PwrTPO

Prime Plus Guidelines

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Overview

The information below is a representative summary of the PwrTPO Prime Plus program. This loan program is available through the Wholesale and IMB channel. Loans in the Independent Mortgage Banker (IMB) channel must use PwrTPO for closing documents. PwrTPO follows Federal, State, and Local licensing requirements. The TPO Company and Loan Officer must be licensed in the subject property state.

- The Prime Plus program is for borrowers with a clean derogatory housing event history (48 or more months clean) and mortgage history (0 x 30 x 12).
- Borrowers can qualify with Full Documentation (including 1099s), Streamline Documentation (including 1099s), Asset Depletion, Asset Qualifier, 12 Month 3rd Party P&L, and 12/24 month Personal and Business Bank Statements.
- Maximum loan size of $3,500,000.
- Maximum LTV of 90%.
- Minimum FICO of 660.
- DTI up to 55% with the following requirements:
    - Requires a FICO score of 700 or greater.
    - Maximum LTV 80%.
    - Primary Residence only, no First Time Homebuyers.
    - Requires 1.5x Residual Income as defined in the Residual Income section.
- Interest Only eligible (minimum 700 FICO, maximum 85% LTV).
- 6 months minimum reserves.
- Cash-out proceeds can be used as reserves.

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Product Matrix

Maximum LTV/CLTV by FICO, loan amount, occupancy, purpose, and documentation type:

FICO	Loan Amount	Primary Residence				Second Home				Investment Property			
		Purchase & R/T		Cash-Out		Purchase & R/T		Cash-Out		Purchase & R/T		Cash-Out	
		Full Doc	Alt Doc	Full Doc	Alt Doc	Full Doc	Alt Doc	Full Doc	Alt Doc	Full Doc	Alt Doc	Full Doc	Alt Doc
740	<= $1.0mm	90	90	80	80	85	85	75	75	85	85	75	75
	<= $1.5mm	85	85	75	75	85	80	75	75	85	80	75	75
	<= $2.0mm	85	85	75	75	80	80	70	70	80	80	70	70
	<= $2.5mm	80	80	70	70	75	75	65	65	75	75	65	65
	<= $3.0mm	75	75	65	65	70	70	60	60	70	70	60	60
	<= $3.5mm	65	65	N/A	N/A	60	60	N/A	N/A	N/A	N/A	N/A	N/A
720	<= $1.0mm	85	85	75	75	85	85	75	75	85	85	75	75
	<= $1.5mm	85	85	75	75	85	80	75	75	85	80	75	75
	<= $2.0mm	80	80	70	70	80	80	70	70	80	80	70	70
	<= $2.5mm	80	80	70	70	75	75	65	65	75	75	65	65
	<= $3.0mm	75	75	65	65	70	70	60	60	70	70	60	60
	<= $3.5mm	60	60	N/A	N/A	60	60	N/A	N/A	N/A	N/A	N/A	N/A
700	<= $1.0mm	85	85	75	75	85	85	75	75	85	85	75	75
	<= $1.5mm	85	85	75	75	85	80	70	70	85	80	70	70
	<= $2.0mm	80	80	70	70	80	80	70	70	80	80	70	70
	<= $2.5mm	75	75	65	65	75	75	65	65	75	75	65	65
	<= $3.0mm	70	70	60	60	70	70	60	60	70	70	60	60
680	<= $1.0mm	80	80	70	70	80	80	70	70	80	80	70	70
	<= $1.5mm	80	80	70	70	80	80	70	70	80	80	70	70
	<= $2.0mm	75	75	65	65	75	75	65	65	75	75	65	65
	<= $2.5mm	70	70	60	60	70	70	N/A	N/A	70	70	N/A	N/A
660	<= $1.0mm	80	80	70	70	80	80	70	70	80	80	70	70
	<= $1.5mm	75	75	70	70	75	75	70	70	75	75	70	70
	<= $2.0mm	75	75	60	60	70	70	60	60	70	70	60	60
	<= $2.5mm	70	70	N/A	N/A	65	65	N/A	N/A	65	65	N/A	N/A

**Full Doc includes Full Documentation, Streamline Documentation, and Asset Depletion/Asset Qualifier. Alt Doc includes Bank Statement and 12 Month P&L documentation types.*

**Reduce maximum allowable LTV/CLTV by 5% in declining markets.*

**Asset Depletion/Asset Qualifier: maximum 85% LTV, minimum 700 FICO, no cash-out, owner-occupied only. 12 Month P&L: maximum 80% LTV, minimum 660 FICO.*

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Program Parameters	
Product Type	30 Year Fixed, 15 Year Fixed, 30 Year Fixed Interest Only (10-year IO period, 20-year amortization)
Loan Amount	$3,500,000 maximum; $150,000 minimum
Occupancy	Owner Occupied, Second Home, Investment
Max LTV / Min FICO	90% / 660
Max DTI	50%; up to 55% with minimum 700 FICO, maximum 80% LTV, primary residence only, no FTHB, and 1.5x minimum residual income
Payment History	0 x 30 x 12, 0 x 60 x 24
Housing Event Seasoning	4+ years
Interest Only	Eligible on 30 Year Fixed (10/30 IO); minimum 700 FICO, maximum 85% LTV
Additional Restrictions	
First Time Homebuyer (FTHB)	No Interest Only (IO). Maximum payment shock of 250%. Maximum DTI 50%.
Non-Occupant Co-Borrower	1 unit, owner-occupied only, maximum 43% DTI, maximum 80% LTV/CLTV, no cash-out
Permanent Resident Alien	Eligible, no restrictions
Non-Permanent Resident Alien	Maximum 80% LTV/CLTV, no cash-out
2-4 Units	Maximum 85% LTV/CLTV
Warrantable Condos	Maximum 85% LTV/CLTV
Non-Warrantable Condos	Maximum 80% LTV/CLTV
Declining Markets	5% LTV reduction
Prepayment Penalty	• Investment Property only; prohibited on primary residence and second home; where permitted by applicable law • Please refer to the DSCR Prepayment Penalty Matrix found in Resources > Job Aids and Worksheets.
Cash-Out Limits	
LTV > 60%	$750,000 maximum cash-out
LTV <= 60%	Unlimited cash-out
Required Reserves (PITA / ITIA)	
$150,000 - $1,000,000	6 months
$1,000,001 - $2,000,000	9 months
$2,000,001 - $3,500,000	12 months
Additional Financed Properties	2 months incremental PITIA/ITIA per financed property, capped at 12 months total
Cash-Out Used as Reserves	Allowable

Product Types and Eligibility

Fixed-Rate Mortgages

- **Available Terms:** Available terms: 30-year fixed and 15-year fixed, fully amortizing.
- **Interest Rate:** Fixed for the life of the loan.
- **Qualification:** Based on the note rate and fully amortizing PITIA payment.

Interest Only (IO) Mortgages

- Available as a 30 year fixed term with a 10 year Interest Only period followed by a 20 year amortization period (10/30 IO).
- Minimum 700 FICO and maximum 85% LTV.
- Not permitted for First Time Homebuyers.
- Qualifying payment must include a principal component. Calculate the qualifying payment based on the fixed rate, the original balance, and the remaining amortizing term at the end of the Interest Only period (240 months).
- Reserves for an Interest Only loan are based on the initial Interest Only payment plus taxes, insurance, and association dues (ITIA).

Derogatory Housing History

- Borrowers are required to have 48 months seasoning of any Derogatory Housing Event and a clean mortgage history (0 x 30 x 12).
- **Derogatory Housing Events:** PwrTPO defines Housing Events as Foreclosures, Short Sale, Deed in Lieu, Modification (due to default), Notice of Default, or 120+ days delinquent.
    - Bankruptcies are considered Housing Events, inclusive of Chapter 7, 11, and 13.
    - Defaulted first and second mortgages on the same property are considered one (1) event.
    - Events include all occupancy types (Primary, Second Home, and Investment Properties).
    - Seasoning lookback is from the date of discharge/dismissal or property resolution (completion date), as of the note date. The modification lookback commences at inception (when the loan was permanently modified).
- **Housing History:** The twelve (12) month mortgage/housing history includes all occupancy types: Primary, Second Home, and Investment Properties.

Geographic Restrictions

All US states and the District of Columbia (DC) are eligible, except the ineligible states listed below.

- The following states are not eligible:
    - Hawaii.
    - New York.
    - Vermont.
- The following US commonwealths and territories are not eligible:
    - Puerto Rico.
    - Guam.
    - American Samoa.
    - Northern Mariana Islands.

- US Virgin Islands.
- Texas 50(a)(6) cash-out is not allowed.

Minimum Loan Amount

- $150,000

Debt to Income (DTI)

- Maximum DTI permitted: 50%.
- DTI up to 55% is allowable only with the following requirements:
    - Minimum 700 FICO.
    - Maximum 80% LTV/CLTV.
    - Primary residence only.
    - No First Time Homebuyers.
    - 1.5x minimum residual income as defined in the Residual Income section.
- Refer to the Product Matrix for specific DTI limits.
- Loans with a DTI greater than 43% or classified as an HPML must follow the residual income requirements in the Residual Income section.

Qualifying Payment

- For fixed rate loans, apply the fixed rate based on the original balance fully amortized over the selected term.
- Qualifying payments for Interest Only loans must include a principal component. Calculate the qualifying payment based on the fixed rate, the original balance, and the remaining amortizing term at the end of the Interest Only period.

Prepayment Penalties

- Prepayment penalties are permitted on Non-Owner Occupied (Investment Property) transactions only. Prepayment penalties on primary residence and second home transactions are prohibited.
- Prepayment penalties are permitted only where allowed by applicable laws and regulations. Total points, fees, and APR may not exceed current state and federal high-cost thresholds.
- Refer to the PwrTPO Prepayment Penalty Matrix for available prepayment structures and terms.

Reserves

- Minimum reserve requirements are based on loan amount as follows:
    - $150,000 to $1,000,000: 6 months PITIA/ITIA.
    - $1,000,001 to $2,000,000: 9 months PITIA/ITIA.
    - $2,000,001 to $3,500,000: 12 months PITIA/ITIA.
- Reserves are calculated off the actual P&I payment plus taxes, insurance, and HOA fees (PITIA).
- Reserves for an Interest Only loan will be based on the initial Interest Only payment (ITIA).
- Additional reserves are required for borrowers with financed properties other than the subject property. Borrowers will be required to meet the subject property reserve requirement plus two months of reserves for each additional financed property, capped at a total of 12 months reserves for all properties (including the subject property).

- Example: A borrower with five (5) financed properties with a total monthly PITIA/ITIA of $5,000 must have an additional $10,000 in reserves in addition to the subject property requirements.

- Reserves must be documented per the Asset Documentation section.
- Cash-out proceeds may be used in the reserve calculation.

Borrower Eligibility

Eligible Borrowers

- U.S. Citizens.
- Permanent Resident Aliens.
- Non-Permanent Resident Aliens.
- Non-Occupant Co-Borrowers.
- Inter Vivos Revocable Trusts (must meet FNMA requirements).
- Limited Partnerships, General Partnerships, Corporations, and Limited Liability Companies (LLCs). See Entity Vesting section.

Permanent Resident Aliens

- A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.
- Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:
  - I-151 Permanent Resident Card (Green Card) that does not have an expiration date.
  - I-551 Permanent Resident Card (Green Card) issued for 10 years that has not expired.
  - I-551 Conditional Permanent Resident Card (Green Card) issued for two (2) years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions.
  - Un-expired foreign passport with an un-expired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

Non-Permanent Resident Aliens

- The following Visa classifications are allowed as Non-Permanent Resident Aliens: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, R-1, and TN (NAFTA).
- Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action), includes I-797, I-797A, I-797B, or I-797C, with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
- A valid Employment Authorization Document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within six (6) months of note date, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.
- Borrowers who are residents of countries which participate in the Department of Homeland Security's Visa Waiver Program (VWP) will not be required to provide a valid visa.

Non-Permanent Resident Alien Program Restrictions

- Maximum 80% LTV/CLTV.
- Purchase and Rate/Term refinances only.

First Time Homebuyers

- First Time Homebuyers (FTHB) are individuals that have not owned a home or had a residential mortgage in the last three (3) years.
  - PwrTPO does not classify a borrower as a First Time Homebuyer if they are vested on any property title within the past three (3) years. Borrowers vested on title to their primary residence but not on the note will still require a 12-month housing history.
- The following are required for FTHB:
  - Maximum payment shock of 250%.
  - Maximum DTI 50%.
  - Rent-free FTHB that are unable to meet payment shock requirements are permitted with no credit exceptions. Housing history requirements pertaining to rent-free borrowers identified in the Housing History section must be followed.
  - Interest Only (IO) is not permitted for FTHB.

Non-Occupant Co-Borrowers

- Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property. The following requirements must be met:
  - Must be an immediate relative; proof of relationship is required.
  - Must sign the mortgage/deed of trust.
  - Must not have an interest in the property sales transaction.
  - Maximum LTV/CLTV of 80% or as limited on the Product Matrix, whichever is lower.
  - Single unit primary residence only.
  - Maximum DTI of 43%.
  - Additional six (6) months reserves required.
  - Occupying borrower must have documented income equal to 75% of PITIA.
  - Purchase and Rate/Term refinance only.

Entity Vesting – LP, GP, Corporations, and LLCs

Entity Vesting Requirements

- Properties vested in any of these manners are limited to Investment transactions and the following requirements must be met:
  - Entities must be formed for the purpose of ownership and management of real estate.

- A maximum of four (4) entity owners is allowed. All eligible guarantors must be disclosed and credit qualify per the eligibility requirements below.
- All borrowers must execute the Occupancy Certification or similar form.
- For borrowers obtaining a Rate/Term or Cash-Out refinance on a business purpose loan, the borrower must execute the Business Purpose and Occupancy Affidavit.

Borrower/Guarantor Eligibility Requirements

- Guarantors must:
  - Be a managing member or majority owner.
  - Hold at least 25% ownership combined (as confirmed by the Operating Agreement or equivalent).
  - Be subject to the same underwriting requirements as an individual borrower.
- A Personal Guaranty (PG) is required when any party on the note has signed on behalf of the business rather than individually:
  - Guarantors must sign all closing documents and disclosures.
  - All borrowers will be required to provide personal recourse.
  - A Consent of Spouse form will be required in community property states when the loan is signed with a Personal Guaranty and the spouse is not included on the loan. The form must be executed at loan closing and dated the same date as the note.

Required Entity Documentation

- Articles of Incorporation.
- Operating Agreement (or equivalent).
- Tax Identification Number.
- Certificate of Good Standing, dated within 30 days of closing.

Layered Entity Structures

- Layered entities are permitted up to two (2) layers, as long as the ownership structure is consistent from top to bottom, with no discrepancies.
  - For example, if the borrower is ABC LLC, which is 100% owned by XYZ LLC, and John and Mary Smith are the sole owners of XYZ LLC, then John and Mary Smith must be the borrowers/guarantors. The ownership chain must be clear and aligned.
- Entities layered with a trust are not eligible.
- Guideline requirements above must be met for each entity.

Entity Signature Requirements

- The note must be signed by either the guarantor in their individual capacity and/or as member(s) and/or managing member of the entity. In cases where there will not be any individual capacity signatures, each applicable guarantor/manager must sign a Personal Guaranty in their individual capacity.
- The mortgage/deed of trust/security instrument should be signed by the applicable guarantor(s) of the entity in their capacity as member(s) and/or managing member of the entity.

Ineligible Borrowers

- Foreign Nationals.
- Irrevocable or blind trusts.
- Layered entities with a trust.
- Land trusts.
- Non-profit organizations.
- Borrowers with diplomatic immunity.
- Asylum applicants.
- Self-employed borrowers deriving their income from any cannabis related business.
- Borrowers with residence of any country not permitted to conduct business with U.S. companies as determined by U.S. government authority.

Occupancy Eligibility

Primary Residence

- A primary residence is a property that the borrower currently resides in (refinance) or intends to occupy (within sixty (60) days) as his or her principal residence.
- 2-4 unit properties are eligible as primary residences provided they are common for the area and exhibit no unique characteristics that can influence marketability.
- Characteristics that may indicate that a property is used as a borrower's primary residence include:
    - Occupancy by the borrower for the major portion of the year.
    - Location is relatively convenient to the borrower's principal place of employment.
    - Property is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar matters.
    - Borrower may not own an additional single-family residence of equal or greater value than the subject property.
    - Property possesses physical characteristics that accommodate the borrower's family.

Second Homes

A property is considered a second home when it meets all the following requirements:

- Must be located a reasonable distance away from the borrower's principal residence.
- Must be occupied by the borrower for some portion of the year.
- Is restricted to a one-unit dwelling.
- Must be suitable for year-round occupancy.
- The borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools, or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.
- Gift funds are not permitted on second homes greater than 80% LTV/CLTV.

Non-Owner Occupied

- Occupancy designation for an income producing property where the borrower does not occupy the subject property.
- All borrowers must execute the Occupancy Certification or similar form.
- For non-owner-occupied loans with a guarantor, the individual(s) providing the guaranty must execute the Personal Guaranty Agreement.
- Gift funds are not permitted on non-owner-occupied loans greater than 80% LTV/CLTV.

Transaction Eligibility

Purchase Transactions

- A purchase transaction is one which allows a buyer to acquire a property from a seller where the proceeds of the transaction are used to finance the acquisition of the subject property.
- The lesser of the purchase price or appraised value of the subject property is used to calculate the LTV.
- Sellers must have owned the property more than 12 months, otherwise the transaction is subject to review as a Flip Transaction. Bank owned REO and corporate relocations are eligible and not considered a flip transaction.
- Maximum Interested Party Contributions permitted up to 6%.

Rate/Term Refinance Transactions

- A Rate/Term refinance transaction is when the new loan amount is limited to the payoff of a present mortgage for the purpose of changing the interest rate and/or term of the mortgage only, with no additional cash or advancing of new money on the loan unless it is below the limited cash-out amount.
- The seasoned non-first lien mortgage is (1) a purchase money mortgage or (2) a closed end mortgage or (3) a HELOC mortgage not having any draws greater than $5,000 in the past twelve (12) months. Withdrawal activity must be documented with a transaction history from the HELOC.
- Limited cash to the borrower must not exceed the lesser of $5,000 or 2% of the principal amount of the new mortgage to be considered a Rate/Term refinance.
- The LTV/CLTV will be based off of the appraised value. The loan must be used to pay off the existing lien on the subject mortgage and cash to the borrower must not exceed the lesser of $5,000 or 2% of the principal amount of the new mortgage.
- Properties that have been listed for sale by the borrower within the past six (6) months from the note date may not be currently listed at the time of loan application and will require a borrower LOE and listing cancellation. Multiple listings in the past twelve (12) months are not eligible.
- The Rate/Term refinance of a construction loan is eligible with the following conditions:
    - If the lot was acquired twelve (12) or more months before applying for the subject loan, the LTV/CLTV is based on the current appraised value of the property.
    - If the lot was acquired less than twelve (12) months before applying for the construction financing, the LTV/CLTV is based on the lesser of (i) the current appraised value of the property and (ii) the total acquisition costs.
- A refinance of a previous cash-out seasoned less than 1 year will be considered a cash-out refinance.
- Refinancing of a land contract is considered a purchase and LTV/CLTV should be calculated using the purchase price.

Cash-Out Refinance Transactions

- 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 to obtain a mortgage on a property that is currently owned free and clear. The borrower can receive funds at closing if 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 (6) months prior to the note date.
- Properties that have been listed for sale by the borrower within the past six (6) months from the note date may not be currently listed at the time of loan application and will require a borrower LOE and listing cancellation. Multiple listings in the past twelve (12) months are not eligible.
- If the property is owned less than twelve (12) months but greater than six (6) months at the time of note date, the maximum LTV/CLTV for the transaction will be based on the lesser of the original purchase price plus fully documented improvements (such as invoices and/or confirmed by the appraiser) or the current appraised value. The prior settlement statement will be required for proof of purchase price.
- A refinance of a previous cash-out seasoned less than 1 year will be considered a cash-out refinance.
- Refinancing of a land contract is considered a purchase and LTV/CLTV should be calculated using the purchase price.
- Texas 50(a)(6) loans are not eligible.
- Refer to the Product Matrix for specific details regarding maximum LTV and cash-out amounts. Cash-out includes funds received at closing as cash back and any applicable debts paid off outside the original purchase money transaction.

Property Buyouts and Inherited Properties

- Refinances of inherited properties and properties legally awarded to the borrower are allowed. This includes divorce, separation, and dissolution of a domestic partnership. Seasoning requirements do not apply, and the following guides must be met:
  - A written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained.
  - Equity owners must be paid through the subject loan's settlement.
  - The subject property has cleared probate, and the property is vested in the borrower's name.
  - The current appraised value is used to determine loan-to-value.

Subordinate Financing

- New subordinate financing (institutional) is allowed for purchase transactions only.
- Existing subordination is permitted on refinances.
- Primary residences only.
- If a HELOC is present, the LTV/CLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the line 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 included when calculating the borrower's DTI.

- If the subordinate financing is a HELOC secured by the subject property, use 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.
- Interest Only (IO) is not permitted with subordinate financing.

Flip Transactions

- When the subject property is being resold within three hundred sixty-five (365) days of its acquisition by the seller and the sales price has increased more than ten percent (10%), the transaction is considered a flip. To determine the 365 day period, use the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement).
- Flip transactions are subject to the following requirements:
  - All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.
  - No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
  - The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented), or developer marketing.
  - No assignments of the contract to another buyer.
  - If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained.
  - An additional appraisal product is required. See the Third Party Appraisal Review section. Flip transactions must comply with the HPML appraisal rules in Regulation Z.
- A second appraisal is required, prior to closing, in the following circumstances:
  - Greater than ten percent (10%) increase in sales price if the seller acquired the property in the past ninety (90) days.
  - Greater than twenty percent (20%) increase in sales price if the seller acquired the property in the past one hundred eighty (180) days.
  - The borrower may not pay for the second appraisal.

Delayed Financing

Delayed purchase financing is available when a property was purchased by a borrower using cash within one hundred eighty (180) days from the date of purchase to the new mortgage note date.

- The original purchase transaction must be an arm's length transaction.
- The source of funds for the original purchase transaction must be documented (bank statements, personal loan documents, HELOC from another property, as examples).
- The maximum LTV/CLTV for the transaction will be based on the lower of the current appraised value of the subject or the purchase price plus any fully documented improvements such as invoices and/or receipts for work performed and confirmed by the appraiser.
- The preliminary title must confirm that there are no existing liens on the property.
- The loan is considered a Cash-Out transaction. Cash-out loan, LTV, and other limitations apply.

Prime Plus Guidelines

Non-Arm's Length Transactions

- Non-Arm's Length transactions are allowed on primary purchase transactions only.
- Renter(s) purchasing from landlord:
  - 12 months of cancelled checks to prove timely payments are required.
  - A verification of rent (VOR) is not acceptable.
- Purchase between family members:
  - A gift of equity requires a gift letter, and the equity gift credit is to be shown on the CD.
  - A 12-month mortgage history on the existing mortgage securing the subject property must be provided, confirming the family sale is not a foreclosure bailout.
- Gift of equity is allowed only for a primary residence.
- Borrower to provide verification of earnest money deposit.

Employee Loans

Any employee of a broker or originator involved in the loan must qualify with Full Documentation only for the transaction.

Ineligible Transactions

- Assignments of contracts.
- Builder bailout and model leasebacks.
- Construction loans.
- Conversion loans.
- Daily simple interest loans.
- Rent credits.
- Temporary interest rate buydowns.
- Lease options.
- Tenants in common, unless all parties vested match the actual borrowers of the loan.
- Texas 50(a)(6) cash-out refinances.
- Builder refinance and the builder/developer (or an affiliated entity) has built more than four (4) units in the same subdivision, development, or condominium project as the subject property.
- The loan is secured by a newly constructed second home or investment property (purchase or refinance) and the borrower has a relationship or business affiliation with the builder, developer, or seller.

Credit Eligibility

Credit Report Detail

- A tri-merged in-file credit report from all three repositories is required.
- PwrTPO requires the use of the Classic FICO credit score model. No exceptions will be permitted.
- A written explanation for all inquiries within ninety (90) days of application is required disclosing no new debt. Alternate confirmation that there is no new debt may include a new credit report, pre-close credit score soft-pull, or gap report.
  - DTI should be recalculated based on any new debt.
  - Any new credit scores must be reviewed for qualification

Housing History

- Twelve (12) months housing history is required for all occupancy types: Primary, Second Home, and Investment Properties. If primary housing is documented as free and clear, no exception is needed. This applies whether or not the borrower is on the note or vested on title of their primary residence.
- If the subject property has delinquent taxes greater than one year from the note date, this may be considered on a case-by-case basis with an exception request.
- Any additional housing history included in the loan file that reflects delinquencies will be subject to review and must adhere to the Product Matrix.
- All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify the account is current.
    - Housing history may be evidenced by twelve (12) months proof of payment via cancelled checks, bank debits, or institutional VOR.
    - When the subject property or the borrower's primary residence has a private party mortgage (individual, private lender, hard money lender), the following documentation is also required: borrower's proof of payment for the most recent 6 months (cancelled checks, bank statements, ACH payments, bank transfer/wire, or electronic payment method).
    - If the borrower is living rent-free as a dependent with family and a 12-month housing history is not applicable, a rent-free letter is required. For first-time homebuyers, rent-free is permitted with no credit exceptions.
- A past due balloon will be considered a delinquency (1x30) and not a housing event, but only within one hundred eighty (180) days of maturity.

Credit Scores

- To determine the Representative Credit Score, select the middle score when three (3) agency scores are provided and the lower score when only two (2) agency scores are provided.
- The Representative Credit Score of the Primary Wage Earner is used to qualify.
    - In the event there are multiple borrowers that earn identical income, the Representative Credit Score will be the lower score of the applicants.
- Credit rescores must be completed prior to loan lock, except in the event of a disputed item or valid error. Documentation must be provided to support the reason that a credit rescore was performed.

Credit Report Requirements

Tradelines

- Each borrower's credit profile must include a minimum of two (2) tradelines within the last twenty-four (24) months that show a twelve (12) month history, or a combined credit profile between borrower and co-borrower with a minimum of three (3) tradelines.
- Tradeline activity is not required; tradelines can be open or closed. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts.
- Current housing not reporting on credit can be considered an open trade if supported by bank records (cancelled checks/debits).
- Borrowers not using income to qualify are not required to meet the minimum tradeline requirements listed above.

- Authorized user accounts must be used to calculate the DTI ratio but will not be included in the number of tradelines.

Credit Events

- Prior bankruptcies (Chapter 7, 11, 13) are permitted per the Product Matrix seasoning requirements. Multiple bankruptcies are not permitted.
- Prior Foreclosure, Short Sale, Deed-in-Lieu, Modification (due to default), Notice of Default, Lis Pendens, and 120+ days delinquency are permitted per the Product Matrix seasoning requirements.
- Borrowers currently enrolled in credit counseling or debt management plans are not permitted.
- All judgments or liens affecting title must be paid.
- Non-title charge-offs and collections within three (3) years and exceeding $5,000 (individually or aggregate) must be paid.
- Medical collections less than $15,000 are not required to be paid.
- All past due accounts must be brought current prior to closing.
- Disputed accounts may require an LOE.
- IRS tax payment plans approved by the IRS are permitted if current and they do not carry a lien on any property.
- All borrowers must be current on mortgage or rent at loan application.
- All derogatory revolving and installment accounts greater than sixty (60) days within four (4) years of closing require a full explanation.
- Delinquent credit belonging to an ex-spouse can be excluded if late payments occurred after the divorce/separation, and the divorce decree/separation agreement indicates the derogatory accounts belong solely to the ex-spouse.
- **Security freeze:** Credit reports may not contain a security freeze and freezes should be resolved prior to an underwriting decision. Reports unfrozen after the date of the original credit report require a new tri-merged report.
- **Defaulted timeshares:** Timeshares including delinquencies are treated as installment loans and not a housing event.

Income Documentation

Unless otherwise noted in these guidelines or the Product Matrix, all borrowers should have a two (2) year income history from employment or other allowable sources. The expectation is that income year over year is stable or shows a trend with a gradual increase. This type of income should be averaged for the borrower's gross monthly income used to qualify. A reasonable expectation should be present that the borrower's source(s) of income will continue for the foreseeable future.

In cases where a borrower's income is declining or shows unusual or unexpected fluctuation, careful consideration must be given to the income being reviewed and the reason for the decline or fluctuation. Proper discretion must be exercised to determine the extent or probability of impairment of the borrower's income and earning ability moving forward. Conservatively, the lesser income should be used when a declining situation is present. A letter of explanation is required from the borrower to support the circumstances. Borrowers that show continued declining income without a reasonable explanation or proof that the trend will not continue are not eligible to use that income for qualification.

Combined Income Documentation Scenarios

- Income documented through Alternative Documentation programs may be combined with other income sources that are documented as Full Documentation but not associated with self-employment, such as a spouse employed as a wage earner.
- When wage income is combined with Alternative Documentation, a tax return is not required as this would invalidate the bank statements. Form 4506-C is still required; however, Box 8 should be checked to obtain a transcript of the W-2 earnings only.
- Combined income documentation types are intended for separate borrowers on the same loan (spouses, for example). Cases of combined income types for the same borrower are generally not allowed.

Full Documentation

Wage Earners

- Most recent paystub (most recent thirty (30) day period) including year-to-date earnings (YTD must cover a minimum of thirty (30) days).
- Two (2) years IRS 1040s or W-2s and a Written Verification of Employment if needed for the analysis of overtime, bonus, or commission.
- 4506-C W-2 transcripts or 4506-C transcripts (if 1040 transcripts are provided, W-2 transcripts are 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.
    - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment.
    - Evidence of any IRS filing extensions must also be present in the loan file.
- Verbal Verification of Employment (VVOE):
    - Must be completed within ten (10) calendar days of the closing date.
    - VVOE should include the name of contact at place of employment, phone number, and title along with company name, address, and the borrower's job description and title.
    - A borrower who is no longer employed at the same employer listed on the initial 1003 is not eligible.

Self-Employed Borrowers

- A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation. Borrowers may qualify with tax returns or 1099 income.
- Borrowers qualifying with tax returns:
    - Two (2) years personal and business tax returns (including all schedules and K-1s) plus a YTD P&L from any businesses being used for qualification where the borrower has 25% or more ownership interest.

- If the P&L covers more than nine (9) months, three (3) months of bank statements are required to validate continued positive cash flow of the borrower's business. Additional bank statements may be required if deemed necessary.
- Borrower will be qualified on the lower of:
  - Monthly average of the net income from the tax returns and P&L, or
  - Monthly net income from the tax return multiplied by 115%.
- Borrowers qualifying with 1099s must provide two (2) years of 1099s:
  - 4506-C W-2 transcripts or 4506-C 1099 transcripts (if 1040 transcripts are provided, W-2/1099 transcripts are not required).
  - Generally limited to a single employer and requires employer confirmation of no borrower job related expenses.
  - If a borrower is not able to provide confirmation of no job-related expenses, a 10% expense factor will be applied.
  - In scenarios where the borrower receives multiple 1099s, the borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc.).
  - Most recent check stub (or three (3) months of bank statements for 1099) including year-to-date earnings (YTD must cover a minimum of thirty (30) days).
- 1040 tax transcripts/1099 transcripts:
  - Business tax transcripts are not required if net business income is validated on the borrower's 1040s.
  - In the case where taxes have been filed and the tax transcripts and/or 1099 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.
  - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment.
  - Evidence of any IRS filing extensions must also be present in the loan file.
- All borrowers must also provide evidence that the business has been in existence for at least two (2) years via CPA/tax preparer letter, confirmation from a regulatory or state agency, or the applicable licensing bureau.
- Verification of business existence and that the business is fully operational/active is required within ten (10) calendar days of closing.
- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.
- Self-employed paying themselves W-2 or K-1: the ordinary income from the borrower's business multiplied by the borrower's ownership percentage should be used to qualify along with any W-2 wages that they pay themselves. Double counting is not allowed.
- **Declining income - Self-employed:** Declining income of the last two (2) years may be utilized for qualifying with a signed letter of explanation from the borrower. The lower of the two (2) years would then be used to qualify unless the income has stabilized over the most recent six (6) months.

Streamline Documentation (One Year Verification of Income)

Wage Earners

- One (1) year IRS 1040 or W-2.
- Most recent paystub including year-to-date earnings (YTD must cover a minimum of thirty (30) days).

- 4506-C W-2 transcripts. 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.
  - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment.
  - Evidence of any IRS filing extensions must also be present in the loan file.
- Verbal Verification of Employment (VVOE) must be completed within ten (10) calendar days of the closing date and include the name of contact at place of employment, phone number, and title along with company name, address, and the borrower's job description and title. A borrower who is no longer employed at the same employer listed on the initial 1003 is not eligible.

Self-Employed Borrowers

- A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation. Borrowers may qualify with either tax returns or 1099 income subject to the following conditions.
- Borrowers qualifying with tax returns:
  - One (1) year personal and business tax returns (including all schedules and K-1s) plus a YTD P&L from any businesses being used for qualification where the borrower has 25% or more ownership interest.
  - If the P&L covers more than nine (9) months, three (3) months of bank statements are required to validate continued positive cash flow of the borrower's business.
  - Borrower will be qualified on the lower of the monthly average of the net income from the tax return and P&L, or the monthly net income from the tax return multiplied by 115%.
- Borrowers qualifying with 1099s must provide one (1) year of 1099s:
  - 4506-C 1099 transcripts (if 1040 transcripts are provided, 1099 transcripts are not required).
  - Generally limited to a single employer and requires employer confirmation of no borrower job related expenses. If a borrower is not able to provide confirmation of no job-related expenses, a 10% expense factor will be applied.
  - In scenarios where the borrower receives multiple 1099s, the borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc.).
  - Most recent check stub (or three (3) months of bank statements for 1099) including year-to-date earnings (YTD must cover a minimum of thirty (30) days).
- All borrowers must also provide evidence that the business has been in existence for at least two (2) years via CPA/tax preparer letter, confirmation from a regulatory or state agency, or the applicable licensing bureau.
- Verification of business existence and that the business is fully operational/active is required within ten (10) calendar days of closing.
- Self-employed borrower income in a licensed profession (Medical, Legal, Accounting) will be considered from a business that has been in existence for less than two (2) years, but greater than one (1) year, if the borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field.
- IRS form 1040 personal and business 4506-C tax transcripts are required for the tax return year used for qualifying.

- 1040 tax transcripts/1099 transcripts:
  - Business tax transcripts are not required if net business income is validated on the borrower's 1040s.
  - In the case where taxes have been filed and the tax transcripts and/or 1099 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.
  - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment.
  - Evidence of any IRS filing extensions must also be present in the loan file.

Asset Depletion / Asset Qualifier

The asset-based programs are designed to meet the Ability to Repay (ATR) requirements. This is accomplished by requiring a debt to income (DTI) ratio in the Asset Depletion program and the requirement of a residual income calculation in the Asset Qualifier program. The unrestricted liquid assets of both programs can be comprised of eligible assets as listed in the Eligibility section below.

- For Asset Depletion, the utilization of financial assets will be considered as borrower income to qualify for their monthly payments.
- For Asset Qualifier, the utilization of financial assets will be used to calculate a borrower's residual income.
- A borrower using Asset Depletion/Asset Qualifier cannot use other sources of employment income. Nonemployment sources of income may be considered on a case-by-case basis with an exception request.

Program Requirements

- Asset Depletion/Asset Qualifier will be qualified under the Full Doc columns of the Product Matrix with the restrictions noted on the matrix (maximum 85% LTV, minimum 700 FICO, no cash-out, owner-occupied only).
- Reserves are not required for the Asset Depletion and Asset Qualifier programs.
- Asset Depletion requirements (DTI):
  - Borrowers must have a minimum of the lesser of $1,000,000 in Qualifying Assets OR must have Qualifying Assets greater than or equal to 125% of the original subject loan amount.
  - A borrower must have a debt to income (DTI) ratio that qualifies per the Product Matrix.
- Asset Qualifier requirements (Residual Income):
  - Borrowers must have residual income greater than or equal to the Residual Income section requirements.
  - Total post-closing assets must be greater than or equal to 125% of the original subject loan amount.
- Not permitted: Non-Owner Occupied or Second Homes, Cash-Out, gift funds, business assets, foreign assets, and Non-Occupant Co-Borrowers.

Eligibility

- Borrowers must have a minimum of $450,000 post-closing Qualifying Assets across both Asset Depletion/Asset Qualifier.

- Assets used for qualifying must be seasoned for one hundred twenty (120) days.
- Net assets: 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. Funds for closing should be liquidated and documented according to the Asset Documentation section.
- Qualifying Assets (net assets multiplied by the following percentages):
    - 100% of checking/savings/money market accounts. Sale of real estate owned requires a copy of the final CD and evidence of funds deposited. Sale of a business asset is permitted with the final settlement statement and evidence of funds deposited.
    - 100% of trust assets that fully meet FNMA guidelines.
    - 100% of life insurance/annuity cash surrender value.
    - 80% of the remaining value of stocks/bonds/mutual funds.
    - 70% of all vested retirement assets.
    - 60% of the borrower's current valuation of Bitcoin or other cryptocurrencies. The loan file must include documentation proving ownership of the crypto assets, and the current valuation must be sourced exclusively from Coinbase and dated within 30 days of the note date.

Qualifying Income

- **Asset Depletion:** Qualifying Assets with a utilization draw schedule of seven (7) years (Qualifying Assets divided by eighty-four (84)) will be used as qualifying income.
- **Asset Qualifier:** To determine residual income, Qualifying Assets will be divided by eighty-four (84) months. From this number, subtract the borrower's total monthly debt obligation (total liabilities) to produce the borrower's residual income. Do not impute tax deductions when determining residual income. Residual income must meet or exceed the Residual Income section requirements.

Bank Statements

- The Bank Statement program is designed for borrowers with an active U.S. based business that is generating stable revenue. Borrowers that only receive income from passive or portfolio sources are ineligible (for example, a borrower managing their own rental properties, distributions from a limited partnership, day trading, or property flipping).
- Bank Statement loans submitted with tax returns or tax transcripts must follow Full Documentation guidelines. Any loan file using qualifying income from bank statements with evidence of tax returns or tax transcripts in the origination file is not eligible for the Bank Statement documentation type.
- Borrowers paid 1099 from a single company are not eligible for Bank Statement qualification and must qualify through Full Documentation or Streamline Documentation.
- Borrowers who are using more than three (3) businesses to qualify must use the Personal Bank Statement option.

Documentation Requirements

- Twelve (12) or twenty-four (24) months of consecutive bank statements are required.
- Bank statements must be the most recent available at time of application and must be consecutive. Any loan submitted with less than twelve (12) months of consecutive bank statements is not eligible.
- A Business Narrative is required and must include details relating to the size/scope and operating profile of the business, including the following:
    - Description of business/business profile.

- Location and associated rent.
- Number of employees/contractors.
- Estimated cost of goods sold, if any.
- Materials/trucks/equipment.
- Commercial or retail client base.

- An internet search of the business is required with documentation to be included in the credit file to support the Business Narrative. Underwriter certification (or notation on the 1008) is required if there are no returns when attempting an internet search.
- Verification of business existence and that the business is fully operational/active is required within ten (10) calendar days of closing.
- Multiple bank accounts may be used.
- **Co-mingling:** Co-mingling of personal and business accounts is not permitted in personal bank accounts. Evidence of co-mingling will require the loan to be submitted and qualified as a business bank statement loan. Two (2) months of business bank statements must be provided to validate the borrower is utilizing separate banking accounts.

Personal Bank Statements

- 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.
- Unusually large deposits exceeding 100% of monthly income into bank accounts must be explained via LOE and must be consistent with the business profile. If the LOE is sufficient, no sourcing is required.
- Two (2) months of business bank statements are required. These statements should evidence activity to support business operations and reflect transfers to the personal account.
  - A borrower who only utilizes a personal account for business activity and does not have an associated business account is eligible to qualify through the Business Bank Statements section.
  - Co-mingling of personal and business receipts is not permitted.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, a thorough analysis must be performed and an LOE provided from the borrower.
- Declining income may require an LOE.
- Eligibility:
  - Validation of a minimum of two (2) years existence of the business from one of the following: business license, letter from tax preparer, Secretary of State filing, or equivalent.
  - Ownership percentage must not be less than 25% and must be documented via CPA letter, Operating Agreement, or equivalent.
  - Borrowers who own more than three (3) businesses must use the Personal Bank Statement option.
- **Qualifying Income:** For personal bank statement income, the qualifying income is the lowest of the following:
  - Personal bank statement average (total eligible deposits divided by 12 or 24 months).
  - If a borrower has declining income and is qualifying with twenty-four (24) months of bank statements, the last twelve (12) months of income will be utilized to qualify.
  - Monthly income disclosed on the initial 1003, unless the borrower provides a satisfactory signed explanation letter why the initial 1003 shows a lower amount.

Business Bank Statements

- Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business related income.
- Large deposits exceeding 100% of monthly income into bank accounts must be explained via LOE and must be consistent with the business profile. If the LOE is sufficient, no sourcing is required.
- Declining income may require an LOE.
- NSFs may require a borrower LOE documenting they are not due to financial mishandling or insufficient income. A maximum of 3 NSF occurrences within a twelve-month period are allowed. If there are zero occurrences in the most recent three-month period, up to 6 occurrences in the most recent twelve-month period are acceptable. NSFs should be covered with deposits shortly after they are incurred.
- 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.
- Eligibility:
    - Validation of a minimum of two (2) years existence of the business from one of the following: business license, letter from tax preparer, Secretary of State filing, or equivalent.
    - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent. Minimum 25% business ownership is required.
    - Borrowers utilizing business bank statements that own 25% but less than 100% of a business will be qualified at the net income multiplied by their ownership percentage.

Option 1 (Expense Ratio): Percentage of gross deposits (twelve (12) or twenty-four (24) months) using an expense ratio factor based on business type and number of employees.

- Qualifying income is the lower of the expense ratio formula or the monthly income disclosed on the initial signed 1003, unless the borrower provides a satisfactory signed explanation letter why the initial 1003 shows a lower amount.
- The expense ratio should be reasonable for the profession.
- Qualifying income should be multiplied by the borrower's documented business ownership.
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify.
- Example: A borrower with $25,000 monthly average deposits multiplied by a 50% expense factor equals $12,500 in qualifying income.

Business Type	15% Expense Factor	30% Expense Factor	50% Expense Factor
Service Business (examples: Consulting, Accounting, Legal, Therapy, Counseling, Financial Planning, Insurance, Information Technology)	0 employees	1-5 employees	>5 employees

Business Type	25% Expense Factor	50% Expense Factor	85% Expense Factor
Product Business - Sells Goods (examples: Retail, Food Services,	0 employees	1-5 employees	>5 employees

Restaurant, Manufacturing, Contracting, Construction)			

Option 2 (3rd Party Profit & Loss Statement): Qualifying income is the lower of the P&L net income from the validated third-party prepared P&L or the monthly income disclosed on the initial signed 1003, unless the borrower provides a satisfactory signed explanation letter why the initial 1003 shows a lower amount.

- Businesses qualifying with a P&L statement showing less than a 15% expense ratio will be limited to a 15% ratio. The expense ratio should be reasonable for the profession.
- A borrower prepared P&L is not permitted under any circumstances.
- Business bank statements are used to validate the third-party prepared P&L. Gross revenue listed on the P&L must be within +/-10% of the total qualified deposits.
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify.
- The following documentation is required:
  - Twelve (12) or twenty-four (24) months of complete business bank statements from the same account (transaction history printouts are not acceptable).
  - Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
  - The P&L statement must be prepared by a Tax Professional, defined as a Certified Public Accountant (CPA), Tax Attorney, Enrolled Agent (EA), California Tax Education Council member (CTEC), or Paid Tax Professional (PTIN).
  - The P&L statement must cover the same months as the bank statements submitted.
  - The P&L must be signed by the borrower and the Tax Professional.
  - The Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the borrower.
  - The Tax Professional must attest that they are not related to the borrower or associated with the borrower's business.
  - The Tax Professional must have filed the borrower's most recent two (2) years of business tax returns.

Option 3 (3rd Party Expense Ratio): Qualifying income is the lower of the 3rd party prepared expense ratio net income or the monthly income disclosed on the initial 1003, unless the borrower provides a satisfactory signed explanation letter why the initial 1003 shows a lower amount.

- To determine net income, multiply eligible business deposits by (100% minus the expense ratio), divided by 12 or 24 months.
- The 3rd party prepared expense ratio is floored at 15%.
- If a borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify.
- The Expense Statement must be prepared and signed by a third-party Tax Professional specifying business expense as a percentage of the gross annual sales/revenue.
- Self-employed borrowers who have filed their own business tax returns are ineligible.
- The following documentation is required:

- Twelve (12) or twenty-four (24) months of complete business bank statements from the same account (transaction history printouts are not acceptable).
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- The Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the borrower.
- The Tax Professional must certify that the Expense Statement represents an accurate summary of the applicable cash expenses of the business.
- The Tax Professional must attest that they are not related to the borrower or associated with the borrower's business.
- The Tax Professional must have filed the borrower's most recent two (2) years of business tax returns.
- The Tax Professional's license must be verified and the statement signed.

12 Month Profit & Loss (P&L)

Requirements

- Self-employed borrowers only; borrowers who file their own tax returns are not eligible.
- Minimum of two (2) years self-employment in the current profession. Validation of a minimum of two (2) years existence of the business is required from one of the following: business license, letter from tax preparer, Secretary of State filing, or equivalent.
- Self-employed is defined as a borrower owning 25% or more of the respective business.
- Ownership percentage must be documented via Certified Public Accountant (CPA), IRS Enrolled Agent (EA), or California Tax Education Council (CTEC) letter, Operating Agreement, or equivalent.
- The CPA/EA/CTEC preparing the P&L must have filed the borrower's most recent business tax returns.

Documentation

- Most recent 12-month Profit & Loss statement (P&L). The P&L end date must be less than sixty (60) days old at closing.
- The two (2) most recent months of business bank statements are required (all pages). Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses are acceptable.
- The gross revenue reflected on the P&L must be supported by the business bank statements. The monthly deposit activity shown on the bank statements must be within 15% of the average monthly gross revenue stated on the P&L. Loans where the deposit activity falls outside this tolerance are not eligible.
- All Profit & Loss statements must be completed by an independent CPA/EA/CTEC.
- The CPA/EA/CTEC prepared P&L must be signed by both the borrower and the CPA/EA/CTEC.
- The CPA/EA/CTEC must provide attestation that they prepared the borrower's tax returns and that they are not related to the borrower or associated with the borrower or the borrower's business.
- The CPA/EA/CTEC must attest that they have performed either of the following functions: audited the business financial statements or reviewed working papers provided by the borrower.
- The credit file must contain documentation that the CPA/CTEC license is verified and active. A screen shot of the IRS web site for an IRS Enrolled Agent (EA) is acceptable.

- A borrower narrative on the nature of the business is required.
- An internet search of the business is required with documentation included in the credit file to support the existence of the business.
- Employment verification documentation must be consistent with information on the loan application and the borrower's credit report.
- Verification of business existence and that the business is fully operational/active is required within ten (10) calendar days of closing.

Qualifying Income

Qualifying income is the lower of the 12 Month Profit & Loss statement (P&L) or the monthly income disclosed on the initial signed 1003, unless the borrower provides a satisfactory signed explanation letter why the initial 1003 shows a lower amount.

Supplemental Income Sources

Rental Income

- Rental income is permitted for both purchase and refinance transactions, including non-subject properties.
- 100% ownership is not required. Allowed income will be calculated based on ownership percentage and 100% of PITIA must be used regardless of ownership percentage.
- Rental income reported on tax returns: Schedule E net income should be used for loans using Full/Streamline documentation types.
- Rental income not reported on tax returns, or loans qualifying with alternative documentation types: a lease agreement and two (2) months of cancelled checks to show proof of rental payments; or if the subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit).
- Evidence that rent is at market rate (a free online source is permitted).
- The file must include supporting documentation detailing the PITIA breakdown for each property owned.

Purchase transactions:

- 75% of 1007 market rent utilized for qualifying income.
- If the existing lease from the seller is transferring to the borrower, the lease that predates the mortgage could have a superior claim to the mortgage. The seller is responsible for ensuring clear title and first lien enforceability.

Refinance Transaction (including Non-Subject Properties):

- 75% of fully executed lease agreement with the supporting 2 months evidence of receipt.

Short-Term Rental (STR) Income

- STR rental income is permitted for both purchase and refinance transactions.
- STR income must be legally permitted and considered common for the area, as confirmed by the appraisal and/or property location.
- For STR income reported on tax returns, follow the Rental Income guidance above.
- Documentation:

  - STR income may be documented using a supplemental appraisal form completed by the licensed appraiser who performed the original appraisal. This form must accompany and be a part of the original appraisal.
  - Income may be verified through a third-party property management provider. Vendors such as Airbnb, VRBO, and HomeAway are acceptable. Documentation must include the property address or a unique property ID specific to the subject property.
  - The loan file must include supporting documentation detailing the PITIA breakdown for each property owned.
- Calculation:
  - <u>Purchases:</u> Gross rent is based on 75% of the 1007 market rent stated in the appraisal or the supplement appraisal form completed by the appraiser of record.
  - <u>Refinances:</u> Gross rent is the lower of the following:
    - 75% of the 1007 market rent stated in the appraisal, or 75% of the supplement appraisal form completed by the appraiser of record. **AND**
    - 100% of actual 12-month STR income history, supported by documentation from Airbnb, VRBO, HomeAway, or a third-party property management provider. A full 12 month history is required for refinance transactions.

<u>Trust Income</u>

- Income from trusts may be used if constant payments will continue for at least the first three (3) years of the mortgage term as evidenced by trust income documentation. Five (5) years of continuance is required if the income source is greater than 50% of the loan's total qualifying income.
- See the IRA / Discretionary Retirement Account Distributions / Trust Distribution - Continuance guidance in the Ancillary Non-Employment Income - Continuance section for limits on adjusting current distributions and continuance.
- A Trust Agreement is required confirming the amount, distribution frequency, and duration of payments.

<u>Alimony / Child Support Income</u>

- A final divorce decree or legal separation agreement is required.
- Payment evidence of six (6) months must be provided via cancelled checks, deposit slips, or bank records.
- Alimony and child support require proof of three (3) year continuance (5 years continuance is required if the income source is greater than 50% of the loan's total qualifying income).

<u>Note Receivable Income</u>

- A copy of the note confirming the amount and length of payment is required.
- Payment evidence of twelve (12) months must be provided via cancelled checks, deposit slips, or bank records.
- Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage note.

<u>Royalty Payment Income</u>

- A royalty contract, agreement, or statement confirming the amount, frequency, and duration of the income is required and must document a three (3) year continuance.
- Payment evidence of twelve (12) months must be provided via cancelled checks or bank records/deposits.

Ancillary Non-Employment Income - Continuance

- Borrowers of retirement age do not require proof of continuance if income is received from corporate, government, or military retirement or pension.
- The following types of income documentation are required:
  - Copy of award letter or letters from the organizations providing the income, and
  - Most recent two (2) months bank statements showing deposit of funds.

IRA / Discretionary Retirement Account Distributions / Trust Distribution - Continuance

- IRA or Trust distributions cannot be set up post application date unless the Borrower is required to start withdrawing based on age. In such cases, 125% of the required minimum amount can be used to qualify.
- Distributions must have been received for prior six (6) months to application to be considered as eligible income. Distributions that have been received for six (6) months or more can be adjusted with a letter from the plan administrator validating the increase. Allowable increases of distribution amount are limited to 125% of previously received distributions. Continuance for 5 years at the proposed monthly amount is required if distributions represent > 50% of the loans total qualifying income (please note this overlay to Fannie Mae). Please refer to the Asset Depletion / Asset Qualifier section for Borrowers wishing to draw assets to qualify.
- One of the following types of income documentation is required:
  - Copy of award letter or letters from the organizations providing the income.
  - Most recent personal income tax return with all schedules.
  - Most recent W2 or 1099.
  - Most recent two (2) months bank statements showing deposit of funds.

Self-Employed / Wage Earner Combination for Joint Borrowers

Joint borrowers with one (1) wage earner and one (1) self-employed business owner can verify income separately, with the self-employed borrower utilizing bank statements or a 12 Month Profit & Loss (P&L) and the wage earner providing pay stubs/W-2s.

- The wage earner 4506-C should include W-2 transcripts only.
- A combination scenario must be qualified and priced to the income verification with the largest percentage of income.

Additional Employment and Income

- **Work History:** A minimum of six (6) months of employment is required unless recently graduated from school or completion of formal training.
- **Employment Gaps:** The borrower should explain any employment gaps exceeding thirty (30) days in the last twelve (12) months and sixty (60) days in the last thirteen to twenty-four (13-24) months.

- **Recently Transitioned W-2 to 1099:** Borrowers recently transitioned from W-2 to 1099 and contracted by the same employer in the same position do not require two (2) years of 1099s if documentation is provided that the borrower will not be responsible for additional expenses (i.e., a contract). Borrowers who remained in the same industry, but transitioned from W-2 to 1099 with a different company, must be in their current position for at least one (1) year.
- **Restricted Stock (RSUs) and Restricted Stock Employment Income:** Allowable but must meet FNMA guidelines.
- **Averaging of Bonus / Commission:** A two (2) year average is required; exceptions can be considered with a one-year minimum history of receipt, and the income must be likely to continue. The employer is to document the likelihood of continuance.
- **Secondary Employment:** Second job income is considered stable if received for two (2) years and likely to continue. The borrower must be working both jobs simultaneously for consideration.
- **Foreign Sources of Income:** Foreign income is income earned by a borrower employed by a foreign government/company and not paid in US dollars. Acceptable utilization if the following criteria are satisfied: two (2) years of US tax returns reflect the foreign income; income is translated to US dollars; income documentation, stability, and continuance requirements are met. Income from countries under OFAC sanctions is not permissible.
- **Grossing Up Non-Taxable Income:** Non-taxable income may be grossed up 125%.
- **Two-Year Business Validation - Name Change / Re-Organization:** Considered continuous if the business name changed within the last two (2) years or restructured (for example, from sole proprietor to LLC or S-Corp).

Assets

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 one (1) month statement, the most recent quarterly statement, or FNMA approved third party direct pull services.
- Publicly traded stocks/bonds/mutual funds: 100% may be used for reserves.
- Vested retirement accounts: 100% may be considered for reserves.
- Bitcoin or other forms of cryptocurrency are permitted for funds to close provided the cryptocurrency has been converted or liquidated to cash. Seasoning requirements are not applicable given liquidation.
  - For reserves, liquidation is not required. The borrower must include documentation proving ownership of the crypto assets. The current valuation must be sourced exclusively from Coinbase, and the valuation must be dated within 30 days of the note date. Up to 60% may be used for reserves.
- Follow FNMA guides if funds require liquidation when used for the down payment or closing costs, and if the funds are being used for reserves.
- Builder profits are not allowed.
- Maximum Interested Party Contributions permitted up to 6%.
- Rent credits are not permitted.
- An LOE is required for large deposits exceeding 100% of monthly income. If the LOE is sufficient, sourcing may not be required.

Business Assets

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers. All of the following must be met:

- The borrowers on the loan must have a minimum of 25% ownership of the business and must be owners on the business account.
- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.
- The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction.
- A signed letter from a CPA or an Underwriter Cash Flow Analysis must also be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business.
- All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account.

Gift Funds

- Gifts from family members, as defined by FNMA, are allowed.
  - A gift of equity is permitted for primary residence purchases only and must meet all other guidelines for gift funds.
- Gift funds cannot be counted towards reserves.
- General requirements: purchase transactions only.
- Gift funds are not permitted on:
  - Second homes and investor properties greater than 80% LTV/CLTV.
  - Borrowers utilizing the Asset Depletion/Asset Qualifier programs.
- Down payment requirements:
  - Gift funds are acceptable as 100% of the down payment for loans less than 75% LTV/CLTV.
  - Gift funds are acceptable for loans at or above 75% LTV/CLTV; however, the underlying borrower(s) must contribute at least 5% of the transaction (lower of purchase price or appraised value) from their own funds.
    - Example: A $500,000 purchase price where the LTV/CLTV is going to be 75% or higher would require the borrower to have $25,000 of their own funds ($500,000 x 5% = $25,000).

Other Asset Sources

- **Cash Value of Life Insurance:** Life insurance policy current cash value or a loan against the cash value may be used for down payment, closing costs, or reserves.
- **Foreign Assets:** Foreign assets are acceptable and must be sixty (60) days seasoned with the two (2) most recent bank statements. A currency calculation must be provided. Assets from countries under OFAC sanctions are not permitted.
- **Non-Borrowing Spousal Joint Accounts:** Allowable with a relationship letter. If the loan is a bank statement loan or 12 month P&L loan, a non-borrowing joint account holder affidavit is required to ensure no deposits by that non-borrower are included as income.
- **Restricted Stock:** Restricted stock is ineligible to be used for reserves.

- **Sale of Personal Assets:** Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the assets is not a party to the property sale transaction or the mortgage financing transaction. Documentation is required supporting borrower ownership of the asset, independent valuation of the asset, ownership transfer of the asset, and the borrower's receipt of sale proceeds.
- **Employer Assistance:** Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage, deferred payment second mortgage or unsecured loan, and shared appreciation down payment assistance are permitted. Funds must come directly from the employer, may be used for down payment/closing costs subject to minimum borrower contributions, may be used for reserves except for unsecured loans, and are only eligible for primary residences. Any obligation for the borrower that arises from receipt of this assistance must be included in qualifying the borrower.
- **1031 Exchange:** Funds held by a 1031 administrator/agent are permitted for down payment and closing costs. Reverse 1031 exchange transactions are not permitted.

Liabilities

Departing Residence

Departing residence positive rental income cannot be used to qualify. The departing residence PITIA/ITIA can be offset by 75% of projected net rental income, or if the subject is recently rented, a copy of two of the following will be acceptable (first month's rent, last month's rent, security deposit). A departing residence rental that produces a loss must be included in the DTI.

Departing Residence Obligation Can Be Excluded (If No Contract in Place)

- Currently listed, or a signed letter of intent from the borrower indicating they intend to list the departure residence for sale within ninety (90) days of closing on the subject transaction.
- Equity in the departure residence must be documented with a 2055 exterior appraisal or full appraisal. The departure residence must have a minimum of twenty percent (20%) equity after deduction of outstanding liens to exclude the payment from the DTI. If there is less than twenty percent (20%) equity, the full payment must be included in the DTI.
- Required reserves for the departure residence are based on the marketing time indicated by the departure residence appraisal:
  - If the appraisal indicates a marketing time of six (6) months or less: twelve (12) months PITIA/ITIA.
  - If the appraisal indicates a marketing time over six (6) months: twenty-four (24) months PITIA/ITIA.

Departing Residence Obligation Can Be Excluded (If Under Contract)

- A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared/satisfied. The departure transaction must be closing within thirty (30) days of the subject transaction. The pending sale transaction must be arm's length.
- No appraisal is required for the departure residence. The borrower must be netting a positive number from the sale of the property, or assets must be accounted for to cover any funds the borrower may have to bring to closing on the sale of the departure residence.

Property Tax Estimates

Property taxes should be calculated using 1.5% of the sales price for qualification (1.25% in California). Use of other property tax rates is allowed provided the rates are documented in the file.

Student Loans

- Student loan payments must be included in the DTI ratio regardless of deferment or repayment status. If a payment amount is not identified, 1% of the current loan balance may be utilized.
- Affordability based payments may be used.

Solar Panels

- Must conform to FNMA guidelines.
- PACE loans (or any similar loans with payments that are included in property taxes or take lien priority) are not eligible.

Payoff to Qualify

Installment and revolving debt paid at closing may be excluded from the debt-to-income ratio with one of the following: a credit supplement, verification from the creditor of the liability as paid in full, or evidence of payoff on the Closing Disclosure.

Debts Paid by Others

Contingent liabilities can be excluded from the DTI if the borrower provides evidence that their business or another individual/entity has made payments for twelve (12) months (0x30). Any liability related to a separation or divorce can be omitted if ordered by family court. Documentation from the court is required.

Obligations Paid by the Borrower's Business

Excludable if the obligation can be tied to business related activities (for example, a vehicle) with twelve (12) months (0x30) proof that the business pays. The expense must be evident on the business financials, and the borrowing entity is an individual.

Underwriter Analysis

All loan files should contain underwriter worksheets which detail the qualifying income calculations and debt obligations considered or not considered (and the reason for exclusion).

Compensating Factors

A loan that exhibits a credit underwriting exception should have at least two compensating factors that are not related to the specific exception, which are intended to offset or mitigate the exception. Each loan presents a unique and individual set of circumstances and should be reviewed and considered based on its own content. The following list identifies some common types of compensating factors that may apply to a loan:

- FICO score above program minimum by twenty (20) points or higher.
- DTI below program maximum by 5% points or greater.
- PITIA/ITIA reserves above program minimum by six (6) months or higher.

- Reduction in housing payment by 10% or greater.
- Increase in residual income by 10% or greater.
- Residual income $1,000 above the program minimum required.
- 0 x 30 x 24 month housing history.
- Five (5) years minimum in the subject property.
- Job stability of five (5) years or more.

Exceptions

- Exceptions to these program guidelines may be considered on a case-by-case basis with strong documented compensating factors as seen in the Compensating Factors section, and are subject to additional pricing adjustments.
- Exceptions must be submitted to PwrTPO for a formal review and approval prior to closing.

Residual Income

- Residual income equals gross qualifying income less monthly debt (as included in the debt-to-income ratio).
- If the loan is an HPML, or if the DTI exceeds 43%, borrowers must have a minimum monthly residual income as required below:

Household Size	Minimum Monthly Residual Income
1	$1,500
2	$2,500
Each additional household member	Add $150

- DTI greater than 50% up to 55% requires 1.5x the minimum residual income above.

Age of Documentation

Unless otherwise stated in this guide, all credit documents including the credit report, income documents, and asset statements must be dated no more than one hundred twenty (120) days prior to the note date. The note date is utilized for document expiration for all funding types.

Property

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.
- Transferred Appraisals are allowed. Follow PwrTPO Appraisal Transfer Guidelines.
- Two appraisals are required for either of the following scenarios: loan amounts greater than $2,000,000 or HPML flip transactions as defined by the CFPB. Interior photos are required.

- Original appraisals are valid for one hundred twenty (120) days from the note date. Any appraisal dated greater than one hundred twenty (120) days will require a recertification of value completed by the original licensed appraiser and is good for an additional one hundred twenty (120) days. If the loan does not close within the initial recertification, then another update may be obtained, but the original appraisal must be dated within 12 months of the note.
- Legal non-conforming zoned properties must indicate that the subject property can be 100% rebuilt if it is severely damaged or destroyed.
- Appraisals with condition or quality ratings of C5 or C6 are not eligible.
- Form 1007 Schedule of Rents is required for all non-owner-occupied loans on single family residences.
- For 2-4 unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required

Third Party Appraisal Review

- The appraised value (or the lowest if two are required) is the only value used to determine the property value for the subject loan. Any secondary valuation products are provided only to support the value of the origination appraisal and are not meant to be used as a substitute value for the property.
- A completed third-party review that validates the origination appraisal is required on all loan transactions that do not include two (2) appraisals. A Clear Capital Collateral Desktop Analysis (CDA) is required. PwrTPO will order and pay for the CDA.
- The third-party appraisal review final opinion of value must be within -10% of the origination appraisal(s).
  - For LTVs greater than 85%, the review value must be within -5%.
  - Review values greater than the origination appraisal have no tolerance requirements.
- Collateral Underwriter (CU) and/or Loan Collateral Advisor (LCA) may be utilized as a secondary valuation if the score is 2.5 or less. The file must include a copy of the Submission Summary Report. If both are run, they must be done at the same time; only one needs to have a passing score.
- If the review value fails the above-mentioned variances, an additional valuation report is required to support the origination appraisal. The required report types, in order, are as follows: a Field Review and then a 2055 Exterior Appraisal, which must meet the required variance levels stated above to proceed.
- Desk review and other review products are not required for loans with two (2) appraisals

Declining Markets

Properties in declining markets as determined by the appraisal or other third-party valuation (Desk Review, BPO, AVM, etc.) will require a 5% reduction to the LTV/CLTV caps for all tiers within the Product Matrix.

Natural Disaster Areas

- Originators are responsible for identifying areas impacted by disasters and ensuring that the subject property has not been adversely impacted. A list of federally declared disaster areas may be found on the FEMA website.
- When there is knowledge of an adverse event occurring near or around the subject property, including but not limited to earthquakes, floods, tornadoes, or wildfires, additional due diligence is required to determine when the disaster area guidelines must be followed.
- Guidelines for disaster areas should be followed for ninety (90) days from the incident period, unless a completed appraisal dated post-incident is provided.

    - Appraisal completed before the incident period: an appraisal update or final inspection from the appraiser must be obtained.
    - Appraisal completed during the incident period: the appraiser must comment on the adverse event and any effect on marketability or value.
- A new Verbal Verification of Employment (VVOE) must be obtained if the disaster event occurs after the original VVOE was completed. The borrower should still be employed at the same employer listed on the initial 1003 and continuing to receive the same amount of income.

Eligible Property Types

- One unit Single Family Residences (attached, detached, and modular).
- Single family properties with ADUs (Accessory Dwelling Units) follow FNMA requirements and restrictions.
- Unpermitted additions/alterations and deferred maintenance follow FNMA guidelines.
- Warrantable and Non-Warrantable condominium projects meeting all applicable criteria.
    - Florida condo projects and associations subject to Florida SB-4D requirements will need Structural Integrity Reserve Studies and Milestone Structural Inspections subject to all state requirements. These properties may be considered on a case-by-case basis with an exception request.
- 2-4 unit properties.
- PUDs, attached and detached.
- Townhouses.
- Leasehold properties.
- Maximum of 20 acres.

Condominium Project Review

- PwrTPO accepts both Warrantable and Non-Warrantable condominium projects.
- Reviews of Warrantable condo projects must follow the Fannie Mae (FNMA) Selling Guide, unless additional criteria are specified, and Non-Warrantable reviews must follow the Full Review and Non-Warrantable condo criteria.

Documentation Requirements

- An HOA Condominium Questionnaire is required for all units in a condo project. A new review is required for each loan transaction (Full Review).
- A master insurance certificate including HO-6, along with all required coverages (all projects).
- Current budget (Full Review).
- Recorded declarations/CC&Rs and by-laws (Full Review).
- Additional documentation may be required by underwriting to complete the project review.

Project Review Types

- Condominium Project Manager (CPM) approval: the project must have a valid, unexpired CPM certification as of the date of the note and a copy must be in the mortgage loan file. There must not be any change of circumstances since the project information was submitted to CPM that would result in the project not satisfying eligibility criteria. Loans secured by units in projects with a status of "Unavailable" in CPM will require a Full Condo Project Review and may be ineligible.

- Full Project Review:
  - Attached condo unit in a new, established, or newly converted project.
  - Non-Warrantable condo projects with the Non-Warrantable condo restrictions noted below.
  - The project must meet the general requirements for condos or PUDs; the project must not include manufactured homes; and no more than 15% of the units may have special assessments that are 60 or more days past due.
  - The project may not exhibit any characteristics that would classify it as an ineligible condominium project under Fannie Mae (FNMA) guidelines, including but not limited to: condotels, projects subject to split ownership arrangements, projects that contain multi-dwelling unit condos or co-ops, projects with property that is not real estate, projects that operate as a continuing care community or facility, non-incidental business arrangements, commercial space and mixed-use allocation, recreational leases and mandatory memberships, live-work projects, litigation or pre-litigation activity, single-entity ownership, projects in need of critical repairs, and projects terminating or involved in insolvency proceedings.
- Project review waiver: a project review is waived for the following project types, which must follow Fannie Mae guides for acceptability:
  - Detached unit in a new or established condo project.
  - New and established condo projects with ten units or less.
  - Additional requirements:
    - Projects with five to ten units must not be part of a master association or larger development.
    - Borrower/Entity Owners may not own more than 50% total units.
    - The priority of common expense assessments applies.
    - The standard insurance requirements apply.
    - The project is not in Condo Project Manager (CPM) with a status of "Unavailable".
    - There are no unaddressed critical repairs outstanding or projects with evacuation orders.
  - Unit in a PUD project, except for PUD projects consisting of single-width and/or multi-width manufactured homes subject to a community land trust, deed restriction, ground lease, or shared equity arrangement.

Condo Project Delivery Timing

- Full Review for established projects: CPM/PERS must have been completed within one year prior to the note date. A new questionnaire is required for each loan transaction.
- Full Review for new projects: CPM/PERS must have been completed within 180 days prior to the note date. A new questionnaire is required for each loan transaction.
- Approved by Fannie Mae as reflected in CPM: CPM/PERS must be valid (unexpired) as of the note date. A new questionnaire is required for each loan transaction.
- Loans secured by units in projects that did not meet Fannie Mae's eligibility requirements as of the note date may still be eligible after the project becomes compliant, provided the project meets applicable Fannie Mae eligibility requirements and all standard seasoning and other loan-specific requirements are satisfied.

Florida Condo Overlays

The following overlays apply to Florida condos that are three (3) or more stories high and thirty (30) years or older (25 years or older if the building is within 3 miles of the coastline):

- Evidence is required that the building has completed the required inspections outlined in FL SB-4D. If the building has not completed the required inspections, it is ineligible for financing.
- If the inspection revealed substantial structural deterioration and/or any unsafe or dangerous conditions, evidence that the required repairs have been completed is required, or the project is ineligible.
- Evidence is required that the association has completed the required structural integrity reserve study, and the budget adequately contains sufficient reserves. The monthly HOA fee should be consistent with the budget.
- 48 hours prior to closing, it must be re-verified that the project has maintained its approved status.

Non-Warrantable Condominiums

- Risk stacking of non-warrantable features is not permitted.
- A single owner/entity may not own more than 30% of the units.
- Commercial space must be typical to the market, have no negative impact, and comprise 49% or less of project space.
- Investor concentration up to 70%.
- No more than 25% of the total units in the project may be 60 days or more past due on their condo/HOA dues. This figure includes delinquencies for special assessments.
- Properties with significant deferred maintenance or critical repairs must adhere to FNMA criteria.
- The borrower must carry HO-6 coverage covering the replacement of items inside the unit. A master policy through the association may also have walls-in coverage, and if so, that will satisfy the requirement.
- If the project is located in a flood zone requiring insurance (per FNMA), both the subject property and the complex must have adequate flood insurance.
- The project documents must not give a unit owner or any other party priority over the rights of the first mortgagee, such as a right of first refusal.
- Mandatory dues are not allowed.
- All common areas must be 100% complete.
- The HOA should be in control. Projects under builder or developer control may be considered on a case-by-case basis with an exception request.
- HOA reserves must demonstrate a minimum of 10%. No exceptions will be considered on this.
- Projects involved in litigation are acceptable as long as the pending lawsuit(s) are not structural in nature, do not affect marketability of the units, and the potential for damages does not exceed 25% of the HOA reserves, or with documentation from the insurance carrier and the attorney representing the HOA or insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance is sufficient to cover the litigation.

Ineligible Property Types

- Manufactured homes.
- Residential units with 5 or more units.
- Log homes. Faux log homes (properties with a log cabin aesthetic, such as log cabin siding) may be considered on a case-by-case basis with an exception request.
- Condotels or motels.
- Condominium projects with registration services or restrictions on the owner's ability to occupy.
- Cooperatives (CO-OPs).
- Unique properties.
- Mixed use properties.
- Builder model leasebacks.
- Boarding houses.
- Group homes.
- Fractional ownership/timeshares.
- Assisted living/continuing care facilities.
- Mandatory country club memberships.
- Zoning violations.
- Properties under construction.
- Barndominiums.
- Agricultural zoned properties (may be considered on a case-by-case basis with an exception request).
- Multiple dwellings on the same lot (legal ADUs are acceptable and must follow FNMA criteria).
- Working farms.
- C5 or C6 property condition grades.
- Live/work condos.
- Earth berm homes.
- Geodesic domes.
- Houseboats.
- Homes on Native American land (reservations).
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana.
- Theme park resort properties.

Property Insurance

Hazard Insurance

The property insurance coverage amount for a first mortgage secured by a 1–4-unit property is at least equal to the lesser of:

- 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, *or*
- The unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date.

Condominium units must meet Fannie Mae requirements. If not covered by the condominium master policy, the borrower(s) must maintain HO-6 insurance to cover interior improvements, including flooring, wall coverings, cabinetry, fixtures, built-ins and any unit upgrades.

Policy Requirements

Hazard insurance policies must meet Fannie Mae guidelines and the following specific requirements:

- Deductibles must not exceed 5% of the policy's face value.
- The policy must:
  - Include the borrower's name, insurance agent's name and company, and the full subject property address.
  - Be effective as of the loan closing date.
- Proof of premium payment must be documented in the mortgage file:
  - **Purchase transactions:** Premium must be paid in full for 1 year from the acquisition date.
  - **Refinance transactions:** Policy must be effective for at least 60 days beyond the loan date.

Insurance Carrier Requirements

The hazard insurance policy must be underwritten by a carrier that meets one of the following rating standards:

- A.M. Best Company, Inc.: Rated B or better.
- Demotech, Inc.: Rated A or better on the Hazard Insurance Financial Stability list.
- Standard & Poor's: Rated BBB or better in the Insurer Financial Strength Rating.

Carriers not rated by any of the above agencies are not eligible, and their policies may not be used to satisfy hazard insurance requirements.

Condominium and PUD Project Insurance Requirements

Minimum Hazard Insurance Coverage:

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost – the insurer agrees to pay more than the property's insurable replacement cost, or
- Replacement Cost – the insurer agrees to pay up to 100% of the property's insurable replacement cost.

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects. The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard "all risk" or "special form" endorsement. If the policy does not include an "all risk" or "special form" endorsement, a policy that includes the "broad form" covered causes of loss is acceptable.

PUD Requirements:

- Individual insurance policies are required for each unit mortgage in the PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable to satisfy insurance requirements for the units.
- When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), verification of master property insurance coverage on PUD common elements is not required.

Condo Requirements:

- The entire condo project insurance policy must be reviewed to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense.
- If the unit interior improvements are not included under the terms of the condominium policy, the borrower is required to have a HO-6 hazard policy ("wall-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event.
- The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.

Deductible Amount:

- For policies covering the common elements in a PUD project and for policies covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.
- For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a 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.
- For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

General Liability Coverage:

- The homeowners' association must maintain a commercial general liability insurance policy for condo projects or Type F PUD projects, including all common areas and elements, public ways, and any other areas that are under its supervision.
- The insurance should cover commercial spaces that are owned by the homeowners' association, even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.
- The amount of liability coverage should be at least $1,000,000 for bodily injury and property damage for any single occurrence.
- The policy should provide for at least ten days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

Fidelity Bond Coverage:

- 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.

Flood Insurance

The file must contain a flood determination certificate to identify whether the subject property is located in a Special Flood Hazard Area (SFHA) as designated by FEMA.

Flood Insurance Requirement

If the property is located in an SFHA (Flood Zone A or V), flood insurance is required for the loan to be eligible.

- Required coverage must be the **lesser** of:
    - The full replacement cost of the improvements, *or*
    - The maximum coverage available under the National Flood Insurance Program (NFIP).
    - Flood insurance escrows are required for properties in Special Flood Hazard Areas (SFHAs), unless flood insurance is provided by a condominium association, HOA or similar entity.

Policy Requirements

Flood insurance must meet Fannie Mae guidelines and the following requirements:

- Deductibles must not exceed the maximum allowed under the NFIP.
- The policy must include:
    - The borrower's name.
    - The subject property address.
    - A mortgagee clause naming PwrTPO and its assignees as loss payee.
- Evidence of coverage must be provided.

Waiver of Flood Insurance

Flood insurance may be waived under either of the following conditions:

- The improvements on the subject property are not located in the SFHA, even if part of the land is.
- The borrower provides a FEMA Letter of Map Amendment (LOMA) confirming the property is no longer in a Special Flood Hazard Area.

Rent Loss Insurance

- Rent Loss Insurance for the subject property is required and must equal at least 6 months PITIA for the subject property. Blanket policies covering the subject property are permitted.
- If Rent Loss coverage is less than 6 months, the deficiency balance may be comprised of additional subject property PITIA reserves.
    - Example: if the required reserves for the transaction are 3 months and the required Rent Loss coverage is 6 months, the total PITIA requirement for the transaction is 9 months. If the Rent Loss coverage for the property is insufficient at 4 months, the borrower can provide evidence of 5 months PITIA reserves to complete the 9 months PITIA requirement.

Title Insurance

Title Policy Requirements

Title Insurance or Title Guaranty Policy

The subject property must be covered by a title insurance policy that protects the mortgagee and its successors and assignees. The policy must:

- Be in an amount equal to or greater than the loan amount.
- Be dated within 90 days of the loan closing.
- Comply with Fannie Mae title insurance requirements and the following:

General Requirements

- The title insurer must be licensed in the state where the property is located.
- The premium must be paid in full prior to disbursement of loan proceeds.

- The policy must be in force and non-cancelable.
- Acceptable policy forms include:
  - 2006 ALTA standard form.
  - ALTA short form.
  - ALTA form with state-required amendments (where 2006 ALTA is not adopted).
- Must include an Environmental Protection Lien Endorsement (ALTA 8.1-06 or state equivalent).
- Title report must include a 24-month chain of title, prepared within 90 days of the loan date showing:
  - Transfer dates.
  - Names of buyers and sellers for all conveyances within the past 24 months.
- The borrower's name on the title commitment must exactly match the name on the note and mortgage (no spelling, middle name, or title discrepancies).
- Any discrepancy in marital status between the title and the 1003 must be addressed.
- A Closing Protection Letter (CPL) must be provided, covering the settlement agent's errors, omissions, fraud, theft and embezzlement.
- Title insurance must include gap coverage for liens and ownership transfers from the loan date to the recording of the security instrument.
- The following are not permitted:
  - UCC filings or easements that impair title.
  - Unpaid tax or mechanic's liens (must be cleared through escrow).
  - No open permits for renovations or code violations are allowed at closing.

Additional Requirements for Condominium Units

If the insured property is a condominium unit, the title policy must also include:

- ALTA 4-06 or 4.1-06 endorsement (or state equivalent).
- Coverage for HOA ownership of common areas or facilities (if applicable).
- Assurance that:
  - The mortgage is superior to any lien for unpaid common expense assessments.
  - Title is not impaired by violations of covenants, conditions or restrictions in the master deed.
  - The unit does not encroach on another unit or common areas.
  - The mortgage is secured by a legally created condominium unit.
  - Real estate taxes are assessed only against the unit and its undivided interest in the common elements — not the entire project.

Title Exceptions

The following title exceptions are acceptable, provided they also comply with Fannie Mae's title insurance requirements:

- Customary public utility subsurface easements with fixed, verifiable locations.
- Above-surface public utility easements along property lines (not exceeding 12 feet) that:
  - Do not interfere with buildings or improvements.
  - Do not impair property use.
  - Do not result in forfeiture, reversion of title, liens or adverse market value impact.
- Mutual easement agreements for shared driveways or party walls, provided all future owners retain unrestricted use.
- Encroachments by adjoining property improvements that:
  - Extend no more than 1 foot over the property line.
  - Cover no more than 50 square feet.
  - Do not come in contact with buildings or interfere with property use.
- Encroachments by hedges or removable fences.
- Liens for real estate taxes or assessments not yet due and payable.
- Outstanding oil, water or mineral rights, provided they do not materially alter the property's contour or impair its value or intended use.

Survey Requirements
- If surveys are not customary in a jurisdiction, an ALTA 9 Endorsement must be provided.
- If neither a survey nor an endorsement is customary, the title policy must not include a survey exception.

Power of Attorney (POA)
A Power of Attorney being used at closing must be submitted as early as possible in the loan process for review and approval. A Power of Attorney only for purchase transactions, provided the following conditions are met:
- The POA does not limit or restrict title insurance in any way.
- Not permitted on entities: LLCs, corporations, entity borrowers, etc.
- Must be approved by PwrTPO.

POA Requirements
- Must comply with all applicable state laws.
- It must be specific to the loan closing and, if applicable, the related property purchase.
- Must be recorded with the Mortgage/Deed of Trust, unless prohibited or not customary in the jurisdiction.
- Must be executed by the borrower who signed the initial loan application (Form 1003).
- Final loan documents may not be signed/executed under a Power of Attorney on behalf of a Guarantor when Title will vest in a U.S.-based entity Limited Liability Corporation.
- Must be granted to a party with no involvement in the loan origination or property transaction, except as a borrower or borrower's representative.
  - Ineligible POA agents include the seller, real estate agent, title agent or employees of the originating lender or its affiliates.
- Must contain an expiration date.

Electronic Signatures
Electronic signatures (e-Signatures) are not permitted on documents that:
- Require handwritten signatures due to legal, notarial or recording requirements.
- Are related to real property transfers or the security interest in the property.

Documents Not Eligible for e-Signatures
- Promissory note (eNotes not allowed).
- Mortgage/Deed of Trust.
- Notarized documents.
- Documents signed using a Power of Attorney.
- Trust documents requiring recording.

Escrow (Impound Account)

- 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 or an escrow waiver has been elected (non-HPML loans). One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments.
- Escrow accounts must be established for flood insurance when the subject property is determined to be in a flood zone. Escrow waiver for flood insurance is not permitted.
- Mandatory Escrows for taxes and insurance will be required for all HPMLs (5 years).

Additional Guideline Requirements

Fannie Mae Selling Guide

These guidelines are intended to reference and supplement Fannie Mae's Selling Guide. Refer to the Fannie Mae Selling Guide for specific information concerning qualification requirements that are not specifically referenced herein. To the extent there is a difference in standards between these overlays and the Fannie Mae Guides, rely on the overlays within these guidelines.

Ability to Repay (ATR)

All covered loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Regulation Z, Section 1026.43(c).

Agency Eligibility

- All applicable loans are required to have evidence of agency ineligibility, which may be satisfied through a DU or LP underwriting findings report in the file verifying the loan does not qualify for agency delivery, or as evidenced on the 1008.
- Evidence of agency acceptability is sufficient if there is evidence that the program pricing and/or terms are more beneficial to the borrower than the comparable agency product.

High-Cost Loans

- Federal, state, and local high-cost loans are not permitted. Cured high-cost loans are also not eligible.
- Total points, fees, and APR may not exceed current state and federal high-cost thresholds.

Fraud Prevention

- PwrTPO has a zero-tolerance policy as it relates to fraud. A fraud prevention pull is required from DataVerify, CoreLogic, SAS, or a similar engine.
- Loans containing fraudulent documentation or information will be immediately rejected and forwarded for further review.

Escrow Holdbacks

Escrow holdbacks are not allowed.

Assumability

Fixed rate loans are not assumable.

Underwriting Method

All loans must be manually underwritten

Loan Application (URLA)

All loan applications must be submitted using the revised URLA.

Maximum Financed Properties and Borrower Exposure

- The maximum number of financed properties to any one borrower/guarantor is limited to twenty (20) residential properties.
- Maximum PwrTPO exposure to a single borrower/guarantor: $7,500,000 in unpaid principal balance or ten (10) residential properties.
- Borrowers will be required to meet the subject property reserve requirement plus two months of reserves for each additional financed property, capped at a total of 12 months reserves for all properties (including the subject property).

Program Forms

The following forms may be required based on the transaction type. Contact your PwrTPO Account Executive for current versions.

- Occupancy Certification.
- Personal Guaranty Agreement (entity vesting transactions).
- Business Purpose and Occupancy Affidavit (business purpose Rate/Term and Cash-Out refinances).
- Consent of Spouse (community property states with a Personal Guaranty).
- Self-Employed Business Narrative Form.
- Condominium Project Questionnaire - Full Review.