

PRIMARY RESIDENCE – PURCHASE AND RATE/TERM REFINANCE, FULLY AMORTIZING ¹			
Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-4 Units	90%	\$3,000,000	720
PUD	85%	\$2,500,000	680
Condo			
Co-op	80%	\$2,000,000	660

PRIMARY RESIDENCE – CASH-OUT REFINANCE, FULLY AMORTIZING ^{1,3}			
Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-4 Units	80%	\$2,500,000	720
PUD			
Condo	75%	\$2,000,000	660
Co-op			

SECOND HOME – PURCHASE AND RATE/TERM REFINANCE, FULLY AMORTIZING ¹			
Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-Unit	85%	\$2,500,000	720
PUD	80%	\$2,000,000	680
Condo			
Co-op	75%	\$1,500,000	660

SECOND HOME – CASH-OUT REFINANCE, FULLY AMORTIZING ^{1,3}			
Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-Unit	75%	\$2,500,000	720
PUD	70%	\$2,000,000	680
Condo			
Co-op	65%	\$2,000,000	660

INVESTMENT – PURCHASE AND RATE/TERM REFINANCE, FULLY AMORTIZING ^{1,2}			
Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-4 Units	80%	\$2,500,000	720
PUD	75%	\$2,000,000	680
Condo			
Co-op	70%	\$1,500,000	660

INVESTMENT – CASH-OUT REFINANCE, FULLY AMORTIZING ^{1,3}			
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1-4 Units	75%	\$2,500,000	720
PUD	70%	\$2,000,000	680
Condo			
Co-op	65%	\$1,500,000	660

Footnotes:

1. LTV Restrictions:

- No subordinate financing allowed.
- Declining markets as defined by the appraisal - reduce max LTV by 5%, not to exceed 80% LTV.
- For Rural properties, refer to [Eligible Property Types](#) for LTV restrictions.

2. First Time Home Buyers not allowed on investment properties.

3. Refer to Cash Out Refinance section for cash out limits.

PRIMARY RESIDENCE – PURCHASE AND RATE/TERM REFINANCE, INTEREST ONLY ⁴

Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-4 Units	85%	\$3,000,000	720
PUD	80%	\$2,500,000	700
Condo			
Co-op	75%	\$2,000,000	680

PRIMARY RESIDENCE – CASH-OUT REFINANCE, INTEREST ONLY ^{4,6}

Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-4 Units	80%	\$2,000,000	700
PUD	75%	\$2,500,000	720
Condo			
Co-op	70%	\$1,500,000	680

SECOND HOME – PURCHASE AND RATE/TERM REFINANCE, INTEREST ONLY ⁴

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1-Unit	80%	\$2,500,000	720
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SECOND HOME – CASH-OUT REFINANCE, INTEREST ONLY ^{4,6}

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1-Unit	75%	\$2,500,000	720
PUD			
Condo	70%	\$2,000,000	700
Co-op			

INVESTMENT – PURCHASE AND RATE/TERM REFINANCE, INTEREST ONLY ^{4,5}

Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
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PUD	70%	\$2,000,000	700
Condo			
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INVESTMENT – CASH-OUT REFINANCE, INTEREST ONLY ^{4,6}

Property Type	Maximum LTV	Maximum Loan Amount	Minimum Credit Score
1-Unit	70%	\$2,000,000	720
PUD			
Condo	65%	\$1,500,000	700
Co-op			

Footnotes:

4. LTV Restrictions:

- No subordinate financing allowed.
- Declining markets as defined by the appraisal - reduce max LTV by 5%, not to exceed 80% LTV.
- For Rural properties, refer to [Eligible Property Types](#) for LTV restrictions.

5. First Time Home Buyers not allowed on investment properties.

6. Refer to Cash Out Refinance section for cash out limits.

PROGRAM SUMMARY

The Advantage Bank Statement program offers an alternative income documentation solution for self-employed borrowers. The bank statement program is designed for active, productive businesses. Borrowers with passive income such as a business comprised of rental properties, or borrowers whose business is asset speculation, e.g., fix and flip investors, day traders, etc. are not eligible.

While the Advantage Bank Statement product is considered a Non-QM product and not subject to QM testing, loans are still subject to Federal, State and Municipal predatory testing. As such, these products may not be eligible in some states.

Refer to the [Bank Statements as Qualifying Income](#) section for all requirements including minimum documentation required for submission to Underwriting.

PRODUCTS OFFERED

Product Name	Loan Term	Interest Only Term	ARM Disclosure
Advantage Bank Statements 30-Year Fixed	30 years	n/a	n/a
Advantage Bank Statements 30-Year Fixed (10yr IO)	30 years	10 years	
Advantage Bank Statements 40-Year Fixed (10yr IO)	40 years	10 years	
Advantage Bank Statements 7/6 SOFR ARM	30 years	n/a	Doc. #3384
Advantage Bank Statements 7/6 SOFR ARM (10yr IO)	30 years	10 years	Doc. #3395
Advantage Bank Statements 7/6 SOFR ARM 40-Year (10yr IO)	40 years	10 years	Doc. #3396

PREPAYMENT PENALTY

Not allowed.

HIGHER PRICED MORTGAGE LOAN (HPML)

Higher Priced Mortgage Loans are allowed. High Cost (Section 32) loans are not eligible. Refer to Compliance procedures, [Doc #4801](#) for HPML requirements.

LOAN REGISTRATION

In order to view the Bank Statement product as an eligible product, on the loan application screen the user must select "12 MONTHS BANK STATEMENTS" as the Doc Type.

LOAN AMOUNTS

Minimum: \$100,000

Maximum: Refer to [Eligibility Grids](#) above

CASH OUT REFINANCE

The maximum cash back to borrower includes non-mortgage debt to be paid off.

Maximum cash out is determined by LTV:

LTV	Max Cash Out
> 65%	\$500,000
≤ 65%	Unlimited

Refer to [Eligibility Grids](#) for additional requirements at higher LTVs.

MORTGAGE INSURANCE

Not required.

MINIMUM CREDIT SCORE

Refer to [Eligibility Grids](#) above.

QUALIFYING RATE AND PAYMENT

30 YEAR FIXED

Note rate amortized over 30 years

30 YEAR FIXED INTEREST ONLY

Note rate amortized over 20 years

40 YEAR FIXED INTEREST ONLY

Note rate amortized over 30 years

7/6 ARM AMORTIZING – 30 YEARS

Greater of Note Rate or fully indexed rate amortized over 30 years

7/6 ARM INTEREST ONLY – 30 YEARS

Greater of Note Rate or fully indexed rate amortized over 20 years

7/6 ARM AMORTIZING ONLY – 40 YEARS

Greater of Note Rate or fully indexed rate amortized over 30 years

QUALIFYING RATIOS

LTV	Max DTI
> 85%	45%
≤ 85%	50%

For qualifying debt to income ratios > 45%, borrower must meet residual income requirements per the Residual Income Worksheet, [Doc #3279](#).

PAYMENT SHOCK

First time home buyers are limited to a maximum 300% payment shock.

Payment shock is calculated by dividing new housing payment (PITIA) by the current housing payment.

Example:

Proposed Housing Payment (PITIA): \$ 2,100
 Current Rent Payment: \$ 1,200
 \$2,100 divided by \$1,200 = 175% payment shock

An alternative calculation, the new payment may not exceed the existing payment multiplied by three.

Example:

Current rent payment of \$1,200 x 3 = \$3,600
 New PITIA may not exceed \$3,600

RESERVES

Occupancy	Loan Amount	Required Verified PITIA Reserves ^{7,8,9}
All Occupancies	≤\$1,000,000	3 months
	\$1,000,001 - \$1,500,000	6 months
	> \$1,500,000	12 months
	For any loan amount on a Rate/Term Refinance with an LTV ≤ 65%	3 months

7. Reserves are for subject property only. No additional reserves required for Borrowers with multiple financed properties.

8. For Interest Only loans, reserves are calculated on the initial Interest Only payment.

9. Proceeds from cash out refinances may be used for reserves.

INTERESTED PARTY CONTRIBUTIONS ¹⁰

Occupancy	LTV	IPC Allowance
Primary & Second Home	≤ 80%	6%
	> 80%	3%
Investment	All LTVs	3%

10. HOA dues are not allowed to be included in an interested party contribution.

MINIMUM BORROWER CONTRIBUTION

Gifts allowed on a primary residence, purchase transaction only.

LTV	Minimum Borrower Contribution
> 80%	Borrower must have 10% of their own funds documented but not required for use
≤ 80%	Borrower must have 5% of their own funds documented but not required to use

ELIGIBLE BORROWERS

- U.S. Citizens
- First Time Home Buyers allowed except on investment properties. Refer to [Payment Shock](#) for additional requirements.
- Permanent Resident Aliens
- Non-permanent Resident Aliens
 - In addition to the requirements for Non-permanent Resident Aliens in the Flagstar Non-Agency Underwriting guidelines, the following applies:
 - Visa types of H2, H3 or L-1A are not eligible.
 - Additional documentation required:
 - Copies of the borrower's passport is required.

- Copies of an acceptable Visa required. An EAD must be obtained if the visa is not sponsored by the borrower's current employer.
- If an EAD will expire within 3 months of the application, the borrower must show evidence they have applied for an extension or provide a letter from the employer indicating they will continue to sponsor their employment.

ELIGIBLE PROPERTY TYPES

- 1 to 4-unit properties
- Warrantable low, mid and high-rise condos. Condo conversions are not allowed.
- Planned unit development (PUD)
- Co-ops meeting FNMA requirements in one of the five boroughs of New York:
 - Bronx
 - Brooklyn
 - Manhattan
 - Queens
 - Staten Island
- Properties with up to 10 acres (total property acreage must be included on appraisal)
- Rural Properties:
 - Max 75% LTV for Primary Residence; max 70% LTV for Second Home and Investment.
 - Max 10 acres
 - Must be primarily for residential use.
 - 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 similar to the surrounding properties.
 - Present use as per the appraisal must be the "highest and best use" for the property.
- Properties located in a Declining Market as defined by the appraisal must reduce the max LTV by 5%, not to exceed 80% LTV.

INELIGIBLE PROPERTY TYPES

In addition to the ineligible property types listed in the Non-Agency Underwriting Guidelines, the following property types are ineligible:

- Non-warrantable condos
- Modular Homes
- Properties with square footage < 600 feet
- Properties purchased through Auctions
- Properties located in lava zones (all zones)
- Properties with mandatory country club memberships
- Properties with multiple detached single-family homes on a single lot (does not apply to Accessory Dwelling Units)
- Commercially zoned unless a warrantable condominium
- Community Land Trusts
- Properties without full kitchens (i.e., kitchenettes)
- Group homes

- Properties near commercial influence. Examples include:
 - Environmental Hazards with potential impact to health and safety
 - Industrial factory
 - Located in an area not conforming to the neighborhood (i.e., few residential properties in density)
 - Power plants

NUMBER OF FINANCED PROPERTIES

A borrower may not have more than ten (10) residential properties financed including their primary residence. Joint ownership in residential real estate is considered the same as total ownership and is subject to the same restriction.

APPRAISAL REQUIREMENTS

All appraisals must be reviewed by the appraisal department.

Loan Amount	Appraisal Requirement
Up to \$1,500,000	One Full Appraisal + Secondary Valuation
> \$1,500,000	Two Full Appraisals

All loan amounts up to \$1,500,000 require a secondary valuation product. The secondary valuation must be within -10% tolerance of appraised value. For LTVs > 85%, the secondary valuation must be within - 5% of appraised value.

Acceptable products are:

- Clear Capital CDA Product (Desk Review)
- Consolidated Analytics CCA Product (Desk Review)
- Field Review
- Second full appraisal

Refer to *Review Product Requirements*, Doc. #4910, for more information.

Please note: For all transactions, the borrower may not waive the three-business day timing requirement for the receipt of a copy of the appraisal.

UNDERWRITING

All guidelines not addressed in this product description must meet the parameters documented in the [Non-Agency Underwriting Guidelines](#).

- Manually underwritten. Not eligible for AUS submission.
- Fourth Party Originations are eligible.

ASSETS

All asset guidelines not addressed in this section must meet the parameters documented in the [Non-Agency Underwriting Guidelines](#)

BUSINESS ASSETS

Funds from a business account may be used for down payment, closing costs and reserves if:

- There is 100% ownership of the business across borrowers on the loan; and
- A cash flow analysis is required to confirm the withdrawal of the funds will not negatively impact the business.

CRYPTO CURRENCY

Not eligible for funds to close or reserves.

GIFT FUNDS INCLUDING GIFT OF EQUITY

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

- Purchase transactions only
- Primary residence only
- Signed gift letter is provided, indicating:
 - Donor's relationship to Borrower, (donor must be related to the Borrower);
 - Donor's address, and phone number, and;
 - Dollar amount of gift; and
 - Certification it is an outright gift with no repayment required.
- Evidence of the donor's ability to provide funds, with 60 days' sourcing and seasoning;
- Evidence of transfer of funds such as a cancelled check or evidence of wire transfer from donor to Borrower. Documentation must also include a bank statement or other evidence from the depository institution that receives the funds;
- Refer to [Minimum Borrower Contribution](#) for additional requirements.

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

- Primary residence only
- Max LTV of 75%
- Subject property mortgage rating from the seller is required to confirm not a bail out
- Signed gift letter is provided; and
- Gift of equity is listed on the HUD-1 or Closing Disclosure.

Gift funds not permitted:

- From any donor other than a relative or Family Member of the Borrower;
- From any donor that is a party to the transaction, (other than a gift of equity from the seller); or
- From any donor that is a real estate builder, developer or in the business of owning, financing, or selling real estate.

LARGE DEPOSITS (ONLY APPLIES TO ASSETS FOR CLOSING AND/OR RESERVES)

Any large deposit not consistent with the Borrower's employment, earnings or savings profile must be fully explained and sourced with acceptable documentation in order to be eligible for down payment, closing costs, earnest money deposit and reserves. A large deposit is generally considered an amount exceeding 50% of the total qualifying income.

A signed letter of explanation from the Borrower is required in these instances and must sufficiently explain and source the funds. All funds used for these purposes must be from an acceptable source and

clearly not the result of undisclosed Borrower funds, debt, or an incentive from an interested party such as a seller, real estate agent or developer.

RETIREMENT ACCOUNTS

When used as reserves, Retirement Accounts, including personal IRA and SEP-IRA accounts that are owned by the Borrower, 401(k), KEOGH, 403(b) and other IRS qualified retirement plans:

- Up to 60% of the vested amount, less any outstanding loans secured by account funds, may be counted toward Reserves, and
- Not more than 50% of the Borrower's total minimum required Reserves may be from these sources OR;
- If the borrower is of retirement age, 100% of funds may be used for reserves if the account is not also an income source.

CREDIT REQUIREMENTS

All credit guidelines not addressed in this product description must meet the parameters documented in the [Non-Agency Underwriting Guidelines](#)

MINIMUM TRADELINE REQUIREMENTS

Each individual borrower contributing income for qualifying purposes must meet the following:

- Minimum of three tradelines required.
- At least one tradeline has been open/active in the last 12 months.
- At least one tradeline has a 24-month history (open or closed)
- A VOR may only be counted as a tradeline if 12 months proof of payment is provided via cancelled checks or bank debits. Carbon copies or handwritten receipts are not eligible.
- Authorized user accounts are not counted towards the tradeline requirements.

ALTERNATIVE CREDIT HISTORY

Not eligible.

MORTGAGE/RENT HISTORY REQUIREMENTS:

- The borrowers previous housing payment history is required. The file must contain verification of the borrower's 12-month payment history on the primary residence and any mortgage loans on a second home or investment property.
- For all occupancy types, no mortgage payment, including subordinate liens may be (to date of loan application): 0x30 in the last 12 months.
- Mortgage payment history - the file must contain a 12-month payment history (or since origination, whichever is less) for all mortgages including subordinate liens. Mortgage history must be verified from the credit report and other acceptable documentation, such as a Verification of Mortgage (VOM) completed by a financial institution.
- For a refinance of the subject property or for a departing residence, must document the property taxes and HOA dues on that property are current at time of application.
- Rental payment history – if the borrower previously paid rent for their residence, then the borrowers rental housing payment history is required. Payments must be documented via an institutional Verification of Rent (VOR), or cancelled checks/bank records. Carbon copies or handwritten rent receipts are not acceptable. A VOR from an individual or a private party landlord does not meet the requirement of verifying the borrower's prior housing payment history.

- For borrowers who do not have a housing history or a complete 12-month housing history, the following must be met:
 - Primary residence only
 - Minimum 6 months reserves after closing
 - 10% minimum borrower contribution required
 - Payment shock is not considered
 - VOR/VOM must be obtained for all available month's reflecting paid as agreed
 - Properties owned free and clear are considered 0x30 for rating purposes

DEROGATORY CREDIT:

HOUSING EVENTS

Housing Events require a seasoning period of 4 years at time of closing.

- Housing Event is defined as a Foreclosure, Short Sale, Deed in Lieu, Loan Modification, Notice of Default, Forbearance or 120+ Days Delinquent;
- Defaulted first and second on same property is considered one event;
- Housing Events that occur on the same property are considered a Single Housing Event. For example, Borrower's primary residence is 120+ Days DQ, then goes into Foreclosure;
- Events include all occupancy types – Primary, Second Home & Investment Properties
- Seasoning look back is from the date of discharge or property resolution (completion date), as of the note date;
- COVID forbearance, or repayment plans, for any property/mortgage owned by the borrower, must be completed with all related financial obligations satisfactorily met AND:
 - For a purchase or rate/term refinance, at least three (3) consecutive timely payments made as of the application date of the new loan.
 - For a cash out refinance, at least six (6) consecutive timely payments made as of the application date of the new loan.
- Modification look back commences at inception;
- Bankruptcy ("BK") is not considered a housing event and is permitted in combination with a housing event;
- Foreclosures included in bankruptcy permitted based on BK discharge date if the borrower has vacated the property.

BANKRUPTCIES

Bankruptcies require a 4-year seasoning period:

- Chapter 7 bankruptcies – Duration since bankruptcy is calculated from the discharged or completed date to the loan application date;
- Chapter 13 bankruptcies – Duration since bankruptcy is calculated from the discharged, or dismissed or completed date to the loan application date; and
- Multiple BK filings per person are not eligible (an amended filing is not considered multiple filings).

COLLECTIONS, CHARGE-OFFS, JUDGMENTS & LIENS

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

However, collection accounts, charged-off accounts and judgments that do not impact title are not required to be paid off if the sum total of all derogatory accounts is \$5,000 or less. When total exceeds \$5,000, all must be paid in their entirety and all past due accounts brought current. Medical collections are allowed to remain outstanding as long as the balance is less than \$10,000 in aggregate.

DELINQUENT CREDIT BELONGING TO EX-SPOUSE

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

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

DELINQUENT CREDIT BELONGING TO CO-SIGNER

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

WRITTEN EXPLANATIONS

All significant derogatory events including previous housing events and bankruptcies require a written explanation from the borrower(s).

BANK STATEMENTS AS QUALIFYING INCOME

The bank statement program is designed for active, productive businesses. Borrowers with passive income such as a business comprised of rental properties, or borrowers whose business is asset speculation, e.g., fix and flip investors, day traders, etc. are not eligible.

DOCUMENT REQUIREMENTS

- 12 months personal or business bank statements
 - Bank statements should be most recent available at time of application but never more than 45 days prior to application.
 - Transaction history printouts are generally not acceptable.
 - Multiple bank accounts may be used. More than 3 separate business accounts must use personal bank statements.
- Business Narrative
 - The self-employed borrower must provide a business narrative which includes detail related to the size/scope and operating profile of the business, including the following:
 - Description of Business/Business Profile
 - Locations
 - Number of Employees/Contractors
 - Description of Goods/Materials

- Materials/Trucks/Equipment
 - Commercial or Retail client base
 - The [Business Narrative](#) form is required in order to submit the loan.
- An internet search of the business is required to support the business narrative
 - Underwriter certification (or notation on the 1008) if there are no results when attempting an internet search.

MINIMUM BANK STATEMENT DOCUMENTATION REQUIREMENTS FOR SUBMISSION TO UNDERWRITING

- Fully completed [Business Narrative](#)
- 12 months most recent bank statements

DOCUMENTATION ANALYSIS

- Unusually large deposits in bank accounts being used to qualify may require a letter of explanation or evidence they are business related.
- Declining Income may require an LOE.
- NSF's should be covered with deposits shortly after they are incurred.
- The [Business Income Worksheet](#) will be used to calculate income.

BUSINESS REQUIREMENTS:

- Validation of a minimum of 2 years existence and ownership of the business from one of the following: Business License, Letter from Tax Professional, Secretary of State Filing or equivalent.
- Ownership percentage must not be less than 25% and be documented via CPA letter, Operating Agreement, or equivalent.
- Any change of ownership percentage must be seasoned at least 12 months. Borrower must have 2-year history of at least 25% ownership.
- For a primary residence purchase, relocation in excess of 200 miles is not permitted unless business is predominately run out of the home.
- Borrower paid by multiple 1099's or single payor 1099 with variable income are considered Self Employed and are qualified using bank statements.
 - Provide 1099's plus 12 months bank statements to support receipt of the income.
 - Provide a business narrative and appropriate expense factor will be applied.
 - 1099 transcripts are required.

PERSONAL BANK STATEMENTS

- Two months of business bank statements must be provided to validate borrower utilizes separate bank account.
 - Analysis of the business bank statements cash flow is not performed.
 - Co-mingling of personal and business receipts and expenses is not permitted in personal bank accounts. If the borrower does not maintain a separate business bank account, the personal bank statements will be considered business bank statements for qualifying loan purposes and the loan must be submitted/qualified as a business bank statement loan and an appropriate expense factor applied.
- Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds) must be excluded from the analysis.

- Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business related income.
- If personal bank statements provided reflect payments being made on obligations not listed on the credit report, a thorough analysis must be performed and an LOE may be required.

Qualifying Income:

Qualifying deposits divided by 12 months (Personal bank statement average (total eligible deposits / 12 months))

BUSINESS BANK STATEMENTS

- Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business related income.
- Any deposits deemed to derive from a source other than business including SBA loans or PPP funds must be excluded from the analysis. Refer to the [Bank Statement Income Worksheet](#) for a full list of ineligible deposits.
- Multiple business accounts may be used up to a maximum of three (3) business accounts. If borrower has more than three (3) business accounts, must use personal bank statement option.
- Customary business debt such as auto or a business credit card may be excluded from the DTI when evidenced of 12 months payments made from the business statements. Does not apply to if the Expense Ratio used to qualify is less than 50%. Mortgage debt may not be excluded from DTI when paid by the business.

Qualification *(must use one of the following two options):*

- **The expense ratio should be reasonable for the profession - for all qualifying methods.**
Example: A home-based sole practitioner consultant can be expected to have a lower expense ratio, while a retail business that has a full staff of employees, fleet of vehicles, and relies heavily on inventory to generate income will have a higher expense ratio. To the extent that Flagstar has evidence or other reason to believe that the reasonable expense ratio for a business is higher than the Fixed Expense Ratio methodology, Flagstar may determine, in its sole discretion, to require the borrower to follow Option 2.
- Flagstar reserves the right to request additional information. The expense ratio should be consistent with the revenue and expenses in the business bank statements.
 - Example: A business that consistently shows withdrawals on the bank statements for employee wages or cost of goods sold used in the Fixed Expense Ratio, will be ineligible.
 - Businesses that have significant pass-through revenues, such as retail businesses that perform check cashing services or sell lottery tickets, or investment firms that receive outside investment capital, are ineligible.

OPTION 1 – FIXED EXPENSE RATIO

All businesses can qualify using a 50% expense ratio. The Fixed Expense Ratio calculation has the following expense factor options:

- a) 50% Expense Factor will be utilized to calculate income with the following met:
- Must verify borrower is minimum 25% owner of business.
 - Decreasing or negative ending balances must be addressed.
- b) 20% Expense Factor eligible only if all of the following applies to the business:

- Borrower must be sole owner and operator of the business (no partners, employees, etc.).
- Business must be a service business (no costs of goods, no heavy equipment, machinery, etc.).
- Business does not require office space that would incur rent.

OPTION 2 – THIRD PARTY EXPENSE RATIO | 15% FLOOR

A third-party expense factor must be deemed reasonable for the business type. If deemed unreasonable, a minimum of 50% expense factor will be used.

- A Tax Professional is a Certified Public Accountant CPA, Tax Attorney, Enrolled Agent (EA), California Tax Educational Council Member (CTEC) or a Paid Tax Professional (PTIN).
- Program has a 15% floor on the expense ratio.
- Documentation Required:
 - The Tax Professional must provide the following:
 - The Tax Professional must provide an expense statement specifying business expenses as a percentage of the gross revenue.
 - The Tax Professional must certify that the Expense Ratio represents an accurate summary of the applicable cash expenses of the business.
 - The letter from the Tax Professional must be on letterhead, originate from the tax professional's office and be signed. DocuSign is not allowed.
 - The Tax Professional must verify the borrower's ownership percentage.
 - Documentation supporting the Tax Professional is licensed must be provided.
 - An attestation that the Tax Professional has filed the most recent business tax returns on behalf of the borrower is required.

Qualifying Income:

To determine net income, multiply eligible business deposits by the following: 100% minus the Expense Ratio as described above.

*****Note: Self-employed borrowers who file their own tax returns are not eligible for business bank statements*****

4506-C REQUIREMENTS

For transactions solely using bank statements as income to qualify, the 4506-C is not required to be signed and should not be processed. Processing a 4506-C on the self-employed borrower may render the file ineligible for the bank statement program.

For transactions using supplemental income sources such as W-2 or 1099 income, a 4506-C is required. The 4506-C must be processed and the transcripts for the W-2 or 1099 income are required to be included in the loan file.

SUPPLEMENT INCOME SOURCE REQUIREMENTS

All income guidelines not addressed in this section must meet the parameters documented in the [Non-Agency Underwriting Guidelines](#).

JOINT ACCOUNTS

A joint personal account with a non-borrowing spouse or domestic partner can be used for qualifying as follows:

- If not contributing income/deposits, it must be validated by a borrower affidavit.
- If contributing income/deposits, source must be clearly identified (direct deposit, SSI, trust income) and amounts must be subtracted from the analysis.
- Relationship letter must be present in file.

COMPONENT SOURCES OF INCOME

A borrower who has a self-employed business and also receives income from other sources that do not require tax returns is eligible for the bank statement program. These income sources must be separately documented on the 1003 and must be separately supported by bank statement deposits. Refer to the Non-Agency Guidelines for other income sources requirements if not addressed below. Any income documented with tax returns is not eligible. ***Submission of tax returns will deem the file ineligible.***

INELIGIBLE INCOME TYPES

- Projected Income/Employment Contract
- Restricted Stock Units
- Boarder Income
- Capital Gains
- K-1 Income
- Farm Income
- Asset Depletion
- Foreign Income
- Employed by a family member

SELF EMPLOYED/WAGE EARNER COMBINATION

Joint borrowers with 1 wage earner and 1 self-employed business owner can verify income separately, with the self-employed borrower utilizing bank statements and the wage earner providing pay stubs/W-2's. The wage earner 4506-C should include W-2 transcripts only. Only one year of W-2's is required.

- If the source of the co-borrower wage earner income is associated with the self-employed borrower's business, the income is not eligible.

GAPS IN EMPLOYMENT

Borrower must explain, in writing, any job gaps that span one (1) month or more.

For borrower re-entering the work force after an extended absence, borrower must be employed at current job for a minimum of 6 months. A previous 2-year work history prior to the gap must be documented.

401K/IRA RETIREMENT INCOME

Distributions from a retirement account, such as a 401(k), IRA, SEP or Keogh retirement account can be used as qualifying income provided there is a three (3) year continuance. Distributions cannot be set up post application date unless the borrower is required to start withdrawing based on age.

Document regular and continued receipt of the income for, as verified by:

- Letters from the organizations providing the income;
- Copies of retirement award letters;

- IRS W-2 or 1099 forms; or
- Proof of current receipt.

When retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition:

- The borrower must have unrestricted access without penalty to the accounts; and
- Retirement income received from an asset-based retirement account (i.e. 401k) requires 2 months receipt of income.
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

RENTAL INCOME

Rental income that is considered to be component income (not the source of the business income) may be used to qualify if all the following requirements are met:

- The income must be separately documented on the 1003 and must be separately supported by bank statement deposits.
- Must document borrower's 100% ownership of the rental property.
 - Co-ownership of the rental property with a non-borrowing spouse is acceptable.
- A current lease for each rental property is required; rent rolls are not allowed.
 - Evidence the lease is supported by market rents. Internet searches such as Rentals.com or ForRent.com may be used.
- The rental income reflected on the current lease agreement must be discounted by a 25% vacancy factor.
- Most recent 2 months' receipt of rental income dated within 30 calendar days of the note date.
- Net rental income may be added to the borrower's total monthly income; net rental losses must be added to the borrower's total monthly obligations.
- For a departing residence:
 - Evidence the lease is supported by market rents. Internet searches such as Rentals.com or ForRent.com may be used.
 - Provide a copy of the security deposit or first month's rent.
- For purchase transactions:
 - Market rent from the 1007/1025 Comparable Rent Schedule discounted by the 25% vacancy factor.

TRUST INCOME

- Income from trusts may be used if constant payments will continue for at least the first 3 or 5 years of the mortgage term as evidenced by trust income documentation. 5 years required if income source is > 50% of loans total qualifying income.
- Trust Agreement required confirming amount, distribution frequency, and duration of payments.

1099 INCOME

1099's are acceptable for independent contractors and must not be paying themselves from their own business or family business.

- Single payer 1099 with office or home-based position requiring no travel, no employees, no cost of goods, no vehicles or heavy equipment – Provide 2 years 1099s plus most recent 2 months

proof of wage-based receipt of regular, equal income via bank statements, payroll registers or paystub equivalents. No expense factor will apply.

- Single payor 1099 with variable income must use the bank statement program and appropriate expense factor applied.
- Borrowers with multiple 1099s are considered as self-employed and must use bank statement underwriting.
- Must provide 1099 transcripts.

LIABILITIES

All liability guidelines not addressed in this section must meet the parameters documented in the [Non-Agency Underwriting Guidelines](#)

FEDERAL TAX INSTALLMENT PLANS

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

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The underwriter must obtain the following documentation:
 - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
 - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date the next payment owed and due date. At least one payment must have been made prior to closing.

STUDENT LOANS

If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below:

- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment. The use of estimated income-based repayments is not allowed. If the payment is \$0 the borrower must qualify using the guides listed below for deferred loan/loans in forbearance/income-driven payment of \$0.
- For deferred loans, loans in forbearance, or income-driven payment of \$0 the lender must calculate:
 - a payment equal to 2% of the outstanding student loan balance, or
 - a fully amortizing payment using the documented loan repayment terms.

Student loans listed as delinquent must be brought current. If a student loan is charged off, the total will be included in the cumulative charge off balance in the last 24 months. If a student loan is placed for collection, get a copy of the repayment agreement, a copy of a canceled check and include the payment in the DTI.

TRANSACTION TYPES**PURCHASE TRANSACTIONS**

- Flip transactions are not allowed. If the seller has been on title for 360 days or less, the following applies:
 - Resales within 181 days are not allowed.
 - Resales seasoned greater than 181 days up to 360 days allowed but may not have an increase in appreciation of more than 30%.
 - Seasoning is based on the date seller takes title to date sales contract executed.
 - Resales of properties owned greater than 360 days allowed with no additional restrictions.
- 12-month chain of title is required.

RATE/TERM REFINANCE

- Cash to borrower may not exceed the lesser of 2% or \$2,000.
- Borrower must meet [Continuity of Obligation](#) guides.
- 12-month chain of title is required.
- For properties owned less than 6 months at the time of the Note date, the LTV will be based on the lesser of the original purchase price or the current appraised value. The prior settlement statement will be required for proof of purchase price.
 - In the case of an inherited property, the appraised value may be used to determine the LTV.
- Properties listed for sale in the last six (6) months are not eligible. The time frame is measured from the date the property was no longer listed or offered for sale to the application date of the current transaction.

CASH OUT REFINANCE

- A minimum of six (6) months must have elapsed since the most recent mortgage transaction on the subject property (either the original purchase transaction or subsequent refinance). This timeframe is measured from the note date of the previous transaction to the note date of the current transaction.
- 12-month chain of title is required.
- Properties listed for sale in the last 12 months are not eligible for a cash out refinance transaction. The time frame is measured from the date the property was no longer listed or offered for sale to the application date of the current transaction.

CONSTRUCTION TO PERM

Paying off interim construction financing used to construct the subject property:

- The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.
- A certificate of occupancy is required when the property is deemed a new construction property.
- The loan may be closed as a rate-and-term refinance or a cash out refinance.
 - The transaction is subject to the rate-and-term refinance and cash out refinance maximum LTV/CLTV ratios posted in the Eligibility Matrix as applicable.
- For the borrower to be eligible for a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage. All other standard cash-out refinance eligibility and underwriting requirements apply.
 - Loan must be registered as a cash out refinance.
- LTV/CLTV/HCLTV is determined based on the length of time the borrower has owned the lot. The time frame is defined as the date the lot was purchased to the Note date of the subject transaction.

- For lots owned twelve (12) months or more, the appraised value can be used to calculate the LTV/CLTV/HCLTV.
- For lots owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the property or the total acquisition costs (documented construction costs plus documented purchase price of lot).

DELAYED FINANCING

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

- The original purchase transaction was an arms-length transaction.
- The borrower(s) may have initially purchased the property as one of the following:
 - A natural person; an eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; or
 - An eligible land trust when the borrower is the beneficiary of the land trust; or an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.

The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV ratios for the cash-out transaction based on the current appraised value).

All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable. Refer to the Non-Agency guides for all documentation requirements.

CONTINUITY OF OBLIGATION

For a refinance transaction (either rate and term/limited cash-out or cash-out), there must be a continuity of obligation if there is currently an outstanding lien that will be satisfied through the refinance transaction.

An acceptable Continuity of Obligation exists when any of the following exist:

- There is at least one (1) Borrower obligated on the new loan who was also a Borrower obligated on the existing loan that is being refinanced;
- The Borrower has been on title and residing in the property for at least six (6) months and has either paid the mortgage for the last six (6) months or can demonstrate a relationship (parent, spouse, domestic partner, sibling, etc.) with the current obligor;
- The Borrower has recently inherited or was legally awarded the property (divorce, separation); or
- The existing loan being refinanced and the title have been held in the name of a natural person or a limited liability company as long as the Borrower was a member of the limited liability company prior to transfer. The loan must have been transferred out of Limited Liability Company prior to application. Transfer of ownership from a corporation to individual does not meet Continuity of Obligation.

NON-ARM'S LENGTH TRANSACTION

Non-arm's length transactions involve a personal relationship or business relationship (outside of the subject transaction) between the Borrower and any interested party to the transaction. These transactions must be fully disclosed as such and the appraiser must be informed of the non-arm's length transaction and address whether or not the market value has been affected.

A "family member" is defined as the Borrower's spouse, child, dependent, domestic partner, fiancé, fiancée, or any other individual related to the borrower by blood, marriage, adoption, or legal guardianship.

Non-arm's length transactions are considered only under the following conditions:

- Relationships are clearly disclosed with initial submission either on the purchase contract or with a relationship letter;
- Primary residence only;
- Additional risk factors are not present (i.e., distress sale, selling assets for down payment, etc.);
- Loans made to principals or employees of the lender or service provider cannot provide services on their own transactions (closing agent, title agent, appraiser, etc.); and
- In purchase transactions where the lender is a corporation, partnership or any other business entity, the seller must ensure that the Borrower is not one of the owners of the business entity selling the subject property.
- Borrower must provide a copy of the cancelled earnest money check paid to the property seller (if applicable)
- Borrowers purchasing from their current landlord requires cancelled checks or bank debits to support rental history. Carbon copies or handwritten receipts are not eligible.
- A borrower serving as realtor cannot buy own listing.

Family transactions occur when a family member deeds the title to their home to another family member.

The following apply to family transactions:

- Relationships are clearly disclosed with initial submission;
- Primary residence only;
- Purchase contract must be provided;
- A Gift of Equity letter is required to explain the relationship and reason for the gift;
- Appraiser must note this is a non-arm's length transaction;
- Foreclosure bailouts are not allowed. Payoff statement and Verification of Mortgage (VOM) on subject required as verification;
- The HUD-1 must reflect all liens on title are paid and not all loan proceeds going to the family member.

SUBORDINATE FINANCING

Subordinate financing is not allowed.

TEXAS REFINANCE LOANS

All refinance loans in Texas will be evaluated against the criteria outlined in the [Non-Agency Underwriting Guidelines](#), Texas Home Equity/50(a)(6) Right of Rescission section to determine whether or not they must be originated under the requirements of Section 50(a)(6) of the Texas Constitution.

STATE ELIGIBILITY

Available with the following geographic restrictions

State	Restriction
Puerto Rico	Not Eligible
Virgin Islands	Not Eligible

ADJUSTABLE-RATE DETAILS

Interest Rate Adjustment Caps	7/6: Initial: 5% up/down; Subsequent: 1% up/down; Lifetime: 5% up
Margin	See Price Indication Sheet
Index	30 Day SOFR (Secured Overnight Financing Rate)
Interest Rate Floor	The interest rate floor is equal to the Margin
Change Dates	7/6 ARM: The first change date is the 84th payment due date. There is a new change date every 6 months thereafter.
Conversion Option	None
Assumption	Not allowed
Negative Amortization	None

POWER OF ATTORNEY

In addition to the requirements listed in the Non-Agency Underwriting Guidelines for using a Power of Attorney, borrowers must provide a letter of explanation regarding the reason for using a Power of Attorney.

CLOSING DOCUMENTATION

Closing docs may be ordered through Flagstar's TPO website.

For Coops only, closing and closing document preparation must be coordinated and scheduled with one of Flagstar Bank's Approved NY Approved Settlement Agents for Cooperatives. Refer to the NY & NJ Cooperative Closing Procedures, Doc. #4643 for details.

FIXED RATE LOANS – FULLY AMORTIZING

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Fannie Mae/Freddie Mac multistate Fixed Rate Note, 3200-series
- Standard title commitment with all applicable endorsements

FIXED RATE LOANS – INTEREST ONLY

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Interest-Only Period Fixed Rate Note, 3200-series IO or equivalent
- Standard title commitment with all applicable endorsements

ADJUSTABLE-RATE LOANS – FULLY AMORTIZING

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Fannie Mae/ Freddie Mac multistate Adjustable-Rate Note, Form #3442
- Fannie Mae/Freddie Mac multistate Adjustable-Rate Rider, Form #3142
- Standard title commitment with all applicable endorsements

ADJUSTABLE-RATE LOANS – INTEREST ONLY

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Multistate Interest-Only Period Fixed/Adjustable-Rate Note, Form #3442 IO or equivalent
- Multistate Interest-Only Fixed/Adjustable-Rate Rider, Form #3142 IO or equivalent
- Standard title commitment with all applicable endorsements

IF APPLICABLE

- Fannie Mae/Freddie Mac multistate Condo Rider, Form #3140
- Fannie Mae/Freddie Mac multistate PUD Rider, Form #3150
- Fannie Mae/Freddie Mac multistate 1-4 Family Rider, Form #3170
- Fannie Mae-Freddie Mac multistate Second Home Rider, Form #3890