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LOAN PROGRAM:
- Non-Conforming Fixed Rate.
- Adjustable Rate ARM products with Interest Only options.
- Originators should refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced in our Overlays.
- Jumbo is only available non-delegated.

LOCK-IN/REGISTRATION:
- Available in Optimal Blue.
- Tips:
  - Doc Type – Full Income and Asset Documentation required. (included 4506-T)
  - NoCE = No Credit Event, SeCE = Seasoned Credit Event, ReCE = Recent Credit Event
  - Bkst = Bank Statements
- Loan Programs:
  - SG_Exp_Access_NoCE_30_Fxd
  - SG_Exp_Access_NoCE_5/1_LBR_5.0_2/2/5
  - SG_Exp_Access_NoCE_7/1_LBR_5.0_5/2/5
  - SG_Exp_Access_NoCE_5/1_LBR_5.0_2/2/5_IO
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  - SG_Exp_Access_ReCE_BkSt_30_Fxd
  - SG_Exp_Access_ReCE_BkSt_5/1_LBR_5.0_2/2/5
  - SG_Exp_Access_ReCE_BkSt_7/1_LBR_5.0_5/2/5

MINIMUM MORTGAGE:
- $100,000 for Primary residences and $150,000 for 2nd homes/NOO.
- In NY State, the loan amount must exceed FHFA's High Cost County Limit.
MAXIMUM MORTGAGE:
- $2,000,000 – Primary Residence.
- $1,500,000 – Second Home.
- $1,500,000 – Investment.

MAXIMUM LTV/CLTV:
- 90/90 – Primary Residence.
- 80/80 – Second Home with maximum loan amount of $1,000,000.
- 70/70 – Second Home with maximum loan amount of $1,500,000.
- 75/75 – Investment.

ADDITIONAL CONSIDERATIONS:
- Interest Only Terms:
  - Interest only term is 10 years.
  - 80% LTV/CLTV maximum.
  - 660 FICO minimum.
  - 12 months minimum reserves.
  - Non Owner occupied not permitted.
  - Cash-Out and Debt Consolidation not permitted.
  - Foreign Nationals not permitted.
- ARMs:
  - Non QM Qualifying Rules:
    - All ARMs must be qualified at the greater of the note rate or the fully indexed rate.
  - QM Qualifying Rules:
    - 5/1 – Note Rate plus Initial Rate Cap.
    - 7/1 – Note Rate.
  - For I/O’s calculate the Non QM Rate described above, based on the original balance and remaining term at the end of the I/O period (i.e. 240 months).
- Escrow for taxes and insurance will be required for all HPMLs, Foreign Nationals and Debt Consolidation Refinances.
- Purchases - No property flipping, prior owners must have owned the property greater than 6 months. (Bank owned REO are eligible and not considered a flip transaction)
- Ineligible transactions:
  - Construction to Perm.
  - Non Arm’s length.
  - Subordinate Financing
  - Texas Equity a (6).
  - Temporary Buydowns.
  - Builder Bailout.
  - Conversion Loans.

AGE OF DOCUMENTS:
- Appraisal good for 120 days.
- Credit documents good for 90 days.

APPRaisal REQUIREMENTS:
- All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for HPMLs, if applicable.
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction.
- An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable.
• Assigned Appraisals are acceptable.
• Two appraisals are required to be delivered for loan amounts > $1,500,000. Interior photos are required.
• Appraisals are good for 120 days. Any appraisal seasoned greater than 120 days will require a recertification of value completed by the original licensed appraiser. A recertification of value will be permitted up to 180 days.
• Legal nonconforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed.
• For all Non-Owner Occupied loans on Single Family residences, form 1007 Schedule of Rents must accompany the 1004.
• For 2-4 unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required.
• A 1004MC is required for all loans.
• Negative property influences must be disclosed and adjusted accordingly by appraiser
• Solar panel agreements are permitted in accordance with FNMA guidelines.
• Declining Markets:
  o A 5% reduction in LTV/CLTV will be required for all properties identified to be in a declining market as designated by the appraiser.

**ARM INDEX:**
• 1 Year LIBOR.

**ARM INITIAL INTEREST RATE CAPS:**
• 5YR ARM 2% and 7YR ARM 5.0%.

**ARM INTEREST RATE CEILING:**
• 5% over start rate.

**ARM INTEREST RATE FLOOR:**
• The interest rate floor is equal to the start rate.

**ARM MARGIN:**
• 5.0%.

**ARM RATE ADJUSTMENT:**
• 2.0% up/down.

**ASSUMABILITY:**
• Not allowed on fixed rate products.
• Eligible for ARM products after the fixed rate period with prior approval and qualification.

**BORROWERS ELIGIBILITY:**
• U.S Citizens
• Permanent Resident Aliens:
  o Permanent Resident Aliens are individuals who permanently reside in the United States.
    ➢ A legible front and back copy of the borrower(s) valid Green Card.
• Non-Permanent Resident Aliens:
  o Non-Permanent Resident Aliens must meet the following requirements:
    ➢ Must have an unexpired passport from their country of citizenship containing INS form I-94 which must be stamped Employment Authorized.
    ➢ An Employment Authorization Card along with a copy of the Petition for Non-Immigrant Worker (form I-140) in file.
    ➢ The borrower(s) must have a minimum of 3 years residency, with the likelihood of employment
continuance for at least 3 years.
- Primary Residence only, No Cash Out.
- Valid visas are required.
- Visa must have a minimum remaining duration of 1 year.
- Borrowers with diplomatic immunity are ineligible.
- 70% LTV/CLTV Maximum.
- Single unit only.
- Maximum 43% DTI.
- An additional 6 months reserves is required.
- No Credit Event only.

- First Time Home Buyers:
  - First Time Homebuyers ("FTHB") are individuals that have not owned a home or had a residential mortgage in the last 3 years. However, only borrowers with no prior mortgage history or homeownership ever are restricted to the following:
    - Recent Event not permitted.
    - I/Os not permitted.
    - 12 month 0X30 housing history required.
    - Minimum FICO 660.
    - Maximum LTV/CLTV 75% for FICO < 700, 80% LTV/CLTV for FICO >= 700.
    - Primary Residence Only.
    - Minimum of 6 months PITI reserves required.

- Foreign Nationals:
  - Lock confirmation to show locked as Foreign National.
  - A foreign national is a person who is not a citizen of the United States and/or does not permanently reside in the United States.
  - Third party verification of income and employment (Tax returns, paystubs and VVOE not required)
    - Self Employed:
      - A letter (on company letterhead) from a professional based in the borrower’s country of residence – Accountant/CPA/Financial Institution Officer/ Licensed Financial Advisor verifying (i) the nature of the business (ii) income figures for the last 2 years and (iii) a year-to-date income figure.
      - Validation of the existence of the business must include (i) Internet Web page address, or (ii) business/operator license from a governmental office
    - Wage Earners:
      - A letter (on company letterhead) from an authorized representative the employer stating (i) employment history (position/title, time on job),(ii) current monthly salary and year-to-date earnings.
      - A valid paystub/ pay ledger or financial institution deposit/ transaction record that supports the employment.
  - Ineligible-Residents of any country not permitted to transact business with US companies (as determined by any US government authority).
  - Must be Second Home or Investor only
  - Must have a valid Passport and Visa to enter the US
  - Must have a copy of their last 4 months bank statements
    - Bank statements must be translated in to English language and must be shown in US currency
  - If no foreign credit report is available, the following is required -
    - 2 credit reference letters written in English.
      - Can include non-traditional credit sources, i.e. utility company
      - Satisfactory credit reference letters will assume a 660 FICO for locking and qualifying purposes
        - 1 bank reference letter written in English
  - Title vested in borrower(s) name
  - Maximum LTV/CLTV 70%
Funds required for down payment and closing costs must be held in a US bank
Escrow for taxes and insurance is required
Cash Out and Debt Consolidation not permitted
For Rate/Term Refinances, existing loan must be with a US financial institution
Limited Power of Attorney (POA) is acceptable for executing closing documents.
Business accounts are eligible for Reserves, and reserves can remain at a financial institution in borrower's home country.
The prohibition of first time homebuyers does not apply to Foreign Nationals.

- Inter-Vivos Revocable Trust
- Non-Occupant Co-Borrowers:
  - Non-occupant co-borrowers are credit applicants who do not occupy the subject property as a principal residence. Non-Occupant Co-Borrowers must meet the following requirements:
    - Do not occupy the subject property as a principal residence
    - Must be an immediate relative, proof of relationship is required
    - Must sign the mortgage or deed of trust
    - Must not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker
    - Maximum LTV/CLTV 70%
    - Single unit only
    - Maximum DTI 43%
    - An additional 6 months reserves is required
    - Fixed Rate Mortgage Only
    - Occupying borrower must have documented income equal to 75% of the required PITI
    - Recent Event not permitted.
    - Cash Out and Debt Consolidation not permitted

- Limited partnerships, general partnerships, corporations
  - Personal guarantor required

BORROWERS INELIGIBLE:
- Irrevocable or Blind Trusts.

BUYDOWNS (TEMPORARY):
- Not Allowed.

CASH RESERVES:
- Primary Residence:
  - 3 months with maximum loan amount of $250,000
  - 6 months with maximum loan amount of $500,000
  - 9 months with maximum loan amount of $750,000
  - 12 months with maximum loan amount of $2,000,000
  - Borrowers with greater than 2 financed properties require 9 months or otherwise stated higher reserve amount above and an additional 3 months of reserves for each additional financed property. The 3 months additional reserves are based on the PITI plus HOA fees of the other financed properties.
  - Interest Only loans require a minimum of 12 months reserves.
- Second Home:
  - 12 months with maximum loan amount of $1,500,000
  - Borrowers with greater than 2 financed properties require an additional 3 months of reserves for each additional financed property. The 3 months additional reserves are based on the PITI plus HOA fees of the other financed properties.
• Non Owner Occupied:
  o 12 months with maximum loan amount of $1,500,000
  o Borrowers with greater than 2 financed properties require an additional 3 months of reserves for each additional financed property. The 3 months additional reserves are based on the PITI plus HOA fees of the other financed properties.

CLOSING DOCUMENTS:
• Please follow State/Federal Requirements and Fannie guidelines.
  o Seller disbursement over $5,000 must be explained excluding Title Commitment lien payoff, Real Estate Commissions and Taxes.
  o All Files sent to Investor Delivery located in Rosemont, IL, must have full Title Commitment. Short form policies cannot be used in lieu of the title commitment.

CO-BORROWER(S):
• Co-Borrowers allowed.

CREDIT:
• Event is defined as a foreclosure, short sale, deed in lieu or default modification.

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<td>No housing event or Bankruptcy within 7 years permitted</td>
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1 BK events include Chapter 7, 11, and 13
2 Multiple BK filings are not permitted.

• All borrowers must be current on mortgage or rent at loan application.
• All derogatory accounts require a full explanation for any applicable extenuating circumstance.
• Housing history evidenced by Institutional VOM or 12 months proof of payment.
• Rental history evidenced by 12 months proof of payment via cancelled checks or bank statement debits.
• Seasoning look back is from the date of discharge or property resolution (completion date), as of the note date. Foreclosures included in bankruptcy based on BK discharge date as long as the borrower had vacated the property.
• Multiple bankruptcy filings ineligible.
• IRS tax payment plans are permitted if current and do not carry a lien.
• Minimum FICO of 600 for Primary Residence.
• Minimum FICO of 600 for Second Home and Investment.
• Credit Report Detail:
  o A tri-merged in file credit report from all three repositories is required.
  o Credit Report is good for 90 days from application to closing.
  o A written explanation for all inquiries within 90 days of application is required disclosing no new debt.
  o Alternate confirmation that there is no new debt may include a new credit report, pre-close credit score soft-pull or gap report.
  o The DTI should be recalculated based on any new debt, and any new credit scores must be reviewed for qualifications.
- Housing History:
  - 12 months housing history required. See applicable Credit Grades for requirements.
  - Rental history evidenced by 12 months proof of payment via cancelled checks or bank debits.
  - An LOE is required when a 12 month housing history is not applicable.
  - Rent free letters from spouses are not permitted. Housing history is required.

- Credit Scores:
  - Each borrower’s ‘Credit Score’ is the middle of three or the lesser of two.
  - Representative Credit Score - (i) Full Documentation and Component Income loans, Credit Score of the primary earner, and (ii) Bank Statement loans, the lowest Credit Score among borrowers.
  - No borrower can have a FICO score less than 600.

- Credit Report Requirements:
  - Each Borrower’s credit profile must include a minimum of 3 trade lines that have a 12 month history. Tradeline activity is not required.
  - Current housing not reporting on credit can be considered an open trade if supported by bank records (cancelled checks/debits).
  - Borrower(s) not using income to qualify are not required to meet the minimum tradeline requirements listed above.
  - Prior bankruptcies are permitted. Chapter’s 7, and 3 require re-established credit history from discharge date. See Credit Grades for seasoning requirements.
  - Prior foreclosure, Short Sales, Deed-in-Lieu and Modifications (due to default) are permitted.
  - Borrowers currently enrolled in credit counseling or debt management plans are not permitted.
  - All derogatory accounts require a full explanation.
  - All Judgments or liens affecting title must be paid.
  - Non-title charge-offs and collections within 3 years and exceeding $3,000 (either individually or in aggregate) must be paid.
  - All past due accounts must be brought current prior to closing.
  - No authorized user accounts will be used to satisfy minimum tradeline.
  - Medical derogatory accounts, collections, and charge-offs permitted with letter of explanation.
  - Disputed accounts require a LOE per Fannie Mae. An updated credit report not required.
  - IRS tax payment plans are permitted if current and do not carry a lien on any property.

DISCLOSURES:
- Follow State/Federal Requirements.

DOCUMENTATION:
- Income Documentation:
  - Wage Earners:
    - (1) Most Recent Paystub including year-to-date earnings (covering minimum of 30 days), two years W2’s and a Written Verification of Employment (if needed for the analysis of overtime, bonus or commission). IRS form 1040 not required.
    - (2) 4506-T W2 transcripts. Form 1040 transcripts not required.
      - In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect “No Record Found” and be present in the loan file.
    - (3) Verbal Verification of Employment required for all wage earner borrowers and must be completed within 10 calendar days of the closing date. Wage Earners VVOE should include name of contact at place of employment, phone number and title along with company name, address and borrower’s job description and title.
  - Self-Employed Borrowers:
    - (1) Two years personal and business tax returns (along with all schedules and K- ’s) from any businesses being used for qualification where the borrower has 25% or more ownership interest are required.
      - Additionally, loans designated as QM must include the following
        - Tax returns for all businesses, not just those being used for qualification
        - All tax returns must be signed and dated by borrower.
• A year to date P&L and Balance sheet.
  ➢ (2) IRS form 1040 personal and business 4506-T tax transcripts
    • In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect “No Record Found” and be present in the loan file.
    • Evidence of any IRS filing extensions must also be present in the loan file.
  ➢ (3) Verification of the business through a third party such as a CPA, regulatory agency or applicable licensing bureau.

• Bank Statements:
  ○ Lock confirmation to show if 12 or 24 month calculation is being used.
  ○ (1) 12 or 24 months Personal or 24 months Business Bank statements
    ➢ Borrowers who own more than 3 businesses must use personal bank statements option
    ➢ Bank statements must be most recent available at time of application and must be consecutive
    ➢ The two most recent months must be pulled by the originator directly from the financial institution, certified true by a bank officer, or validated by a written VOD.
  ○ (2) Profit & Loss Statement
    ➢ If submitting personal bank statements, a P&L completed by the borrower covering an equal time period (within 60 days of bank statements) is required.
    ➢ If submitting business bank statements, a P&L completed by a tax preparer or CPA covering an equal time period (within 60 days of bank statements) is required.
  ○ (3) Validation of a minimum of 2 years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent.

• Bank Statement Income Analysis:
  ○ Net Income from the P&L will be used as Qualifying Income for both personal and business bank statements.
  ○ Eligible deposits from the bank statements should generally be within +/- 10% of the gross income (business accounts) or net income (personal accounts) as shown on the P&L.
  ○ Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds) must be excluded from the analysis.
  ○ NSFs require a borrower LOE to assess that they are not due to financial mismanagement or indicative of insufficient income.
  ○ NSFs should be covered with deposits shortly they are incurred.
  ○ Any amounts on the P&L representing salary/wages paid to the borrower/business owner can be added back and considered in the net income analysis.
  ○ Expense line items that can be added back to the business net income include depreciation, depletion, amortization, casualty losses, and other losses or expenses that are not consistent and recurring. The P&L expense ratio, Gross Income minus Net Income, divided by Gross Income, should be reasonable for the profession.
    ➢ Example: A home-based sole practitioner therapist/consultant can be expected to have a low expense ratio, while a retail business that has a full staff of employees and relies heavily on inventory to generate income will have a high expense ratio.
  ○ Income calculated with bank statement documentation must be consistent with income documented by the borrower on the initial signed loan application. If Income on the 1003 is not supported +/- 20% by this P&L/Bank Statement analysis, the loan will be ineligible for the program.
  ○ Borrowers stated income on the 1003 should never be used for qualifying, even if it is less than the P&L income calculated above.
  ○ Unusually large deposits (as defined by Fannie Mae) into personal accounts must be documented and explained via LOE.
  ○ Transaction history printouts are not acceptable.
  ○ Multiple bank accounts may be used.
  ○ Borrowers utilizing business bank statements with 50% ownership of a business will be qualified at half of net deposits and half of net income from the P&L.
  ○ Co-mingling of personal and business receipts and expenses in Personal Bank Accounts is not permitted.
If personal bank statements provided reflect payments being made on obligations not listed on the credit report, a thorough analysis must be performed and LOE provided from the borrower, as outlined below.

- 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.

The above referenced guidance should be used in conjunction with the Bank Statement Calculator.

### Other Income Source Requirements:

- **Joint Accounts** - A joint personal account with a non-borrowing spouse or domestic partner can be used for qualifying as follows:
  - If not contributing income/deposits, it must be validated by the CPA or tax preparer that prepares the returns, and borrower affidavit.
  - If contributing income/deposits, source must be clearly identified (direct deposit, SSI, trust income) and amounts must be subtracted from the analysis.

- **Component Sources of Income** - A borrower who has a self-employed business and also receives income from other sources is eligible for the personal bank statement program. Income sources include but are not limited to rental properties, trust & investment, alimony, etc. These income sources should be separately documented on the 1003 and should be supported by the bank statement deposits.

- **Self Employed Wage Earner Combination** - Joint borrowers with one wage earner and one self-employed business owner can verify income separately, with the self-employed borrower utilizing bank statements and the wage earner providing paystubs/W-2s. The wage earner 4506T should include W-2 transcripts only.

### Asset Utilization:

- The utilization of financial assets will be considered as borrower income to qualify for their monthly payments. The unrestricted liquid assets can be comprised of stocks/bonds/mutual funds, vested amount of retirement accounts and bank accounts.
- If the assets or a portion of the assets are being used for down payment or costs to close, those assets should be excluded from the balance before analyzing a portfolio for income qualification. The monthly income calculation is as follows: Net documented assets (70% of the remaining value of stocks/bonds, 60% for all retirement assets) and utilization draw schedule of 10 years.
- **Cash Out and Debt Consolidation not permitted.**
- **Non Owner Occupied is not eligible.**
- **Borrowers must have a minimum of the lesser of (i) 1.5 times the loan balance or (ii) $1mm in qualified assets, both of which must be net of down payment, loan costs and reserve requirements to qualify. Six (6) months asset seasoning required.**
- **Minimum FICO Score of 700 for 80% maximum LTV - 680 for 75% maximum LTV.**
- **Recent Event not permitted.**

### Asset Documentation:

- **Full Asset Documentation is required for both funds to close and reserves.** For most asset types, this would include all pages of the most recent two months statements or the most recent quarterly statement. All Assets from the borrower(s) must be disclosed and verified by the lender.
- **No business accounts may be used to meet down payment and/or reserve requirements unless the borrower(s) are 100% owners of the business.**
  - A letter from the businesses accountant OR
  - An underwriter cash flow analysis of the business balance sheet to confirm that the withdrawal will not negatively impact the business.
- **Stocks/Bonds/Mutual Funds - 70% may be used for reserves.**
- **Vested Retirement Accounts – 60% may be considered for reserves (certain eligible plans can use 70% if borrower > 59 ½ - i.e. 401k)**
- **Assets being used for dividend and interest income may not be used to meet reserve requirements.**
If needed to close, verification that funds have been liquidated (if applicable) is required.
Gift of Equity is not allowed.
Builder profits are not allowed.
No employer assistance assets are allowed.
Maximum Interested Party Contributions permitted up to 3% for LTV >=80, 6% for LTV<80.

**DOWN PAYMENT REQUIRED:**
- Refer to the Guides / AllRegs for additional considerations.

**DU® INFORMATION:**
- All loans are required to be submitted for a GSE AUS approval decision. A DU or LP underwriting findings report must be present in file verifying the loan does not qualify for delivery.

**ESCROW HOLDBACKS:**
- Not Allowed.

**ESCROW WAIVERS:**
- Refer to Blue Connect or Optimal Blue for price adjustments.
- To permit escrow waivers, subject to the mortgage documents and applicable law, the waiver must not be based solely on the LTV ratio of a loan, but also on whether the Borrower has the financial ability to handle the lump-sum payments of taxes and insurance i.e. Borrowers with blemished credit histories or first-time homebuyers.
- If escrowing, HO6 must be escrowed (if applicable).
- For established escrow account flood insurance must be escrowed, if required.
- Refer to Chapter B2-1.4-01 (General Mortgage Terms and Conditions) of the Guides / AllRegs for additional considerations.

**GEOGRAPHIC RESTRICTIONS:**
- California – All counties eligible except San Bernardino & Riverside Counties.
- Florida – Dade county ineligible, all others eligible.
- Nevada - Ineligible.
- Hawaii – Properties in Lava zones 1 & 2 ineligible.
- Texas – Cash-out refinances ineligible. Borrower cannot receive any cash back.
- West Virginia.
- Guam.
- Puerto Rico.
- American Samoa.
- Northern Mariana Islands.
- U.S. Virgin Islands.

**GIFTS:**
- Gifts from family members, as defined by FNMA, are allowed.
- The borrower(s) must have a minimum of 5% of own funds available, (but may elect not to use own funds for the transaction if sufficient gift funds are available).
- Gift funds cannot be counted towards reserves.
- Purchase transaction only.
- Not permitted on loans with LTVs >85%.

**INTEREST ONLY OPTION:**
- 5/1 and 7/1 ARM.
**LIMITATIONS ON REAL ESTATE OWNED:**

- The maximum number of financed properties to any one borrower is limited to six (6). Additional reserves are required for borrowers with greater than 2 financed properties; please see reserves section for requirements.

**MORTGAGE CREDIT CERTIFICATE (MCC):**

- Ineligible.

**MORTGAGE INSURANCE:**

- N/A.

**MORTGAGE INSURERS APPROVED:**

- N/A.

**NEW CONSTRUCTION:**

- Refer to [REFINANCE](#) section.

**NON-OCCUPYING BORROWER:**

- Allowed.

**OCCUPANCY:**

- Primary Residence:
  - A primary residence is a property that the borrower(s) intend to occupy (within 60 days) as his or her principal residence.
  - Characteristics that may indicate that a property is used as a borrower's primary residence include:
    - It is occupied by the borrower for the major portion of the year.
    - It is in a location relatively convenient to the borrower's principal place of employment.
    - It is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar functions.

- Second Homes:
  - A property is considered a second home when it meets all of the following requirements:
    - Must be located a reasonable distance away from the borrower(s) principal residence.
    - Must be occupied by the borrower(s) for some portion of the year.
    - Is restricted to a one-unit dwelling.
    - Must be suitable for year-round occupancy.
    - Cash-Out transactions are not permitted
    - The borrower(s) must have exclusive control over the property.

- Non Owner Occupied
  - Occupancy designation when the borrower does not occupy the subject property.
  - A Non Owner Occupied property must meet the following requirements:
    - Cash-Out and Debt Consolidation transactions are not permitted
    - Borrowers with greater than 2 financed properties require an additional 3 months of reserves for each additional financed property. The 3 months additional reserves are based on the PITI plus HOA fees of the other financed properties.

**POWER OF ATTORNEY:**

- Not eligible with loans closed in a trust.
- POA must be dated/appointed on or before the execution of any document executed using the POA.
- The security instrument, note and all other closing documents must be signed exactly as appointed on POA.
- Notary section correct including: State, County, Date, Borrower name, Notary’s signature, Notary expiration, Notary seal.
- No POA allowed for loans with one Borrower.
- At least one (1) Borrower must be present at closing.
PREPAYMENT PENALTY:

- Not allowed.

PROPERTY TYPES ELIGIBLE:

- One Unit Single Family Residences and PUDs. (Attached and Detached)
  - PUDs and Subdivisions must be 75% completed and sold, as noted by the appraiser.
- Warranteble Condominiums. (Low and High Rise)
  - A project review is required to be performed by sellers to document FNMA eligibility.
- Non Warranteble Condos.
  - Lock confirmation to show locked as Non-Warranteble Condo.
- Warranteble Condos.
  - WM Jumbo condo questionnaire required
  - Maximum LTV of 75%
  - Minimum of 12 months reserves are required
  - Primary Residence Only
  - Must meet Fannie Mae warrantability requirements, with the exception of permitted variances as described below.
  - Eligible variances (No Pre Approval Required):
    - Presale – At least 33% of units must be presold or under bonafide contract.
    - Investor Owned – Up to 55% of units can be tenant occupied.
    - Single Entity Ownership – A single entity can own up to 25% of units.
    - Seller Concessions – Permitted up to 1% in excess of Fannie limits.
    - Commercial Use – Up to 50% non-residential use.
  - Considered for Exceptions (Pre-Approval Required):
    - Non Material Litigation – Slip and fall/single unit complaints/3rd party claims with adequate reserves.
    - Insurance Coverage – Exceptions to Fannie Mae minimum coverage requirements.
    - Reserves - <10% replacement, maintenance, and/or deductible.
- Ineligible variances:
  - Material Litigation – Structural/Functional litigation against developer.
  - Delinquent HOA – In excess of Fannie Mae 15% limit.
  - Newly Converted – non full gut rehabs.
  - Environmental hazards.

- Townhouse.
- 2-4 Unit.
  - 3-4 unit eligible for investment properties only.
- 20 Acres Maximum.

PROPERTY TYPES INELIGIBLE:

- Manufactured Homes.
- Log Homes
- Mobile Homes.
- Limited Review Condominiums.
- Co-Ops.
- Condotels.
- Working Farms, Ranches, Orchards.
- Agriculturally Zoned.
- Fractional Ownership/Timeshares.
- Boarding Houses.
- Mixed use properties.
- Income producing properties.
- Properties with more than twenty (20) acres.
• If property has acreage, Appraiser must indicate total acreage. It is not acceptable to have property appraised with only 20 acres in order to meet eligibility.
• Commercial Properties.
• Properties located in Hawaii Lava Zone 1 & 2.
• Any property operated as a hotel.
• Houseboat.
• Segmented Ownership Projects.
• Unique Property in which marketability cannot be established i.e.: Dome, Log, Geothermal, Stilt Home, etc.
• One of a kind luxury residences.
• Properties with condition rating of C5/C6.
• Properties with construction rate of Q6.
• Assisted Living/Continuing Care Facilities.
• Mandatory Country Club Memberships.
• Unpermitted additions.
• Zoning violation.
• Builder Bailout.
• Properties under construction.

RATIOS:
• See Matrix
• All loan files must contain Appendix Q/ATR underwriter worksheets which detail the qualifying income calculations and debt obligations considered or not considered (and reason for exclusion).
• Adherence to Appendix Q is required for QM loans. Please see CFPB website for qualifying specifications.
• Pay down of debt to qualify is permitted. Debt must be paid down prior to or at closing, and verified via an updated credit report or credit supplement.
• Residual Income:
  o If the loan is an HPML, or if the DTI exceeds 43%, borrowers must have a minimum monthly residual income that is 2X the requirement of the VA.
  o For bank statement loans, the underwriter should apply an estimated business tax payment of 28% of net income.
  o Not required for non-owner occupied properties.
• Borrower ATR Certification:
  o Loans subject to Reg Z ‘Ability to Repay’ must include a borrower(s) certification attesting to the following: (i) they have fully disclosed their financial obligations; (ii) they have reviewed and understand the loan terms and (iii) they have the ability to repay the loan.
• Payment Shock:
  o Payment shock is limited to 175% on primary residence transactions. The underwriter may approve payment shock up to 250% when one of the following factors is present:
    ▪ LOE documenting underwriter’s payment shock approval and compensating factors (as outlined above)
    ▪ Debt ratio is 35% or less; OR
    ▪ Representative Credit Score is 680 or greater
  o For borrowers who do not have a current housing payment, or own a home free and clear, payment is shock is not considered.
• Comp Factors:
  o FICO score above minimum by 20 points or higher
  o LTV below max by 10% or greater
  o DTI below max by 5% or greater
  o PITIA reserves above minimum by 6 months or higher
  o Reduction in housing payment by 10% or greater
  o Residual income greater than 3X the VA
  o 0X30 12 month housing history
  o 10 years minimum in subject property
  o Job stability of 5 years or more
REFINANCES:

- **Rate/Term Refinance:**
  - A Rate/Term Refinance transaction is when the new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepays.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a closed end or HELOC mortgage that has been in place for more than 12 months and or not having any draws greater than $2,000 in the past 12 months for HELOC’s. Withdrawal activity must be documented with a transaction history from the HELOC.
  - Limited cash to the borrower must not be greater than 1% of the principal amount of the new mortgage to be considered a Rate/Term refinance.
  - If the property is owned less than 6 months at the time of application, the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value. The prior HUD-1 will be required for proof of purchase price. Proof of improvements is required.
  - Properties that have been listed for sale within the past 6 months from the loan application date are not eligible for a rate/term refinance transaction. Inherited properties may not be refinanced prior to 12 months of ownership.
  - The rate/term refinance of a construction loan is eligible with the following conditions:
    - If the lot was acquired 12 or more months before applying for the subject loan, the LTV/CLTV/HCLTV is based on the current appraised value of the property.
    - If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of i) the current appraised value of the property and ii) the total acquisition costs.

- **Cash-Out Refinance:**
  - A Cash-Out Refinance transaction allows the borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner obtain a mortgage on a property that is currently owned free and clear. The borrower can receive funds at closing as long as they do not exceed the program requirements.
  - To be eligible for a Cash-Out Refinance the borrower must have owned the property for a minimum of six months prior to the application date. Properties listed for sale within the last 12 months are ineligible for cash out.
  - If the property is owned less than 12 months but greater than 6 months at the time of application, the LTV/CLTV will be based on the lesser of the original purchase price plus documented improvements, or current appraised value. The prior HUD-1 will be required for proof of purchase price.

- **Debt Consolidation Refinance:**
  - A debt consolidation refinance transaction involves the repayment of an existing lien and other borrower debt from the proceeds of a new mortgage. A debt consolidation refinance may include the payoff of:
    - First mortgage secured by the subject property.
    - Junior liens secured by the subject property.
    - Credit cards, installment loans, past due taxes, etc.
  - Direct evidence of debt payment at closing is required.
  - Borrower must own property for a minimum of 12 months
  - Loan must produce a net tangible benefit to the borrower resulting in an increase in residual income and a reduction of borrower’s total debt obligation payments.
  - Existing re-subordination not permitted.
  - Cash to borrower at closing must not exceed 2% of the loan amount.

- **Continuity of Obligation:**
  - Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) (or members of the LLC) on the existing mortgage is also a borrower/member on the new refinance transaction secured by the subject property. When an existing Mortgage will be satisfied as a result of a refinance transaction, the following requirements must be met:
EXPANDED ACCESS PROGRAM

- At least one borrower on the refinance mortgage held title to for the most recent 6 month period and the mortgage file contains documentation evidencing that the borrower, either:
  - Has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 6-month period; OR
  - Is a Related Person to a Borrower on the Mortgage being refinanced;
- At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises by a court in the case of divorce, separation or dissolution of a domestic partnership.

RELOCATION OR TRAILING CO-BORROWER:
- The use of trailing secondary wage earner income is not allowed.

RIGHT OF OWNERSHIP:
- Fee simple.

SALES CONCESSIONS:
- Maximum Interested Party Contributions permitted up to 3% for LTV ≥80%, 6% for LTV <80%.

SUBORDINATE FINANCING:
- New subordinate financing (institutional) allowed for purchase transactions only
- Primary residences only
- If a HELOC is present the CLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property’s sales price or appraised value.
- All subordinate loan obligations must be considered, verified, and taken into account when calculating the Borrower’s DTI.
- If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction.
- For closed-end fixed rate, fully amortizing simultaneous loans, the qualifying payment is the monthly payment.
- Fixed Rate Mortgage and 7/1 ARM transactions only
- Existing subordination is permitted

TITLE REQUIREMENTS:
- Full Title Commitment required.
- Title Commitment must be dated 90 days from Note date.

TITLE VESTING:
- Individual.
- Joint Tenants.
- Tenants in Common.
- Inter Vivos Revocable Trust (Living Trust).
- Refer to Chapter B2-2-05 (Inter Vivos Revocable Trusts) of the Guides / AllRegs for additional considerations.
UNDERWRITING SUBMISSION PROCEDURE:

- Guidelines are intended to reference and supplement Fannie Mae’s Seller Guide. Originators should refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced in our Overlays. To the extent there is a difference in standards between the Overlays and the Fannie Mae Guides; Originators may rely on the Overlays. All loans must be manually underwritten.
- QM status must be determined at origination and loan seller’s designation must be included in the loan file.
- The Loan Submission Form must be included with all file submissions. Until we receive the form and necessary QM status, we will be unable to commence our pre-purchase review and the loan will be placed in ‘suspended’ status.
- Any loan designated as a Qualified Mortgage (QM) must adhere to the standards set forth in the CFPB’s Reg Z, Section 026.43(e). For all such QM loans, if any aspect of these overlays related to income and/or obligations is less than the minimum required under Appendix Q, refer to Appendix Q for the ultimate resolution.
- Any loan not designated as a Qualified Mortgage (non QM) must be designated as ATR compliant and must adhere to the standards set forth in the CFPB’s Reg Z, Section 026.43(c).
- Additional HPML requirements are described herein.
- Federal, State, and Local High Cost Loans are not permitted.
- All Loans must include a third party fraud detection report.
- All loans are required to be submitted for a GSE AUS approval decision. A DU or LP underwriting findings report must be present in file verifying the loan does not qualify for delivery. An Underwriter Certification will be required for any loans where a DU or LP report does not adequately identify the reason for ineligibility.
## PRODUCT MATRIX:
### Full Documentation Matrix:

<table>
<thead>
<tr>
<th>EVENT</th>
<th>OCCUPANCY</th>
<th>PURPOSE</th>
<th>LOAN AMOUNT</th>
<th>FICO</th>
<th>LTV/CLTV&lt;sup&gt;1&lt;/sup&gt;</th>
<th>DTI</th>
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</table>

1. A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).
2. 90 LTV permitted on purchase only.
3. Gift funds not permitted.
4. Rural properties not permitted.

### CASH OUT

<table>
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<th>EVENT</th>
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<th>PURPOSE</th>
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1. A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).
2. Cash out limited to 30% of the loan amount for LTV >70%, and 40% for LTV <=70%.
3. Cash out is unlimited if property is owned free and clear.

### 30 DTI

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1. A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).
2. 12 months minimum reserves required.
3. Refinance must reduce borrower’s total debt obligation payments.
4. Borrower must own property a minimum of 12 months.

### IO

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1. See Additional Interest Only Terms and Restrictions in Additional Considerations section.
2. A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).
## Bank Statement Documentation Matrix:

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<td></td>
<td></td>
<td>$2,000,000</td>
<td>640</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Second</td>
<td>Purchase / RT Refi</td>
<td>$1,000,000</td>
<td>680</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<td>$1,500,000</td>
<td>680</td>
<td>65</td>
<td></td>
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<tr>
<td>Recent Credit Event</td>
<td>Primary</td>
<td>Purchase / RT Refi</td>
<td>$1,000,000</td>
<td>640</td>
<td>80</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$2,000,000</td>
<td>660</td>
<td>75</td>
<td></td>
</tr>
</tbody>
</table>

¹ A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).

² 85 LTV permitted on purchase only.

<table>
<thead>
<tr>
<th>CASH OUT</th>
<th>OCCUPANCY</th>
<th>PURPOSE</th>
<th>LOAN AMOUNT</th>
<th>FICO</th>
<th>LTV / CLTV¹</th>
<th>DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Credit Event / Seasoned Credit Event</td>
<td>Primary</td>
<td>Cash-Out²³</td>
<td>$1,000,000</td>
<td>660</td>
<td>75</td>
<td>&lt;=43</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$2,000,000</td>
<td>620</td>
<td>70</td>
<td></td>
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<tr>
<td></td>
<td>Primary</td>
<td>Debt Consolidation</td>
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<td>660</td>
<td>65</td>
<td></td>
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<tr>
<td></td>
<td></td>
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<td>$1,500,000</td>
<td>640</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Second</td>
<td>Debt Consolidation</td>
<td>$1,000,000</td>
<td>640</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,500,000</td>
<td>620</td>
<td>70</td>
<td></td>
</tr>
</tbody>
</table>

¹ A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).

² Cash out limited to 30% of the loan amount for LTV >70%, and 40% for LTV <=70%.

³ Cash out is unlimited if property is owned free and clear.

<table>
<thead>
<tr>
<th>50 DTI</th>
<th>OCCUPANCY</th>
<th>PURPOSE</th>
<th>LOAN AMOUNT</th>
<th>FICO</th>
<th>LTV / CLTV¹²</th>
<th>DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Credit Event/ Seasoned Credit Event</td>
<td>Primary</td>
<td>Purchase / RT Refi²³</td>
<td>$1,000,000</td>
<td>680</td>
<td>80</td>
<td>&lt;=50</td>
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</tbody>
</table>

¹ A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).

² 12 months minimum reserves required.

³ 24 months personal bank statements only.

<table>
<thead>
<tr>
<th>IO</th>
<th>OCCUPANCY</th>
<th>PURPOSE</th>
<th>LOAN AMOUNT</th>
<th>FICO</th>
<th>LTV / CLTV¹</th>
<th>DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Credit Event/ Seasoned Credit Event</td>
<td>Primary</td>
<td>Purchase / RT Refi</td>
<td>$1,000,000</td>
<td>660</td>
<td>75</td>
<td>&lt;=43</td>
</tr>
</tbody>
</table>

¹ See Additional Interest Only Terms and Restrictions in Additional Considerations section.

² A 5% reduction in LTV is required for warrantable condos. A 10% reduction for non-warrantable (capped at 75% max).