



# Non-Agency Underwriting Guidelines

(Enhanced- Applications on or after 02/18/2022)

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### UNDERWRITING

These guidelines describe Flagstar Bank's underwriting requirements for one-to-four family non-agency mortgages. The guidelines are designed to establish and implement sound underwriting criteria, as well as to serve as a reference tool in tandem with the product descriptions. **Please refer to our product descriptions for specific program criteria, which may vary from the following requirements.** Our full range of product descriptions is available to our customers at [tpo.flagstar.com](http://tpo.flagstar.com).

It is the policy of this Bank that it will not deny a loan or discriminate in fixing the amount, interest rate, duration, application procedures, or other terms or conditions of the loan on the basis of race, color, religion, national origin, sex, marital status, age (providing the applicant has the capacity to contract), familial status, disability, to the fact that all or part of an applicant's income derives from a public assistance program, to the fact that the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act, or the location of the dwelling. This applies to an applicant, joint applicant, or guarantor.

Refer to product description for Fourth Party Origination eligibility.

All loans will be underwritten by Flagstar Bank underwriters. Delegated underwriting is not allowed. Jumbo loans are fully manually underwritten unless the product description requires a DU response.

All Jumbo products and Jumbo Construction products may be subject to management review prior to a clear to close. Please allow additional time.

An exception to the underwriting guidelines can be reviewed only by a designated employee of the bank. Exceptions will be reviewed on a case by case basis depending on the overall loan file.

### ABILITY TO REPAY (ATR)

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

The underwriter must verify the consumer's current income, debt obligations, and assets using the more restrictive of the Flagstar Bank Non-Agency Underwriting Guidelines or by the Automated Underwriting System Desktop Underwriter, when applicable per the product description. This verification must occur by utilizing third-party records that provide reasonably reliable evidence of the consumer's income, debt obligations and assets.

Recurring Obligations include, but not limited to the following:

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



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### **ATR DOCUMENTATION REQUIREMENTS**

Documentation must be retained in file to demonstrate the reasonable determination of the consumer's ability to repay the loan. The verification must reflect, at minimum the current income and debt obligations considered in the ability-to-repay determination.

- For Products requiring DU, the most recent response feedback prior to the Note date must be retained in file.
- A copy of a Transmittal Summary (1008 or other equivalent) must be retained in file along with any applicable income worksheets used in the determination of the qualifying income.

Refer to *Conventional Submission Review Checklist*, [Doc. #3204](#) for required documents.

### TEMPORARY COVID GUIDELINES

Please refer to [Temporary COVID Guidelines](#) for all Covid-19 related tolerances and restrictions that may supersede these guidelines.

### **PRIVATE MORTGAGE INSURANCE**

Mortgage insurance providers may have additional restrictions not listed within this document. Due to rapid changes within the industry, please refer to each mortgage insurance company's website for complete details. Refer to applicable product description for coverage requirements

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

<b>Policy for Determining If Mortgage Insurance is Required in NY</b>		
<b>Property Type</b>	<b>Loan Purpose</b>	<b>Policy</b>
SFR, 2 to 4-Unit, Condo and PUD	Purchase and all refinance transactions	The appraised value is used to determine if mortgage insurance is required.

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

### **ELIGIBLE BORROWERS**

- All borrower must have a social security number.
- In the event of social security number discrepancies, *Social Security Number Verification*, [Doc. #3257](#) results may be required.
- US Citizens
- Inter Vivos Revocable Trust – See [Closing in Trust Guidelines](#)
- Lawful Permanent and Non-Permanent Resident Aliens



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### RESIDENT AND IMMIGRATION REQUIREMENTS

Permanent and Non-Permanent Resident Aliens must be employed in the U.S. for the last 12 months and document lawful residency as follows:

#### **PERMANENT RESIDENT ALIEN**

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

#### **NON-PERMANENT RESIDENT ALIEN**

- Documentation:
  - An acceptable Visa, or
  - An acceptable expired Visa along with I-797A with detachable I-94, or
  - A valid EAD card
- Acceptable Visa Types
  - E Series (E-1, E-2, E-3)
  - G Series (G-1, G-2, G-3, or G-4 only) which must document that the borrower does not have diplomatic immunity. Verification that the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List here. The transmittal summary requires a comment indicating that the borrowers visa status does not require the payment of taxes and therefore tax transcripts are not available.
  - H Series (H1-B, H1-C, H-2, H-3, H-4)
  - L Series (L-1A, L-1B, L-2)
  - O Series (O-1)
  - NATO (TN-1 and TN-2) For NAFTA professionals from Canada and Mexico a VISA or EAD card is not required as long as the borrower(s) has an unexpired passport that is stamped with the H1B status.
  - I-797 Notice of Action/Approval with valid dates. The document must refer to an acceptable visa classification as indicated above.
- Document Expiration:
  - Visa- If the visa will expire within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided. If Visa has expired, a valid I-797A with detachable I-94 must be provided
  - EAD- If the EAD card will expire within 6 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.





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### **INELIGIBLE BORROWERS**

- Non-resident aliens (foreign nationals)
- Borrowers with diplomatic status
- Individuals that are working under DACA authorization are not eligible
- Life Estates
- Non-Revocable Trusts
- Land Trusts
- Guardianships
- LLCs, Corporations or Partnerships
- Non-Occupant Co-Borrowers, unless product allows
- Borrower(s) with any ownership in a business that is federally prohibited, regardless if the income is not being considered for qualifying, will be considered an ineligible borrower.

### **FLAGSTAR CONCENTRATION LIMIT OF MULTIPLE LOANS TO THE SAME BORROWER**

- If a borrower is applying for more than one loan through Flagstar Bank, all loans must be submitted to Underwriting at the same time and each loan must reference the other loan(s).
- Flagstar Bank will not approve or close more than 10 loans to any one borrower with an aggregate loan amount total of no more than \$4,000,000. When determining if the limit has been met, new loan submissions for a borrower must take into consideration any of that borrower's outstanding loans with Flagstar Bank that are:
  - Non-closed
  - Closed and currently serviced by Flagstar Bank; and/or
  - Closed but the servicing rights have been sold within the last 24 months

### **NUMBER OF BORROWERS**

The maximum number of borrowers on a loan transaction is limited to four.

### **NUMBER OF FINANCED PROPERTIES**

Unless otherwise specified under the product description, the maximum number of financed residential properties is limited to 4 regardless of the transaction type.

- The number of financed properties, defined as borrower(s) personally obligated on Note, is combined for all borrowers on the loan to determine the total number of financed properties, regardless of whether or not the borrowers are married. It is not acceptable to calculate the total number of financed properties by each individual borrower.
- Refer to Product Description for additional reserve requirements pertaining to additional financed properties

### **ELIGIBLE PROPERTY TYPES**

- 1 to 4-unit properties
- Low, mid and high-rise condos (Must be FNMA warrantable)
- Planned unit development (PUD)
- Leaseholds
- Properties with up to 20 acres (total property acreage must be included on appraisal)



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- For properties >10 to 20 acres
  - Maximum 35% land to value
  - No income producing attributes

### OCCUPANCY

Please refer to the product description for eligible occupancy types. Flagstar, at its discretion, may determine the occupancy based on its current and best use. Properties occupied by a party other than the borrower will be considered an investment property.

### **SECOND HOMES**

Second Homes must meet the following criteria:

- Must be located a reasonable distance away from the borrower's principal residence
- Restricted to 1-unit dwellings
- Must be suitable for year-round occupancy
- Must not be subject to any timeshare arrangement or other shared ownership agreement
- Property may be rented out on a short-term basis provided the following requirements are met:
  - The borrower must keep the subject property available for personal use for more than half of calendar year
  - The property is not subject to rental pools or agreements that require the borrower to rent, give a management company or entity control over occupancy of the property or involve revenue sharing between owner and developer or another party. Underwriting validation must be completed to confirm (e.g. property cannot be listed on a rental property management site such as Airbnb.com, tax returns do not indicate payments to a management company which controls occupancy)
  - Rental income from the subject property may not be used

### PROPERTIES SUBJECT TO OIL AND/OR GAS LEASES

The following requirement must be met:

- Title endorsement providing coverage to the lender against damage to existing improvements resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease.
- No active drilling.
- No lease executed after the home construction date (re-recording date of lease after home construction is permitted).
- Must be connected to public water.
- The appraiser would also need to address if there are any marketability issues associated to the presence of the oil/gas lease.
- Title endorsement T19 (TX Only).

### PLANNED UNIT DEVELOPMENT

- The individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowners' association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development, i.e.,



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greenbelts, recreation facilities, and parking areas, for the common use and benefit of the unit owners.

- The unit owners have an automatic, non-severable interest in the homeowners' association and pay mandatory assessments.
- Zoning is not a basis for classifying a project or subdivision as a PUD.
- Cannot be an ineligible project. Please refer to the Conventional Underwriting Guidelines.
- For the purposes of these guidelines, a condominium is not considered a PUD. If a condominium unit is located in a PUD, the lender must comply with all condominium requirements and warranties. If the PUD unit or any PUD common property is on a leasehold estate, the project must comply with leasehold estate requirements.

### SITE CONDO REQUIREMENTS

When the underwriter performs a review for a mortgage secured by a detached unit in a condo project, the following eligibility criteria must be met:

<b>Review Eligibility Criteria for Detached Condo Units</b>
The mortgage is secured by a single detached unit in a condo project.
The mortgage is not secured by a manufactured home.
The project is not an ineligible project. (See <a href="#">Conventional Underwriting Guidelines</a> .)
The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
If the condo project is new, the appraiser used as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the one that built the subject unit.

### WARRANTABLE CONDOMINIUMS

- FNMA Types R & S. (Type R eligible with CPM or PERS approval)
- 2 to 4-unit projects are subject to FNMA requirements
- Site-condos (must be detached)
- Each condominium project must be reviewed and approved by Flagstar's Condo Review Department. Refer to *Condominium Submission Instructions*, [Doc. #3253](#) for details.
- Limited review is not eligible.
- Please refer the [Conventional Condominium Guidelines](#) for project eligibility.

### NEW CONSTRUCTION

All new construction property loans must have a Certificate of Occupancy or equivalent document issued by the local municipality

### **INELIGIBLE PROPERTY TYPES**

- Manufactured/Mobile homes
- Condo-hotel units
- Unique properties
- Log homes
- Co-ops



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- Working farms, ranches or orchards
- Mixed-use properties
- Income producing properties with acreage
- Model home leaseback to builder
- Properties located on Native America Tribal Land
- Properties in Lava Zones 1 and 2
- Properties with evidence of activities that are federally, state, or locally prohibited (e.g. marijuana growth, processing, etc.) are ineligible. Property alterations cannot be made to achieve collateral eligibility.
- See [Environment Hazard](#) properties for additional limitations

### **CLOSING IN TRUST**

The following guidelines must be met:

- An attorney's opinion letter stating all below warranties are met will be required on all loans closing in trust; or *Certificate of Trust*, [Doc. #3954](#) or equivalent form.
  - For California properties, a certificate of trust is acceptable in lieu of an attorney's opinion letter. Refer to the *California Trust Certificate*, [Doc. #3951](#)
- The trust(s) must be a living revocable trust also known as a family trust or an inter vivos trust
- The title company must agree to insure over the trust with no exceptions for the trust or trustees
- A copy of the trust(s), or pertinent pages within the trust, must be included in the submission package
- The Settlor or grantor must be a natural person. The settlor must also be the trustee or one of the co-trustees
- The primary beneficiary of the trust must be the settlor or the grantor. If there is more than one settler or grantor, then there may be more than one primary beneficiary, as long as the income or assets of least one of the grantors or settlors will be used to qualify for the mortgage and that grantor or settlor will occupy the property and sign the mortgage instruments in their individual capacity
- The trust document must give the trustee or trustees the authority to mortgage trust assets, to incur debt on behalf of the trust, and to hold legal title to and manage trust assets.
- Texas 50(a)(6) loans may not close in trust and must close in an individual's name only

### **HIGH-COST LOANS AND HIGHER PRICED MORTGAGE LOANS**

High-cost loans (Section 32) as defined by applicable state and/or local regulations and higher priced mortgage loans are not permitted.

### **PREPAYMENT PENALTY**

None

### **TEMPORARY BUYDOWNS**

Not eligible



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### **ELIGIBLE TRANSACTION TYPES AND TERMS**

#### **NON-ARMS-LENGTH TRANSACTIONS**

Any transaction where there is a relationship or business affiliation between the buyer, seller, real estate agent, or originator in the transaction is considered non-arms-length. Non-arms-length transactions also include, but are not limited to:

- Applicants related by blood or marriage to the seller
- Owners, employees or family members of originating broker.
- Fiancé, fiancée, or domestic partner
- Employer or business partner
- Renters buying from landlord, unless 12 months of satisfactory payment history from borrower to landlord can be documented with one of the following:
  - 12 months cancelled checks
  - ACH withdraw from borrower's account
  - VOR (not acceptable if private party)
- Trading properties with seller
- Builder/developer

Non-arms-length transactions are not eligible for financing except for the following:

- Property sellers are representing themselves as agent in real estate transaction
- Relative of the borrower acting as the buyer's real estate agent
- Relative of the property seller acting as the seller's real estate agent
- Borrower acting as their own real estate agent
- Originating lender may submit employee loans, if it can be documented the originating lender has an established employee program.
- For approved Flagstar Bank builder owned mortgage companies it is acceptable when the builder is the property seller.

#### **PURCHASE LOANS**

LTV is based on the lesser of the current appraised value or acquisition cost.

#### ***PERSONAL PROPERTY***

- Any personal property transferred with a property sale must be deemed to have zero transfer value as indicated by the sales contract and appraisal.
- If any value is associated with the personal property, the sales price and the appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

#### ***FINANCING CONCESSIONS***

- Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender or their affiliates and/or any other party with an interest in the real estate transaction. The following restrictions for interested party contributions apply:
  - May only be used for closing costs and prepaid expenses and may not be used for down payment or reserves



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

### **SALES CONCESSIONS**

- All seller concessions must be addressed in the sales contract, appraisal and CD. A seller concession is defined as any interested party contribution beyond the stated limits (as shown in the prior section, financing concessions) or any amounts not being used for closing costs or prepaid expenses.
- If a seller concession is present, both the appraised value and the sales price must be reduced by the concession amount for the purposes of calculation LTV/CLTV/HCLTV.
- In cases where the appraisal does not clearly and adequately reflect the presence and effect of any financing and/or sales concessions, the underwriter must make a downward adjustment to the appraised value of the Mortgaged Property to reflect the cost of the contribution. The revised LTV is based on the lesser of the appraised value or reduced sales price.

### **UNDISCLOSED SELLER CONTRIBUTIONS**

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

### **INTERESTED PARTY CONTRIBUTIONS**

Please refer to the applicable product description for restrictions.

### **SHORT SALE FEES PAID BY THE BORROWER**

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

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

The following documents will be required:

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

## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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### CONTINUITY OF OBLIGATION FOR REFINANCE TRANSACTIONS

When at least one (1) borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements has been met. If continuity of obligation is not met, the following permissible exceptions are allowed for the new refinance to be eligible:

- The borrower has been on title for at least twelve (12) months but is not obligated on the existing mortgage that is being refinanced and the borrower meets the following requirements:
  - Has been making the mortgage payments (including any secondary financing) for the most recent twelve (12) months, or
  - Is related to the borrower on the mortgage being refinanced.
- The borrower on the new refinance transaction was added to title twenty-four (24) months or more prior to the disbursement date of the new refinance transaction.
- The borrower on the refinance inherited or was legally awarded the property by a court in the case of divorce, separation or dissolution of a domestic partnership.
- The borrower on the new refinance transaction has been added to title through a transfer from a trust, LLC or partnership. The following requirements apply:
  - Borrower must have been a beneficiary/creator (trust) or 25% or more owner of the LLC or partnership prior to the transfer.
  - The transferring entity and/or borrower has had a consecutive ownership (on title) for at least the most recent six (6) months prior to the disbursement of the new loan.

Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

### RATE-AND-TERM REFINANCE LOANS

- Refer to [Continuity of Obligation](#) section for additional requirements
- The new loan amount is limited to payoff the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaids:
  - If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve (12) months. In addition, the total draws cannot exceed \$2000 in the most recent twelve (12) months.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months.
    - A seasoned equity line is defined as not having draws totaling over \$2000 in the most recent twelve (12) months. Withdrawal activity must be documented with a transaction history.
  - Cash to borrower is limited to the lesser of 2% of the principal amount of the new mortgage or \$2,000.
- Properties currently listed for sale (at the time of application) are not eligible for refinance transactions.
- Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met.
  - Rate-and-Term refinance only
  - Primary and second homes only
  - Documentation provided to show cancellation of listing





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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- Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing.
- Construction loans are not eligible
- If borrower has less than 6 months ownership in the property (defined as prior Note date to subject Note date), LTV/CLTV/HCLTV is calculated from the lesser of the purchase price or appraised value, with the exception of the below circumstances:
  - Properties where capital improvements have been made after purchase, the LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or the purchase price plus documented improvements (file must contain receipts).
  - In the case of an inherited property, the appraised value may be used to determine the LTV/CLTV/HCLTV.
- If the borrower has owned the property for more than 6 months (defined as prior Note date to subject Note date), the LTV/CLTV/HCLTV is based on the appraised value.

### **DELAYED FINANCING**

Defined as the refinance of a property purchased by the borrower for cash within 6 months of loan application. Transaction is eligible if it meets the following criteria:

- Property was purchased by borrower for cash within six (6) months of the loan application.
- HUD-1/CD from purchase reflecting no financing obtained for the purchase of the property.
- Preliminary title reflects the borrower as the owner and no liens.
- Funds used to purchase the property are fully documented and sourced and must be the borrower's own funds (no gift funds or business funds).
- Funds drawn from a HELOC on another property owned by the borrower, funds borrowed against a margin account or funds from a 401(k) loan are acceptable if the following requirements are met:
  - The borrowed funds are fully documented
  - The borrowed funds are reflected on the Closing Disclosure (CD) as a payoff on the new refinance transaction
- LTV/CLTV/HCLTV for Rate-and-Term refinances must be met. The loan is treated as a Rate-and-Term refinance except for primary residence transactions in Texas.
- Investment properties are allowed if borrower is not a builder or in the construction industry and prior transaction was arm's length.

### **REFINANCES TO BUY OUT AN OWNER'S INTEREST**

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

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





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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

If the borrower is seeking additional cash-out equity the loan must be qualified as a cash-out transaction however the buy-out amount will not be included toward the total cash-out limitation. Buy-out figure must be reflected on the Closing Disclosure as paid directly to the interested party.

### **LAND CONTRACT REFINANCES**

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

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

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

### **CASH-OUT REFINANCES**

- Borrower must have owned property for at least six months prior to the application date unless requirements for Delayed Financing are met.
- Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand.
- If an unseasoned non-purchase money second is being paid off, the payoff of the 2nd mortgage will be included in the cash out limitation.
- Properties that have been listed for sale within 12 months of loan application are not eligible for a cash-out refinance transaction.
- Construction loans are not eligible
- If the borrower has owned the property for more than 12 months (defined as prior Note date to subject Note date), the LTV/CLTV/HCLTV is based on the appraised value.
- If borrower has less than 12 months ownership in the property (defined as prior Note date to subject Note date), LTV/CLTV/HCLTV is calculated from the lesser of the purchase price or appraised value, with the exception of the below circumstances:
  - Properties where capital improvements have been made after purchase, the LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or the purchase price plus documented improvements (file must contain receipts).
  - In the case of an inherited property, the appraised value may be used to determine the LTV/CLTV/HCLTV.
- Cash-out refinances where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan or replenishing business funds used to purchase the property, the following guidelines apply:
  - Cash-out limitation is waived if previous transaction was a purchase
  - Seasoning requirement for cash-out is waived (borrower does not have to have owned for six (6) months prior to subject transaction).
  - Funds used to purchase the subject property must be documented and sourced.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

- HUD-1/CD for subject transaction must reflect payoff or pay down of pledged asset/retirement account loan, secured loan, unsecured family loan or business asset account. If cash-out proceeds exceed payoff of loans, excess cash must meet cash-out limitations.
- The purchase must have been arm's length.
- Investment properties are ineligible.

### CONSTRUCTION-TO-PERMANENT

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 purchased as part of the transaction.
- A certificate of occupancy is required when the property is deemed a new construction property.
- The loan is treated as a rate-and-term 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 current appraised value of the property or the total acquisition costs (documented construction costs plus documented purchase price of lot).

### TEXAS REFINANCES

All owner-occupied refinance loans in the State of Texas will be reviewed to determine the applicable guidelines under which they must be originated, underwritten, and closed. Refer to product descriptions for eligibility to close under the criteria of a Texas Home equity loan transaction. The underwriter must conduct a review of the title commitments to verify if any prior lien was a Texas Home Equity or 50(a)(6) lien.

#### **TX Refinance Eligibility**

Refinance loan applications must be reviewed for eligibility as follows:

- If the existing loan(s) is not a Texas Home Equity lien, the subject transaction may be considered a rate-and-term transaction without applying Texas Home Equity, TX (a)(6), requirements if the following criteria is met:
  - New loan amount is less than or equal to the unpaid principal balance plus reasonable closing costs and prepaids
  - New loan amount is also paying off a purchase money second
  - New loan is also paying off or down an existing secured home improvement loans (mechanic lien)
  - New loan is used to satisfy a court ordered divorce equity buyout. See [Exception](#) requirements below
  - No cash back may be received at closing
- If it is determined that any subordinate financing to be paid off with the proceeds of the loan does not meet the requirements under the [Rate-and-Term Refinance](#) section, but is also not classified as a Texas Home Equity lien, then the new loan will be treated as cash-out transaction however identified as non-Texas Home Equity cash-out refinance.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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- If the title commitment shows a lien was originated as a Texas Home Equity lien, TX (a)(6) lien, the following criteria must be followed:
  - If the existing lien is being paid off from the proceeds of the new first mortgage, the loan will be underwritten as a Texas Home Equity cash-out refinance transaction. Even if no new cash-out is sought, the refinance is subject to the same disclosures and closing requirements as new Texas Home Equity loans as listed below.
  - If an existing Texas Home Equity or 50(a)(6) lien is being fully subordinated, (only non-(a)(6) loan(s) being paid off), the new loan can be underwritten as a rate-and-term.
- A refinance Conversion of a TX 50(a)(6) into a Non-TX 50(a)(6) standard refinance must meet the following:
  - The refinanced loan is signed at least a year after the original home equity loan was signed
  - The refinanced loan cannot provide any additional money to the borrower other than to cover the costs to do the refinancing
  - The refinanced loan cannot exceed 80% of the fair market value of the house
  - The borrower must be provided with the Notice Concerning Refinance of Existing Home Equity loan to Non-Home Equity Loan Disclosure within 3 days of the application and at least 12 or more days before the date of refinance.

### Eligible Homesteads

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

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

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



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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### **Applications with New Cash-Out**

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

### **Exception**

A buy-out as a result of a divorce settlement to be treated as a rate-and-term refinance and allows up to a 90% LTV as long as the borrower who will be acquiring sole ownership of the property receives no cash-out of the proceeds from the transaction. A copy of the final divorce decree mandating the buy-out is necessary.

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

### **Miscellaneous Provisions**

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

### **Cooling Off Period**

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

### **Title Insurance**

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

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

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

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



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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

### CREDIT

#### AUTHORIZED USER ACCOUNTS

Authorized user accounts are not allowed as an acceptable tradeline. The borrower must qualify with the payment unless the authorized user tradeline belongs to another borrower on the mortgage loan or it can be documented someone else other than the borrower is making the payment.

#### CREDIT SCORE REQUIREMENTS

FICO (Fair, Isaac and Company) scores are required to be obtained from the three national credit bureaus. Each borrower must have at least two credit scores.

- If there are (3) valid credit scores for a borrower, the middle score (numerical middle of the three scores) is used.
- If there are (3) valid scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are (2) valid scores for a borrower, the lower of the two scores is used.

If there is more than one borrower on a mortgage loan, the lowest of the median FICO scores for all borrowers (as calculated above) is used for credit qualification purposes.

#### CREDIT REPORTS-FROZEN BUREAUS:

Credit reports with bureaus identified as “frozen” are required to be unfrozen and a current credit report with all bureaus unfrozen is required.

#### COLLECTIONS

Collections over \$250 individually or \$1,000 aggregate, must be paid

#### DEROGATORY CREDIT EVENTS

Derogatory accounts must be considered in analyzing the borrower’s willingness to repay. Unless otherwise noted in the product description, the below timing requirements must be met for after a derogatory credit event:

- A Bankruptcy, foreclosure, short sale, deed-in-lieu and loan modification must be seasoned for 7 years from the date of the loan application.
- Multiple derogatory events, regardless of age, are not eligible.
- See [Temporary Verification of Mortgage Requirements](#) for specific details on COVID-related forbearance servicer resolutions where standard timing requirements listed above may not apply.

#### ***TIMING REQUIREMENTS WITH DU RESPONSE***

Significant derogatory credit events will follow DU findings, when the product allows, with the exception of Chapter 13 bankruptcies and loan modifications:

- Reduced seasoning due to extenuating circumstances is not permitted (e.g. DU response message codes that allow DU to disregard a valid derogatory event or reduce timing due extenuating circumstances are not eligible for use)



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Fannie Mae DU Eligibility Standards	
Derogatory Event	Recovery Time
Bankruptcy Chapter 7, 11, and 13	4 years from the discharge or dismissal date
Multiple Bankruptcy Filings	5 year waiting period is required from the most recent dismissal/discharge date if multiple bankruptcies within the last 7 years.
Foreclosure	7 years from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower
Deed-In-Lieu of Foreclosure, Short sale, or Charge-off of mortgage account	4 years date of completion or sale
Loan Modifications	7 years from the modification date  See <a href="#">Temporary Verification of Mortgage Requirements</a> for specific details on COVID-related forbearance servicer resolutions where standard timing requirements listed above may not apply.

### DISPUTED TRADELINES

- All disputed tradelines with a balance must be included in the DTI if the account belongs to the borrower
- A disputed account with a zero balance and no late payments, can be disregarded.

### DISPUTED CREDIT INFORMATION

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

### MORTGAGE/RENT HISTORY REQUIREMENTS

If the borrower(s) has a mortgage or rental history in the most recent twelve (12) months, a VOM or VOR must be obtained reflecting 0X30 in the last twelve (12) months from the date of application. Applies to all borrowers on the loan.

- If the landlord is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory rent history is required; otherwise if not related or a party to the transaction a satisfactory VOR can be provided.
- A verification of mortgage is not required if the credit report reflects the payment history is reporting current as of the date of the application.





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

### **TEMPORARY VERIFICATION OF MORTGAGE REQUIREMENTS**

For all transactions with applications on or after October 1, 2020, in addition to reviewing the credit report, a verification of mortgage from the Lender/Servicer is required to document a history of 0x30 day late or missed payments in the last 12 months of the Note date for all financed residential one-to four-unit properties.

Examples of acceptable additional due diligence methods to document the latest 12-month history includes:

- a loan payment history ledger from the servicer
- the last 12-months mortgage account statements and/or cancelled checks from the borrower
- a verification of mortgage from the servicer
- A credit supplement is now acceptable when direct contact is made with the servicer, with the contact information provided, the supplement verifies 0x30 payment history over the last 12 months and the due date of the next payment owed.
  - A supplement that indicates automated verification is not acceptable
  - A supplement that only provides a current status of the mortgage such as “current” or “paid as agreed” would not be considered as meeting the due diligence requirement
  - When evidence is present in file to indicate a mortgage may have had missed payments as a result of a COVID-related forbearance, a credit supplement is not acceptable

The documentation provided must support the accurate payment history of the borrower and will be accepted at the discretion of Flagstar Bank

### **Loans in Forbearance**

- Any loan (subject or non-subject property) in Forbearance with full or partially missed payments within the last 12 months will be considered ineligible.
- Any loan (subject or non-subject property) in a Forbearance without any missed payments over 30 days in the last 12 months may proceed and will not be required to exit Forbearance prior to the Note date.
- For mortgages identified with missed payments over 12 months old which resulted from a COVID-related forbearance, the borrower must have formally exited the forbearance by either
  - Reinstating the loan by repayment of the missed payments in full, or
  - Documenting a servicer approved resolution (e.g. payment deferral, repayment plan, or other modification) and verification of three subsequent full payments made after the date of the approved servicer resolution
    - For COVID-related forbearance servicer resolutions only, standard modification timing requirements for derogatory events do not apply.

All Non-Agency transactions in the pipeline dated prior to the effective date of October 1, 2020, the above requirements must be applied in the event late or missed payments are identified during the loan process.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

### OUTSTANDING JUDGMENTS/TAX LIENS/CHARGE-OFFS/PAST-DUE ACCOUNTS

- Tax liens, judgments, charge-offs and past-due accounts must be satisfied or brought current prior to or at closing. Cash-out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past-due accounts.
- Payment plans on prior year tax liens/liabilities are not allowed and must be paid in full.

### TRADELINE REQUIREMENTS

An acceptable tradeline is one from a traditional credit source. Non-traditional/Alternative credit tradelines, or items such as collections, charge-offs, “authorized user” accounts, deferred loans with no payment history, or transferred accounts, are all considered unacceptable tradelines.

If tradelines do not meet the required payment history per the product the credit data is deemed insufficient to determine a borrower’s credit behavior, regardless of the presence of an acceptable credit score.

### ***TRADELINE OPTIONS WITH FULL MANUAL UNDERWRITE***

Manually underwritten products must meet one of the following options for each individual borrower contributing income for qualifying purposes unless otherwise stated in the product description.

Option 1	<ul style="list-style-type: none"> <li>• A minimum of 3 open and active tradelines reporting with a satisfactory 12-month history on each tradeline.</li> <li>• A total length of credit history reporting for at least 24 months</li> </ul>
Option 2	<ul style="list-style-type: none"> <li>• A minimum of 2 tradelines reporting with a satisfactory 12-month history on each tradeline. <ul style="list-style-type: none"> <li>○ One account must be a mortgage reporting within the last 5 years (open or closed account)</li> <li>○ Secondary tradeline must be open and active within the last 12 months</li> </ul> </li> </ul>
Option 3	<ul style="list-style-type: none"> <li>• A total length of credit history reporting for at least 5 years.</li> <li>• 4 Tradelines reporting with a satisfactory history of 12 months (open or closed). <ul style="list-style-type: none"> <li>○ At least one tradeline must be active within the last 24 months;</li> <li>○ One tradeline must be a mortgage with a 12-month history, or if the borrower has not owned a home, a Verification of Rent for at least 12 months is required; and</li> <li>○ All reporting tradelines must be paid as agreed within the last 48 months</li> </ul> </li> </ul>

### ***TRADELINE REQUIREMENTS WITH DU RESPONSE***

For products utilizing DU response, the credit report(s) must meet one of the following tradeline requirements:

- 2 tradelines with a minimum 12-month history or
- 1 tradeline with a minimum 12-month history and a 12-month housing reference.

### TRI-MERGE

Credit report must be a 3-file merged credit report or an RMCR. Every submitted credit bureau report must include the full name, address and social security number of each borrower. If any of this information is inconsistent with that on any document in the file, a new report and/or explanation will be required.





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

### ASSETS

#### DOCUMENTATION REQUIREMENTS

Asset Type	% Eligible for Calculation of Funds	Documentation Requirements	Funds to Close	Reserves
Checking/Savings/Money Market/CDs	100%	Two (2) months most recent statements or Verification of Deposit.	X	X
Stocks/Bonds/Mutual Funds	100%	Two (2) months most recent statements. Non-vested stock is ineligible.	X	X
Retirement Accounts (401(k), IRAs etc.)	If borrower is >59 ½, then 70% of the vested value after the reduction of any outstanding loans.	Most recent statement(s) covering a two (2) month period.  Evidence of liquidation if using for down payment or closing costs.	X	X
	If borrower is <59 ½, then 60% of the vested value after the reduction of any outstanding loans.	Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves.	X	X
Cash Value of Life Insurance/Annuities (Net Proceeds)	100% of value unless subject to penalties.	Most recent statement(s) covering a two (2) month period.	X	X
1031 Exchange	Allowed on second home and investment purchases only.  Reverse 1031 exchanges not allowed.	HUD-1/CD for both properties  Exchange agreement.  Sales contract for exchange property.  Verification of funds from the Exchange Intermediary.	X	



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Asset Type	% Eligible for Calculation of Funds	Documentation Requirements	Funds to Close	Reserves
Business Funds	100%	<p>Cash flow analysis required using most recent three (3) months business bank statements to determine no negative impact to business.</p> <p>Business bank statements must not reflect any NSF's (non-sufficient funds) or overdrafts.</p> <p>Borrower must be 100% owner of the business.</p> <p>Any documented PPP loan or other COVID related loan(s) are not considered an eligible source of business funds for down payment, closing costs or reserves.</p>	X	X
Gift Funds	<p>Allowable for Primary and Second Homes as follows (unless product indicates otherwise):</p> <ul style="list-style-type: none"> <li>• LTV &gt;80%, The borrower must make a 5% minimum borrower contribution from their own funds before gift funds may be used.</li> <li>• LTV ≤ 80%, Minimum borrower contribution from the borrower's own funds is not required.</li> </ul> <p>Gift funds not allowed for reserves.</p> <p>Gift funds not allowed on investment properties.</p>	<p>Acceptable Donor:</p> <ul style="list-style-type: none"> <li>• a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or</li> <li>• a fiancé, fiancée, or domestic partner.</li> </ul> <p>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.</p> <p>Executed gift letter with gift amount and source, donor's name, address, phone number and relationship.</p> <p>Underwriter must verify sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account.</p> <p>Acceptable documentation includes the following:</p>	X	



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Asset Type	% Eligible for Calculation of Funds	Documentation Requirements	Funds to Close	Reserves
		<ul style="list-style-type: none"> <li>• Copy of donor's check and borrower's deposit slip. If the gift was provided in the form of a cashier's check the donors most recent statement documenting available funds must be provided</li> <li>• Copy of donor's withdrawal slip and borrower's deposit slip.</li> <li>• Copy of donor's check to the closing agent.</li> <li>• A settlement statement/CD showing receipt of the donor's gift check.</li> </ul>		
Anticipated Net Proceeds from concurrent sale of property	<p>100% of the net proceeds based on a Preliminary Closing Disclosure may be used for cash to close</p> <p>No more than 50% of the net proceeds may comprise the borrower's reserve requirement</p>	<p>Preliminary Closing Disclosure provided prior to close.</p> <p>Final Closing Disclosure or equivalent closing statement must be provided at time of closing.</p> <p>Underwriter to breakdown the amount of both funds to close and reserves which must be verified in the at close condition.</p>	X	X



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Asset Type	% Eligible for Calculation of Funds	Documentation Requirements	Funds to Close	Reserves
<p>Proceeds from Sale of Personal Assets</p> <p>Including but not limited to vehicles, art, and cryptocurrency such as Bitcoin</p>	<p>100% of proceeds</p> <p>No more than 50% of the proceeds may comprise the borrower's reserve requirement</p>	<p>Proof of the borrower's original ownership interest in the asset (e.g. vehicle title)</p> <p>Value of the asset as determined by an independent and reputable source (e.g. blue book)</p> <p>Transfer of ownership of asset with bill of sale</p> <p>Receipt of proceeds from the sale from purchaser and deposit into borrower's account</p> <p>Note: Cryptocurrency ownership may be difficult to document; before using as an asset, sufficient paper trail must be provided to document the borrower's ownership of the digital account, sale of the digital currency and deposit into a depository account. Cryptocurrency must be sold and loans against digital currency are not considered eligible.</p>	X	X
Secured Borrowed Funds from Real Estate	100%	<p>Documentation of new qualifying payment to be included in the debt to income analysis</p> <p>Evidence of withdrawal of funds from an existing HELOC and deposit into financial account prior to closing</p> <p>Documentation of new Bridge loan and either receipt of proceeds prior to close or Final Approval Commitment to demonstrate funds will be received simultaneously with subject loan closing</p>	X	

### LARGE DEPOSIT

When bank statements, typically covering the most recent two months are used, the lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

income (includes income derived from the asset calculation for establishing the debt payment-to-income ratio) for the loan. Requirements for evaluating large deposits vary based on the transaction type. For refinance transactions, the following requirements must be met only if the funds are needed to close. For purchase transactions, the requirements are always required:

- If funds from a large deposit are needed to complete the transaction, i.e., are used for the down payment, closing costs, or financial reserves, the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower’s debt-to-income ratio and overall income and credit profile.
  - Verified funds must be reduced by the amount, or portion, of the undocumented large deposit, as defined above, and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount, must be used for underwriting purposes. When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.

If the source of a large deposit is readily identifiable on the account statement(s), such as a direct payroll deposit from an employer, the Social Security Administration, IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

### MINIMUM BORROWER CONTRIBUTIONS

Unless otherwise indicated in the product description the following borrower contributions must be met:

Occupancy	LTV	Minimum borrower contribution
Primary and Second Home	≤ 80%	Minimum borrower contribution from the borrower’s own funds is not required.
	> 80%	The borrower must make a 5% minimum borrower contribution from their own funds before gift funds may be used.
Investment	All funds used for the transaction must be the borrower’s own funds. Gift funds are not allowable	

### RESERVES

Please refer to applicable product description for reserve requirements. Reserves are based on the qualifying PITIA payment of the subject and documented PITIA of any additional properties (if applicable).

### EARNEST MONEY DEPOSIT

All EMD funds must be verified. If EMD reflected on 1003 is different than the EMD disclosed on the PA, the underwriter will require verification of those funds.

## **INCOME**

### REQUIREMENT FOR STABLE MONTHLY INCOME

- Stable - two (2) year history of receiving the income from a verifiable source(s)
- Income may not be used in calculating the consumer’s debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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- Income with a defined expiration date must continue for at least the first three years of the mortgage Note date.

### ***ANALYZING A CONSUMER'S EMPLOYMENT AND INCOME RECORD***

When analyzing a consumer's employment and income history, the underwriter must examine:

- The consumer's past employment record; and
- The employer's conformation of current, ongoing employment status
- See Income below income types and requirements

### ***DECLINING INCOME***

When the borrower has declining income, the most recent twelve (12) months should be used. In certain cases, an average of income for a longer period may be used when the decline is related to a one-time capital expenditure and proper documentation is provided. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.

If declining income is for a non-self-employed borrower, the employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

### ***UNACCEPTABLE INCOME***

Unacceptable income sources include, but are not limited to:

- Any unverified source
- Deferred compensation
- Income that is temporary or a one-time occurrence
- Rental income received from the borrower's single-family primary residence or second home.
- Retained earnings
- Education benefits
- Income from trailing co-borrowers
- Stock Options & Restricted Stock Grants
- Income based on future wage increases
- Income derived from an activity that is prohibited by federal, state or local law, rules and regulations cannot be considered This applies to both W2 and self-employment, regardless if reporting income or loss. Income sources may include, but not limited to:
  - Foreign shell banks
  - Medical marijuana dispensaries
  - Any business or activity related to marijuana or CBD (e.g. growing, processing, distribution, etc.) even if legally permitted under state or local law.
  - Businesses engaged in any type of internet gambling.

## EMPLOYMENT RELATED INCOME

### ***VERIFYING EMPLOYMENT HISTORY***

The underwriter must verify the borrower's employment for the most recent two full years, and obtain the following, if applicable:



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

- Year-to-date pay stub up through and including the most current pay period at the time of application.
- W-2 forms or personal tax returns, including all schedules, for prior two years.
- See Verification of Employment for additional requirements
- Explain any gaps in excess of 60 days during the past two years.
  - Allowances can be made for seasonal employment gaps beyond 60 days, typical for the building trades and agricultural, if documented.
  - Income received from secondary employment or multiple job sources, there may be no gap greater than 30 days in the last 12 months.
- Written Verification of Employment may be required for a borrower's income sourced from commissions, overtime and or other income when the income detail is not clearly documented on W-2 forms or paystubs. Written VOEs cannot be used as a sole source for verification of employment, paystubs and W-2s are still required.

### **CALCULATING INCOME**

Individuals either receive a fixed regular annual income, usually paid monthly, semimonthly, biweekly, or weekly, or they may work and get paid by the hour, day, or week. All receive regular compensation in the form of a paycheck and year-end income is reported via a W-2. Each type of qualifying income is calculated differently.

<b>Pay Period</b>	<b>Monthly Income (without overtime, bonus, commission, etc.)</b>
Annual Salary	Annual Pay divided by 12 (or by the number of months if distributed in <12)
Monthly Salary	Monthly Rate of Pay as shown
Semi-monthly Salary	Base Pay Rate x 24 / 12
Bi-weekly Salary	Base Pay Rate x 26 / 12
Weekly Salary	Base Pay Rate x 52 / 12
Hourly	Rate of Pay x # Hours worked per week x 52 / 12

### **EMPLOYMENT RELATED INCOME TYPES**

<b>Income Type</b>	<b>Required Documentation</b>
Salary and Non-Fluctuating Hourly	Large increases in salary/base pay over the previous two years must be explained and documented.
Variable Income	Stable to increasing income should be average over a minimum two-year period.  When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. Declining income must be explained by the employer/borrower and a written determination by the underwriter must be provided if declining income is used for qualifying.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Income Type	Required Documentation
Secondary or Multiple Income Sources	<p>Secondary employment or multiple-job income is generally considered stable income for qualifying use when received and documented for the last two-years.</p> <ul style="list-style-type: none"> <li>• There is flexibility of accepting less than a two-year history, but no less than a 12-month history for a borrower if there is a strong likelihood that the borrower will continue to receive that income and there are positive factors to offset the shorter income history</li> <li>• There may be no gap in employment beyond one-month in the most recent 12-month period.</li> <li>• It should be determined if there has been any recent change in the borrower's overall employment status that might jeopardize the continuance of income from additional employment. For example, review of borrower's historic ability to handle multiple jobs on a continuing basis.</li> <li>• For secondary income or income from multiple-jobs, refer to Variable Income section for additional eligibility requirements.</li> </ul>
Seasonal Income	<p>Seasonal income is considered uninterrupted and may be used to qualify when a two-year history of maintaining seasonal employment can be documented with plans to continue. Refer to Variable Income section for additional eligibility requirements.</p> <p>Unemployment may be averaged and used in conjunction with seasonal income and must be documented with tax returns to show a minimum of two-year history of receipt.</p>
Overtime & Bonus	<p>A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.</p> <ul style="list-style-type: none"> <li>• Periods of overtime and bonus income less than two years may be acceptable, provided when the underwriter can justify and document in writing the reason for using the income for qualifying purposes</li> <li>• When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.</li> </ul> <p>If either type of income shows a continual decline, income should not be used.</p>
Commission	<p>Commission income must be averaged over the previous two years.</p> <p>Consumers whose commission income was received for more than one year, but less than two years may be considered favorably if the underwriter can:</p> <ul style="list-style-type: none"> <li>• Document the likelihood that the income will continue, and</li> <li>• Borrower has a minimum 2-year employment history prior to receipt of commission</li> <li>• Commission income must be common for the industry in which the borrower is currently employed</li> </ul> <p>Commission income earned for less than one year is not considered effective income.</p> <ul style="list-style-type: none"> <li>• Exceptions may be made for situations in which the consumer's compensation was changed from salary to commission within a similar position with the same employer. Commission income must be common for the industry in which the borrower is currently employed.</li> </ul>
Tip Income	<p>Must be received for the last two years. See variable Income section for additional requirements</p>
Employer Differentials	<p>If the employer subsidizes a consumer's mortgage payment through direct payments, the amount of the payments:</p> <ul style="list-style-type: none"> <li>• Is considered gross income, and</li> </ul>





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Income Type	Required Documentation
	<ul style="list-style-type: none"> <li>Cannot be used to offset the mortgage payment directly, even if the employer pays the servicing creditor directly.</li> </ul>
Automobile Allowance and Expense Payments	<p>The full amount of an automobile allowance may be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income ratio.</p> <p>The borrower must have received the payments for the last two consecutive years</p>
Borrower Employed by Family Member	Provide the most recent two (2) years personal tax returns with all schedules to determine stability of income and potential ownership interest to document less than 25% ownership
Foreign Income	<p>Foreign income may be used only if its stability and continuance can be verified.</p> <ul style="list-style-type: none"> <li>Personal tax returns, including all schedules, for prior two years.</li> <li>Year-to-date pay stub up though and including the most current period at the time of application.</li> <li>All income must be converted to U.S. currency.</li> <li>Foreign Earned Self Employment Income is not acceptable</li> </ul>
Housing or Parsonage Allowance	A housing or parsonage allowance may be considered qualifying income if there is documentation that it has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.
Newly Entering the Workforce	For a Borrower who has less than a two-year employment and income history, the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history. School transcripts must be provided to document.
Temporary Leave of Absence (Maternity Leave)	<p>Temporary leave from an employer may encompass various circumstances (e.g. family and medical, short-term disability, maternity, other temporary leaves with or without pay). Temporary leave is generally short in duration. The period of time that borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the borrower does not intend to return to the current employer or does not have a commitment from the employer to return to employment.</p> <p>During a temporary leave, a borrower's income may be reduced and/or completely interrupted. The lender must determine that during and after the temporary leave the borrower has capacity to repay the mortgage and all other monthly obligations.</p> <p>Determining qualifying income and borrower capacity to meet obligations while on temporary leave:</p> <p>For borrowers returning to their current employer prior to the first mortgage payment due date:</p> <ul style="list-style-type: none"> <li>The lender may for qualifying income the borrower's gross monthly income amount that will be received upon the borrower's return to their current employer.</li> <li>For borrowers returning to their current employer after the first mortgage payment due date the lender must determine the income amount that will be received upon the</li> </ul>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Income Type	Required Documentation
	<p>borrower's return to their current employer. The lender must take into account any temporary reductions in income when determining qualifying income, as follows:</p> <ul style="list-style-type: none"> <li>• The lender may use for qualifying income the Borrower's gross monthly income amount being received during the temporary leave. In the event that the income has been reduced or interrupted, the lender may use for qualifying income the monthly reduced amount (this amount may be zero) being received during the temporary leave combined with the partial or complete income supplement up to the amount of the income reduction.</li> <li>• The total qualifying income must not exceed the gross monthly income that will be received upon the borrower's return to current employer.</li> <li>• Assets that are required for the transaction, e.g., down payment, closing costs, financing costs, prepaids/escrow, and reserves, may not be considered as available assets to supplement the income.</li> </ul> <p>Documentation Requirements</p> <ul style="list-style-type: none"> <li>• The following documents must be retained in the loan file:</li> <li>• Verification of the Borrower's pre-leave income and employment</li> <li>• Documentation from the current employer confirming the borrower's statutory right to return to work, or the employer's commitment to permit the borrower to return to work. The confirmation date of return, and the borrower's post leave employment and income.</li> <li>• Written statement signed by the borrower confirming that the borrower will return to their current employer stating the confirmation date of return that has been agreed upon between the borrower and the employer.</li> </ul> <p>In addition, the following documentation is required for borrowers returning to the current employer after the first mortgage payment due date:</p> <ul style="list-style-type: none"> <li>• Documentation evidencing amount, duration, and consistency of all temporary leave income sources being used to qualify the borrower, e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer, that are being received during the temporary leave</li> <li>• All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet requirements of and be verified.</li> </ul>
Returning to Workforce After an Extended Absence	<p>A borrower's income may be considered effective and stable for use in qualification when recently returning to work after an extended absence (defined as six months) if the borrower:</p> <ul style="list-style-type: none"> <li>• Is employed in the current job for six months or longer; and</li> <li>• Can document a two-year work history prior to an absence of employment using:             <ul style="list-style-type: none"> <li>○ Traditional employment verifications; and/or</li> <li>○ W2 forms, for prior 2 years</li> </ul> </li> </ul> <p>Employment with less than six (6) months return to the workforce may be considered when the following can be documented:</p> <ul style="list-style-type: none"> <li>• At least 30-day employment with new employer</li> <li>• Primary residence transactions only</li> <li>• Purchase and rate-and-term refinance only. Cash-out transactions not eligible</li> <li>• Document a two-year work history prior to an absence of employment</li> <li>• Base income only</li> <li>• Borrower to provide letter of explanation for gap in employment and financial management during the gap.</li> </ul>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Income Type	Required Documentation
Projected Income from Employment Contract	<p>Projected income is acceptable for qualifying purposes for a borrower:</p> <ul style="list-style-type: none"> <li>• Scheduled to start a new job within 60 days of loan closing</li> <li>• Salary or non-fluctuating base pay only may be used for qualification</li> <li>• Contract must be fully executed by borrower and employer or borrower acceptance letter provided.</li> <li>• All contingencies contained within the contract or offer letter must be met.</li> <li>• Creditor must verify that the consumer will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment.</li> </ul> <p>Contracts with start date between 61-90 days may be considered with the additional restrictions when the above requirements are otherwise met:</p> <ul style="list-style-type: none"> <li>• Primary residence transactions only</li> <li>• Purchase and rate-and-term refinance only. Cash-out transactions not eligible</li> </ul>
RSU Income	<p>Income derived from restricted stocks may be granted as a component of employee compensation and are subject to a restriction period during which recipients are not allowed access to granted shares until either performance-based or time-based vesting requirements are met.</p> <p>Vesting may be based on the following:</p> <ul style="list-style-type: none"> <li>• Performance-based- percentage of total granted shares vest based on individual or corporate performance; or</li> <li>• Time-based- percentage of total granted shares vest after a pre-determined period of employment.</li> </ul> <p><u>Restrictions of Use</u></p> <ul style="list-style-type: none"> <li>• May only be used for income if the income has been consistently received for two years and is likely to continue at a similar level for the next three years. <u>No exceptions.</u></li> <li>• Owner-Occupied and Second Homes only. Ineligible for use on investment property transactions.</li> </ul> <p><u>Documentation Requirements</u></p> <ul style="list-style-type: none"> <li>• Current paystub, 2 years W2s and tax returns evidencing two-year history of receipt of restricted stocks. If not clearly identifiable on the W2s, year-end paystubs may also be required to identify receipt.</li> <li>• If the borrower has less than two years with current employer, must document the borrower's prior employment compensation included restricted stocks and the borrower has received at least one award with the current employer that is vested. The previous employment must have been a similar position and industry and issuance of restricted stock must be common for the industry.</li> <li>• Vesting schedule to provide schedule of distribution of units and show no indications the borrower will cease to receive future restricted stocks at the same historical level.</li> </ul> <p><u>Restricted Stock Requirements</u></p> <ul style="list-style-type: none"> <li>• Stocks must be vested. Non-vested stocks are not eligible</li> <li>• Stocks must be publicly traded</li> <li>• May not be used for reserves if using for income to qualify</li> </ul> <p><u>Calculation of Income</u></p> <ul style="list-style-type: none"> <li>• A 24-month average of the prior shares received should be used to calculate income using the lower of the current stock price or average two-year stock price.</li> </ul>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Income Type	Required Documentation
	<ul style="list-style-type: none"> <li>• If distributed as a cash equivalent, average the last two years total amount distributed from the cash equivalent of the vested shares over 24 months</li> <li>• If the prior two-year history is from a previous employer, the more conservative the two-year history, current stock price or 36-month future vesting should be used for qualifying purposes.</li> </ul> <p>Declining restricted stocks may result in an ineligible income source for qualification</p>

### SELF-EMPLOYMENT RELATED INCOME

A consumer with a 25 percent or greater ownership interest in a business is considered self-employed.

#### **MINIMUM LENGTH OF SELF EMPLOYMENT**

Income from self-employment is considered stable, and effective, if the consumer has been self-employed for two or more years.

Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for consumers who have been self-employed for less than two years.

If the period of self-employment is:	Then:
Between one and two years	<p>For the individual's income to be effective, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation</p> <p>A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable.</p>
Less than one year	The income from the borrower may not be considered effective income



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

### SELF-EMPLOYED QUALIFYING INCOME ANALYSIS

Self-Employment	Required Documentation
Self-Employed Income All	<p>Self-employment must be documented with two-years personal tax returns with all schedules</p> <ul style="list-style-type: none"> <li>• Personal returns must be signed in the event third-party tax transcripts are not provided. See Tax Transcript section for further details.</li> </ul> <p>Signed Business returns, when applicable, along with K-1s showing ownership interest for the most recent two years</p> <ul style="list-style-type: none"> <li>• A signed 4506-C for each business will be required for all business' in which the business income/loss is being used to qualify the borrower(s)</li> <li>• When a consumer's percentage of ownership does not appear on the tax returns, the creditor must obtain the information from the corporation's accountant, along with evidence that the consumer has the right to any compensation.</li> </ul>
Sole Proprietorship (Schedule C)	<p>YTD Profit and Loss (P&amp;L) dated within 120 days of the Note date is required when the borrower has filed an extension for the most recent tax years filing (e.g. typically between April 15<sup>th</sup> and October 15<sup>th</sup>)</p>
Partnerships (1065) Limited Liability Or "S" Corporations (1120S), or Corporations (1120)	<ul style="list-style-type: none"> <li>• YTD Profit and Loss (P&amp;L) dated within 120 days of the Note date is required</li> <li>• YTD balance sheet dated within 120 days of the Note date is required.</li> </ul>

When qualifying income, establish the consumer's earnings trend from the previous two years using the consumer's tax returns. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable

- Follow Fannie Mae Cash-Flow Analysis ([form 1084](#)) or any other cash-flow analysis that follows the same principles to determine the ordinary business income
  - A self-employment income analysis worksheet must be retained in file.
  - Notes due and payable within one-year do not require reduction from self-employment analysis if there is evidence that these obligations roll over regularly or the business has sufficient liquid assets to cover them
  - Any documented proceeds from a Small Business Administration PPP loan or any other similar COVID related loan or grant to a business may not be considered in the analysis of self-employment income.
- When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.
  - If the Profit and Loss (P&L) statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the creditor must base the income analysis solely on the income verified through the tax returns.
  - If the consumer's earnings trend for the previous two years is downward and the most recent tax return or Profit and Loss (P&L) is less than the prior year's tax return, the consumer's most recent year's tax return or Profit and Loss (P&L) must be used to calculate their income.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

- If the borrower has self-employment income and/or zero income reported on personal returns and it is not needed to qualify, it is not required to obtain the Profit and Loss (P&L) and balance sheet.
- If the borrower has a loss, regardless of the amount, the documentation will be required on the self-employment type and will be used to qualify the borrower(s)
  - Exception to the above, it is not required to account for self-employment loss when the borrower is qualified using only income that is not derived from self-employment and self-employment loss is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include, but not limited to, a salaried borrower or borrower receiving retirement income

### RENTAL INCOME

Rental Income	Required Documentation
All properties	<p>Rental income may be used to qualify if the rental income can be documented as follows:</p> <ul style="list-style-type: none"> <li>• Personal tax returns, including all schedules, for the most recent tax filing year.               <ul style="list-style-type: none"> <li>○ In the event two years tax returns are required for other income purposes, the underwriter should analyze the rental history based on two years in lieu of the most recent one-year.</li> </ul> </li> <li>• For properties listed on Schedule E of the borrower's tax returns, net rental income should be calculated as the total of (Income + depreciation + interest + taxes + insurance+ HOA (if applicable) divided by the applicable months minus the current PITIA.               <ul style="list-style-type: none"> <li>○ If the subject property is the borrower's primary residence and generating rental income, the full PITIA must be included in the borrower's total monthly obligations.</li> </ul> </li> <li>• If rental income is not available on the borrower's tax returns due to the property being acquired after the most recent tax filing period, a current executed lease agreement is required.               <ul style="list-style-type: none"> <li>○ Net rental income should be calculated as the gross monthly rent multiplied by 75% minus the current PITIA</li> <li>○ For subject property investment transactions only:                   <ul style="list-style-type: none"> <li>▪ the borrower must have a current housing payment (e.g. cannot live rent-free) AND</li> <li>▪ rental management history of at least 1 year is required in order to use positive rental income, otherwise only the PITIA may be offset</li> </ul> </li> </ul> </li> <li>• Net rental income must be added to the borrower's total monthly income.</li> <li>• Net rental losses must be added to the borrower's total monthly obligations.</li> </ul>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Rental Income	Required Documentation
Boarder Income	<p>Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:</p> <ul style="list-style-type: none"> <li>• When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower               <ul style="list-style-type: none"> <li>○ Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.</li> <li>○ Obtain documentation of the boarder's rental payments for the most recent 12 months.</li> </ul> </li> </ul>
Departing Residence with a lease	<p>When a consumer vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor (25%), may be considered in the underwriting analysis with a new lease under the circumstances</p> <ul style="list-style-type: none"> <li>• A properly executed lease agreement (that is a lease signed by the borrower and the lessee) of at least one year's duration after the loan is closed is required.</li> <li>• Rental income from a new lease may only be used to offset the PITIA of the primary property and no positive rental income may be used to qualify unless the borrower has a minimum of one-year investment property management experience.</li> </ul>

### OTHER INCOME TYPES

Income sources with a defined expiration date must continue for at least the first (3) three years of the mortgage unless otherwise indicated.

Other Income	Required Documentation
Retirement Income from Pension or Annuity	<p>Fixed income payments such as pension income can be used at full value/distribution and may not be considered in any annuitization calculation.</p> <p>Retirement Income may be verified with one of the following:</p> <ul style="list-style-type: none"> <li>• statement from the organization</li> <li>• award/benefit letter</li> <li>• tax return</li> <li>• W2</li> <li>• 1099</li> <li>• or proof of current receipt (e.g. bank statement)</li> </ul>





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Other Income	Required Documentation
Retirement Income from Established Employment Related Asset Distributions	<p>Existing distribution of assets from an IRA, 401K or similar retirement asset account must be sufficient to sustain income continuance for the first three years of the loan</p> <ul style="list-style-type: none"> <li>• Verification of the assets of the plan and verification of receipt of the distribution of at least two (2) months is required</li> <li>• Asset account(s) balance must support three-year continuance of distributions</li> </ul> <p>See Employment Related Assets as Qualifying Income when the distribution requirements above cannot be met for additional tolerances.</p>
Employment-Related Assets as Qualifying Income	<p>All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:</p> <ul style="list-style-type: none"> <li>• Maximum LTV/CLTV/HCLTV – 70%</li> <li>• Purchase and limited cash-out refinance only</li> <li>• Principal residence and second home only</li> <li>• Divide “Net Documented Assets” by amortization term of the mortgage loan (in months).</li> </ul> <p><u>Asset Requirements</u> Assets used for monthly income stream must be owned individually by the borrower, or the co-owner of the asset must be a co-borrower of the subject property. Assets must be liquid and available to the borrower.</p> <ul style="list-style-type: none"> <li>• Non-self-employed severance package or non-self-employed lump sum retirement package, i.e. a lump sum distribution, must be documented with a distribution letter from the employer (1099R) and deposited to a verified asset account.</li> <li>• 401(k) or IRA, SEP, KEOGH retirement accounts, the borrower must have unrestricted access to the funds in the accounts and can only use the account if distribution is not already set up or the distribution amount is not enough to qualify. The account and its composition must be documented with the most recent monthly, quarterly, or annual statement.</li> <li>• If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.</li> <li>• A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).</li> <li>• Stocks, bonds, and mutual funds: 70% of the value (remaining after costs for the transaction) may be used to determine the income stream.</li> <li>• Retirement accounts: 70% of the value (remaining after costs for the transaction) may be used to determine the income stream. Note: The 10% penalty for early withdrawal is not applicable as the borrower must be eligible to withdraw the funds with no penalty.</li> </ul> <p><u>Net Documented Assets</u> Net documented assets are equal to the sum of eligible assets minus:</p> <ul style="list-style-type: none"> <li>• The amount of the penalty that would apply if the account was completely distributed at the time of calculation;</li> <li>• The amount of funds used for down payment, closing costs, and required reserves</li> <li>• 30% of the remaining value of any stocks, bonds, or mutual fund assets [after the calculation in (b)].</li> </ul> <p><u>Ineligible Assets</u></p>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Other Income	Required Documentation
	Non-employment related assets (e.g. stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, divorce proceeds, etc.)
Social Security Income	<ul style="list-style-type: none"> <li>• A copy of the Social Security Administration's award letter OR current bank statement confirming deposit is required when the borrower is receiving social security benefits on their own account/work records</li> <li>• A copy of the Social Security Administration's award letter AND current bank statement confirming deposit is required when the borrower is receiving social security benefits from another person's account/work record               <ul style="list-style-type: none"> <li>○ Benefits from another person (e.g. child or spouse) with a defined expiration date must have a remaining term of at least three years documented</li> </ul> </li> <li>• See non-taxable income for social security income treatment.</li> </ul>
VA Benefits	<p>Document current receipt of VA benefits with a letter or distribution form from the VA</p> <p>Verify that the income can be expected to continue for three-years (Verification is not required for VA retirement or long-term disability benefits)</p>
Alimony, Separate Maintenance & Child Support Income	<p>Will be considered with a divorce decree, court ordered separation agreement, court decree, or other legal agreement providing the payment terms confirming that income will continue for at least the first three years of the loan three (3) years.</p> <ul style="list-style-type: none"> <li>• Documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past 6 months.</li> <li>• See non-taxable income for child support income treatment.</li> </ul>
Capital Gains (Schedule D)	<p>Capital gains for like assets may be considered as effective income. The earnings trend or loss must be considered in the overall analysis of this income type. If the trend results in a gain, it may be added as effective income.</p> <ul style="list-style-type: none"> <li>• Tax returns for the prior two years, including Schedule D.</li> <li>• Gains must be consistent amounts from consistent sources.</li> <li>• Verified assets to support continuance must be documented.</li> <li>• Capital Gain losses are not required to be reduced from the qualifying income</li> </ul>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Other Income	Required Documentation
Disability	<p>Disability benefit payments should be treated as acceptable income unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Benefits that have a defined expiration date must have a remaining term of at least three years from the date of the mortgage application in order to be used for qualifying the borrower. For example, if a borrower is receiving disability benefits that are scheduled to be discontinued when they reach a certain age and the borrower will reach that age within three years of loan closing, the lender should not count the disability benefit as stable income. When a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the lender must use the amount of the long-term payments in determining the borrower's stable income.</p> <p>Generally, long-term disability will not have defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Verification of long-term disability must be documented with one of the following:</p> <ul style="list-style-type: none"> <li>• Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:               <ul style="list-style-type: none"> <li>○ The borrower's current eligibility for the disability benefits, and</li> <li>○ The amount and frequency of the disability payments, and</li> <li>○ If there is contractually established termination or modification date</li> <li>○ Document current receipt with a bank statement, pay statement, benefit verification letter, notice of award letter, or other equivalent documentation</li> </ul> </li> </ul>
Dividend/Interest (Schedule B)	<p>Interest and Dividend income may be used as long as documentation supports a two-year history of receipt.</p> <ul style="list-style-type: none"> <li>• Tax returns for the prior two years</li> <li>• Proof of asset(s) to support the 3-year continuation of interest and dividend income.               <ul style="list-style-type: none"> <li>○ If the interest-bearing asset will be liquidated as a source of funds to close or for reserves, the balance must be adjusted accordingly.</li> </ul> </li> </ul>
Royalty Income (Schedule E)	<p>Royalty Income may be used when the following are provided</p> <ul style="list-style-type: none"> <li>• Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income;</li> <li>• borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.</li> <li>• Confirm that the borrower has received royalty payments for at least 12 months and</li> <li>• that the payments will continue for a minimum of three years after the date of the mortgage application.</li> </ul>
K-1 Income with less than 25% ownership	<p>Average two years K-1 income</p> <ul style="list-style-type: none"> <li>• Two years tax returns and applicable K-1s reflecting less than 25% ownership</li> </ul>
Farm Income (Schedule F)	<p>Document consistent receipt with two years tax returns</p> <ul style="list-style-type: none"> <li>• Add back the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of their home.</li> <li>• If not considered stable or continuous, may be a one-time occurrence and should not be used as an eligible income source.</li> </ul>
Notes Receivable Income	<p>A copy of the Note must document the amount, frequency and duration of payments</p> <ul style="list-style-type: none"> <li>• Regular receipt of note income for the past 12 months must be documented</li> <li>• Verification that income is expected to continue for the first three years of the loan</li> </ul>



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

Other Income	Required Documentation
Trust Income	<p>Income from trusts may be used if guaranteed and regular payments will continue for the first three years of the loan</p> <ul style="list-style-type: none"> <li>• Must be documented with current one-month receipt of income</li> <li>• A copy of the Trust Agreement or Trustee Statement showing:               <ul style="list-style-type: none"> <li>○ Total amount of borrower-designated trust funds</li> <li>○ Terms of payment</li> <li>○ Duration of trust</li> <li>○ Portion of income that is not taxable</li> <li>○ Non-taxable trust income must include proof of distribution</li> </ul> </li> </ul>
Foster Care Income	<p>Document that the borrower has a two-year history of providing foster-care services and receipt of income. Verify the foster-care income with letters of verification from the organizations providing the income.</p> <p>If the borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if the borrower has</p> <ul style="list-style-type: none"> <li>• at least a 12-month history of providing foster-care services, and</li> <li>• the income does not represent more than 30% of the total gross income that is used to qualify</li> </ul>
Mortgage Credit Certificates (MCC)	<p>A copy of the MCC is required from the state or municipality. A reissue certification is required on refinance transactions.</p> <p><math>[(\text{Mortgage Amount}) \times (\text{Note Rate}) \times (\text{MCC } \%)] \div 12 = \text{Amount added to borrower's monthly income}</math></p> <p>Note: MCCs are issued to the requesting lender. Loans utilizing MCC not issued to Flagstar Bank cannot close in Flagstar's name.</p>
Public Assistance	<ul style="list-style-type: none"> <li>• Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.</li> <li>• Verify that the income can be expected to continue for a minimum of three years</li> </ul>
Non-Taxable Income  (including child support, disability, foster care, military, etc.)	<ul style="list-style-type: none"> <li>• Tax returns must be provided to confirm income is non-taxable.</li> <li>• Income may be grossed up by the applicable tax amount (must use the tax rate to calculate the consumers last year's income tax). If the consumer is not required to file a tax return, the tax rate to use is 25%.</li> <li>• The non-taxable portions of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the mortgage</li> </ul>

### VERIFICATION OF EMPLOYMENT REQUIREMENTS

#### **VERBAL VERIFICATION FOR EMPLOYMENT RELATED INCOME**

Verbal VOE must be completed within 10 business days prior to the note date.

- The verifier must independently obtain a phone number, and if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the internet or directory assistance, or by contacting the applicable licensing bureau.
- If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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phone number. The written documentation should also include the name and title of the person who performed the verification of employment.

### **VERIFICATION FOR SELF-EMPLOYMENT**

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

- The existence of the borrower's business must be verified from a third-party source. Acceptable third-party sources include the following:
  - CPA who performs regular services for the business,
  - Regulatory agency, or the applicable licensing bureau, if possible, or
  - By verifying a phone listing and address for the borrower's business using the internet or directory assistance.

### **4506-C REQUIREMENTS**

- IRS 4506-C for all borrowers on the transaction is required for all loans.
- When business returns are provided, a 4506-C for each business must be provided

### **TAX TRANSCRIPTS**

Tax transcripts will be required for the following income types used for qualification:

- Self-Employment
- Rental Income documented on Schedule E
- Employed by family
- When tax returns are utilized to determine qualifying income, in lieu of alternative documentation options when applicable
- Hand written income documentation

### **ADDITIONAL TAX TRANSCRIPT REQUIREMENTS**

- Tax transcripts must be obtained via a 4506-C request through the IRS from an acceptable third-party source. Borrower obtained results are not eligible.
- Tax transcripts must be obtained for all applicable personal tax return years used for qualification.
- In the case where the most recent tax year has been filed and the tax transcripts are not yet available from the IRS:
  - The IRS response to the request must reflect "No Record on File".
  - An additional prior year's tax transcript should be obtained.
  - Large increases in income that cannot be validated through the tax transcripts may only be considered for qualifying on a case by case basis.
- In the case where taxes for the prior year have not been filed (between January 1 and the tax filing date (typically April 15) the following are required:
  - IRS form 1099 and W-2 forms from the previous year.
  - Loans closing in January prior to receipt of W-2's may use the prior year year-end paystub.
  - For borrowers using 1099's, evidence of receipt of 1099 income must be provided.
- Between the tax filing date (typically April 15) and the extension expiration date (typically October 15), the following are required (as applicable):



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- Copy of the filed extension
- Evidence of payment of any tax liability identified on the federal tax extension form
- W-2 forms for corporations
- Form 1099 for commission income
- Year-end Profit and Loss (P&L) for prior year (signed by the borrower)
- After the extension expiration date (typically October 15), loan is not eligible to close and disburse without the most recent year tax returns.

### **VICTIMS OF TAXPAYER IDENTIFICATION THEFT**

When a borrower(s) is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower(s) income:

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

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

### **Tax Returns are Required to Document Income**

- 4506-C results indicating, due to limitations, the IRS cannot process the request, taxpayer will receive a mailed notice. If any questions, please call the IRS Customer Service at 800-829-1040; “no record found” or “data mismatch” is not acceptable; and
- Copy of the signed tax returns; and
- Bank statement or copy of check to evidence that the tax payment made or refund received for each tax year matches the amount on the 1040; and
- Signed 4506-C for each required tax year

### **W2 and/or 1099’s Are Required to Document Income:**

- 4506-C results indicating, due to limitations, the IRS cannot process the request, taxpayer will receive a mailed notice. If any questions, please call the IRS Customer Service at 800-829-1040; a “no record found” or “data mismatch” is not acceptable; and





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- Copy of all W2's; and one of the following:
- IRS Provided Transcripts mailed to the borrower and uploaded to Paperless File Manager, or
- Year End Paystub for each required with Year-to-Date earnings in line with W2's, or
- Fully Executed Verification of Employment completed by employer with Year End Figures in line with W2(s).

### LIABILITIES

#### RECURRING OBLIGATIONS INCLUDE

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

#### DEBT TO INCOME RATIO COMPUTATION FOR RECURRING OBLIGATIONS

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

- Monthly housing expense
- Additional recurring charges extending ten months or more
  - Payments on installment accounts
  - Child support or separate maintenance payments
  - Revolving accounts
  - Alimony
- Debts lasting less than ten months must be included if the amount of the debt affects the consumer's ability to pay the mortgage during the months immediately after loan closing, especially if the consumer will have limited or no cash assets after loan closing.

Monthly payments on revolving, open-ended and/or lease, regardless of the balance, are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less.

#### REVOLVING ACCOUNT MONTHLY PAYMENT CALCULATION

If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:

- 5% of the balance
- \$10

If the actual monthly payment is documented from the creditor or the creditor obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

#### REDUCTION OF ALIMONY PAYMENT FOR QUALIFYING RATIO CALCULATION

- Alimony payments must be considered as part of the borrower's recurring monthly debt obligations, or





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- Reduced from the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

### CONSUMER LIABILITIES: CONTINGENT LIABILITY

A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.

### APPLICATION OF CONTINGENT LIABILITY POLICIES

The contingent liability policies described in this topic apply unless the consumer can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.

### BUSINESS DEBT IN BORROWER'S NAME

Business debts for which the borrower is personally liable are usually included in long term debt according to the requirements for revolving or installment accounts. Installment debts with 10 or more monthly payments remaining and revolving debts may be excluded if the account has a satisfactory payment history and all of the following is provided as evidence that the business is paying the debt:

- The account does not have a history of delinquency
- Minimum of 12 months of consecutive canceled checks from the business
- The cash flow analysis of the business takes the payment obligation into consideration

### BRIDGE/SWING LOANS

A bridge (or swing) loan that is collateralized by a borrower's present home, so that the funds from that loan can be used for closing on a new home, may only be excluded when Departure Residence Pending Sale requirements are met.

### CALCULATING MONTHLY REAL ESTATE TAX PAYMENT – SUBJECT PROPERTY

- When calculating the real estate tax payment for existing (not new construction) properties, the following documentation must be used:
  - The taxes listed on the title commitment or property tax bill/cert; or
  - Evidence from the local assessor's office of the current tax rate
- If the transaction is a new construction and the property has not been fully assessed, the taxes may be calculated based on the current tax rate as obtained from the local tax assessor's office or 1.5% of the purchase price. If the disclosed tax rate is higher it must be used for qualification over the 1.5%.
- For purchases of new and existing properties in California only, property taxes may be calculated using the higher rate of 1.25% of the purchase price, the current tax bill, or the current tax rate as obtained from the local tax assessor's office.

### CONTINGENT LIABILITY ON MORTGAGE ASSUMPTIONS

Contingent liability must be considered when the consumer remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that:

- Has been sold or traded within the last 12 months without a release of liability, or
- Is to be sold on assumption without a release of liability being obtained.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

### **EXEMPTION FROM CONTINGENT LIABILITY POLICY ON MORTGAGE ASSUMPTIONS**

When a mortgage is assumed, contingent liabilities need not be considered if the:

- Originating creditor of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months

### **CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS**

- The monthly payment on a cosigned loan with 10 or more monthly payments remaining may be excluded from long term debt if there is documentation that the primary obligor has been making regular payments during the previous 12 months and does not have a history of delinquent payments on the loan during that time.
- If the payments have not been paid on time or if there is no evidence that someone other than the borrower is making payments, the cosigned loan is treated as borrower's own obligation.
- Copies of canceled checks for the most recent 12 months or a statement from the creditor are acceptable documentation.
- The above applies to:
  - A car loan
  - A student loan
  - A mortgage
  - Any other obligation

If the creditor obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the consumer's monthly obligations.

### **CONSUMER LIABILITIES: PROJECTED OBLIGATIONS AND OBLIGATIONS NOT CONSIDERED DEBT**

Projected Obligations:

- Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included by the creditor as anticipated monthly obligations during the underwriting analysis.
- Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

### **COURT ORDER**

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:

- Copy of the court order or divorce decree.
- For mortgage debt, a copy of the documents transferring ownership of the property; or
- If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

### **DEPARTURE RESIDENCE PENDING SALE**

In order to exclude the payment for a borrower's primary residence that is pending sale but will close after the subject transaction, the following requirements must be met:



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- A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared/satisfied.
- The pending sale must be an arms-length transaction.
- The closing date for the departure residence must be within 30 days of the subject transaction Note date.
- An additional 6 months reserves must be verified for the PITIA of the departure residence.

### HOME EQUITY LINES OF CREDIT

HELOCs with a current outstanding balance with no payment reflected on the credit report may have the payment documented with a current billing statement. HELOCs with a current \$0 balance do not need a payment included in the DTI unless using for down payment or closing costs.

### INSTALLMENT

All applicable monthly liabilities must be included in the qualifying ratio. Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement.

### OPEN-ENDED ACCOUNTS

For open 30-day charge accounts (for example, Amex), the borrower must have sufficient verified liquid assets to pay off the balance and meet the reserve requirements for the loan program to exclude the payment from the qualifying DTI.

- If sufficient liquid assets are verified exclude the reported monthly payment from the DTI.
- If sufficient liquid assets are not verified obtain evidence that the account has been paid in full and exclude the reported monthly payment from the DTI, or include the monthly payment (equal to the outstanding account balance) in the calculation of the qualifying DTI.
- If the account provides for a monthly payment option other than the total outstanding balance, the account is not considered a 30-day charge account and these requirements do not apply.

### PAYOFF OR PAYDOWN OF DEBT FOR QUALIFICATION

Paying down revolving debt to qualify is not acceptable. Paying off revolving debt to qualify is allowed with the following requirements:

- On purchase transactions, debt must be paid prior to closing and source of funds must be documented.
- On refinance transactions, the debt payoff must be reflected on the Closing Disclosure.
- Gift funds are not a viable source of funds to pay off debt to qualify.

### PAYMENTS ON REAL ESTATE CO-OWNED

When the borrower is on title to a property as an owner but is not a signor on the note or mortgage they must qualify with the taxes and insurance for the said property.

### PAYMENTS ON REAL ESTATE MORTGAGES

For other properties owned, documentation to confirm the P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.



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### RENTAL PROPERTY REPORTED THROUGH A PARTNERSHIP OR A S CORPORATION

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

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

### STUDENT LOAN

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. If the payment is \$0 the borrower must qualify using one of the following:
- For deferred loans, loans in forbearance, or income-driven payment of \$0 the lender must calculate
  - a payment equal to 1% of the outstanding student loan balance
  - a fully amortizing payment using the documented loan repayment terms

### PROPERTY SETTLEMENT BUY-OUT

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

### OBLIGATIONS NOT CONSIDERED DEBT

Obligations not considered debt, and therefore not subtracted from gross income, include:

- Federal, State, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds):
- Commuting costs
- Union dues
- Open accounts with zero balances
- Automatic deductions to savings accounts
- Child care



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- Voluntary deductions
- Stock pledges and any loan payment associated with the pledge account

### PROPERTY AND APPRAISAL

#### PROPERTY VALUES

Extreme care must be applied to ensure that the appraiser is specific with regard to the impact the market decline has upon the transaction being evaluated. Typically, appraisals should not contain comparables greater than six months old at time of underwriting review. Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible.

Flagstar reserves the right to establish guidelines based on current market conditions when conditions suggest an increased risk in property values.

#### ACCESSORY UNITS

An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is a one-unit.
- The property contains only one accessory unit, multiple accessory units are not permitted.
- Accessory unit cannot be a manufactured home.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.

If it is determined that the property contains an accessory dwelling unit that does not comply with zoning, the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.
- The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same non-compliant zoning use.

#### ADDITIONS WITHOUT PERMITS

If the appraiser identifies an addition that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.



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### ADDRESS DETERMINATION

Use the standardized (USPS address) but compare it to the legal description on Schedule A on the title commitment. If the legal description's city/township is different, use the legal city/township, but maintain the street address portion provided by USPS.

- The appraiser must provide the legal address on an addendum
- For multi-unit properties, it is acceptable to use the legal street address.
- The city indicated on the appraisal can be either standardized or legal.

For condominiums and Planned Unit Developments that have a unique address, i.e., street number is different for each unit), the unit number does not need to be included on the closing documents (e.g. note, mortgage, etc., if the unit number is not part of the appraisal or purchase agreement and is referenced in the legal description. If the unit number is part of the appraisal or purchase agreement and is referenced in the legal description, the unit number must then be included on the closing documents.

### APPRAISALS

- Appraisals should be dated within 120 days from the date the Note is signed.
- An appraisal update on form 1004D is permissible after the original appraisal has exceeded 120 days from the Note date. The recertification of value is subject to the following requirements:
  - For loans with multiple appraisals, the update must be ordered against the lower appraisal used for loan qualification.
  - Updates should be provided from the original appraiser and must indicate the value has not declined since the original date or a new appraisal will be required.
  - With the appraisal update the original appraisal date may be extended up to, but never to exceed, 180 days from the Note date.
- Appraisal is required on the applicable standard Fannie Mae form #1004 (Rev. 5/2005). All 2 Unit properties must be submitted on Form #1025. All condominiums must be submitted on Form #1073 (Rev. 5/2005). No other limited appraisals (including Form #2055, 2095 and 1075) will be accepted.
- We will only accept an electronically submitted PDF copy of the appraisal report. The document must have an electronically reproduced signature of the appraiser and the report must comply with the applicable requirements outlined in this section.
- Interior photos must be included of all rooms.
- Appraiser must address current MLS listing price and history in the report.
- If transaction includes seller concessions, the appraiser must include comps that had seller concessions.
- Escrow holdbacks are not eligible.
- Appraisals identified as being located in a declining market should be given additional scrutiny to ensure the value is supported by the most recent sales and market data and that all of the appraiser comments are taken into consideration.
- If the appraisal indicates subject property is in a flood zone, but CoreLogic Flood Determination does not, a corrected appraisal is required.
- A minimum of three comparable sales (must be actual closed sales).
- On newly constructed projects, properties within a condominium or PUD project must provide at least one comparable sale that is inside the development and one that is outside the development



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- The appraisal must analyze and report in reasonable detail the sales history for the past 36 months for the subject property and the last 12 months for any comparable sales used in the report.
- The appraisal must analyze any current purchase agreement, option or listing for the subject property within the last 12 months.
- The broker or correspondent is responsible for ensuring that the appraisal vendor is made aware of the requirements of this program when placing their order. Flagstar will not request enhancements to reports that do not meet program guidelines, nor be responsible for any fees incurred to update an appraisal report to comply with these requirements.
- Broker and non-AIR compliant Correspondent appraisals must be ordered through Loantrac. Appraisals will be eligible from any approved AMC listed in *Appraisal Management Companies*, [Doc #4903](#).
- AIR compliant Correspondent appraisals must meet the following guidelines:
  - Additional requirements when one appraisal is required:
    - Appraisal is not required to be ordered from one of our approved AMCs.
  - Additional requirements when two appraisals are required:
    - Two separate appraisal orders are required. However, appraisals may be completed from the same AMC.
    - Only one appraisal is required to be ordered from one of our approved AMCs.
- Any physical deficiencies stated on the appraisal that affect the health or safety of the property's occupants must be corrected. If the appraised value is "subject to" by an appraiser, the appraiser must give a final "as-is" value after the requested conditions are met and reviewed by the same appraiser. Please also note that while Flagstar does permit an appraiser to add some certifications to appraisal report forms, Flagstar will not allow if the appraiser has added, modified, or deleted a Limiting Condition on the appraisal report.
- Properties in C5 and C6 condition are not saleable. The property must have a condition rating of C1, C2, C3, or C4 and appraisal completed as is.

### **APPRAISAL REVIEW AND VALUATION SUPPORT REQUIREMENTS**

All appraisals will be reviewed by the Appraisal Review Department and upon acceptance a reconciliation of value will be used to determine the loan to value:

- Refer to the applicable Non-Agency Jumbo product description for the required number of appraisals.
- At minimum, a Collateral Desktop Analysis (CDA) is needed when only one full appraisal is required or obtained.

See *Clear Capital Product Requirement*, [Doc #4910](#), for complete details on valuation reconciliation, including instances when a Broker Price Opinion (BPO) may be required.

### **REPORT REQUIREMENTS**

Appraisers must give special attention to the valuation of the one-to-four family dwellings intended for or currently used as, rental properties. For 2 to 4-unit properties, the appraiser must use the Small Residential Income Property Appraisal report. Fannie Mae Form 1025. The income approach would be given equal consideration with the market approach in the appraiser's final value reconciliation. The appraisal must include:

- The property's legal description





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- Layout sketches showing unit entries
- A location map
- Clear photos of property, street scene, and comparables used

On the single-family properties that will be rented, the appraiser must use the Single-Family Comparable Rent Schedule (Fannie Mae Form 1007) as an attachment provided the borrowers do not qualify with the full payment. The appraiser must develop an income approach to value that is supported by rent comparable and must consider that information in the final reconciliation. The comparables should be in close proximity to the subject in order to establish the existence of a viable rental market in the neighborhood. For properties that are in established condominium or PUD projects (those that have resale activity), the appraiser should use comparable sales from within the subdivision or project as the subject property if there are any available. Resale activity from within the subdivision or project should be the best indicator of value for properties in that subdivision or project. If the appraiser uses sales of comparable property that are located outside of the subject neighborhood, they must include an explanation with the analysis.

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

### **COMPARABLES**

In selecting the comparables, the appraiser should keep in mind that re-sales from within the subject neighborhood or project are preferable sales more distant from the subject property. Sales prices of comparables should be in the same general range as the property. If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, the appraiser must provide an explanation as to why they used the specific comparable sales in the appraisal report. Because rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. This means that the appraiser will often need to select comparable sales that are located a considerable distance from the subject property. The appraiser should include an explanation of why the particular comparables were selected.

The appraiser must fully disclose the 12-month listing history of the subject property, complete with the dates and prices the subject was listed for, as well as the source of the listing information. If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, Flagstar requires that the appraiser provide an explanation as to why they used the specific comparable sales in the appraisal report. If the subject has not been listed, the appraiser must list the data source(s) used to confirm that the subject has not been listed. "Public records" is not an acceptable data source. The 36-month history must be provided for all comparables.

Sources of Comparable Market Data: It is important for the appraiser to ensure that the data they are providing in the appraisal report is accurate. When the appraiser is provided with comparable sales data by a party that has a financial interest in either the sale or financing of the subject property, the appraiser is required to verify the data with a party that not have a financial interest in the subject transaction. However, when appraising new construction, the appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through typical data sources such as public records or multiple listing services. In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the Closing Disclosure from the builder's file.

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### **NEIGHBORHOOD**

The appraiser must report on the primary indicators of market condition for properties in the subject neighborhood by noting the trends of property values (“increasing,” “stable,” or “declining”), the supply of properties in the subject neighborhood (“shortage,” “in balance,” or “over supply”), and the marketing time for properties (“under 3 months,” “3 to 6 months,” or “more than 6 months”) as of the effective date of the appraisal.

The appraiser’s analysis of the property must take into consideration all factors that affect value. This is particularly important in markets where value is fluctuating. The most recent and similar sales available should be used in these markets.

The appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised (based on the actions of typical buyers in the market area). The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the market area, but also to define the area from which to select the market data needed to perform a sales comparison analysis. As a reminder, although it is preferable for the appraiser to provide comparables from the subject’s neighborhood, but it is allowed for the appraiser to the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser’s analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any difference that exist.

The appraiser must fully disclose the 36-month listing history of the subject property, complete with the dates and prices the subject was listed for, as well as the source of the listing information. If the subject has not been listed, the appraiser must list the data source(s) used to confirm that the subject has not been listed. Public records is not an acceptable data source. The appraiser must provide a copy of the MLS listing for all listed properties. The 12-month history must be provided for all comparables.

### **COMMUNITY-OWNED OR PRIVATELY MAINTAINED STREETS**

If the property is located on a community-owned or privately-owned and maintained street, an adequate legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- Responsibility for payment of repairs, including each party’s representative share;
- Default remedies in the event a party to the agreement or covenant fails to comply with their obligations; and
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement, or covenant is required.

### **DISCLOSURE OF INFORMATION TO APPRAISERS**

If the contract is amended after the effective date of the appraisal in a way that does not affect the description of the property, then it is not required to provide the amended contract to the appraiser nor

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obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

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

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

### ***EFFECTIVE AGE***

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

### ***ZONING***

Zoning of the property must constitute a legally permissible use of the land. The property must represent the highest and best use of the land. For non-conforming property use, the appraisal analysis must reflect any adverse effect that the nonconforming use has on the value and the marketability of the property. Comparable must have the same zoning influence.

Properties that are subject to coastal tideland, wetlands or setback laws and/or regulations that prevent the rebuilding of the property improvements if they are damaged or destroyed are ineligible. The intent of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

### ***SITE/VIEW ADJUSTMENTS***

The appraisal must include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an un-subdivided 20-acre parcel. The appraised value must reflect the entire 20-acre parcel. For properties with larger than normal lots or considerable acreage that do not have comparables with the same type of lots or acreage, any excessive plus adjustments will be subtracted from the final value of the comparable and the new adjusted value will be used for loan-to-value calculations.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. To assure that this is done in the development of the sales comparison approach to value, we require the appraiser to analyze closed sales, contract sales, as well as current and expired listings of properties that are the most comparable to the subject property (although we require the appraiser to report only the comparable sales in the appraisal report). The appraiser should always include in the appraiser report or in an addendum any other information that Flagstar Bank will need to make a prudent underwriting decision. In arriving at the sales comparison approach to value, the appraiser must make appropriate adjustments. "Time" adjustments are acceptable, as long as they reflect the time elapsed between the contract date for the comparable sales and the effective date of the



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appraisal. These adjustments must be representative of the subject market and supported by market data that is reported in the appraisal report.

### APPRAISAL PORTABILITY

#### **ACCEPTING AN APPRAISAL FROM ANOTHER LENDER**

All requests to accept an appraisal that was ordered from another lender should be sent to [appraisal.review@flagstar.com](mailto:appraisal.review@flagstar.com).

- Flagstar will only accept an appraisal transferred directly from another lender.
  - Under no circumstance will Flagstar accept an appraisal transferred or uploaded by the loan originator or any employee of the originating customer.
- A compliance certificate from the original lender showing that the appraisal was ordered in a manner compliant with Fannie Mae and Freddie Mac Appraiser Independence Requirements is required.
  - Flagstar will only accept the certificate from the original lender. Flagstar will not accept the Appraiser Independence Requirements compliance certificate directly from the customer.
- Upon receipt of the appraisal and the compliance certificate from the lender, the appraisal must be reviewed for acceptability by Appraisal Review.
- The appraiser must not appear on Flagstar's ineligible appraiser list.
- Appraisals must be submitted in a UCDP-ready MISMO 2.6 XML file. Key ID number SSR will not be acceptable in lieu of XML file.

### SURVEY

If title work/purchase agreement requires a survey, a copy must be provided. Survey exceptions on title render a loan ineligible for purchase. Any encroachment or restriction violations mentioned in the title policy must have insuring language.

If any survey includes an exception or encroachment the final title policy must include an ALTA 9 endorsement.

### TITLE COMMITMENT

Generally, title commitments have a 90-day effective date, however a title commitment cannot exceed 120 days. If the title commitment exceeds 120 days, the title insurer is required to provide a gap letter (good for an additional 60 days) or an updated/new title commitment. Under no circumstances can a title commitment with a gap letter exceed 180 days.

### DEED RESTRICTED PROPERTIES

Deed restricted properties or resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease agreement, or other instrument executed by or on behalf of the owner of the land. Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income or on the basis of age, senior communities must comply with applicable law, or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers. The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions. The resale restrictions are binding on current and subsequent property owners, and remain in effect until they are



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formally removed or modified, or terminate in accordance with their terms, such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure.

### **REVIEW OF PROGRAM TERMS AND CONDITIONS**

Flagstar Bank must review the terms and conditions of the affordable housing program, including any document that describe the resale restrictions.

### **ELIGIBLE SUBSIDY PROVIDERS**

Eligible subsidy providers, or sponsors, of resale restrictions must be nonprofit organizations, churches, employers, universities, municipalities, including state, county, or local housing agencies, or entities that are otherwise administering government sponsored, federal, state, or local subsidy programs. The subsidy provider must have established procedures for screening and processing applicants. The procedures may not be administered by the developer.

### **ELIGIBLE BORROWERS**

Eligible borrowers must satisfy the specific eligibility criteria and resale restrictions established by the subsidy provider.

### **ELIGIBLE OCCUPANCY**

- Age-related is permissible for all occupancy types
- Affordable is restricted to owner-occupied only

### **ELIGIBLE PROPERTIES**

Properties must be secured by one-unit properties, including eligible condominium projects and planned unit developments (PUDs), or two-unit properties. The property must be an owner-occupied principal residence. Mortgage secured by three-unit or for-unit properties are not eligible.

### **TITLE SEARCH**

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine search.

### **DEFAULT REMEDIES**

The presence of resale restrictions must not impair Flagstar Bank's legal rights to cure a default under the mortgage terms, to foreclosure on the mortgage, or to otherwise protect its interests under the mortgage. The subsidy provider also may have rights to remedy a borrower default.

### **RIGHTS TO INSURANCE SETTLEMENTS AND CONDEMNATION PROCEEDS**

Flagstar Bank must have first claim to insurance settlements or condemnation proceeds.

### **ALLOWABLE RESALE RESTRICTIONS**

Mortgages that are subject to one or more of the following types of resale restrictions are eligible, although some restrictions are likely to occur only in combination with others:

- Income limits
- Age limits, senior communities must comply with applicable laws
- Purchasers must be employed by the subsidy provider
- Principal residence requirements



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- First-time homebuyer requirements as designated by the subsidy provider
- Properties that are group homes or that are principally used to serve disabled residents in compliance with local law
- Resale price limits

### ***DURATION OF RESALE RESTRICTIONS***

There is no restriction on the length of the period in which resale restrictions remain in place on the property. If the resale restrictions survive foreclosure, the resale restrictions cannot impair the servicer's ability to foreclose on the restricted property.

If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure. If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.

### ***CALCULATION OF LOAN-TO-VALUE RATIOS***

The lesser of the sales price or appraised value of the property with resale restrictions must be used when calculating the LTV ratio.

### ***APPRAISING PROPERTIES SUBJECT TO RESALE RESTRICTIONS***

In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparables with similar restrictions. The appraisal report must note the existence of the resale restrictions comment on any impact the resale restrictions have on the property's value and marketability.

### ***RIGHT OF FIRST REFUSAL OR OPTION TO PURCHASE***

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure. The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions. The subsidy provider must exercise its right of first refusal or option to purchase the property within 90 days of receiving notification of the borrower default or the property foreclosure. The option to purchase the property must not be less than the lower of the current market value or resale restricted value. Options to purchase the property for the balance owned on the first mortgage are not eligible.

### ***NOTIFICATION TO THIRD PARTIES***

We will purchase mortgages when the resale restrictions require Flagstar Bank to notify a third party when the property is in foreclosure. Properties that require Flagstar Bank to notify a third party if the borrower is delinquent are not eligible. The servicer must ensure that proper notification is provided, as required in the provisions of the resale restrictions.

### ***MORTGAGE INSURANCE***

If a mortgage is subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure and mortgage insurance is required, the lender must first contact its mortgage insurance provider and obtain confirmation that the mortgage insurance provider is willing, on a program basis, to insure these mortgages under the lender's master primary policy.





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### **LOAN REFINANCES**

The subsidy provider may permit borrowers to refinance their mortgage and to take cash out of the transaction. However, the resale restrictions may limit the cash out amount in order to protect the subsidy invested in the property. Documentation must be provided to evidence the subsidy provider has approved the refinance transaction and should ensure that the cash out amount complies with the provisions of the specific resale restrictions.

### **DISASTER POLICY**

Please refer to the *Disaster and Property Re-Inspection Policy*, [Doc. #4915](#)

### **ENVIRONMENT HAZARD**

Environmental risk exposures are items such as gas tanks, railroad tracks, high tension wires, UFFI, industrial areas, radon, mold, Chinese drywall or any other risk exposure. We will only accept properties with the above characteristics that meet the following requirements:

1. If a property inspection by the appraiser discloses a high potential for environmental risk, Flagstar Bank may require a Phase I Environmental Risk Report before determining a property's eligibility. A loan is likely to be conditioned for a Phase I Environmental Risk Report if the following indicators are present:
  - Properties that include or are close to an existing or former gas site
  - Properties that have served as or are close to a refuse or waste disposal site
  - Properties where the past uses or the surrounding uses include the storage or usage of hazardous or toxic substances
  - Properties suspected of containing asbestos material that is or may be easily friable, easily crumpled or crushed to powder and capable of being absorbed in the environment
  - Properties where emanation of radon gas from the soil may result in detrimental health effects to the building occupants
  - Properties where there are known hazardous conditions on or in the property's immediate vicinity where Super Fund sites exist within a 1 mile radius; where the site is in close proximity to oil and gas production; where there is asbestos within the building structure that may have an effect on marketability; where the site is a corner lot property and is known to have been previously used as a gas station locale; or where the historic use of the property to its residential zoning is cause for concern.
  - Properties that show evidence of mold must have the mold remediated by a certified firm. After the mold has been remediated, a satisfactory inspection must be provided.

An approved environmental risk auditor must prepare the environmental risk report and Flagstar Bank must show as the client on the risk report.

2. A property may not be approvable due to environmental factors including, but not limited to:
  - Presence of a sanitary landfill or other solid hazardous or municipal waste disposal site on the property
  - Presence of friable asbestos or substantial amount of non-friable asbestos on the property
  - Evidence of spills or soil or ground water contamination on or around the property
  - Radon levels above acceptable standards on the property that can only be corrected through large capital improvements



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- Conditions that represent violations of applicable local, state, or federal environmental or public health statutes and laws on or near the property
- The property is currently the subject of environmental litigation or administrative action from private parties or public officials or the property is on a federal, state, or local environmental hazard list.
- There must not be any evidence of leakage on gas tank. If the property has a well, we will require satisfactory well certification.

All comparables used should have same characteristics, i.e., gas tank, railroad tracks, etc. The appraiser must state this is common to the area and has no adverse effect on marketability.

### FLOOD INSURANCE

Refer to *Flood Insurance*, [Doc. #4603](#) for additional information.

### HAZARD INSURANCE

Refer to *Hazard Insurance Requirements*, [Doc. #4602](#). Properties located in Lava Zones 1 or 2 are ineligible.

### LEASEHOLDS

An attorney's opinion letter stating all warranties are met will be required on all loans.

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.
- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower's name, or a home owners association.
- All lease rents, other payments, or assessments that have come due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sub-lessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that the borrower will pay taxes, insurance, and homeowners' association dues related to the land in addition to those they are paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.



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- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must be serviced by the servicer.
- The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower and the option to either cure the default or take over the borrower's rights under the lease.
- The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land.
  - If the option is included, the purchase must be at the borrower's sole option and there can be no time limit within which the option must be exercised.

### LIFE ESTATES

Properties with Life Estate rights are not eligible. Any properties titled with these provisions must have the rights removed prior to closing to be considered.

### MULTIPLE PARCELS UNDER ONE MORTGAGE

When the security 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, e.g., waterfront property where the parcel without the residence provides access to the water. Evidence that the lot is non-buildable must be provided.
- Each parcel must have the same basic zoning, e.g., residential, agricultural
- The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage, are 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.

### OIL TANKS

Specific to oil tanks located on a residential property, buried or not buried, Flagstar Bank requires properties with an oil tank to meet the following guidelines:

- The appraiser must state oil tanks are common to the area and have no adverse effect on marketability.
- The appraiser must make a statement that they detected no evidence of leakage from the oil tank.

### PRIVATE WELLS

Subject properties with a water source provided by a shared well, with the well located on another property must be approved by management. A recorded shared well agreement and title commitment must be submitted for review. The shared well agreement must provide irrevocable water rights to the subject property.



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### SOLAR PANELS

#### **BORROWER OWNED SOLAR PANELS**

If the borrower is the owner of the solar panels, standard eligibility requirements apply for example, appraisal, insurance, and title.

#### **SOLAR PANELS LEASED FROM OR OWNED BY A THIRD PARTY**

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply whether to the original agreement or as subsequently amended:

- 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.
- 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 and used may be excluded from the DTI ratio.

- The lease or a power purchase agreement must indicate that:
  - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition. For example, sound and watertight conditions that are architecturally consistent with the home; and
  - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
  - In the event of foreclosure, the lender or assignee has the discretion to:
    - Terminate the lease/agreement and require the third-party owner to remove the equipment
    - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party
    - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner

### **ADDITIONAL REQUIREMENTS**

#### ADJUSTABLE RATE MORTGAGES

Per Federal Regulation Z it is required that an ARM disclosure is signed by the borrower within three days of initial application. In order to comply with this regulation, Underwriting will condition for the ARM disclosure prior to closing.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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### ADVERSE ACTION LETTERS

Please refer to *Compliance*, [Doc. #4801](#) for information regarding adverse action letters.

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

### DOCUMENT EXPIRATION

- The maximum age of credit documents is 120 days for existing construction and new construction. Credit documents include credit reports, employment, income, and asset documentation.
  - All active tradelines with balances on a credit report must be reporting within 120 days of the credit report date. See verification of mortgage for additional requirements.
- The appraisal should be dated within 120 days of the Note date (180 with an appraisal update)
- The effective date of the title commitment must be dated within 120 days of closing.
- The age of documents is measured from the date of the document to the date the note is signed.

### ELECTRONICALLY SIGNED APPLICATION DISCLOSURES

Please refer to *Electronic Signature Policy*, [Doc #4816](#).

### ESCROW/IMPOUND FUNDS

Flagstar Bank requires monthly deposits of escrow funds to pay taxes, MI premiums, hazard insurance premiums and assessments as they come due. If a special assessment levied against the property is not paid at loan closing, the monthly payment must include 1/12 of any estimated annual payment toward the assessment. A recorded subordination agreement is required if the assessment is a lien on the property. We do not require escrow deposits for hazard insurance on condominiums that are covered by a blanket insurance policy.

#### **ESCROW/IMPOUND WAIVER**

Flagstar Bank will consider a request for an escrow waiver. Underwriting must approve the escrow waiver prior to closing. The application should meet the following requirements:

- Escrow waiver request should be noted on the Transmittal Summary 1008 Form
- LTV must be 80% or less (CA only permitted up to 90%, see limitations below)
- Allowable on owner-occupied and second home properties with a minimum credit score of 620.
- Allowable on investment properties with a minimum credit score of 700. An additional one-year of taxes, must be verified.
- A pricing adjustment will be charged for all approved full escrow waivers, see rate sheet and/or Flagstar pricing engine for applicable LLPA.
- For cash-out transactions, the new loan amount cannot include the financing of real estate taxes when the taxes are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation.

#### **Escrow Waiver Limitations**

- The standard escrow provision must remain in the mortgage documents. Flagstar Bank may, at its discretion, enforce the requirement if the borrower fails to act responsibly.



## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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- Due to state law, for California loans only, escrow waivers are permitted up to a 90% LTV; however, MI must be escrowed by Flagstar Bank.
- Products utilizing Lender Paid Mortgage Insurance (LPMI) or the *NO MI* option are not eligible for escrow waivers.
- Under no circumstances, in any state, can mortgage insurance premium escrows be waived when MI is required.
- It is the responsibility of the originator to understand and be in compliance with individual state regulation regarding escrow waivers and fees.
- Flood insurance must be included in the borrowers' escrow account even if no other escrows are collected or escrows have been waived.

### EXCEPTIONS

Any loan file may be submitted to Flagstar Bank for an exception to the guidelines. The exception can be reviewed only by a designated employee of the bank. Exceptions will be reviewed on a case by case basis depending on the overall loan file.

### INELIGIBLE PARTICIPANTS

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

### LIENS

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

### LOAN DISCLOSURES/LOAN SUBMISSIONS

Please refer to *Conventional Submission Review Checklist*, [Doc. #3204](#). For more information on compliance, please reference *Compliance*, [Doc. #4801](#).

### LOAN VERIFICATIONS

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

### NOTARY

Refer to *Settlement/Closing Requirements*, [Doc. #4601](#) for details.

### POWER OF ATTORNEY

A Power of Attorney (POA) is a legal document giving one-person (described as the agent or attorney-in-fact) power to legally bind the borrower enacting the POA to the mortgage transaction. The eligibility requirements apply to any use of a POA for the closing documents, regardless if the person enacting the POA is a borrower to the transaction (e.g. party to title only).



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Eligible Occupancy Types	Owner Occupied and Second Homes only. Investment properties are not eligible.
Eligible Loan Purpose	Purchase and Rate-and-Term Refinance only. Cash-out transactions are not eligible.  Note: POAs are not eligible for loans classified as TX 50(a)(6) liens.
Borrower Eligibility	When multiple borrowers are on the transaction, at least one borrower must be present at closing.
Power of Attorney	<ul style="list-style-type: none"><li>• Must be specific to the transaction referencing the property address, unless the POA is a Military Durable POA.</li><li>• Signatures on the POA must match signatures in the file to Flagstar Bank's satisfaction (may not be eSigned).</li><li>• POA must be notarized.</li><li>• The POA must be executed by the borrower prior to its use by the agent.</li></ul>
Application	The application and Purchase Agreement (if applicable) must be signed by all parties of the loan.  A POA may sign the initial application only when the borrower is on military service servicing outside the U.S. or deployed on a U.S. vessel, as long as the POA expressly states the intent to secure a loan on the subject property
Eligible Agent/ Attorney in Fact	Family member of the borrower
Title	The title policy must not make any exceptions to the use of a POA. See <a href="#">Settlement/Closing Requirements</a> for signature requirements
Flagstar Secondary Financing	The use of a POA under a Flagstar concurrent secondary lien (e.g. HELOC) is eligible when approved under the concurrent first lien mortgage.

### PRESENT ADDRESS

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

### PRIVATE TRANSFER FEE COVENANTS

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

### PROPERTY OWNERSHIP HISTORY

Underwriting will take into consideration the number of properties owned and the length of time the properties have been owned. Investors who demonstrate a rapid acquisition (acquired within the most recent 24-month period) of investment properties will be reviewed cautiously. Underwriting reserves the right to request documentation to evidence the borrower had the funds required to purchase any property acquired within the last 24 months and/or sufficient verified asset to provide adequate reserves for the investment portfolio.

### PURCHASE COMMITMENTS

Commitments are non-transferable to any other purchaser, property, etc. Funds are reserved upon registration even if the rate and fees are not locked-in. Once the rate is locked-in, transfers are not





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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acceptable. Any participant who knowingly does not perform or deliver a loan may be restricted from future business with Flagstar Bank.

### SUBJECT ADDRESS CHANGE

If the subject property has changes, the existing loan must be withdrawn and a new loan and loan number created. New loan documents must be submitted to underwriting for consideration; documents from the withdrawn file cannot be moved to the new file. For more information concerning changing a property address on a locked loan, please refer to *Loan Registration and Locking a Loan – Broker*, [Doc. #4101](#).

### DONATIONS FROM ENTITIES

Owner-occupant borrowers may use donated gift or grant funds from acceptable entities to pay or supplement part of the closing costs or part of the financial reserves. Acceptable entities include churches, municipalities, nonprofit organizations, excluding credit unions, and public agencies.

Please refer to *Guidelines for Down Payment Assistance Programs*, [Doc. #5936](#), *Community Seconds Program*, [Doc. #5932](#), and *Gift/Grant Programs*, [Doc. #5935](#).

All programs must be reviewed by product development if not already on the list as approved.

### CREDIT INQUIRIES

The report must list all inquiries that were made in the previous 120 days. All loan applicants will be required to provide an explanation for all inquiries that were made in the previous 90 days on their credit report and any new debt must be added to the liabilities section of the 1003 and be supported by applicable documentation. All applicants will be required to provide a signed letter of explanation for all credit inquiries found during the loan process.

### EXTENDED FRAUD ALERTS OR ACTIVE MILITARY ALERTS

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

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

### RIGHT OF RESCISSION

Please refer to *Compliance*, [Doc. #4801](#) for information regarding right of rescission.

### SUBORDINATE FINANCING

- Only institutional financing up to the maximum LTV/CLTV/HCLTV is eligible.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- Full disclosure must be made on the existence of subordinate financing and the repayment terms.
- Acceptable subordinate financing types:
  - Mortgages with regular payments that cover the interest due so negative amortization does not occur.
  - Mortgage terms that require interest at a market rate.





## Non-Agency Underwriting Guidelines (Enhanced- Applications on or after 02/18/2022)

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- Ineligible subordinate financing types:
  - Seller subordinate financing.
  - Property Assessed Clean Energy programs (PACE).
- Employer subordinate financing is allowed with the following requirements:
  - Employer must have an Employee Financing Assistance Program in place.
  - Employer may require full repayment of the debt if the borrower's employment ceases before the maturity date.
  - Financing may be structured in any of the following ways.
    - Fully amortizing level monthly payments
    - Deferred payments for some period before changing to fully amortizing payments
    - Deferred payments over the entire term.
    - Forgiveness of debt over time
    - Balloon payment of no less than five (5) years, or the borrower must have sufficient liquidity to pay off the subordinate lien.

### **PURCHASE TRANSACTIONS**

For purchase transactions, a copy of the note or 2<sup>nd</sup> lien approval is required to confirm the terms of the subordinate financing.

### **REFINANCE TRANSACTIONS**

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

## REO PROPERTIES

### **UNEXPIRED RIGHTS OF REDEMPTION**

Certain state laws provide a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner. Flagstar will not approve and/or purchase any loan having an unexpired right of redemption unless the following conditions are met:

- the property must be located in a state where it is common and customary to sell the property during the redemption period.
- the mortgage must be paid off directly out of the redemption proceeds with no requirement for any further action or claim for repayment
- purchase agreement, title, and appraisal all show the same seller who is the original mortgagor.
  - title may show *lis pendens* notices from the bank or mortgagee
  - purchase contract may indicate a short sale