COMMUNITY SAVINGS

Full & Alt Doc

Underwriting Guidelines

COMMUNITY SAVINGS

Community ALT-DOC

Bank Statements | 1099 Only | W2 Only | P&L | 1 Year Tax Return | Asset Qualifier

Loan Amount	Primary/Second LTV	Primary/Second FICO	Invest. LTV	Invest. FICO
< $1,000,000	80%	660	75%	660
$1,000,001-$1,500,000			70%	
$1,500,001-$2,000,000	75%		65%	
< $1,000,000	85%	700	75%	680
$1,000,001-$1,500,000				
$1,500,001-$2,000,000	80%		70%	
$2,000,001 - $2,500,000	75%		70%	700
$2,500,001 - $3,000,000	70%	720+	N/A	N/A

Product Type

5/6m, 7/6m & ARM	10/6m ARM	30 Yr. Fixed

ARM Margins & Caps

5/6 Month Arm	Margin 4.50	Caps: 2/1/5
7/6 Month Arm	Margin 4.50	Caps: 5/1/5
10/6 Month Arm	Margin 4.50	Caps: 5/1/5

Index = 30 Day Avg SOFR, Floor = Start Rate

LTV Restrictions (Max)

Primary

Transaction Type	FICO	LTV
Purchase | Rate & Term	660	85%
Cash Out	680	75%

Second Home

Transaction Type	FICO	LTV
Purchase | Rate & Term	700	80%
Cash Out	700	70%

Investment

Transaction Type	FICO	LTV
Purchase	660	80%
Rate & Tern	660	75%
Cash-Out	680	75%

LTV Notes

Minimum Score for Investment Property Cash-Out is 680.

Maximum Loan amount for Investment property is $2,500,000 with min. score of 700.

Additional Information

Standard Tradelines	2 tradelines for 24 monts, or 3 for 12 months
FTHB Tradelines	Standard Tradelines and 0 x 30 for 12 mos. rental history

FTHB = no ownership interest in a residential property in the last 3 years. DTI > 36%, subject to payment shock Calculation of 300% of current housing payment.

Additional Program Information

Program Requirements

Minimum Loan Amount	$150,000
Asset Qualifier	Max DTI 43%
Max DTI	50%
Exception Debt Ratio	50.1%-55% Min FICO 700 5%

Credit Seasoning

Mortgage History	1x30x12
Foreclosure	48 months
Short Sale | DIL > 24 mos. < 48 mos. see	48 months
BK Seasoning > 24 mos.< 48 Mos. see	48 months

CASH OUT RESTRICTIONS

- * Max cash in hand $500,000 ≥ 65% LTV.
- * Unlimited Cash < 65% LTV.
- * Max LTV 75%

Property Type Requirements

Property Type	Max LTV
3-4 Units | Rural Properties	80%
Attached PUD | Condominium	80%
Non - Warrantable Condominium	80%
2 Units	80%
Log Homes	Ineligible

Alt Doc Income Doc Types

12 Month Bank Statements	Income calculated based on 12 months recent Business or Personal bank statements. Refer to program guidelines for calculation methods available. Bank Statements used for both Business and Personal are considered co-mingled and are considered Business Statements.
1099 Only	Most recent 1 year 1099. Borrower must receive compensation in the form of commissions or independent contractor. Income will be calculated using a 10% expense factor.
WVOE	NMA 1005, most recent year W2 & Two (2) most recent months of personal bank statements reflecting deposit(s) from employer on each statement.
1 Year Tax Return	Filed most recent year tax returns to be utilized for income qualifying per FNMA guidelines.
CPA | Tax Preparer P & L	24 or 12 months CPA/EA/CTP Profit and Loss. If required by UW 2 months of business bank statements must support sales reflected on the profit and loss. Max. 80% LTV.
Asset Qualifier	Debt Ratio Calculation: Minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based on Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84 months. Maximum DTI 43%.

Additional Requirements

Appraisal	Properties with condition rating of 5 or 6 are not acceptable. Desk review required for loans with greater than 2.5 CU score and where no second appraisal is required Transferred appraisals with CU score < 2.5, will require a new appraisal through a CS AMC.
Assets	Sourced and Seasoned for 60 days
Citizenship	US Citizen, Permanent Resident Alien, Non-Permanent Resident Alien (With US Credit and acceptable VISA).
Compliance	See Guidelines for Escrow Requirements - Compliance with all applicable Federal and State regulatons. No Section 32 or State High Cost.
Forbearance	If the borrower has resolved missed payments through a loss mitigation solution, they are eligible for a new mortgage loan if they have at least three (3)
Max Financed Properties	Maximum 10 financed properties inclusive of subject property.
Occupancy	Primary Residence, Second Home, Investment
Prepayment Penalty	Not Allowed on Primary and Second Homes, per state guidelines on investment.
Property Types	SFR, PUD, Townhome, Condominium, Non-Warrantable Condominiums (Max 80% LTV), 2-4 Unit, Modular, Rural < 10 acres
Qualifying Rate	Fixed = Note Rate. ARM = Greater of Note Rate or Fully Indexed Rate.
Reserves (Primary | Second)	Loan Amounts < $1,500,000 = 6 months PITIA. Loans > $1,500,000= 12 Months PITIA.. 3 month reduction in reserves allowed if residual income is 2x min. req.
Reserves (Investment)	6 months ≤ 70% LTV. 9 months > 70% LTV
Subordinate Financing	Max 90% CLTV. Secondary financing must be institutional. Seller Carrybacks not permitted. 80% Max. CLTV in CT/IL/NJ
Seller Concessions	6% Max (Primary/Second Home) 2% (Investment Property)

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Overview

Alt-QM guidelines are structured to guide its users towards making common sense lending decisions on loans to borrowers who may have limited access to credit. These borrower's situations generally require the consideration of alternative forms of documenting income and/or compensating factors which offset risk indicated by a recent credit event or elevated debt-to-income ratio. The borrower's ability to repay must be proven in all instances.

Loans eligible for sale to a Government Sponsored Entity (Federal National Mortgage Association ("Fannie Mae" or "FNMA") or Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") are not eligible for the Alt-QM programs.

For any guideline not addressed in these guides, defer to Fannie Mae Guidelines.

Borrowers with a loan under the Investor Program must certify that they understand that consumer protection laws applicable to consumer loans will not apply to their business-purpose loan, including the Truth in Lending Act (15 U.S.C. § 1601 *et seq*.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 *et seq*.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 *et seq*.

Program Eligibility

Alt Doc: Program allowing for alternative income documentation to agency guides for qualifying.

The following loan products are eligible:

Fully Amortizing

- 5/6 Month SOFR: (2/1/5 Cap Structure)
- 7/6 Month SOFR: (5/2/5 Cap Structure)
- 10/6 Month SOFR: (5/2/5 Cap Structure)
- 15 Year Fixed
- 30 Year Fixed

Qualifying Rate (All Doc Types)

Fixed:

Qualify borrower(s) at the Note Rate.

ARM:

5/6 Month ARM - Qualify borrower(s) at greater of the Fully Indexed Rate or Note Rate.
7/6 Month ARM & 10/6 Month ARM – qualify at the Note Rate.

Qualifying Payment:

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled loan.

For all ARM loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.

Loan Amounts

Minimum Loan Amount: $125,500.

(Investment = $150,000)

Maximum Loan Amount: $3,000,000

Minimum FICO

- 660

Maximum LTV/CLTV

- 85%/85%

Interested Party Contributions

- 6%

Percentage is based on of the lesser of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.

Sales concessions include:

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

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

Escrows | Impound Accounts

Borrowers are required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law. One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments. Flood insurance is always subject to escrow/impounds.

Secondary Financing

Secondary or subordinate financing is allowed with a maximum CLTV equaling maximum LTV per matrix.

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

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

If the subordinate financing is being subordinated, the following is required:

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

The following requirements apply to all subordinate liens:

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.

- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination
- Max CLTV equals max LTV on transaction.
- Secondary financing must be institutional, private party secondary financing is not allowed.

Age of Documents

120 days for appraisals (180 days with a recertification).

Credit Report: 90 days as of note date.

- Consumer Debts: Creditor statement issued within 90 days or less prior to note date.
- Verification of Mortgage/Rent: 30 days as of funding date
- Payoff Demand: 20 days as of funding or such other date as determined by the payoff.
- demand that identifies "valid through" date.
- WVOE: 30 days as of funding date
- VVOE: 10 calendar days to note date.
- Paystubs: 30 days as of funding date or 31 days for borrowers paid monthly
- Bank Statements (Income): 45 days from the statement ending date as of the date of
- funding (cannot use an online transaction history to updated income).
- Bank Statements (Assets): 60 days as of the date of funding from ending date of second.
- statement.
- Preliminary Title: 90 days as of funding date
- CPL: 90 days from date issued; must be valid through date of funding
- Hazard Insurance:
  - Purchase: Insurance must be in effect at time of closing
  - Refinance: If set to renew within 30 days of closing, renewal must be obtained or insurance provider must verify in writing that renewal is not available (dated within 30 days of closing) and 110% of current premium must be collected at closing.

Borrower Statement of Occupancy

Borrower must acknowledge that the loan is a business purpose loan by completing and signing the appropriate sections of the "Occupancy Certification" when consummating closing documents.

Borrower Contact Consent Form

To assist the loan servicer in contacting the borrower in a timely manner, the Borrower Contact Consent Form must be completed by the borrower when consummating closing documents.

Ability to Repay/Qualified Mortgage Rule

Community Savings Alt-QM guidelines meet the CFPB's requirements under its Ability-to-Repay (ATR) / Qualified Mortgage Rule, including loans that meet the general ATR requirements and certain higher-priced qualified mortgage loans with rebuttable presumption liability protection, as prescribed by the applicable regulation.

Each loan must include a completed ATR Borrower Confirmation form reviewed and executed by the borrower. The borrower is also required to sign a Certification of Business Purpose and an Occupancy Certification when consummating closing documents.

State and Federal High-Cost Loans

High-Cost thresholds and HPML do not apply to Business Purpose loan files.

Prepayment Penalty

Where permitted by applicable laws and regulations, a prepayment charge can be structured to be assessed for between one (1) and up to three (3) years following the execution date of the note. The prepayment charge will be:

- Equal to 5% of the unpaid principal balance
  - o Other than the monthly payments required herein, if Borrower prepays this Note in whole or in part before the full term of the pre-payment period, Borrower will pay a Prepayment Premium equal to Five Percent (5%) of any amounts prepaid ("Prepayment Premium").
- Step down option available for the 3 year Prepay terms.
- Investment Properties only utilizing the Investor program.
- Not allowed if property is in the following states:
  - o Illinois
  - o New Jersey
- Pennsylvania – Min Loan Amount $312,159

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Underwriting

All files are manually underwritten.

Interest Credit Closings

Loans closed within the first 5 days of the month may reflect an interest credit to the borrower.

Assumability

Loans are not assumable.

Property Insurance

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

Hazard insurance coverage should be in the amount corresponding to:

- 100% of the insurable value of improvements, as established by the property insurer (Replacement Cost Estimator or equivalent); or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained; or
- 100% Replacement Cost Coverage as stated on the policy declaration page; or
- Total dwelling coverage equal to the final loan amount.

If the policy does not have 100% replacement cost or a replacement cost estimate is not provided, a processor's certification from the seller verifying the insurer's replacement cost estimate is acceptable. The certification must include the insurance company's complete information, subject property details, confirm the replacement cost amount determined by the insurer, and be signed and dated by the processor.

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Evidence of Hazard Insurance

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by agent

Optional Coverage

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable as long as any part of the coverage that exceeds the required coverage is not obligated for renewal.

Rating Requirements

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company, Inc. must have:
  - a “B” or better Financial Strength Rating in Best’s Insurance Reports, or
  - an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in Best’s Insurance Reports Non-US Edition
- Carriers rated by Demotech, Inc. must have an “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings
- Carriers rated by Kroll’s Bond Rating Agency must have a “BBB” or better rating in Kroll Bond Rating Agency’s Insurance Financial Strength Rating (IRSR)

- Carriers rated by Standard and Poor's must have a "BBB" or better Insurer Financial Strength Rating in the Standard and Poor's Ratings Direct Insurance Service
  The following types of property insurance policies are acceptable if they are the only coverage the borrower can obtain:
- policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan; and
- policies obtained through state or territory insurance plans, such as the Hawaii Property Insurance Association (HPIA), Florida's Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools.

Transaction Types

Eligible Transactions

Purchase

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

Rate/Term Refinance

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.
The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Buy out a co-owner pursuant to an agreement.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided
- For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage
- For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than $2,000 in total draws over the past 12 months

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

On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $5,000.

For rate/term refinance transactions, the current appraised value may be used to determine loan-to- value.

Cash-Out Refinance

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance. The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in rate/term requirements.
- The amount of any non-mortgage related debt paid off through closing
- Additional cash in hand reflected on the settlement statement
  A signed letter from the borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. The purpose of the cash-out should also be reflected on the loan application and must be solely for business purposes.

See Community Savings Matrices for cash-out limits.

Cash Out Seasoning Requirements:

- For all cash-out refinance transactions, a minimum of 6 months must have elapsed since the most recent mortgage transaction to use the appraised value on the subject property (either the original purchase transaction or subsequent refinance). Note date to note date is used to calculate the 6 months.
  - There is no waiting period to use appraised value if:
    - If the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
    - If using the lower of the purchase price or appraised value, there is no waiting period.

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- If the subject property was acquired > 6 months from application date, the appraised value must be used to determine loan-to-value.

- If the property was acquired ≤ 6 months from application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.
    - If the property was owned by an LLC where the borrower is majority owner, the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement
    - If the property was owned by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

Delayed Financing

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

- Original transaction was an arm's-length transaction
- Settlement statement from purchase confirms no mortgage financing used to acquire subject
- Source of funds used for purchase documented (gift funds may not be included)
- New loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.
- Loan will be subject to cash out pricing AND subject to maximum LTV/CLTV for cash-out transactions. Cash-in-hand limits do not apply.

Benefit to Borrower

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower.

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

- Balloon payoff
- Private Mortgage Payoff
- Title transfer
- Property retention
- Rate reduction

- P&I reduction
- Debt reduction
- Cash-out

Properties Listed for Sale

To be eligible for either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before Note date. The borrower must also confirm in writing the reason for the prior listing and intent to rent out the subject property.

- For cash-out transactions, Properties listed for sale in the past three (3) months are ineligible unless contains at minimal a one (1) year prepay penalty.

The lesser of the most recent list price or the current appraised value should be used to determine loan-to- value for both rate/term and cash-out transactions.

Non-Arm's Length and Interested Party Transactions

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales and flip transactions.

When the property seller is a corporation, partnership, or any other business entity it must be ensured that the borrower is not an owner of the business entity selling the property.
A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required as well as the payment history pattern (VOM on the Seller's mortgage to show up to the most recent 12 month of history).

Interested Party Transaction

A Conflict-Of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction. In the case of the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent extra due diligence must be exercised. For example, the seller's real estate agent for the subject property may not act as the loan officer for the borrower(s) purchasing the same subject property. An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser, and any other party to the transaction must be closely examined. A Letter of Explanation regarding the relationship between the parties is required.

<u>Non-Arm's Length and Interested Party Transactions Eligibility</u>

- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction
    - Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves
- Seller(s) representing themselves as agent in real estate transaction is allowed
- **Purchase between landlord and tenant requires: <u>Lease agreement and up to 12 months payments verified through cancelled checks or bank statements.</u>**
- Purchase between family members
    - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD. Gift of equity must meet other gift requirements.
    - Must provide a 12-month mortgage history on existing mortgage securing subject property confirming Family Sale is not a foreclosure bailout
- Borrower to provide cancelled check verifying the earnest money deposit
- Employer to employee sales or transfers not allowed – the borrower cannot have a business relationship or business affiliation with the builder, developer, or seller of the property
- Property trades between buyer and seller <u>not allowed</u>
- Commission earned by buyer/borrower cannot be used for down payment or reserves but can be included in the interested party contributions up to 3% maximum.

Inherited Properties and Property Buyouts

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

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

Permanent Financing for New Construction

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.
When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. All construction work must be complete.

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

Borrower Eligibility

Residency

Eligible	• U.S. Citizen • Permanent Resident Alien (see requirements that follow) • Non-Permanent Resident Alien (see requirements that follow)
Ineligible	• Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction. • Foreign National • Borrowers not on title

Ineligible	• Borrowers from OFAC sanctioned countries • Residents of any country not permitted to transact business with US companies are ineligible (as determined by any US government authority • Any material parties (company or individual) to transaction listed on HUD's Limited Denial or Participation (LDP) list, the federal General Services Administration (GSA)Excluded Party list or any other exclusionary list. • ITIN Borrowers • Borrowers less than 18 years old • Citizens of Venezuela • Trusts or Land Trusts (revocable trusts may qualify for ownership vesting only)

US Citizen

U.S. citizens are eligible for financing.

Permanent Resident Alien

An individual admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States.

- Acceptable evidence of permanent residency includes the following:
  - Alien Registration Receipt Card I-551 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

Non-Permanent Resident Alien

An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. Acceptable Visas for loan purchase are listed below. Due to the inability to compel payment or seek judgment, transactions with individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible. Non-Permanent Resident Aliens document lawful residency as follows:

Documentation and Expiration

An alien admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States.

- Legal Status Documentation
  - Valid EAD **OR**
    - Ineligible EAD categories: A02, A07-A08, A10-A14, C01, C03, C05-C08, C10-C12, C14, C16-C20, C22, C24, C31, C33
  - Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, TN NAFTA
  - If Visa status will expire within one year and prior history of residency status renewal exists, no further documentation is required. If Visa expires within six (6) months of note date, evidence of renewal filing must be provided OR documentation from current employer supporting likelihood or renewal.

For residents of Canada or Mexico, H1-B status stamped on an unexpired passport is acceptable with no further documentation required.

Other than U.S. Citizens, all Eligible Borrowers must evidence their residency status by providing applicable USCIS documentation.

Exclusionary list/OFAC/Diplomatic Immunity

All parties involved on each transaction must be screened through exclusionary lists used by the seller. The seller should apply its exclusionary list policy to any loans originated under these guidelines.

Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website at https://sanctionssearch.ofac.treas.gov/.

Borrowers from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information.

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at https://www.state.gov/resources-for-foreign- embassies/deans-of-the-diplomatic-corps/.

Inter Vivos Revocable Trust

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

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage.
The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or

- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

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

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

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

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

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

Power of Attorney

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

- POA is specific to the transaction
- Recorded with the mortgage/deed of trust Contains an expiration date
- Used only to execute the final loan documents
- Borrower who executed the POA signed the initial 1003
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney

Non-Occupant Co-Borrowers

Allowed Case-by-Case. Requires senior level review.

First-Time Homebuyers

- Definition: An individual is considered to be a first-time home buyer if they have had no ownership interest in a residential property in the most current 3-year period.
- DTI may not exceed 43% (**case by case exception to 50% DTI)
- Minimum 3 months reserves for Primary Residences
- Not allowed on Second Homes or investment properties.
- When utilizing the Alt Doc program gift funds are allowed as long as the borrower is contributing at least 5% of their own funds into the down payment.
- 12-month recent rental history required reflecting 0x30 – First Time Home Buyers are only allowed to apply a 12-month recent and satisfactory VOR towards the tradeline requirements if utilizing the two (2) tradelines reporting for 12+ months

Credit

Credit Reports

A credit report is required for every borrower. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.
Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

Fraud Alerts

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

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

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

Credit Report Security Freeze

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

Credit Inquiries

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request.

Updated Payment Histories

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

Debt Monitoring Service

Evidence of an active Debt Monitoring Service is required and must be in effect within 10 days of closing.

Credit Score Requirements

Each borrower must have a valid score from at least 2 of the following 3 agencies: Experian

(FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are. The applicable credit score is the middle of three scores provided for any borrower. If only two credit score are obtained, the lesser of two will be used. When there are multiple borrowers, the highest income earner's applicable score from the group of borrowers is the representative credit score for qualifying. If the income is the same (e.g. when borrowers have 50/50 ownership in a business), the lowest mid score shall be used.

Housing History

Verification of Mortgage/Verification of Rent (VOM/VOR): Applications must be supported by the most recent **12 months** mortgage and/or rent pay history. A VOM must be obtained for all outstanding mortgages the borrowers have if not evidenced by their credit report, including private mortgages. The VOM/VOR is reviewed for delinquencies with the greatest weight focused on the last 12 to 24-months depending on housing history requirement (0x30x12). See matrix for max LTV. Verification needs to reflect pay history up to date as of application date. If Credit Bureau Report does not reflect pay history required, other acceptable methods of verification are as follows:

For Mortgage Payments – One of the below:

- VOM ordered from Mortgage Servicer
- Electronic Pay History printout directly from Mortgage Servicer showing timely payments AND Bank Statements showing account ownership and timely payments

  debited by Mortgage Servicer
- Cancelled checks front and back as well as the most recent mortgage statement
- For private mortgages (defined as the mortgage lender being a natural person), provide a fully executed VOM together with either bank statements showing account ownership and timely payments debited by Mortgage Servicer OR cancelled checks front and back along with the most recent mortgage statement.

For Rental Payments – One of the below:

- If was/is renting from a private party, either fully executed VOR OR most recent lease for each address, along with verification of timely payments made (either canceled checks front and back OR bank statements showing account ownership and payments debited by landlord) are required.
- If was/is renting from a management company, either fully executed VOR OR most recent lease, along with payment history ledger from management company, canceled checks front and back OR bank statements showing account ownership and payments debited by management company.

No Housing History or Less than 12 Months Verified/Living Rent-Free

- Case by Case upon review of overall loan profile.
- Primary residence only
- DTI may not exceed 43% for a first-time homebuyer.
- Any portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear are not considered living rent-free.
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.
- Properties owned free and clear are considered 0x30 for grading purposes.
- Fully executed rent-free letter from owner of property stated at rent-free must be provided and include address and length of rent-free residency. Property profile reflecting property owned by rent-free letter provided is also required.
- Minimum 6 months reserves
- If living rent free with spouse, VOM/VOR for current residence must be provided.

Credit Events

Housing Events must be seasoned for a minimum of **48** months from closing date. If the credit event is over 24 months, there will be a max LTV cap of 75% for Purchase/Rate & Term and 70% for Cash-Out.

A Housing Event is any one of the following events listed below: (See matrix, if a Credit event exists – must be seasoned AND Max LTV 80%.)

- Bankruptcy
- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history
- Non-Covid forbearance

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current.

Seasoning for a modification is from the date the modification was executed.

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

Mortgage Modifications

A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines.

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

Rolling Lates

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

Past Due Accounts

Past due consumer debts must be paid current at or prior to closing.

Covid Forbearance

If the borrower has resolved missed payments through a loss mitigation solution, they are eligible for a new mortgage loan if they have made at least three (3) timely payments. FNMA requirements in regards to reinstatement apply.

Delinquent Credit Belonging to Ex-Spouse

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

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

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

Lawsuit/Pending Litigation

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

Consumer Credit Counseling Service (CCCS)

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.
If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in 5.11 Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation.
If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

Collections and Charge-Offs

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $2,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- Current disputed accounts are excluded from the limit calculation if the borrower(s)

  meets minimum reserve requirements and has additional seasoned reserves (no gifts or cash out allowed to satisfy the requirement) totaling amount of disputed accounts. (Total Minimum Reserves + Disputed Account Balance(s))
- Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full.

Judgment and Tax Liens

All judgments and liens must be paid in full prior to or at closing.

Bankruptcy

All bankruptcies must be discharged or dismissed for a minimum of 24 months from closing date.

Tradeline Requirements

If the primary wage earner has three (3) credit scores, the minimum tradeline requirement can be waived with max LTV 75%.

Standard Tradelines

- Two (2) tradelines reporting on credit for 12 mo. with activity in the most recent 90 days or
- One (1) tradeline reporting for 24 mo. with activity in the most recent 90 days
- VOM/VOR or proof of taxes are paid on a free and clear property may be used to satisfy tradeline requirement as long as there is one tradeline on the credit report with activity in the most recent 90 days.

Only the primary wage-earner must meet the minimum tradeline requirements listed above.

Credit lines on which the borrower is not obligated to make payments **are not acceptable** for establishing a minimum history.
Examples of unacceptable tradelines include:

- Loans in a deferment period
- Collection or charged- off accounts
- Accounts discharged through bankruptcy

Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

Insufficient Tradelines and Non-Traditional Credit

Insufficient tradelines and non-traditional credit is not allowed.

Obligations not Appearing on Credit Report

Housing and Mortgage Related Obligations

Mortgage and rental payments not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.

If the borrower is making payments to an individual or interested party, 10-12 of the last 12 months or the most recent 6 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current.

Liabilities

Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.
Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.
Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation.
Revolving accounts are allowed to be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Authorized User Accounts

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

Business Debt

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

- Most recent 3 months canceled checks drawn against the business account; or
- Tax returns reflect the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

Timeshares

Timeshare obligations will be treated as a consumer installment loan.

Student Loans

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, the monthly payment that is on the student loan documentation (the most recent student loan statement) may be used 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, then the qualifying monthly payment must be determined using one of the options below:

- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is $0. The borrower may then qualify with a $0 payment.
- For deferred loans or loans in forbearance, the following must be calculated:
  - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or
  - fully amortizing payment using the documented loan repayment terms.

Child Support, Alimony, or Maintenance Obligations

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's debt-to-income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing.
If 10 or fewer payments remain, see installment debt section above to determine if the obligation may be excluded from the DTI calculation.

Undisclosed Debts

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

Contingent Liabilities

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

- Property resulting from buyout of former co-owner, e.g., divorce: file must include the court order and evidence of transfer of ownership.
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership.

- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party.

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

Debt Paid by Others

When a borrower is obligated on a non-mortgage debt but is not the party actually repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.

When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

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

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

Housing Payments

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

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

Lease Obligations

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

Open 30-day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

If the borrower paid off the account balance prior to closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

Retirement/Savings Plan Loans

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

Material Recurring Non-Debt Obligations

Community Savings is not permitted to make inquiries or verifications prohibited by Regulation B.

A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that is expected to continue for greater than one year.

If the borrower informs Community Savings of a recurring non-debt obligation, the loan file must be noted. If the Community Savings believes it could be material to the borrower's ability to repay the loan, escalation to management is required.

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

Assets

The following is a list of established assets is permitted to determine a borrower's liquidity. Next to each asset is the value that Community Savings assigns based on its liquidity.

- Checking and Savings (100%)
- Certificates of Deposit (100%)
- U.S. Savings Bonds (100% if fully matured, otherwise 80%)
- Marketable Securities (100% net of margin debt). Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded.
- Restricted Stock Units (RSU) - Refer to FNMA Guides
- IRA, Keogh, and 401(K) Retirement Accounts (80% of vested balance excluding outstanding loans secured against it if under eligible retirement age, 100% of vested balance excluding outstanding

loans secured against it eligible retirement age.) including ROTH - Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility

- Pension Plans (60%) - Only amounts accessible within a 30-day window are permitted. Account statements should be updated with a transaction history dated within 30 days of Note date due to market volatility
- Annuities (60%) - Only amounts accessible within a 30-day timeframe are permitted
- Trust Accounts (100%) - Must review a copy of the full Trust Agreement
- The use of business assets for self-employed borrowers for down payment, reserves and closing costs are allowed. The borrowers on the loan must have 25% ownership of the business and must be the owners of the account. If additional assets over the percent of ownership are to be used towards downpayment and/or reserves, an access letter(s) from the remaining owners of the business must be obtained. If income from the business is being used to qualify, a letter from a CPA, Third-Party Tax Preparer or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. The CPA/Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business. If a CPA letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the client to determine if the withdrawal of funds from the business is acceptable. If no balance sheet provided, we will accept lender cash flow analysis of 12 months business bank statements.
- Spousal accounts - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
- Crypto Currencies, Bitcoin and Ethereum, are an eligible source of funds for down payment and closing costs and reserves. For down payment and closing cost, the assets must be liquidated and deposited into an established US bank account. For reserves, documentation to prove ownership of the crypto holdings must be provided together with verification of current valuation from the Coinbase Exchange within 30 days of Note date at 60% of the current valuation. If the borrower transfers the cryptocurrency into a US financial institution prior to closing 100% of the funds can be used for reserves. Crypto currency is not an eligible liquid asset for asset utilization/depletion.
- Delayed 1031 Exchange funds for “like—kind exchange” are eligible for EMD, down payment and closing costs. 1031 Exchange funds are not eligible for reserves.

Verification of Assets

- Bank statements and investment portfolio statement
- Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. The statements must cover account activity for the most recent 30 days. A summary statement will not be accepted.
- The statements may be computer generated forms, but must include or state the following:
  - Clearly identify the borrower as the account holder, the account numbers, the time the statements cover. Include all deposits and withdrawal transactions. The statements must include the previous close balance, the current balance, and the ending account balance.
  - Retirement account statements must be from the most recent period and identify the borrower's vested amount and terms.
- Cash is not an acceptable deposit source

Reserves

Loan Amounts less than or equal to $1,500,000 require a minimum 6 months PITIA reserves. Loan Amounts greater than $1,500,000 require a minimum 9 months PITIA reserves. Loan Amounts greater than $2,500,000 require a minimum 12 months PITIA reserves.

- A 3 month reduction in reserves requirements is allowed if:
  - Residual income is 2x the program requirement.

LTVs ≤ 60% only require 3 months PITIA reserves regardless of loan amount.

- Additional Reserves – Required on second homes and investment properties. Each financed property owned, in addition to the subject property, requires 2 months additional reserves of each property's PITIA, unless the subject property itself requires a minimum of 12 months reserves. Total reserve requirement is not to exceed twelve (12) months PITIA of subject property.
- Reserves must be sourced and documented per guidelines.
- ARM loans – Reserves based upon initial proposed PITIA, not the qualifying payment.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment.
- Proceeds from 1031 Exchange cannot be used to meet reserve requirements.
- Cash out can be used as reserves.
- Funds pledged or used as collateral for another loan are ineligible.

Other Requirements

- Assets must be seasoned 30 days and any large deposits are required to be sourced
- Gift Funds:
    - 100% of gift funds are allowed
    - Gifts must be from a family member. Gifts can be used to pay off debt.
    - Gift funds **cannot** be counted towards reserves.
    - Purchase transactions only.

- Unsecured loans, sweat equity, and gifts that require repayment are not eligible as sources of down payment.

Income

Full-Doc Income:

- W2
- 12 Months Tax Returns
- Retirement (Non-Taxable Income)

Alt-Doc Income:

- 12 Months Bank Statements (Personal)
- 12 Months Bank Statements (Business)
- P&L Only
- 1099 (IRS Form) Only
- Asset Utilization

Debt to Income Ratio

Max 50%

The Debt-to-Income ("DTI") ratio is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses.

NOTE: FTHB Max 45%

Residual Income

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations. **Residual Income = Gross Monthly Income minus total monthly debt.** The Minimum Residual Income requirement is $1,500.

- $250 is added for the first dependent

- $125 for each additional dependent.
- A dependent is any person other than the borrower in the household.
- 1003 should reflect all dependents.

Income Documentation Full Doc

The Full & Alt Doc program allows for several income documentation options as outlined below.

Income Documentation Options:

Full Doc:

W2 Income:

- Most recent 1-year W2 & paystub covering most recent 30 days of earnings. (If using income other than base/salary – 2 years W2 & WVOE required)
- VVOE 10 days prior to closing
- Signed 4506 - C
- Pay stubs and W-2s must be typed or computer generated. If internet printout, the URL and date should be included.
- They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
- If pay stubs reflects garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.
- W-2s should reflect a nine-digit Employer ID Number (EIN).
- Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

Note: Any income received by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency.

Written Verification of Employment:

- Income and employment must be provided by a FNMA approved 3rd party vendor such as The Work Number. FNMA WVOE Form 1005 is not eligible under the standard income documentation. A FNMA WVOE Form 1005 could be used in conjunction with W2s and paystubs if needed for fluctuating income such as bonus, OT, or commission.
- At a minimum, the verification must include most recent one or two years income along with year to date earnings, the borrower's name, position, dates of employment, and

base salary.

12 Months Tax Returns:

- Most recent 1 year tax return
- YTD P&L covering most recent quarter closed quarter (can be self-prepared)

Retirement Income:

- Award letter
- Bank statement reflecting proof of receipt
- 3 year continuance
- Non-taxable income can be grossed-up by 125% or by the borrower's income tax bracket whichever is less

Determining Income Full Doc

Wage Earner:

Wage Period	Pay Amount	Function	Annual True-up	Function	Monthly Income
Weekly	Weekly gross pay	x	52 weeks	÷	12 months
Bi-Weekly	Bi-Weekly gross pay	x	26 pay periods	÷	12 months
Twice Monthly	Twice monthly gross pay	x	24 pay periods	÷	12 months
Monthly (a)(b)	Monthly gross pay	N/A	N/A	N/A	N/A
Hourly/Variable hourly	Hourly gross pay rate x Avg # of hours per week	x	52 weeks	÷	12 months
(a) Position/job must be verified as a 12-month position (b) Income must be consistent with reported annual income					

Unscheduled Income:

- Bonus Income:
    - Two-years of Bonus Income - Borrower must evidence of a two-year history of bonus income. For borrowers in same line of work with different employers, they will be considered on a case-by-case basis.
    - Written VOE (WVOE) - Lender must submit a WVOE verifying probable continuance of bonus income. Or if not commented on, a 2-year history will suffice for probability of continuance.
    - 12-Month History – Calculation will be based on the most recent 12 months.

- Overtime Income:
  - Verification - Overtime Income must be verified as historical and average YTD earnings.
  - Continuance - When reviewing a 24-month history of OT it should be verified that the income is consistent over the past 2 years and will have a high likelihood of continuance.

  - 12-Month History – Calculation will be based on the most recent 12 months.
- Seasonal Employment/Unemployment:
  - Consistency - Borrower has worked for the same employer for the past 24-months. Please note if they are in a union (construction, electrical, plumbing) and are placed on different jobs over a period that is considered acceptable.
  - WVOE - WVOE required stating a reasonable expectation of returning the next season.
  - Unemployment Compensation for time-off has been consistent for the past 24 months and coincides with the seasonal job.
  - Annualized Income - Income to be annualized over a 12-month period for qualifying purposes unless income is declining.
- Commission Income:

  - Two-year History - Borrower must evidence at least a two-year consecutive history of commission earnings. Borrowers with less than two years with current employer yet in the same line of work for two years will be considered on a case-by-case basis
  - WVOE is required
  - Paystub Verification - Paystubs must reflect commission income on YTD earnings.
  - Declining Commissions - A Letter of Explanation (LOE) from the borrower, expanded history and further support will be required if commission income is declining.
  - 12-Month History – Calculation will be based on the most recent 12 months

<u>12 Months Tax Returns Non-SE Income:</u>

- Rental Income – All properties except departing residence
  - Existing rental income required documentation - Recent personal tax return at least one- year and copy of current unexpired, executed lease (if lease is not current, evidence need to be provided showing lease converted to month to month) and at least 2 months proof of current rental income being received (i.e., canceled checks and/or deposits). Rental income must be derived solely from the ownership of rental properties as declared on the Schedule E.
  - Rental income from new lease required documentation - Copy of executed lease and verification of security deposit and first-month’s rent deposited to borrower’s account.

May not be leased to a family member. Property must have been purchased within the last tax year.

- Rental income from short leases, Airbnb, VRBO, Homestay or other vacation rentals (i.e., short-term rentals) will be allowed with a one-year history of receipt as reported on the borrower's income tax returns for the subject property investment property and refinances only. Evidence that the property is currently being offered for rent in the same manner is required. Market Rents cannot be used for short-term rental income. A

  two-year history is required and proof of current receipt of rental income being received is required.
- Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
  - Appraisal to reflect zoning compliance is legal
  - Permit is not required to establish zoning compliance
  - Appraisal to include at least one comparable with an accessory unit
  - The appraisal report demonstrates that the improvements are typical for the market through analysis of at least one comparable property with the same use
  - Multiple accessory units are not permitted

- Rental Income – Departing Residence
  - Copy of executed lease and verification of security deposit and first-month's rent deposited to borrower's account
  - May not be leased to a family member
  - Lease agreement must be for a minimum 12-month term
  - Security Deposit and first month rent
  - Qualifying rental income will be gross rents x 75%. (25% vacancy loss)

- RSU Income - Restricted Stock

  Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock should not be confused with stock options. Restricted stock must be vested as well as received on a regular, recurring basis.
  - The following documentation is required:
    - Issuance agreement or equivalent (part of the benefits package), and
    - Schedule of distribution of units (shares), and
    - Vesting schedule, and
    - Evidence that stock is publicly traded, and
    - Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)

- Calculation of income
    - To determine the restricted stock price, use the lower of:
        - 1) Current stock price, or
        - 2) The two-year stock price average.
    - Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. The average stock price should be applied to the number of stock units vested

      each year.
    - Future vesting must support qualifying income.

- Interest and Dividend Income
    - IRS Form 1040 Schedule B - Borrower must submit the proper tax filing schedule reflecting income amounts (tax exempt interest also eligible under the same conditions).
    - Two-year History - Interest and dividends will only be considered stable income with at least a two-year history.
    - Ineligible Interest and Dividends - Income from interest-bearing or dividend-producing assets being used for the down payment or closing costs are not eligible.
    - Ineligible Interest and Dividends - Any taxable interest or dividend income that is not recurring must be deducted from the borrower's cash flow.

- Capital Gains/Losses, Royalties, Notes Receivable, Trust, Lottery Winnings, Employee Contracts, Alimony and Child Support.
    - 3-year Continuance of Income - Verification that these sources of income will continue for a minimum of 3-years is required
    - 12-month history of receipt is required
    - 2 years of tax returns are required (for capital gains income only)

Self-Employed:

Self-Employed:

- Business Verification

    - A Third-Party Verification of the existence of the borrower's business is required within 10 business days of the Note date.
    - Acceptable Verifiers - Verification must be from a third-party, such as a CPA, Enrolled Agent, CTEC or Chartered Tax Adviser, Third-party Licensed Tax Preparer Regulatory

Agency or an applicable Business License Verification of the business to include a phone listing and address using an independent third-party, i.e., Internet Search.
- PTIN: A PTIN may be used in the following circumstances.
  - Must have a verifiable PTIN number.
  - Must have an active website identifying name, and address ***and***
  - Must be able to verify website(google, LinkedIn etc) and identify the business as a tax preparer or similar ***or***
  - PTIN working seasonally for tax preparer and/or companies such as HR Block, Turbo tax etc are acceptable with documentation supporting seasonal employment such as W2 /paystubs etc.

- General Requirements for Self Employed Income
  - Minimum Ownership. Applicants must own at least 25% of a business to be considered self-employed.
  - Two-year History. Applicants must have been successfully self-employed for a minimum of two full years.
  - Borrowers should be self-employed for at least 2 years. However, a borrower may qualify with less than 2-years but more than 1-year if the borrower can document at least two years of documented previous successful employment in the same line of work in which the person is self-employed or related occupation or 1-year of employment and formal education or training in the same line of work.
  - Business Licenses- Copies of all required business licenses are required.
  - YTD P&L required covering the most recent quarter.
  - Calculation is based off the most recent year of tax returns and the YTD P&L (only if the P&L is declining).

- Cash Flow Analysis for Full Doc
  - When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate enough income to enable these borrowers to meet their financial obligations.
  - If the Schedule K-1 provides confirmation that the business has adequate liquidity to support the withdrawal of earnings, no further documentation of business liquidity is required.

- If the Schedule K-1 does not support adequate liquidity, the most appropriate business liquidity formula based on how the business operates should be used to determine liquidity:
  - Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
    - Quick Ratio = (current assets — inventory) ÷ current liabilities
  - Current Ratio (also known as the Working Capital Ratio) may be more

    appropriate for businesses not relying on inventory to generate income.

    - Current Ratio = current assets ÷ current liabilities

Verbal Verification of Employment:

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

- Completed within 10 business days of closing.
- Confirm that the borrower is actively employed at time of verification.
- Include the name and phone number of the person processing the VVOE.
- Include borrower's name, position, and loan number.
- Include the name, position and phone number of the person providing the verification (employer)

- Telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau for self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 10 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:
  - Tax preparer, regulatory agency, or applicable licensing bureau
  - Secretary of State listing reflecting current year registration
  - Verification of a phone and address listing using the internet
  - If the documentation is over 30 days old, a Processor's Certification verifying employment with the CPA is acceptable. An updated Secretary of State listing or phone and address listing from the internet are also acceptable.
- Signed 4506-C (W-2 transcripts only); and
- Verbal Verification of Employment (VVOE) completed within 10 business days of closing.

Income Documentation Alt Doc

Bank Statement Analysis:

When analyzing Business Bank Statements, Community Savings must verify the borrower's percentage of ownership. Acceptable forms of documentation that clearly states ownership percentage would be a Business License, a signed written statement from a CPA or a Third-Party Tax Preparer, Operating Agreement reflecting borrower as "single member," Articles of Incorporation/Articles of Organization

that reflects the borrower as President, Director, or Officer of the company and his/her name is the only name listed, a Partnership Agreement, or a Business Certificate filed with a governmental agency. Self-employed borrowers can use either personal or business bank statement documentation. The following apply to both types of documentation:

- Personal History - Borrowers should be self-employed for at least two years. However, a borrower may qualify with less than two years but more than one year if the borrower can document at least two years of documented previous successful employment in the same line of work in which the person is self-employed or related occupation or one year of employment and formal education or training in the same line of work.
- Businesses History - Business should be established and have been in existence for the past two years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time and borrower must document the have been in the same line of work OR had schooling in the profession in the year preceding the business start date.
- A Third-Party Verification that the business is in existence and in good standing is required
- Like-to-Like Accounts - All parties listed on a personal bank account used for income must be included as borrowers on the application unless the other account owners provide proof their income is deposited elsewhere, or the accountant verifies that only the borrower's self-employment income goes into that account.
- Recent and Continuous - Statements used for income must be consecutive and reflect the most recent months available.

- Stability - Statements must support stable and generally predictable deposits; large and unusual deposits must be sourced if they cannot be sourced, they will be excluded. Cash is not an acceptable deposit source.
- Earnings Decline may result in loan disqualification.
- Non-Sufficient Funds (NSF) – Community Savings considers Non-Sufficient Funds will be reviewed over the most recent 60 days. An excess of NSF may require an LOE (must state the reason that caused the NSFs and how it currently effects the business) and a 2nd level review.
- Transfers will also be excluded unless it is a wire transfer in from another company for services

rendered.

- Community Savings will consider other forms of income used in conjunction with the Bank Statement Program such as W2 income or fixed income such as Social Security Benefits
- When a signed and dated Third Party P&L is provided, it must cover the same dates as the bank statements.

- When bank statements are used, large deposits must be evaluated. Large deposits are defined as any single deposit exceeding 50% of the borrower's average monthly income amount. Requirements vary based on transaction type:
  - Refinance: Documentation or explanation is not required however it must be clear that any borrowed funds, including any related liability, are considered.
  - Purchase: Documentation is required to verify the large deposit came from an acceptable source. Any unverified large deposit must be backed out of the qualifying assets and a letter of explanation is required.
  - Asset Qualifier documentation option: Follow the guidance listed above for Refinances vs. Purchase but the large deposit as a single deposit that exceeds 3X the average deposit amount since there is no income or DTI listed on this program.
  - At the discretion of the underwriter, deposits that are defined as large deposits, may be exempt from additional documentation if the underwriter deems them to be usual and customary. **The underwriter is to address large deposits described below in their underwriting decision commentary.** The characteristics of usual and customary deposits are as follows:
    - Deposits that occur at a similar time each month or quarter.
    - Deposits that are of a similar amount on a regular basis.
    - Deposits that would be considered normal for a type of business.
    - Other deposits as determined to be usual and customary.

12 Month Bank Statements Personal:

The following documentation is required:

- 12 months complete personal bank statements (multiple bank accounts may be used dated within 30 days of application and
- Two (2) months business bank statements (to support the borrower does maintain separate account(s). If business bank statements cannot be provided to evidence a

separate business account, then a 10% expense factor may be applied as long as there is no indication that the personal assets are a co-mingled account. A co-mingled account would mean the personal account also has business expenses present.
  - 10% expense factor will be applied when a business account cannot be provided AND the business expenses are ***not*** identified in the personal statement.
  - 50% expense factor will be applied in the same situation when business expense

    are identified in the personal statement (co-mingled) unless a CPA letter is provided.
- Transaction histories are not acceptable.
- When spousal joint accounts are used, the borrower must be 100% owner of the business, all income/deposits from the non-borrowing spouse must be removed and all parties must attest in writing to the income belonging to the applicant.

The following apply when analyzing personal bank statements:
- 100% of personal bank account deposits
- Large deposits and any unidentified deposits as determined by the underwriter must be sourced.
- Transfers will be excluded unless they are from a documented business account.
- Large cash is not an acceptable deposit source.

12 Month Bank Statement Business (including co-mingled statements):

The following documentation is required:
- 12 months of complete business bank statements from the same account. (If an account has been moved to a different Bank and is shown to be one and the same, that will be acceptable).
  - Co-mingling of multiple accounts to generate a full 12 months is not permitted.

The following apply when analyzing business bank statements:
- Reasonable and Customary Eligible Business Expenses from personal bank accounts:
  - Personal bank accounts that are addressed to a DBA
  - Personal bank accounts that can evidence use for business expenses

  - Blended bank statements are allowed on a case-by-case basis with sole proprietor structure
- Wire transfers from other accounts must be either documented or excluded
- Declining balances will require a detailed LOE t
- Transaction histories are not acceptable
- Borrower must be at least 25% owner of the business. If multiple owners, then the income used will be based on ownership percentage(s).

- Third-Party verification of business existence
- Business Bank Statements must be consecutive and from the most recent period
- Large cash is not an acceptable deposit source.
- Large Deposits: A large deposit is defined as a single deposit that exceeds 3X the average deposit amount. All loans will be initially underwritten with 12 months bank statements. If the income exhibits a seasonality of income effect, whereby a two-year history would be a better representation of the borrower's income, then we would allow 24 months of bank statements.

Qualifying Income will be determined based on one of the following calculations below:

- Percentage of Gross deposits as calculated using a fixed expense ratio factor of 50%

OR

- Percentage of gross deposits as calculated using a fixed expense ratio factor as provided by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser. The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business.
    - PTIN: A PTIN may be used in the following circumstances
        - Must have an active website identifying name, and address ***and***
        - Must be able to verify website (google, linkdin etc) and identify the business as a tax preparer or similar ***or***
        - PTIN working seasonally for tax preparer and/or companies such as HR Block, Turbo tax etc. are acceptable with documentation supporting seasonal employment such as W2 /paystubs act.
        - Have verifiable PTIN per IRS website or similar proof registered.

OR

- The monthly net income using a net income average from a validated third-party prepared P&L. The total deposits calculated with 12 months of business bank

  statements are used solely to validate third-party prepared P&L. P&L statement covering the same 12-month period as the bank statements. Borrower prepared P&L will not be permitted under any circumstances. The Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower's business.

Expense Ratio:

A standard 50% expense factor will be applied to the total of eligible deposits from the business bank statements. If the business operates more efficiently or typically has a materially different expense factor (higher or lower than the standard expense factor) the expense ratio will be determined by the industry classification of the business and the information provided on the Business Narrative Form or through attestation of expense ratio by a CPA, EA or licensed tax professional.

Underwriter guidance that may be applied when considering expense ratios other than 50% as described by the CPA, EA or Tax Preparer on the Business Narrative Form.

90% Expense Ratio (10% Profit Margin**)**

- A business with any of the following characteristics must use the 90% expense ratio:
  - Multiple commercial locations
  - More than 25 employees
  - Industry Classification of: Retail Trade, Wholesale Trade, Accommodation-Food Service, Agriculture-Forestry-Fishing-Hunting, Construction, Car Dealerships

70% Expense Ratio (30% Profit Margin)

- A business with any of the following characteristics must use the 70% expense ratio:
  - A single commercial location
  - More than 10 employees, but not more than 25 employees
  - Industry classification of: Manufacturing, Transportation-Warehousing, Utilities, Mining-Quarrying-Oil & Gas Extraction, Other Services, Administration-Support- Waste Management-Remediation, Information

50% Expense Ratio (50% Profit Margin)

- A business with any of the following characteristics must use the 50% expense ratio:
  - Work from home or shared facility
  - 1 or more employees, but not more than 10 employees
  - Industry classification of: Real Estate-Rental and Leasing, Arts-Entertainment- Recreation, Professional-Scientific-Technical Services, Health Care-Social Assistance, Educational Services, Finance and Insurance

30% Expense Ratio (70% Profit Margin)

- A business with the following characteristics may use a 30% expense ratio supported by a tax preparer's letter of confirmation:
  - Work from home.
  - 1 primary employee, but may use contract labor based on job size.
  - Does not typically require inventory or materials to be held.

P&L Only

Required Documentation if utilizing a Profit and Loss Statement for income validation:

- Refer to matrix for min FICO and Max LTV
- Profit and loss covering the most recent previous 12 valid if the most recent month is dated within 90 days of close completed and reviewed by a Certified Public Accountant, Enrolled Agent, CTEC, Chartered Tax Adviser or Independent Licensed Accountant.
  - To be reviewed, the appropriate 3rd party must sign and date the Profit and Loss documentation which indicates the accuracy of the profit and loss statement (Unless a preparer signed cover letter or similar document accompanies P&L delivery that specifically states they prepared the P&L provided)
  - The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated or associated with the borrower's business if they have not done so somewhere else in the loan file.
    - PTIN: A PTIN may be used in the following circumstances.
      - Must have verifiable PTIN number.
      - Must work for a verifiable company whose business is primarily tax preparation or related financial fields.
      - Must be registered with their state as required.
      - Must have an online presence supporting their primary occupation is as a tax preparer.
      - Optional – 2 most recent months of business bank statements to support the P&L provided.
      - Optional - Tax Preparer recent continuing education certifications of completion.

- Proof that the appropriate 3rd party completing the review is duly licensed, or certified - Certification, or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3rd party (Certification proven by other reasonable methods may be allowed at underwriter discretion)
- Proof the business has been in operation for 12 months or greater.

- Proof of business ownership percentage if business is a corporate entity and profit and loss covers business.
- 3rd-party documentation from which the borrower's ownership percentage can be determined
- Documents which are not required to list all owners do not meet this requirement.
- Profit and loss must reasonably reflect the income and expenses of the industry described.
- Profit and loss statements not meeting the requirements of this section, or which are suspicious in nature, may require additional verification.

All P&L loans must have a borrower completed Business Narrative form going forward (both ITIN and Non-ITIN).

- Borrowers should have an online presence supporting their business activity. Borrowers that lack an online presence or has limited clarity into how they generate business may be required to provide a detailed Letter of Explanation as to how their business operates and generates revenue. (Both ITIN and Non-ITIN).
- P&Ls may be sent directly to us via secure email or if provided by the broker, will be verified by the Junior Underwriter as to content and accuracy.
- All Tax Preparers will be contacted and P&L verified as prepared and provided by the Tax Preparer. Verification to be present as a verification in the loan file.

1099 (IRS Form) Only

Borrowers who have a two-year history of receiving 1099 only or have recently converted from W2 to 1099 and have at least one year of receiving 1099 in the same line of work may utilize this program.
Borrower must provide the following:

- 1099 for the previous tax year, payable to the borrower not a business
- Verification of Employment from the current contract employer covering the most recent two years plus Year-to-Date earnings, likelihood of continued contractor status and whether the contractor is required to pay for any business-related expenses (non- reimbursed)
    - If the verification does not reference related expenses, then a Fixed Expense Ratio of 10% may be used
- Most recent two months proof of receipt is required in the form of paystubs, checks or bank statements

NOTE: If WVOE cannot be obtained for any employers in 2 year history, need LOE regarding extenuating reason it cannot be obtained as well as year end and year to date paystubs from all employers to support income calculation.

COMMUNITY SAVINGS

NOTE: Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

Asset Depletion:

Asset Depletion may be used to determine qualifying income both alone and in conjunction with other documentation options. Please see the applicable Community Savings Matrix for restrictions. Asset Depletion is not permitted on cash-out or debt consolidation transactions. Asset Depletion is permitted on primary residences and second homes. **Gift funds are not permitted**.

Qualified Assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. Proof of six-month seasoning of all assets is required. Max LTV 75%.

- The following assets are considered Qualified Assets and may be utilized to calculate income:
- 100% of checking, savings, and money market accounts
- 100% of the remaining value of stocks & bonds
- 70% of 401k, Retirement assets (Under eligible retirement age of at least 59 ½)
- 100% of 401k, Retirement assets (Eligible retirement age of 59 ½)
- Personal funds in the borrowers name only (business funds and joint accounts with individuals not on the loan are not eligible).

- Calculating Qualifying Income:
    - If borrower(s) do ***<u>NOT</u>*** have any other documentable income, the borrower(s) must have at least 1.5 times the loan balance in Qualified Assets, which must be net of down. payment, closing costs, and required reserves to qualify.
    - If borrower(s) are using other documentable income to qualify, there is NO minimum asset requirement.
    - The income calculation is as follows: Monthly Income = Net Qualified Assets / 84 Months

Rental Income:

Rental income can be utilized on the following loan programs:

- 12 month bank statements (Personal or Business)
- P&L
- 1099
- Asset Depletion

Borrowers desiring to use rental income from investment properties not associated with the business, may do so by providing a current active lease together with proof of rent payments received for the most recent 2 months.

If newly executed lease for new tenants, provide proof of receipt for deposit and 1st months' rent.

If subject property leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period; and either 12-monthly statements, or an annual statement provided by the on-line service to

document receipt of rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. 1007 rents specifically addressing STR may be allowed when property is located in an established short-term/vacation market, on a case-by-case basis.

If attempting to use rental income from a departing residence OR Investment property purchase with no rental income history (vacant), an appraisal 1007 or 1025 (as applicable) will be used to determine gross market rent.

Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:

- Appraisal to reflect zoning compliance is legal
- Permit is not required to establish zoning compliance
- Appraisal to include at least one comparable with an accessory unit
- The appraisal report demonstrates that the improvements are typical for the market through analysis of at least one comparable property with the same use
- Multiple accessory units are not permitted

Refinance - Market rent for the necessary unit should be documented on FNMA 1007, and the file must include a copy of the current release with two months proof of current receipt.
Purchase - Use the lesser of the market rent on FNMA Form 1007 or actual rent.
In all instances, qualifying rental income will be gross rents x 75%. (25% of the gross rent is absorbed for vacancy losses and ongoing maintenance expenses.)

Property Eligibility

Appraisals

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

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

Appraisal Requirements

Appraisal should be dated 120 days (recertified appraisals 180 days) prior to the Note Date.

If appraisal will expire on or after the note date, an Appraisal Update and/or Completion Report (1004D) must be completed prior to loan closing. If the 1004D indicates a decline in the market value since the original appraisal effective date, a new appraisal must be completed. Original appraisal cannot be more than 365 days old as of note date.

Transferred appraisals accepted with the following documentation:

- Full color copy of appraisal in a PDF format (inclusive of 1007 rent schedules and or 1004d if applicable)
- The appraisal must have been completed ay an Appraisal Management Company (AMC). Appraisal must be less than 120 days old at note date.

- Original lender to provide a signed/dated appraisal transfer letter on their letterhead stating the following:
    - Letter must transfer ownership and rights for the specific appraisal to Community Savings.
    - Letter to reference the borrower's name and subject property address.
    - Letter must include lender certification that the appraisal complies with Federal, State, and Freddie Mac Appraisal Independence Requirements (AIR).
    - Lender certification that the appraisal was ordered within TRID compliance*.
- Community Savings must receive confirmation of the borrower's receipt of the appraisal at least 3 business days prior to closing.
- Provide Community Savings with a copy of the appraisal invoice.
- If appraisal is through a Nationally recognized Third-Party AMC, and CU is $\leq$ 2.5, no

further action is required.

- If appraisal is through a Nationally recognized Third-Party AMC, and CU is > 2.5, an appraisal through CS is required.
- If the appraisal is not ordered through a Third-Party AMC, then a CS appraisal is required.

Please note that any changes to the report that are needed cannot be requested by Community Savings and the broker will need to request all updates and provide Community Savings with the updated appraisal prior to final approval.

Second Appraisal

A Second Appraisal from a Community Savings approved AMC is required when any of the following conditions exist. When a second appraisal is provided, the transactions "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different appraiser than the first appraisal.

- Loan amount ≥ $1,500,000
- The transaction is a flip as defined in the Property Flipping section of this guide.
- As required under the Appraisal Review Products section of this guide
- If appraisal has material deficiencies

Appraisal Review Requirements

An appraisal review product is required on every appraisal required for the transaction. The options include the following:

- An enhanced desk review or CU, or
- A field review or second appraisal from a Community Savings approved AMC is acceptable. The field review or 2nd appraisal may not be from the same appraisal company as the original report.

If the Appraisal Review Product reflects a value more than 20% below the appraised value or cannot provide a validation, the next option in the review waterfall must be followed. The next option would be either a field review or second appraisal, both must be from a different appraisal company and appraiser than the original appraisal. On transactions where the difference in appraised value is less than 20%, the acceptability of the appraisal is subject to UW Management review and discretion. The final appraised value is based on the lowest reported value amongst all the appraisal documents/reviews.

Minimum Square Footage

- Single Family Residence - minimum 600 square feet
- Condominiums – minimum 500 square feet
- 2-4 units – minimum 400 square feet per individual unit

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 the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Escrow Holdbacks

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase.

Ineligible Property Types

- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Agricultural properties including working farms, ranches, orchards Manufactured, Mobile
- Co-op/timeshare
- Condo Cooperative share loans

- Boarding houses or bed/breakfast properties
- Properties with zoning violations
- Dome or geodesic homes
- Assisted living facilities
- Homes on Indian reservations, Indian Leased Land
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Log homes
- Acreage > 20 acres
- Commercial properties
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana.

- Appraised condition rating of C5, or C6
- Condotels
- Mixed-Use Properties
- Barndominiums
- Commercial
- Properties under construction

Declining Market

If the appraisal report identifies the property as a declining market, the maximum LTV/CLTV is limited to 75% for purchases and 70% for all refinances and the maximum loan amount is limited to $2MM.

Existing Construction

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is.” These items must be reflected in the appraiser’s opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, a 1004D Final Inspection is required.
- Permanent and Functioning Heat Source – A permanent heat source is required except for properties located in geographic areas where it is typical not to have heat source and has no adverse effect on marketability.

Accessory Units (ADU)

An accessory 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 defined as 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 defined as a one-unit property with an accessory unit.
    - Multiple accessory units are not permitted.
- 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.
- Rental income may be used for the accessory unit subject to the following:
    - Appraisal to reflect zoning compliance is legal
        - Permit is not required to establish zoning compliance
    - Appraisal to include at least one comparable with an accessory unit
    - Refinance – The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease agreement with two (2) months proof of current receipt
    - Purchase
        - Not eligible to use rental income from ADU.

Title Vesting & Ownership

Ownership must be fee simple.

Title must be in the Borrower's name at time of application for refinance transactions and on closing date for all transactions.

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in common
- Inter Vivos Revocable Trust

Ineligible forms of vesting are:

- LLC, Partnerships, Corporations, etc.
- Land trusts,
- Blind Trusts
- IRAs
- Life estates

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae requirements should be followed to the extent this section is silent.

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. The trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The Trustee must include either:

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

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

The following documentation is required:

- If the trust was created under California law, a full executed Certificate of Trust under Section 18100.5 of the California Probate Code.
- If the trust was created under the laws of a state other than California:
    - Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all of the following:
        - The trust is revocable.
        - The borrower is the settler of the trust and the beneficiary of the trust.
        - The trust assets may be used as collateral for a loan.
        - The trustee is:
            - Duly qualified under applicable law to serve as the trustee
            - The borrower
            - The settler
            - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber new assets

Leasehold Properties

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.

The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

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The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

Lease Requirements

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

- The original term of the lease is not less than 15 years.
- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must provide lenders with
    - the right to receive a minimum of 30 days' notice of any default by the borrower, and

    - the option to either cure the default or take over the borrower's rights under the lease.

Additional Eligibility Requirements

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

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

Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

Limitations on Financed Properties

- There is no maximum number of financed properties
- Community Savings exposure may not exceed $5M aggregate with a maximum of five loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

Disaster Areas

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA web site at http://www.fema.gov/news/disasters.fema. In addition, when there is knowledge of an adverseevent occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence should be used to determine if the disaster guidelines should be followed.
Guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

Appraisals Completed Prior to Disaster Event

An exterior inspection of the subject property, performed by the original appraiser, if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.
- Inspection report must include photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to purchase

Appraisals Completed After Disaster Event

- Appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage notated from the original report must be repaired and re-inspected prior to purchase.

Condominiums

Fannie Mae eligible projects are acceptable.

Ineligible Projects:

- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
  - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership
  - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a

  lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc)
- Projects with units used for "live-work"
- Projects managed and operated as a hotel or motel
- Any project in need of critical repairs with one of the following characteristics:
  - mold, water intrusions or potentially damaging leaks to the project's building(s); or
  - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).
- Any project with significant deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.

<u>General Project Criteria:</u>

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated. The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.

- Condo projects must have acceptable insurance coverage.

- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance underwriting or due diligence. The solution must be deemed acceptable by Community Savings.
- Projects with pending or threatened litigation are typically ineligible.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other.
- Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- The maximum loan concentration by an individual borrower in a single condo development is 10%.
- All loans secured by condominium projects require a completed HOA questionnaire and condominium review except for:
  - Site Condominium
  - Two- to four-unit condominium projects will not require a project review provided the following are met:
    - Project is not ineligible.
    - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.
    - HOA dues to be included in DSCR score if applicable.

- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen, minimum of one (1) bedroom.
- Florida Condominiums:
  - For loans secured by a condominium unit in the state of Florida, if the project is over 30 years old (or 25 if within 3 miles of the coast), a structural inspection is required for projects greater than 5 stories. The inspection needs to address items that substantially conform to the definition of a milestone inspection as defined in Florida statute 553.899.
    - Inspection must confirm there are no conditions severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.

  - Projects with an unacceptable or no inspection are ineligible.
- Special assessment information is to be provided to determine if there is a critical repair. Provide purpose, amount, term, balance, status, and cost per unit.
- Any projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible for purchase. Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
  - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time
  - The project has deficiencies, defects, substantial damage, or deferred maintenance that
    - are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; **or**
    - has improvements in need of substantial repairs and rehabilitation including many major components; **or**
    - impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing; **or**
    - has critical repairs with one of the following characteristics:
      - mold, water intrusions or potentially damaging leaks to the project's building(s); or
      - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).

New versus Established Projects

New Projects	**Established Projects**
• 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners and at least 50% of the units must be owner occupied. • Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete. • Project may be subject to additional phasing. • HOA should be in control - project under Developer or Builder control will be considered on a case-by-case basis only.	• 90% of the total units in the project must be sold and conveyed to the unit owners. • 40% of the total units in the project must be owner occupied. • All phases are complete. • HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed. • All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

Condominium Project Questionnaire Review

For all condominium projects a Condominium Project Questionnaire Review is required. The completed Condominium Project Questionnaire must reflect compliance with the following requirements:

- Project must meet the definition of an established condo.
- For investment property transactions only, at least % of the total units in the project must be conveyed to purchasers as primary or second homes.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
- No single entity, the same individual, investor group, partnership, or corporation may own more than % of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5–20-unit projects, single entity ownership may not 2 units.
- No more than 35% of the total square footage of the project may be used for commercial purposes.
- Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.

Non-Warrantable Condominiums

Non-warrantable condominiums are allowed. Non-warrantable condo projects can only have one non-warrantable feature per property and require a full review.

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Non-Warrantable Condos: Expanded Guidelines	
Characteristic	**Exception Considerations**
Commercial Space	Commercial space in project up to 40%
Completion Status	The project or the subject's legal phase along with other phases must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
Delinquent HOA Dues	NO more than 20% of the total units in the project may be 60 days or more past due on the payment of condo/association fees.
Investor Concentration	investor Concentration up to 60%.
HOA Control	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
Litigation	Pending litigation may be accepted on a case by case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted. AND Potential Damages do not exceed 25% of the HOA reserves, OR Documentation must be provided by the insurance carrier or hte attorney representing the insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance policy is sufficient to cover the litigation.
Single Entity Ownership	Single entity ownership in project up to 25%
New Projects	The project or the subject's legal phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract.

Projects Eligible for Limited Review

Limited Review Eligible Transactions-Attached Units in Established Condo Projects	
Occupancy Type	**Maximum LTV/CLTV and HCLTV Ratios**
Primary (Outside of Florida)	**85%**
Second Home (Outside of Florida)	**75%**
Primary (Florida)	**75%**
Second Home (Florida)	**70%**

Condominium Conversions

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past 3 years are not allowed.

Condominium Insurance Requirements

Coverage

- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

Fidelity of Employee Dishonesty Insurance for Condominiums

Fidelity bond coverage is required for condominium projects over 20 units (or per state requirements). The insurance coverage must be at least equal to the greater of 3 months HOA dues or reserves or minimum required by state law. Coverage is not required when the calculated amount is $5,000 or less.

HO-6

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer. The maximum deductible amount must be no greater than 5% of the face amount of the policy.

Flood Insurance

- The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
  - Building Coverage must equal the lesser of:
    - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
    - The total number of units in the condominium building times $250,000

- Contents Coverage must equal the lesser of:
  - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
  - The maximum amount of contents coverage sold by the NFIP for a condominium building

Solar Panels

Community Savings will accept properties containing solar panels under the following circumstances.

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,
- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements

Property with solar panels are eligible for financing. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.

If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records, then the following must be done:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, promissory note, and related security agreement that reflects the terms of the secured loan.
- Include the debt obligation in the DTI ratio calculation.
- Provided the panels cannot be repossessed for default on the financing terms, appraiser can consider the solar panels in the appraised value of the property.
- Include the solar panels in “other debt” secured by the real estate in the CLTV ratio

- calculation because a UCC fixture filing is of record in the land records. If a UCC fixture filing is in the land records, it must be subordinated to our new mortgage loan. The UCC lien cannot be terminated and refiled after closing.

If the solar panels are financed and collateralized- the solar panels are reported to be collateral for separate non-mortgage debt used to purchase the panels, but do not appear on the title report, then the following must be done:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, promissory note, and related security agreement that reflects the terms of the secured loan.
- Include the debt obligation in the DTI ratio calculation.
- Appraiser cannot provide contributory value of the solar panels towards the appraised value as they are collateral for another debt.
- Solar panels are not included in the LTV/CLTV ratio calculation because the security agreement/UCC financing statement treat the panels as personal property not affixed to the home.

If the solar panels are leased or covered by a Power Purchase Agreement (PPA):

- Obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the DTI ratio calculation (if applicable) 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 PPA where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The value of the solar panels cannot be included in the appraised value of the property
- The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
    - A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
    - When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.

- The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.

- The property must maintain access to an alternate source of electric power that meets community standards.
- The lease or 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);
  - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
  - In the event of foreclosure, the lender or assignee has the discretion to:
    - Terminate the lease/agreement and require the third-party owner to remove the equipment;
    - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
    - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.