutz Vettters, LLC

## TEXAS HOME EQUITY - TITLE

A title insurance policy written on Texas Land Title Association forms (standard or short) including T42 and T42.1 endorsements are required.

For self-employed borrowers operating a business from the homestead property, the title company must issue a T42.1 endorsement without exception or deletion.

Title may not include language that:

- Excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance;” or
- Defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company’s office or attorney’s office. No mobile notaries are permitted.

## TEXAS HOME EQUITY - SURVEY

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size.
- Evidence homesteads property and any adjacent land are separate.
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available.
- Properties must be served by municipal utilities, fire, and police protection.
- Homestead must be a separate parcel within permissible acreage.

A T19 endorsement is permitted in lieu of a survey when title is willing to insure over it; title survey and/or encroachment exceptions are not permitted.

## TEXAS HOME EQUITY - DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and seller must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)





- Texas Home Equity Note (Form 3244.1)
- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condo Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Lender's Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the Seller's Attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings if borrower owns more than one.
- Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)
- Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan or a HELOC) with subordination agreement, if applicable.

### TEXAS HOME EQUITY – 50(f)(2) REFINANCING AN EXISTING HOME EQUITY LOAN

Existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed.
- the additional loan amount only covers the actual costs of the refinancing and does not provide the consumer with additional funds.
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The 'Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner: For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner/owner's spouse.

All the above requirements must be met for the home equity loan to be refinanced as a non-home equity loan.

## FORMS AND TOOLS

The most up-to-date versions of all NQM FUNDING, LLC forms, matrices, and guidelines can be accessed through the NQM FUNDING, LLC Client Portal under *Guidelines and Matrices*.

The following forms can be found under *Documents* via the NQM Funding, LLC (NQMF) Client Portal

- Ability to Repay
- Affiliated Business Disclosure
- Allonge Signatory Certification
- Anti-Steering Disclosure
- Automatic Payment Authorization Form
- Borrower Certificate of Business Purpose
- Borrower Contact Consent
- Buydown Agreement
- Business Narrative
- Commercial Loan Application
- Condo Project Questionnaire
- DSCR Compliance Agreement
- Exception Request Form
- Gift Letter
- ICD Request Forms
- LLC Borrowing Certificate
- NY Approved Attorney List
- NY Attorney Approval Request
- NY Approved Housing Counselors
- NY Choice of Attorney Certification
- NY Consumer Counseling Notice
- Occupancy Certificate
- Prepayment Addendum
- Request for Verification of Earnings
- Spousal Consent Form
- Taxpayer Consent Form

Sample Forms are available under *Documents* via in the Client Portal.

- Expense Statement CPA Letter
- Foreign National Mortgage Reference Letter
- Foreign National Bank Reference Letter
- Foreign National CPA Reference Letter for a Free and Clear Property
- Foreign National Credit Reference Letter
- Foreign National Employer Reference Letter

## CHANGE HISTORY

Change Date	Description of Change
11/03/2025	<p><b>GUIDELINES AND MATRICES</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li> <b>Second Lien Select</b> – New second lien program being introduced <ul style="list-style-type: none"> <li>Available for Delegated Correspondent only</li> <li>Piggyback and Stand Alone options available</li> <li>Max Loan amount \$1,000,000</li> <li>Max Combined Lien Balance \$4,000,000</li> <li>AVM and Property Condition Report only up to \$400,000</li> <li>Max CLTV 85%</li> <li>Minimum Credit Score 700</li> <li>Available on Primary, Second Homes and Investment Properties</li> <li>Full, Alt Doc and DSCR Options Available</li> </ul> </li> <li> <b>Second Lien – Closed End</b> – Program has been retired and replaced with the Second Lien Select offering </li> <li> <b>Flex Select</b> – Updated as follows: <ul style="list-style-type: none"> <li>Clarified that subordinate financing is permitted on investment properties only when used in conjunction with the Second Lien Select Program.</li> </ul> </li> <li> <b>Select ITIN</b>– Updated as follows: <ul style="list-style-type: none"> <li>Minimum score for ITINs is 660 for all occupancy types. See matrix for applicable LTV limitations.</li> <li>Maximum loan amount on Investment properties in the 660 and 680 buckets is capped at \$1,500,000; to align with primary residences and second homes.</li> </ul> </li> <li> <b>DSCR Supreme, Investor DSCR and DSCR Multi &amp; Mixed</b> – The Qualifying Score has been updated as follows: <ul style="list-style-type: none"> <li>For Individual Borrowers: <ul style="list-style-type: none"> <li>When there are multiple borrowers, use the highest representative score.</li> </ul> </li> <li>For Entity Vesting: <ul style="list-style-type: none"> <li>Use the representative score for the borrower/guarantor with the highest percentage of ownership. For equal ownership, use the highest representative score.</li> <li>Minimum of 25% ownership for the member whose score is used for qualifying.</li> </ul> </li> <li>Minimum score of 640 is required for all borrowers.</li> </ul> </li> <li> <b>Investor DSCR No Ratio</b>– The Qualifying Score has been updated as follows: <ul style="list-style-type: none"> <li>For Entity Vesting: <ul style="list-style-type: none"> <li>Use the representative score for the borrower/guarantor with the highest percentage of ownership. For equal ownership, use the lowest representative score.</li> </ul> </li> <li>Minimum score of 640 is required for all borrowers.</li> </ul> </li> <li> <b>Investor DSCR</b> – Updated as follows: <ul style="list-style-type: none"> <li>Clarified that subordinate financing is permitted only when used in conjunction with the Second Lien Select Program.</li> </ul> </li> <li> <b>Foreign National</b> – Updated as follows: <ul style="list-style-type: none"> <li>Increased the max LTV on a Purchase and Rate/Term Refi with a 700+ score to 70% with a loan amount up to \$2,000,000.</li> <li>Increased the max LTV on a Purchase and Rate/Term Refi with Foreign Credit to 65% with a loan amount up to \$2,000,000.</li> <li>Increased the max LTV on a Cash Out with Foreign Credit to 60% with a loan amount up to \$2,000,000.</li> </ul> </li> <li> <b>Delayed Financing:</b> <ul style="list-style-type: none"> <li>Clarified that the appraised value may be used for LTV purposes, subject to any restrictions in the properties listed for sale section of the guide.</li> </ul> </li> <li> <b>Subordinate Financing:</b> <ul style="list-style-type: none"> <li>Clarified that subordinate financing is permitted on investment transactions when closed in conjunction with the Second Lien select program.</li> <li>Added Ineligible First Lien criteria that must be met when the new loan is a subordinate lien.</li> </ul> </li> <li> <b>Borrowers/Guarantors:</b> <ul style="list-style-type: none"> <li>Added language in the guide to refer to guarantors interchangeably with borrowers.</li> <li>Updated the Ineligible Borrowers section to include individuals on the Excluded Party</li> </ul> </li> </ul>

	<p>Lists.</p> <ul style="list-style-type: none"> <li>• <b>Entity Vesting:</b> <ul style="list-style-type: none"> <li>◦ Replaced the term borrower with guarantor in the Entity Signature Requirements section.</li> </ul> </li> <li>• <b>Tradelines:</b> <ul style="list-style-type: none"> <li>◦ Clarified that Stand-Alone Second Lien Select loans must meet the minimum tradeline requirement.</li> </ul> </li> <li>• <b>Limited Tradelines:</b> <ul style="list-style-type: none"> <li>◦ Clarified that there are no additional tradeline requirements provided the guidelines in this section are met.</li> </ul> </li> <li>• <b>Rent Free:</b> <ul style="list-style-type: none"> <li>◦ Not permitted with Second Lien Select program.</li> </ul> </li> <li>• <b>Self-Employed Full Doc:</b> <ul style="list-style-type: none"> <li>◦ Eliminated the need for two months of business bank statements to document income. A YTD P&amp;L is still required, but only if the tax return date is more than 120 days from the Note Date. The Self-Employed Verification of Employment will validate continued business existence within 30 days of the Note Date.</li> </ul> </li> <li>• <b>Ratios and Qualifying:</b> <ul style="list-style-type: none"> <li>◦ Added a Second Lien Select Senior Lien Qualifying Terms section detailing out how to qualify the payment when the first is an Interest Only or ARM loan.</li> </ul> </li> <li>• <b>DSCR Mixed and Multi 5-10 Unit Occupancy Requirements:</b> <ul style="list-style-type: none"> <li>◦ Updated to require a maximum of 3 vacant units on a purchase of a 7+ unit property. Any vacant unit must be either actively listed or have a recently executed lease in place. In addition, all units must be in lease-ready condition.</li> </ul> </li> <li>• <b>Assets, use of Certificates of Deposit:</b> <ul style="list-style-type: none"> <li>◦ Certificates of Deposits are eligible for closing costs, reserves, or asset utilization subject to the following guidance: <ul style="list-style-type: none"> <li>▪ Value to be calculated at 100% of the pre-maturity surrendering value of the CD, minus any penalty that has been accumulated upon early withdrawal.</li> </ul> </li> </ul> </li> <li>• <b>Interested Party Contributions:</b> <ul style="list-style-type: none"> <li>◦ Clarified that IPCs are not permitted on Stand Alone Second Liens</li> </ul> </li> <li>• <b>Rent Loss Insurance:</b> <ul style="list-style-type: none"> <li>◦ Clarified that to waive rent loss insurance on the DSCR Supreme or Investor DSCR Programs, the additional three months of reserve requirement cannot be satisfied with cash out proceeds.</li> </ul> </li> </ul>
10/06/2025	<p><b>GUIDELINES AND MATRICES</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li>• <b>Flex Supreme</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ Eligible Transactions. These are now eligible under Flex Supreme and the requirements will line up with Flex Select <ul style="list-style-type: none"> <li>▪ Non-Arm's Length</li> <li>▪ Delayed Financing</li> <li>▪ Flip Transactions</li> <li>▪ Cash out refinances in a declining market</li> <li>▪ TX Refinances</li> <li>▪ Land Contract Refinances</li> <li>▪ Title held as Tenants in Common</li> </ul> </li> <li>◦ Cash out: <ul style="list-style-type: none"> <li>▪ Unlimited with LTVs &gt; 60% permitted with 18 months reserves exclusive of cash back</li> </ul> </li> <li>◦ Borrower Eligibility: <ul style="list-style-type: none"> <li>▪ Non-Permanent Resident aliens permitted per guides</li> </ul> </li> <li>◦ Non-Occupant CoBorrower: <ul style="list-style-type: none"> <li>▪ DTI increased to 50%</li> </ul> </li> <li>◦ First Time Homebuyer: <ul style="list-style-type: none"> <li>▪ DTI increased to 50%</li> </ul> </li> <li>◦ Tradeline Requirements: <ul style="list-style-type: none"> <li>▪ When the primary borrower has three scores, the tradeline requirements are considered to have been met</li> </ul> </li> <li>◦ DTI: <ul style="list-style-type: none"> <li>▪ DTI is now max 50% without further restrictions</li> </ul> </li> <li>◦ Secondary Income: <ul style="list-style-type: none"> <li>▪ Now permitted provided it is documented according to guides</li> </ul> </li> <li>◦ <b>Business/Co-Mingled Bank Statements:</b> <ul style="list-style-type: none"> <li>▪ Removed the requirement for a minimum business ownership of 50%.</li> <li>▪ Added PTIN to expense ratio eligible provider</li> </ul> </li> </ul> </li> </ul>

- o Asset Utilization:
    - May be used as supplemental income
    - Permitted for investment properties
    - When assets are the sole source of income or the DTI is > 60% without asset utilization, Monthly Income is calculated as net qualified assets / 60 months
    - When the DTI without asset utilization is <= 60%, Monthly Income is calculated as net qualified assets / 36 months.
  - o Gift Funds:
    - All gift funds may be used for downpayment and closing costs on an O/O or 2<sup>nd</sup> Home when the LTV is 80% or less
    - Gifts of equity are permitted
- **Flex Select** – Updated as follows:
  - o Housing History:
    - Max of 1x30x12 permitted per matrix.
    - Up to 3x30x12 permitted with the following conditions:
      - The borrower is 0x30 in the most recent 6 months.
      - Max LTV to be reduced by 10% from the matrix.
  - o Credit/Housing Events:
    - Must be seasoned for 2 years
  - o **Business/Co-Mingled Bank Statements:**
    - Added PTIN to expense ratio eligible provider.
- **Super Jumbo** – Updated as follows:
  - o **Business/Co-Mingled Bank Statements:**
    - Added PTIN to expense ratio eligible provider.
- **Select ITIN** – Updated as follows:
  - o **Housing History:** Updated from 0x30x24 back to 0x30x12
  - o **Business/Co-Mingled Bank Statements:**
    - Added PTIN to expense ratio eligible provider
    - The minimum expense ratio provided by a CPA/EA or PTIN tax preparer has increased from 10% to 20%.
- **DSCR: All Programs** – Updated as follows:
  - o Clarified that a C4 rating does not automatically make the property ineligible. A review of the collateral will be done to ensure that the property condition is acceptable.
  - o Websites such as the below will be reviewed to analyze whether the property should be classified as rural and subject to rural guidelines.
    - <https://www.consumerfinance.gov/rural-or-underserved-tool/>
- **DSCR Supreme** – Updated as follows:
  - o Eligible Transactions. These are now eligible under DSCR Supreme and the requirements will line up with Investor DSCR
    - Delayed Financing
    - Flip Transactions
    - Cash out refinances in a declining market
    - TX Refinances
  - o Borrower Eligibility:
    - Non-Permanent Residents are permitted and the requirements line up with Investor DSCR
  - o Tradelines:
    - When all borrowers have three scores, the tradeline requirements are considered to have been met
  - o DSCR:
    - Minimum 1.00 DSCR for First Time Investors (was previously 1.25)
- **DSCR Mixed and Multi** – Updated as follows:
  - o Transferred appraisals are no longer permitted as of 9/26/25.
- **Underwriting Guidelines** – Updated as follows:
  - o Typographical and Organizational updates have taken place within the Underwriting Guide. In addition, content that was erroneously removed has been added back.
  - o General update to guideline formatting to improve readability and consistency.
- **Entity Vesting:**
  - o Evidence of Certificate of Good Standing can be provided via a screen shot from the state website.
  - o A Borrowing Certificate is only required when vesting in an LLC if the borrower's signing authority is not validated through the Operating Agreement or a Certificate of Authorization.
- **Foreign Credit:**

	<ul style="list-style-type: none"> <li>o Clarified that when using Foreign Credit to qualify, the loan will be priced as a Foreign National.</li> <li>• <b>P&amp;L only and P&amp;L plus 2 months Bank Statements:</b> <ul style="list-style-type: none"> <li>o Added a requirement to review the total expenses on the P&amp;L as compared to gross revenue. When the expenses listed are less than 20% of the gross revenue, the net income must be adjusted to reflect a 20% expense level when qualifying. The NQMF Bank Statement Calculator has been updated to reflect this calculation.</li> </ul> </li> <li>• <b>Written Verification of Employment:</b> <ul style="list-style-type: none"> <li>o Removed the limitation to only allow income from one source. Provided each source is documented according to guidelines, multiple sources may be permitted.</li> </ul> </li> <li>• <b>Asset Utilization:</b> <ul style="list-style-type: none"> <li>o Clarified that proceeds from the sale of real estate not seasoned for 3 months are an ineligible asset source for asset utilization.</li> </ul> </li> <li>• <b>Transferred Appraisals:</b> <ul style="list-style-type: none"> <li>o Added Mixed &amp; Multi 5-10 Unit Appraisals as an ineligible transfer type</li> </ul> </li> <li>• <b>Appraisal Review Process 1-4 Unit Residential:</b> <ul style="list-style-type: none"> <li>o Added the ability to accept a HouseCanary AVM with an FSD of no more than 0.10 and a value of no more than 10% below the appraised value to meet the Appraisal Review requirement. This is not permitted on No Ratio loans. In addition, the AVM cannot override a desk, field, or full appraisal.</li> </ul> </li> <li>• <b>Accessory Dwelling Units:</b> <ul style="list-style-type: none"> <li>o Removed the requirement for the appraiser to reduce the appraised value for ADUs not meeting the requirements of the guide. The underwriter is permitted to reduce the value by the amount of the ineligible ADU for LTV qualifying purposes.</li> <li>o Clarified that when there is an accessory unit which is not substantially smaller than the primary dwelling, the property must be treated as a 2-4 unit property for eligibility purposes.</li> </ul> </li> <li>• <b>Unpermitted Additions:</b> <ul style="list-style-type: none"> <li>o Removed the requirement for the appraiser to comment on the ability of the property to pass an inspection. That commentary is outside of the scope of the appraiser's duties. The appraiser is required to comment that any unpermitted additions were completed in a professional manner.</li> </ul> </li> </ul>
9/10/2025 v3	<p><b>MATRICES</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li>• <b>All Matrices are also included in the Program Section of the Underwriting Guidelines except the Geographic Restrictions</b> (which is in the General Guidelines and the “grid” or hard guidelines i.e. Credit Score / Loan Amount / LTV requirements.</li> <li>• <b>Flex Supreme</b> – Updated as follows: <ul style="list-style-type: none"> <li>o <b>Geographic Restrictions:</b> Clarified the Texas Section 50 loan restrictions...</li> <li>o <b>Credit Score:</b> the minimum score for additional borrower has increased from 540 to 600 when not the primary wage earner.</li> <li>o <b>Business/Co-Mingled Bank Statements:</b> <ul style="list-style-type: none"> <li>▪ Removed the requirement for a minimum business ownership of 50%.</li> <li>▪ The minimum expense ratio provided by a CPA or EA has increased from 10% to 20%.</li> </ul> </li> <li>o <b>IRS Form 1099:</b> added the 1 Year documentation option for 1099 Income.</li> </ul> </li> <li>• <b>Flex Select</b> – Updated as follows: <ul style="list-style-type: none"> <li>o <b>Credit Score:</b> the minimum score for additional borrower has increased from 540 to 600 when not the primary wage earner.</li> <li>o <b>P&amp;L with 2+ months Bank Statements:</b> added PTIN to eligible provider.</li> <li>o <b>P&amp;L Only:</b> <ul style="list-style-type: none"> <li>▪ All borrowers must have a minimum credit score of 700.</li> <li>▪ Added PTIN to eligible provider.</li> </ul> </li> <li>o <b>Business/Co-Mingled Bank Statements:</b> the minimum expense ratio provided by a CPA or EA has increased from 10% to 20%.</li> <li>o <b>Property Types - Condotel:</b> Removed the Cash Out Dollar amount limitation.</li> <li>o <b>Express DU:</b> Clarified the maximum loan amount, max LTV and reserves requirements section.</li> </ul> </li> <li>• <b>Super Jumbo</b> – Updated as follows: <ul style="list-style-type: none"> <li>o <b>Business/Co-Mingled Bank Statements:</b> the minimum expense ratio provided by a CPA or EA has increased from 10% to 20%.</li> </ul> </li> <li>• <b>Select ITIN</b> – Updated as follows: <ul style="list-style-type: none"> <li>o <b>Credit Score:</b> the minimum score for additional borrower has increased from 540 to 600 when not the primary wage earner.</li> <li>o <b>Housing History:</b> updated from 0x30x24 back to 0x30x12</li> <li>o <b>Property Types - Condominium:</b> Removed the CLTV limitation for condos since subordinate financing is not permitted for ITIN Borrowers.</li> </ul> </li> </ul>

- **Foreign National** - Updated as follows:
  - The entire Matrix has been updated from the previous version, including Housing History, eligibility and restrictions for ITIN, Non-Occupant Co-Borrower, FTHB, Reserves, Credit Score and Income Doc Type.
  - **Loan Amounts:** updated to revert to the original \$150,000 to \$3,000,000.
  - **Buydowns:** Updated to not permitted
  - **Products:** removed the 5/6 SOFR ARM fully amortizing and I/O products from eligibility.
  - **Interest Only:** Updated to permitted without restrictions on the 30 Year Fixed I/O Product.
  - **Cash-Out Refinance:** clarified the max LTV for condos and 2-4 Units and max cash in hand.
  - **Full Doc Income Requirements:** for wage earners and self-employed borrowers, an unaffiliated certified translator must translate all documents.
  - **Property Types:** Rural Properties are not permitted
  - **Appraisals:** although C3 condition rating is generally required; Properties with a C4 rating must be sufficiently justified to determine marketability and acceptance.
  - **Insurance:** Rent Loss Insurance may be waived with three additional months of PITIA reserves.
- **Second Lien Select** - Updated as follows:
  - Credit Score: the minimum score for additional borrower has increased from 540 to 620 when not the primary wage earner.
- **DSCR Supreme** - Updated as follows:
  - **Credit Score:** the representative score is the lowest middle score of all borrowers.
  - **Cash-Out:** Removed the bullet with an incomplete definition of rate/term
  - **Insurance:** Rent Loss Insurance may be waived with three additional months of PITIA reserves.
  - **Appraisals:** although C3 condition rating is generally required; Properties with a C4 rating must be sufficiently justified to determine marketability and acceptance.
- **Investor DSCR** - Updated as follows:
  - Removed DSCR No Ratio.
  - **Insurance Requirements:** Rent Loss Insurance may be waived with three additional months of PITIA reserves.
  - **Appraisals:** although C3 condition rating is generally required; Properties with a C4 rating must be sufficiently justified to determine marketability and acceptance.
- **Investor DSCR No Ratio** - NEW standalone Program Matrix:
  - **Reserves:** Removed reserve requirements for DSCR >= .75
  - **Insurance Requirements:** Rent Loss Insurance may not be waived with additional months of PITIA reserves.
  - **Appraisals:** although C3 condition rating is generally required; Properties with a C4 rating must be sufficiently justified to determine marketability and acceptance.
- UNDERWRITING GUIDELINES** - Updated as follows:
  - The Guide has undergone a makeover from an organizational, naming convention and overall streamlining standpoint. The guidelines have been recreated into essentially 3 sections:
    - **Intro / Governing Statements**
    - **Programs**
      - Mirrors the matrices except the Geographic Restrictions (which is in the General Guidelines and the "grid" or hard guidelines i.e. Credit Score / Loan Amount / LTV requirements.
    - **General Guidelines**
  - **Geographic Restrictions:** These restrictions were previously announced but were not updated in the Guidelines. Provided clarification for New York State restrictions on all Matrices.
    - New York State:
      - Effective July 29, 2025, NQMF has temporarily halted wholesale originations for all TRID loans in the state of New York. Please note that correspondent loans (delegated and non-delegated) and business purpose loans remain unaffected.
      - All originations are restricted as follows:
      - Brooklyn: Effective July 29, 2025, Investment Properties are ineligible, including DSCR.
      - Orange County: Effective July 2, 2025, all occupancies are ineligible.
      - No 5/6 ARMs on Investment Property loans below the FNMA loan limit.
      - See NY Subprime section for requirements.
      - Short Term Rentals (STRs) are ineligible in the five (5) New York City Boroughs (Manhattan, Brooklyn, The Bronx, Queens and Staten Island).

	<ul style="list-style-type: none"> <li>o July 2, 2025, investment properties including DSCR are not permitted in the following locations: <ul style="list-style-type: none"> <li>▪ Brooklyn NY</li> <li>▪ Lubbock, TX</li> <li>▪ Patterson, New Jersey</li> <li>▪ Charlotte, Lee, Hendry, and Glades counties, Florida</li> <li>▪ Indianapolis, Indiana</li> <li>▪ Washington, D.C.</li> </ul> </li> <li>o All Occupancies are not permitted in the following locations: <ul style="list-style-type: none"> <li>▪ Orange County, New York</li> <li>▪ Cook County, Illinois</li> <li>▪ Baltimore City, Maryland</li> </ul> </li> <li>• <b>Daily Simple Interest:</b> Loans where interest is calculated based on daily simple interest are not eligible on any of our Programs.</li> <li>• <b>Rate/Term Refinance:</b> Reinstated our original definition of “Maximum cash-back to borrower must be the lesser of 2% of the new loan amount <u>or \$5,000.</u>”</li> <li>• <b>Cash-Out Refinance (C/O):</b> while maintaining the property is an acceptable use for Cash Out Refinance proceeds, major renovations or rehabs, tear downs etc., are not permitted on the subject property that could deem the property uninhabitable.</li> <li>• <b>Flip Transactions:</b> New construction by a production builder is considered a flip transaction if the developer acquired the lot in the last 180 days and the purchase price has increased by more than 120%.</li> <li>• <b>Non-Permanent Resident Aliens – Documentation:</b> <ul style="list-style-type: none"> <li>o Added the highlighted detail to I-551 – Conditional Permanent Residence Card (Green Card) issued for 2 years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions: when the Green Card is expiring within 90 days of the 2 year conditional expiration date.</li> </ul> </li> <li>• <b>Non-Permanent Resident Aliens – Employment Requirements:</b> <ul style="list-style-type: none"> <li>o Replaced the words “housing history” with “residency” in the following bullet:</li> <li>o 2 years employment in the same line of work and 2 years residency (in the U.S. or abroad)</li> </ul> </li> <li>• <b>Employment Authorization (Non-Perm):</b> reduced the borrower’s employment authorization expiration period from 6 to 3 months.</li> <li>• <b>Visa (Non-Perm):</b> reduced the visa expiration period from 6 to 3 months.</li> <li>• <b>Employee Loans:</b> loan must be originated as a Full Documentation type only</li> <li>• <b>Foreign Credit:</b> clarified that an <u>unaffiliated</u> certified translator must translate all documents. Google translator is not permitted.</li> <li>• <b>Credit Score Requirements:</b> <ul style="list-style-type: none"> <li>o Raised the minimum score for additional borrowers from 540 to 600 on the following Programs Flex Supreme, Flex Select, and Select ITIN</li> <li>o Raised the minimum score for additional borrowers from 540 to 620 on the Second Lien Select Program.</li> </ul> </li> <li>• <b>Housing History Verification (Non-DSCR):</b> if the borrower is making payments to an individual or interested party, one of the following is required: A copy of the note/lease along with the consecutive most recent 12 months of canceled checks, bank statements, or Venmo/Paypal documentation.</li> <li>• <b>Incomplete Housing History (Non-DSCR):</b> All months in which the borrower has rented and/or had a housing history must be documented.</li> <li>• <b>Seasoning (Housing Event / Bankruptcy):</b> housing events caused by a FEMA declared natural disaster does not count as a credit event instance.</li> <li>• <b>Qualified Assets:</b> college savings accounts i.e., 529 plans are ineligible asset sources</li> <li>• <b>Employment by a Relative:</b> All loans require Full Documentation.</li> <li>• <b>Foreign Income:</b> reworded the requirements to expand and restrict; and when Foreign Income is used the loan must be priced as a Foreign National regardless of citizen status. If occupancy type is a Primary Residence, the loan would be priced as a Second Home.</li> <li>• <b>Asset Documentation:</b> All pages of any statements provided for Asset Documentation are required. Summaries will not be accepted.</li> <li>• <b>New Construction:</b> <ul style="list-style-type: none"> <li>o Certificate of Occupancy, when required per municipality</li> <li>o Taxes must be based on the improved value. Unless otherwise documented from the title company, use 1.5% of the purchase price for qualifying.</li> </ul> </li> </ul>
--	---



<p>1/30/2025 v1.2</p>	<p>Below please find a summary of updates effective immediately to our NonQM Guidelines and Matrices for applications submitted and locked effective on or after <b>January 30, 2025</b>.</p> <p><b>PROGRAM MATRICES</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li>• <b>Geographic Restrictions:</b> <ul style="list-style-type: none"> <li>○ <u>Effective immediately on 1/29/2025, the temporary restrictions in the State of Maryland have been lifted for Business Purpose Only loans.</u></li> <li>○ Updates apply to the following Programs: <ul style="list-style-type: none"> <li>▪ <b>Flex Supreme</b></li> <li>▪ <b>Flex Select</b> <ul style="list-style-type: none"> <li>○ Note: Going forward we will publish one combined Matrix for Delegated and Non-Delegated Correspondent &amp; Wholesale.</li> </ul> </li> <li>▪ <b>Select ITIN</b></li> <li>▪ <b>Super Jumbo</b></li> <li>▪ <b>Investor DSCR</b></li> <li>▪ <b>DSCR Multi &amp; Mixed</b></li> <li>▪ <b>Foreign National</b></li> <li>▪ <b>Matrices Side-by-Side</b></li> </ul> </li> </ul> </li> </ul> <p><b>MATRICES</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li>• <b>All Matrices</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ The version number will continue from the last published version along with the date the latest version was published. Example: <ul style="list-style-type: none"> <li>▪ Flex Select v1.2 published 1/20/2025</li> <li>▪ Flex Select v1.3 published 1/30/2025.</li> </ul> </li> </ul> </li> <li>• <b>Flex Supreme</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ <b>Alt Doc Bank Statement Acceptable Variance Levels:</b> Removed the requirements from the Matrix and Guidelines.</li> </ul> </li> <li>• <b>Investor DSCR</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ <b>Loan Amounts:</b> Relocated the smaller loan amounts with LTV overlays from the General Requirements section to the Matrix by adding smaller loan amount tiers with restricted LTVs.</li> <li>○ <b>&gt;= 1.00 DSCR Matrix:</b> Added the smaller loan amount tiers with the restricted LTVs to the grid to avoid confusion.</li> <li>○ <b>Rural Property:</b> reworded the requirements for clarity and consistency.</li> </ul> </li> <li>• <b>DSCR Multi &amp; Mixed</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ <b>Rural Property:</b> reworded the requirements for clarity and consistency.</li> </ul> </li> </ul> <p><b>GUIDELINES</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li>• The Guide version number will continue from the last published version along with the date the latest version was published. Example: <ul style="list-style-type: none"> <li>○ Flex Non QM Guidelines Version 1.1 published 1/20/2025</li> <li>○ Flex NonQM Guidelines Version 1.2 published 1/30/2025</li> </ul> </li> </ul> <p><b>General Program Information</b> – Updated as follows:</p> <ul style="list-style-type: none"> <li>○ Clarified that the Guidelines contain Program overlay sections when the requirements differ; and when the requirements are the same, we defer to the relevant sections of the general Guidelines. Note that where these Guidelines are silent, please defer to FNMA Guidelines.</li> <li>• <b>Flex Supreme</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ <b>Assets – Verification and Sourcing Funds</b> – Updated as follows: <ul style="list-style-type: none"> <li>▪ Updated to reflect that only one (1) bank statement covering the past 30-days or most recent quarterly statement is required.</li> </ul> </li> <li>○ <b>Alt Doc – Bank Statements Income Requirements:</b> Removed this section containing overlays for Flex Supreme. Refer to the bank statement section within the Guide.</li> <li>○ <b>Alt Doc Bank Statement Acceptable Variance Levels:</b> Removed this section containing overlays for Flex Supreme. Refer to the bank statement section within the Guide.</li> <li>○ <b>Alt Doc – Personal Bank Statements Requirements:</b> Removed this section containing overlays for Flex Supreme. Refer to the bank statement section within the Guide.</li> </ul> </li> <li>• <b>2-1 Temporary Buydown</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ Effective 1/28/2024, Business Purpose loans are no longer restricted by the State of Maryland temporary restrictions; the restrictions remain for Primary and Second Home loans since 1/20/2025. Please refer to the Program Matrices for eligibility.</li> </ul> </li> <li>• <b>Co-Borrowers</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ Removed the requirement to occupy the subject property.</li> </ul> </li> <li>• <b>Bank Statement Analysis Requirements</b> – Updated as follows: <ul style="list-style-type: none"> <li>○ Reworded the requirements to clarify that for all Programs using bank statements to qualify, when updated bank statements are provided, the income must be</li> </ul> </li> </ul>
---------------------------	--

	<p>recomputed using the most recent statements provided.</p> <ul style="list-style-type: none"> <li>• <b>Personal Bank Statement – 12- or 24- Months</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ Removed the Flex Supreme overlay requiring a minimum of 50% ownership of the business for eligibility.</li> </ul> </li> <li>• <b>Business Bank Statement</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ Reworded the bullet that addresses the minimum 25% ownership requirement to include all applicable programs for eligibility when using bank statements.</li> </ul> </li> <li>• <b>Assets</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ <b>Asset Documentation</b> Removed 2-months requirements for Flex Supreme.</li> </ul> </li> <li>• <b>State Restrictions</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ Effective 1/28/2025 new rate locks restrictions in the State of Maryland are no longer in effect for Business Purpose Loans; the temporary restrictions remain in effect for Primary and Second Home loans since 1/20/2025. Please refer to the Program Matrices for eligibility.</li> </ul> </li> <li><b>Condotels</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ Condotels for Business Purpose loans are no longer restricted in the State of Maryland as of 1/28/2025; the temporary restrictions remain in effect for Second Homes since 1/20/2025. Please refer to the Program Matrices for eligibility.</li> </ul> </li> <li>• <b>DSCR (1-4 Units)</b> – Updated as follows: <ul style="list-style-type: none"> <li>◦ <b>Lease and Occupancy Requirements:</b> Added this section to standardize the requirements across all DSCR Programs.</li> </ul> </li> </ul>
--	--