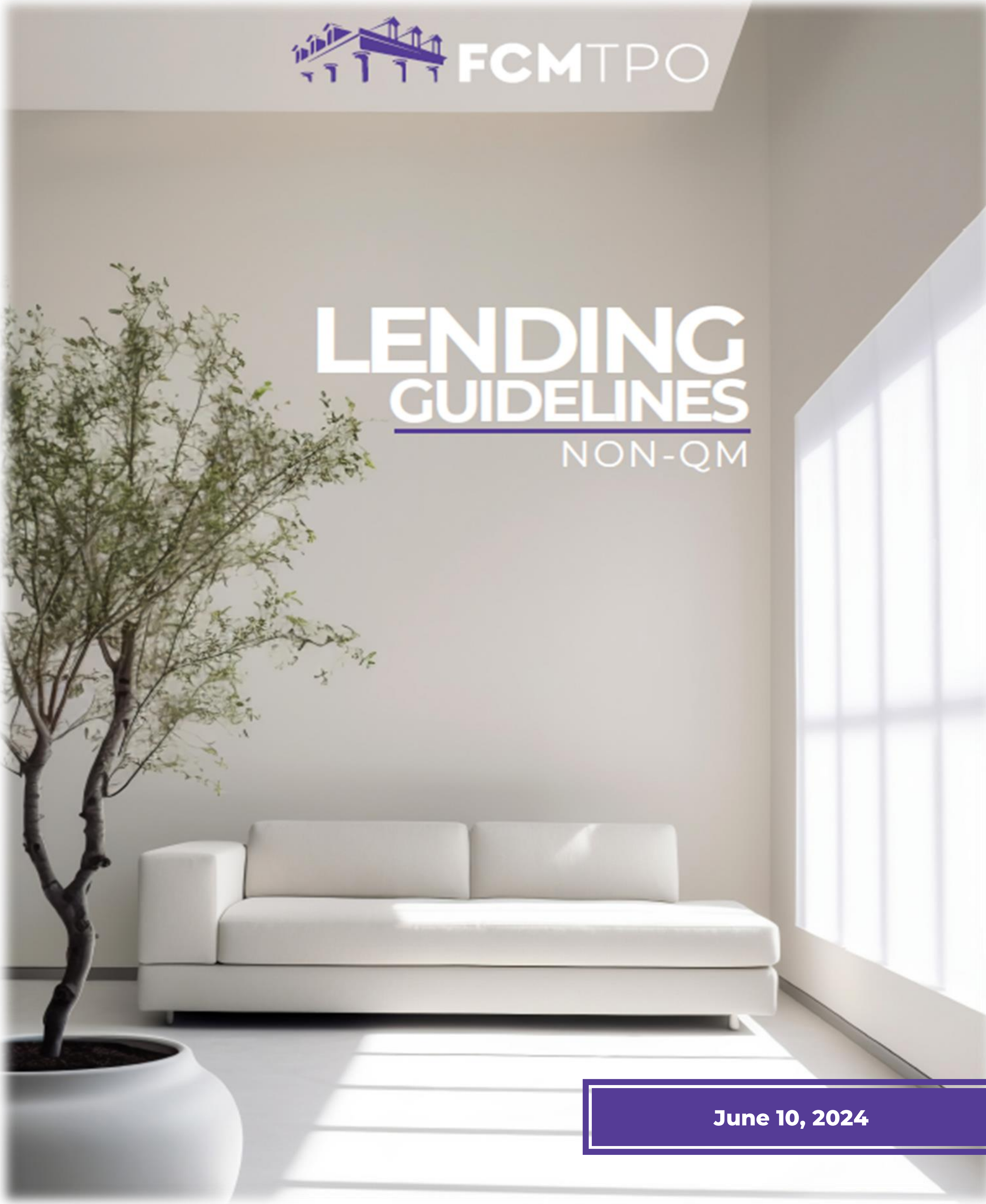

FCMTPO

LENDING GUIDELINES

NON-QM

June 10, 2024

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

1.0 Transaction Types

1.1 Purchase

A purchase transaction allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

1.2 Refinance Transactions

1.2.1 Benefit to Borrower

All primary residence and second home refinance transactions must have a measurable benefit to the borrower. One or more of the following must exist to support the benefit to the borrower:

Balloon payoff	Title transfer	Rate reduction
P&I reduction	Debt reduction	Uncontrolled cash-out

Underwriting must complete the Benefit for Borrower Worksheet to ensure compliance with this policy.

State-specific and/or federal benefit to borrower compliance requirements must be adhered to.

1.2.2 Continuity of Obligation

Continuity of obligation occurs on a refinance transaction when at least one of the borrowers on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property.

When an existing mortgage will be satisfied as a result of a refinance transaction, the following requirements must be met:

- At least one borrower on the refinance mortgage held title to the subject property for the most recent 6 months and the file contains documented evidence the borrower has been making the mortgage payments, including any subordinate financing for the most recent 6 months.
- Less than 6 months - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property by a court in the case of divorce, separation, or dissolution of a domestic partnership.

1.3 Rate and Term Refinance

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

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

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

Cash back to the borrower limited to an amount that is the lesser of 2% of the new mortgage balance or $2,000.

1.3.1 Determining the Loan-To-Value
The current appraised value may be used to determine loan-to-value.

1.3.2 Properties Listed for Sale
The subject property must be taken off the market on or before the application date.

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

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:
- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash in hand reflected on the settlement statement.

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained for all cash-out transactions. The purpose of the cash-out should also be reflected in the loan application.

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

There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

1.5 Determining the Loan-to-Value (Cash-Out Only)

Property Acquisition Date			
Months from application date	**Greater than 12**	Months from application date	**Less than 12**
• Use the appraised value		• The lesser of the current appraised value or previous purchase price plus any documented improvements. • The purchase settlement statement and any invoices for materials/labor will be required.	

1.5.1 Delayed Financing
Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.

- The original purchase transaction was an arms-length transaction.
- The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
- The preliminary title search or report must confirm that there are no existing liens on the subject property.
- The transaction is considered cash-out; cash-out pricing adjustors apply.

1.5.1.1 Determining the Loan-To-Value
The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

1.5.2 Properties Listed for Sale

Refer to program specific matrix for specific seasoning requirements.

1.6 Flip Transactions

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a "flip". To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day all parties executed the purchase agreement) should be used.

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 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.

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: *https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/*.

A second full appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if seller acquired the property in the past 90 days.
- Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days.

1.7 Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the Seller's title policy.

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

Leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease). *https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/*

1.8 Non-Arm's Length Transactions

When permitted, non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.
Examples of non-arm's length transactions include, but are not limited to, the following:

- Family to family member sales
  - Full documentation loans only
- Tenants purchasing from current landlord.
  - 24 months canceled checks to prove timely payments are required.
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.
- Realtors cannot buy their own listing as well as sellers cannot buy a realtor's listing.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

- A borrower is a mortgage broker or loan officer or works for submitting broker.

Non-arm's length transactions are subject to all the following requirements:
Refer to ***Program Matrix*** *for eligibility.*

- For sale by owner transactions must be arm's-length
- Relationship must be fully disclosed.
- An appraisal review product is required.
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- The underwriter must be satisfied that the transaction makes sense, and that the borrower will occupy the property.
- All liens on title to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- The borrower may not be an owner of a business entity selling the subject property.
- Employer to employee sales or transfers are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment, closing costs, or reserves.

The following additional requirements apply only to family sales:
Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months (if applicable).

- Verification that the borrower has not been in title to the property in the past 24 months.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

2.0 Borrowers

2.1 First-Time Home Buyers

A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 3-year period.

Refer to ***Program Matrix*** *for eligibility requirements.*

Refer to *Sharp DSCR* for specific requirements.

2.1.1 Payment Shock

First-Time Home Buyers with DTIs greater than >36% must be evaluated for payment shock as follows:

- Payment Shock is limited to 300% of the borrower's current primary residence obligations.
- Payment Shock = (Proposed Housing Payment / Present Housing Payment) * 100
- For borrowers who do not have a current housing payment, or own a home free and clear, payment is shock is not considered.

Payment shock is not considered under the *Sharp DSCR* program.

2.2 U.S Citizens

U.S Citizens are eligible for financing.

2.3 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 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions.
- Un-expired Foreign Passport with an unexpired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

2.4 Non-Permanent Resident Aliens

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis.

2.4.1 Verification of Residency Status

The following visa classifications are allowed as Non-Permanent Resident Aliens:

E-1, E-2, E-3	H-1B & C, H-2 through H-4	O-1	TN-1 & 2 (NAFTA)
G-1 through G-5	L-1B, L-2	R-1	NATO 1 through 6

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) 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 6 months of loan application, 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 State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at *https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html*

*Refer to **Program Matrix** for specific Visa Waiver Program requirements*.

2.5 Eligibility Restrictions

Citizens of Venezuela, Russia and Belarus and any OFAC Sanctioned countries or individuals are ineligible.

2.5.1 Florida SB 264

Citizens of China, Russia, Iran, North Korea, Cuba and Syra are ineligible in the State of Florida.

2.6 Maximum Exposure

FCM Mortgage Inc. will allow up to 6 loans per borrower, including the subject property, or $3.5MM total financing, whichever is less.

3.0 Occupancy

3.1 Primary Residence

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

To qualify as a primary residence, the transaction must meet each of the following criteria:

- The borrower intends to occupy the subject property for the majority of the year.
- Property possesses physical characteristics that accommodate the borrower's family.

3.2 Second Home

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second homes are restricted to 1-unit dwellings.

Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence.
- Must be occupied by the borrower for some portion of the year.
- 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.

3.3 Investment Properties

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

4.0 Credit

4.1 Credit Report

A credit report is required for every borrower. The credit report should provide merged credit information from the three (3) major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.

Either a three-bureau merged report, or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

4.2 Gap Credit Report

A gap credit or Undisclosed Debt Monitoring report is required no more than 10 days prior to loan closing or any time after closing. Any new debt must be included in determining the DTI ratio.

Sharp DSCR Business purpose transactions are excluded from this requirement.

4.3 Age of Credit Documentation

All credit documentation, including the credit report, may not be more than 120 days old at the time of closing.

4.3.1 Fraud Alerts

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

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

All parties to the transaction (Borrowers/Guarantors, Sellers, Brokers, Loan Officers, and Real Estate Agents) must be included in the fraud report performed by an automated fraud and data check vendor.

A copy of the findings report from the vendor must be provided in the loan file with all "high" alerts, or "red flags" addressed and/or cleared by the seller (lender).

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

4.3.2 Security Freeze

The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreezes credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

4.3.3 Credit Inquiries

Any credit inquiries listed in the report within 90 days of the report date must be explained. If new credit was extended, borrowers must provide documentation on the current balance and payment. If no credit was extended, borrower must state the purpose of the inquiry.

4.3.4 Credit Score Requirements

To determine the Representative Credit Score, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

Representative credit score of the Primary Wage Earner is used to qualify.

Primary Wage Earner must have a valid score from at least 2 of the following 3 agencies:

- Experian
- Trans Union
- Equifax

When the primary wage earner meets these requirements no further action is needed.

Refer to the *Sharp DSCR program* for specific requirements.

4.3.4.1 Credit Re-Scoring

- Private credit repair companies and/or products used for the purposes of repairing credit or inflating a borrower's FICO score are not permitted.
- Rescoring of credit is permitted for confirmation of pay down and/or payoff of debt and correction of reporting errors.
- Updated credit score permitted for qualifying.

4.3.5 Tradeline Requirements

The primary wage earner credit profile must meet the minimum tradeline requirements:

- 3 tradelines reporting for the last 12 months; or
- 2 tradelines reporting for the last 24 months with activity in the past 12 months.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines if they are in repayment and are not deferred.

4.3.6 Bankruptcy

All bankruptcies must be discharged or dismissed prior to the application date. Seasoning is measured from the discharge/dismissal date to the Note date.

*Refer to **Program Matrix** for specific bankruptcy seasoning requirements.*

4.3.7 Housing Events

A Housing Event is any one of the following events listed below:

Foreclosure	Deed-in-Lieu	Short Sale	Modification
Notice of Default		120 mortgage history	

4.3.7.1 Seasoning Requirements

Seasoning of a housing event is measured from the date of event was completed to application. All Housing Events must be completed prior to loan closing with no outstanding deficiency balance remaining.

120+ Mortgage Lates:
Seasoning is from the date the mortgage was brought current.

Bankruptcy:
If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers will be required to show the property was surrendered.

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

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

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

*Refer to **Program Matrix** for specific housing event seasoning requirements.*

4.4 Judgments, Garnishments and Liens

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

4.5 Collections and Charge-Offs

Individual collection and non-mortgage charge-off accounts may remain open as follows:

- Medical collections may remain open with a max cumulative balance of $15,000.
- Non-Medical in the past 24 months may remain open with a cumulative balance of $2,000.
- A second mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods, based on the charge-off date.
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented.

Refer to *Sharp DSCR* for specific requirements.

4.6 Consumer Credit Counseling Services (CCCS)

Borrower(s) enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12 months have elapsed on the plan, and evidence of on time payments for the most recent 12 months is provided. The CCCS Administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

A monthly CCCS plan payment must be included in the DTI calculation.

4.7 Delinquent Credit Belonging to Ex-Spouse

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

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

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

4.8 Lawsuit/Pending Litigation

Borrower party to a pending lawsuit or litigation will be ineligible.

4.9 Rolling Late Payments

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

4.10 Mortgage and Rental Payment Verification

For non-DSCR loans, a 12-month mortgage history is required for all financed properties owned by the borrower.

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

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

All mortgages (including taxes, insurance, and HOA dues) and rental payments must be current at the 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.

For properties owned free and clear, a property profile report or similar document showing no liens against the property should be included in the credit file.

Refer to *Sharp DSCR* for specific requirements.

4.11 Housing Late Payments

*Refer to **Program Matrix** for specific payment history requirements.*

4.11.1 No Housing History (Rent Free) or less than 12 Months Verified

*Refer to **Program Matrix** for specific requirements.*

Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.

Refer to *Sharp DSCR* for specific requirements.

4.12 Past Due Accounts

Past due consumer debts can be no more than 30 days past due at the time of closing.

5.0 Liabilities

5.1 Alimony and Child Support Obligations

Monthly alimony, child support or separate maintenance fees must be current at time of application and must be included in the borrower's debt-to-income ratio. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing.

If 10 or fewer payments remain, see *Installment Debt* to determine if the obligation may be excluded from the DTI calculation.

5.2 Authorized User Accounts

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

5.3 Business Debt

A business debt is a financial obligation of a business but may also be the responsibility of the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio. When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the underwriter must verify the obligation was actually paid out of company funds to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt:

- Most recent six (6) months of cancelled checks drawn against the business account.
- Tax returns reflect the business expense deduction.
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than six (6) months old, the payment must be included in the DTI ratio.

5.4 Contingent Liabilities

Contingent liabilities can be excluded from DTI if the borrower provides evidence that their business or another individual/entity has made payments for six (6) months (0x30).

Any liability related to a separation or divorce can be omitted if ordered by the family court. Documentation from the court is required.

5.5 Departure Residence

5.5.1 Pending Sale

If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower.
The current PITIA may be excluded provided the credit file is documented with the following:

- The executed sales contract for the current residence, with a closing date, and
- Confirmation that any financing contingencies have been cleared.

5.5.2 Converting to a Second Home

If the borrower's current principal residence is converting to a second home, the current PITIA and proposed PITIA must be used in qualifying the borrower.

5.5.3 Converting to an Investment Property

Positive rental income from a departing residence cannot be used as qualifying income. Departing residence PITIA can be offset by 75% of projected net rental income with the following:

- Market Rent Analysis, Single Family Comparable Rent Schedule (Fannie Mae® Form 1007)
- Copy of a current lease
- Evidence of proof of receipt of security deposit and first month's rent.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

When rental from a departing residence produces a loss the PITIA must be included in DTI.

5.6 Property Tax Estimates for New Construction

For new construction when amounts are not provided, property taxes should be calculated using 1.5% of the sales price for qualification (1.25% in California) or documented tax rate from municipality.

5.7 Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact on the borrower's ability to handle the new mortgage payment.

Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

5.8 Lease Obligations

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

5.9 Open 30-Day Charge Accounts

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

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

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

5.10 Payoff of Debt to Qualify

Installment and revolving debt paid at closing may be excluded from the debt-to-income ratio with

- A credit supplement.
- A verification from the creditor liability as paid in full.
- Evidence of payoff on Closing Disclosure.

5.11 Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation.

5.12 Retirement/Savings Plan Loans

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

5.13 Student Loans

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

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

- For deferred loans or loans in forbearance, the following must be calculated:

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

- a payment equal to 1.0% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or
- fully amortizing payment using the documented loan repayment terms.

5.14 Timeshares

For credit review purposes, timeshare obligations will be considered an installment loan.

5.15 Undisclosed Debt

If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed letter of explanation from the borrower is sufficient.

If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

FCM TPO + AFFILIATES

6.0 Income

6.1 Full Documentation

6.1.1 Wage-Earners

Income derived from a consistent hourly, weekly, or monthly wage, will be verified by all the following:

- Pay stub(s) covering the most recent 30-day period providing year-to-date earnings.
- Most recent 1 or 2 years W2s.
- Signed and processed 4506-C.

Verbal Verification of Employment (VVOE) completed within 10 business days of closing.

Refer to *Sharp Full Documentation* program for specific requirements.

6.1.2 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.

Refer to *Sharp Full Documentation* program for specific requirements.

6.1.2.1 Sole Proprietorship

A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's Schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are:

- Federal income tax returns (IRS Form 1040) for the most recent complete year, including all schedules; and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and processed IRS Form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

6.1.2.2 Partnerships

A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.
Documents required for determining partnership income are:

- Federal income tax returns (IRS Form 1040) for the most recent complete year, including all schedules; and
- W-2s for the most recent complete year (if applicable); and
- Partnership tax returns (IRS Form 1065) for the most recent complete year, including all schedules and K-1s (Note: If borrower is a limited partner with less than 50% ownership, partnership tax returns are not required); and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and processed IRS Form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

6.1.2.3 Corporations

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub and W-2 and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).

Documents required for determining income from a corporation:

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

- Federal income tax returns (IRS Form 1040) for the most recent complete year, including all schedules; and
- W-2s for the most recent year; and
- Corporate tax returns (IRS Form 1120) for the most recent complete year, including all schedules; and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

6.1.2.4 S Corporations

A Subchapter S corporation is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S corporations are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

Documents required for determining income from an S corporation:

- Federal income tax returns (IRS Form 1040) for the most recent complete year, including all schedules; and
- W-2s for the most recent year; and
- Corporate tax returns (IRS Form 1120-S) for the most recent complete year, including all schedules and K-1s; and
- Year-to-date profit and loss statement if the loan application is dated more than 120 days after the end of the business's tax year; and
- Signed and processed IRS Form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

6.1.2.5 1099 Income

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's Schedule C and follow *Sole Proprietorship* section of this guide.

6.1.3 Business Narrative

Self-employed borrowers must provide a *business narrative* with detail related to the size, scope, and operating profile of the business, including the following:

- Description of business/business profile
- Business structure
- Location
- Number of employees/contractors
- Estimated cost of goods sold if any.

An internet search of the business is required with documentation to be included in the credit file to support the business narrative.

6.2 Alimony and Child Support

For child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.

Full and timely payments must be received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

Note: As required under the federal Equal Credit Opportunity Act, child support, alimony, or maintenance income information does not need to be provided unless the borrower wants to consider such income.

6.3 Annuity Income

Annuity income can be used for qualification when the following requirements are met:

- 12-month history must be verified using 1099s, tax returns, and/or bank statements
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after closing.

Annuities less than 12 months old must be in a non-revocable trust with a minimum term of 40 months to use as income.

For annuity distributions from a 401(k) or pension, see *Pension/Retirement* section of this guide.

6.4 Clergy/Housing Income

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24 months and the allowance is likely to continue for the next three (3) years.
The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.

The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

6.5 Commission Income

Variable income sources are eligible provided the borrower has a minimum 2-year history of receiving such income in the same line of work. Variable income earned for less than one (1) year may not be used for qualifying income.
Variable earnings must be averaged over the most recent one (1) or two (2) years based upon the documentation type, and include the following:

- Most recent year-to-date pay stub reflecting the variable earnings.
- W-2 forms covering the most recent 1-year or 2-year period.
- A completed Written Verification of Employment – Fannie Mae® Form 1005 detailing base, overtime, commission, or bonus earnings.

6.6 Declining Income

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline equal to or greater than 25% over the prior years should not be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

6.7 Disability Income

Long-term and short-term disability income can be used for qualifications. The following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and the likelihood of it continuing for at least 3 years.
- A copy of the most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

- Signed letter from borrower stating intent to return to work once the disability no longer exists.
- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

Note: When documenting disability income, it's inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

6.8 Dividend/Interest Income

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

- 2 most recent years federal income tax returns received supporting a 2-year history of receipt; and
- Verification of stock asset values no older than 30 days at closing.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings.

6.9 Employment By a Relative

Income for borrowers who are employed by a relative must be verified with all the following:

- Federal income tax returns for the most recent 2 years.
- W-2s for the most recent 2 years; and
- Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2-year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required. A borrower may be an officer of a family operated business but not an owner. Verification of their status should be provided by written confirmation obtained from a CPA or legal counsel.

6.10 Employment Offers and Contracts

For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date.

6.11 Foreign Income

Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if they provide copies of the following:

- Signed federal income tax returns or transcripts for the most recent 2 years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.
- Income from sanctioned countries administered by OFAC are not permitted.

6.12 Foster Care Income

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documentation verifying that the borrower has received foster care income for a minimum one-year period.
- Qualifying income is based upon the current amount received.

6.13 Hourly Wages

Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

6.14 Ineligible Income

Rental Income from a 2nd Home	Education Benefits	Trailing Spouse Income
Lump-Sum distributions from investments	Gambling Income (except lottery winnings continuing for 5 years)	SBA loan or paycheck protection funds
Income from a trailing spouse	Boarder Income	Mortgage Credit Certificates
Restricted Stock	Expense account reimbursement	Stock Options
Self-Employment income derived from the sale or manufacturing of marijuana related items.		

6.15 Interest/Dividends

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

- 2 most recent years federal income tax returns received supporting a 2-year history of receipt; and
- Verification of stock asset values no older than 30 days at closing.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the period verified when current earnings are consistent with historical dividend and interest earnings.

6.16 IRS Form 4506-C

IRS Form 4506-C must be completed and signed by all borrowers both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.) and be executed prior to closing. 4506-C forms and transcripts are not required for business tax returns or loans utilizing Bank Statement Documentation for income.

When required, documentation received from executing the 4506-C must be reviewed and compared to the qualifying income to confirm consistency. Results from processing the 4506-C should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the 4506-C results and qualifying income should be addressed by the underwriter.

*Refer to **Program Matrix** for specific requirements.*

6.17 Ministry/Clergy Income

Ministers are individuals duly ordained, commissioned or licensed by a church or church denomination. Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt, an exception from the IRS must be provided.

Rental or housing allowance received can be considered income for qualifying the borrower. Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income. The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. Housing allowance for ministers is non-taxable income and can be grossed up for qualifying.

The church may budget for educational, medical insurance, life insurance, retirement, etc. to be paid on behalf of borrower; however, these items will not be considered as qualifying income, unless exempted by the IRS. The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's 1040 should include housing allowance paid.

Parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24 months and the allowance is likely to continue for the next three (3) years. The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

- The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

6.18 Non-Occupant Co-Borrowers

*Refer to **Program Matrix** for specific payment history requirements.*

6.19 Non-Taxable Income

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the underwriter may use an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

6.20 Notes Receivable Income

Note receivable income may be used for qualifying income subject to the following:

- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months using either cancelled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

6.21 Non-for-Profit

Income from a non-for-profit entity is ineligible.

6.22 Part-Time/Second Job Income

Income from part-time employment or a second job can be considered stable income if it has been received for the previous 2 years and is likely to continue. Earnings must be documented with current pay stubs and W-2s for the most recent 2-year period.

6.23 Pension/Retirement

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage Note. In addition, the borrower must have unrestricted access to the accounts without penalty.

Document regular and continued receipt of the income with the following:

- Pension/Social Security/VA
  - Award letter(s) from the organizations providing the income,
- Two prior years 1099-R will be acceptable in lieu of award letter,
- 30-days current proof of receipt
- 401K/Keogh/IRA
  - Account Statement(s) reflecting available balance for withdrawals.
  - Two prior years 1099-R forms,
  - One month's proof of current receipt.
  - Income will be averaged based upon withdrawals over the past 24 months.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves.

6.24 Public Assistance

Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letters or copies of grant statements.

Note: When documenting and evaluating public assistance income, loans must comply with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

6.25 Rental Income

Rental income can be used for qualifying when disclosed on the loan application. Gross market rent must be documented with FNMA Form 1007 or Form 1025, as applicable, when rental income from the subject property is being used to qualify.

6.25.1 Calculating Rental Income for the Subject Property

Rental income from the subject property owned prior to loan application should be calculated using the borrower's federal income tax returns for the most recent 2-year period (Cash Flow Analysis of Schedule E). Income should be averaged. Net rental losses should be included in ratios as a liability.

For properties owned for less than 2 years, rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or
- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable)

Rental income from a new property being acquired through a purchase transaction can be used to qualify, using the lesser of:

- 75% of the current lease minus the full PITIA (evidence of deposit must be obtained); or
- 75% of the appraiser's opinion of market rent on FNMA Form 1007 or Form 1025, as applicable, minus the full PITIA

If no lease exists and rental income is calculated using only the appraiser's opinion of rent, an additional 3 months PITIA reserves is required.

6.25.2 Rental Income from Other Real Estate Owned

Rental income from another property owned prior to loan application should be calculated using the borrower's federal income tax returns for the most recent 2-year period (Cash Flow Analysis of Schedule E). Income should be averaged. Net rental losses should be included in ratios as a liability.

For properties owned for less than 2 years, rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or
- Cash flow analysis of the Schedule E from the most recent year's federal income tax return (if applicable)

For program specific requirements, refer to:			
Sharp Full Documentation	*Sharp Bank Statements – Business*	*Sharp Bank Statements – Personal*	*Sharp DSCR*

6.26 Royalty Income

Obtain copies of the following:

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
- The borrower's most recent signed federal income tax return, including IRS Form 1040 and Schedule E.

Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note.

6.27 Seasonal Income

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers rehire. Seasonal income should be averaged over a 2-year period.

6.28 Social Security Income

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.
When a borrower is drawing Social Security benefits from another person's account/work record, all of the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

Refer also to *Non-Taxable Income*

6.29 Teacher Income

Teachers are paid on a 9-month, 10-month, or 12-month basis. The pay structure should be determined before calculating the monthly income. If unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

6.30 Tips and Gratuities

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e., waitperson, taxi driver, etc.). Tip income should be received for at least two (2) years.

Documentation will be based upon the documentation type selected (12 or 24 months). Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

6.31 Trailing Spouse or Co-Borrower Income

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.

6.32 Trust Income

Trust income can be used for qualification when all of the following requirements are met:

- A copy of the trust agreement or the trustee's statement must be obtained to confirm the borrower is the beneficiary, the amount, frequency, and duration of payments.
- Trust income to continue for at least 3 years from date of the mortgage application; and
- History of receiving the trust income must be documented for 1 month.

Lump-sum distributions from the trust made prior to loan closing can be used for down payment or closing costs if the withdrawal does not affect the qualifying amount of continuing distributions to the borrower. The funds must be verified by a copy of the check or the trustee's letter that shows the distribution amount.

6.33 Unemployment Compensation

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction). The income can be used to qualify with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation. Income should be averaged over the time period verified.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

6.34 VA Benefits

Document the borrower's receipt of Veteran Administration (VA) benefits with a letter or distribution form from the VA, along with a one-month proof of receipt. Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. (Verification is not required for VA retirement or long-term disability benefits.) Education benefits are not acceptable income because they are offset by education expenses.

6.35 VA Survivors Benefits/Dependent Care

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.

6.36 Verification of Employment

6.36.1 Verbal Verification of Employment (VVOE)

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

- Completed within 10 business days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of the person processing the VVOE.
- Include the name, position and phone number of the person providing the verification (employer)
- The telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 10 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau
- Secretary of State listing reflecting current year registration
- Verification of a phone and address listing using the internet

If the documentation is over 30 days old, a processor's certification verifying employment with the CPA is acceptable. An updated Secretary of State listing or phone and address listing from the internet are also acceptable.

6.36.2 Written Verification of Employment

Income and employment for wage-earners or salaried borrowers may be obtained via direct written verification from the borrower's employer (FNMA Form 1005) or direct electronic verification from a 3rd party vendor such as The Work Number. The verification should be signed by a member of the company's human resource department or one of the business owners or officers.

At a minimum, all verifications must include the borrower's name, position, dates of employment, and base salary.

6.36.3 Virtual Currency

Any income paid to or earned by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan.

7.0 Ratios and Qualifying

7.1 Ratios

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income.

The subject property mortgage loan is defined as the borrower's housing payment and includes PITIA and/or principal and interest on any subordinate lien financing.

The property taxes, Homeowner's Insurance (HOI), Flood Insurance, and HOA dues of a primary residence that is owned free and clear will be considered in the borrower's housing history determination and must remain current throughout the transaction.

*Refer to **Program Matrix** for specific ratio requirements.*

7.2 Adjustable-Rate Mortgage (ARM) Qualifying

When permitted all ARM loans, the greater of the note rate or the fully indexed (Margin + Index) rate is used to determine the qualifying PITIA.

7.3 Adjustable-Rate Index

When permitted, the 30-day average SOFR index as published by the New York Federal Reserve

7.4 Interest-Only Qualifying

Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA.

40-year Interest-only loans qualify using a 30-year term.

Refer to *Sharp DSCR Section* of this guide for interest-only specific qualifications.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

8.0 Assets

8.1 Business Assets

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers.

The borrowers on the loan must have a minimum of 50% ownership of the business and must be owners on the business account. Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent. 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. 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 borrower must also be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business.

8.2 Crypto Currency

Must be liquidated and seasoned in a US account for 30-days.

8.3 Depository Accounts

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts can be used for down payment, closing costs, and reserves.

Indications of borrowed funds must be investigated, including recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A signed, written explanation of the source of funds should be obtained from the borrower and the source of funds verified. Unverified funds are not acceptable.

Refer to *Sharp DSCR* for specific requirements.

If the borrower does not hold the deposit account solely, all non-borrower parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds.

8.4 Gift Funds

When permitted, a signed gift letter is required to provide all the following information:

- Donor's name, address, phone, and relationship to borrower (donor must be a relative); and
- Dollar amount of gift; and
- Date funds were transferred; and
- Donor's statement that no repayment is expected.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip
- Copy of the donor's withdrawal slip and the borrower's deposit slip.
- Copy of the donor's check to the closing agent
- Evidence of wire transfer from donor to borrower
- Settlement statement showing receipt of the donor's check.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

*Refer to **Program Matrix** for specific gift/minimum borrower contribution requirements.*

8.5 Gift of Equity

Gifts of equity on non-arm's length transactions are allowed. Transactions with gifts of equity are subject to the maximum LTVs available for cash-out transactions, and no minimum borrower contribution is required.
The following requirements apply:

- Primary residence transactions only
- The gift of equity is from an immediate family member.
- 6 months of reserves required of borrower's own funds.
- Non-arm's length criteria are met.
- Signed gift letter required from donor.
- Gift of equity is listed on the settlement statement.

8.6 Earnest Money

If earnest money is needed to meet the borrower's minimum contribution requirements, funds must be verified and from an acceptable source.
Verification includes any of the following:

- Copy of the borrowers canceled check.
- Receipt from deposit holder.
- VOD or bank statement showing the average balance was sufficient to cover the amount of the deposit when the deposit occurred.

8.7 Funds Secured by an Asset

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, stocks and/or bonds, and 401(k) accounts. Funds secured against a borrower-owned business are prohibited.

The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.

The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).
If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

8.8 Foreign Assets

All funds required for down payment, closing costs, and reserves must be seasoned for 60 days. Foreign assets deposited into a U.S. institution within 60 days of application are acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Funds required for closing (down payment and closing costs) must be seasoned in a U.S. depository institution for 30 days prior to closing.

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator.

8.9 Interested Party Contributions

Maximum Interested Party Contributions permitted as follows:

- Primary Residence and Second Home – 6%
- Investment Properties and *Sharp DSCR Loans* – 3%

*Refer to **Program Matrix** for specific Interested Party Contributions requirements.*

8.10 Life Insurance

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, borrower's receipt of the funds from the insurance company must be documented by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio. If additional obligations are indicated, the amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

8.11 Net Proceeds from Sale of Real Estate

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final settlement statement verifying sufficient net proceeds must be obtained.

8.12 Rent Credits

Not permitted

8.13 Retirement Accounts

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Ownership of the account must be verified, and the account must be vested and allow withdrawals regardless of current employment status.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of *Stocks, Bonds, and Mutual Funds* for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.
If the borrower intends to use the retirement account to also satisfy income requirements.

8.14 Reserves

Reserves are measured by the number of months of housing expense (PITIA) a borrower can pay using his or her financial assets. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

Reserve Requirements:

- Net proceeds from cash-out transactions may be used to meet the reserve requirement.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.
- Gift funds may not be used to meet reserve requirements.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

*Refer to **Program Matrix** for specific reserve requirements.*

8.15 Subordinate Financing

When permitted, secondary or subordinate financing cannot exceed the LTV requirements per matrix.

All secondary financing must be subordinated.
The following is required:

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

The following requirements apply to all subordinate liens:

- Seller-held or privately held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included in the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

*Refer to **Program Matrix** for specific subordinate financing requirements.*

8.16 Spousal Accounts

Accounts held solely in the name of a non-borrowing spouse may not be used to meet cash to close or reserve requirements.

8.17 Stock Options

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price.

8.18 Stocks/Bonds/Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified. When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented. When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

8.19 Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.
To document trust account funds, both of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

8.20 Verification of Assets

Funds required to meet cash to close requirements seasoned for 60 days or sourced, and verified with one of the following:

- Most recent 2 months' account statements, or most recent quarterly account statement, indicating opening and closing balances, and reflecting a consecutive 60 days of asset verification.
- If the account summary page provides the required information, additional pages are not required.
- Written Verification of Deposit (VOD), completed by the financial institution.
  - Must include the current and average balances for the most recent 2 months.
  - Large disparities between the current balance and the opening balances will require additional verification or supporting documentation.
- Account statements must provide all of the following information:
  - Borrower as the account holder
  - Account number.
  - Statement date and time period covered.
  - Current balance in US dollars

8.21 Unacceptable Funds

Cash-on-hand	Proceeds of SBA/PPP loan or any government assistance	Gift or grant funds which must be repaid	Down payment assistance programs
Bridge loans	Unsecure loans or cash advances	Section 8 Voucher Assistance	Sweat equity

9.0 Property and Appraisals

9.1 General Requirements

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested to:

- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.

9.2 Appraisal Forms

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

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

9.3 Appraisal Report Requirements

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form is necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- The appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparables used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser’s analysis must reflect and include comparable sales that are similarly affected.
- Certification and statement assumptions and limiting conditions signed by the appraiser.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

9.4 Appraisal Review

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an "as is" value for the subject property as of the date of the subject loan transaction.

The following options are eligible review products:
Collateral Underwriter® (CU®) with an eligible score of 2.5 or less. The file must include a copy of the Submissions Summary Report (SSR). If the score exceeds 2.5, the file must include either an enhanced desk review, field review, or second appraisal.
If the enhanced desk review product reflects a value of more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal. A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.

9.4.1 Second Appraisal Requirements

Loan amount over $2.0 MM will require 2 full appraisals. The lesser of the 2 will be used as the valuation to determine the LTV.

9.5 Appraiser Qualifications

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The seller may choose to use an appraisal management company; however, the seller must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the "Appraiser" must have performed the level of inspection of the subject property required by the assignment.

9.6 Age of Appraisal and Appraisal Updates

Properties must be appraised within the 12 months that precede the date of the note and mortgage.
When an appraisal report will be more than 4 months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported in the Appraisal Update and/or Completion Report (Form 1004D), with interior and exterior photos.

- If the appraiser indicates on Form 1004D that the property value has declined, then a new appraisal for the property will be required.
- If the appraiser indicates on Form 1004D that the property value has not declined, then the underwriter may proceed with the loan in process without requiring any additional fieldwork.

Note: The appraisal update must occur within the 4 months that precede the date of the note and mortgage.
The original appraiser should complete the appraisal update; however, substitute appraisers may be used. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The file must be noted as to why the original appraiser was not used.

9.7 Compatibility of Subject Property and Neighborhood

The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood as reported on the URAR. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

occupancy, and anticipated change in present land use are considered. Residential properties in areas that are zoned as either agricultural or commercial may be considered acceptable risks so long as their location does not impact marketability.

9.7.1 Proximity of Comparable to Subject Property

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.

For properties in established subdivisions, condo projects or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity. Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

For properties in new subdivisions, condo projects or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property.

9.7.2 Age of Comparables

Generally, appraisals should contain comparables sales dated within 6 months of the report date. Comparables from 6 to 12 months are permitted on a limited basis with an explanation from the appraiser. Older comparable sales that are the best indicator of value for the subject property may be used if appropriate. Value must be supported, and market acceptance demonstrated when older comparables are utilized.

9.7.3 Property Values Within Market Area

The value of the subject property should be in line with the home prices in the subject's market area. The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the following:

- the trend of property values
- the supply of properties in the subject neighborhood
- marketing time for properties

The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over 6 months.

If the appraiser indicates the property is located within a declining market, a 5% LTV reduction is required.

9.7.4 Redlining Prohibition

Prohibited bases such as race, ethnicity, gender, minority geography or any other prohibited basis category should not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which make reference to a prohibited basis category (e.g., race or minority geography) are not acceptable. The use of code phrases as proxies for race which are not necessarily descriptive of value or risk is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

9.7.5 Over-Improvements

An over-improvement is an improvement that costs more than its contributory value within the marketplace. The appraiser must comment on over-improvements and indicate their contributory value in the "sales comparison analysis" adjustment grid. Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. Appraisals on properties with over-improvements that may not be acceptable to the typical purchaser must be reviewed to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

9.8 Market Analysis

9.8.1 Neighborhood Review

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and supply.
- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of subject property
- Appeal to market and marketing time.

9.9 Minimum Property Standards

All properties must:

- Be improved real property.
- Be designed and available for year around residential use.
- Contain a kitchen and a bathroom.
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Average or better than average condition.
- Represent the “highest and best” use of the subject.
- Be free of all health and safety violations.
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property.
- Must have a remaining economic life of 30 years.

9.10 Minimum Square Footage

Single Family	Condominium	2-4 Units
700 sq. ft.	500 sq. ft.	400 sq. ft. per individual unit

9.10.1 Cost Approach

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of land value to total value exceeds 35%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

9.10.2 Income Approach

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data and the calculations used to determine the gross rent multiplier. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

9.10.3 Sales Comparison Approach

Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property should bring in a competitive and open market under all condition’s requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller of property are typically motivated.
- Both parties are well informed or well advised, acting in what they consider their best interest.
- A reasonable time is allowed for exposure in the open market.
- Payment is made in terms of cash in US dollars or in terms of comparable financial arrangements comparable.
- The price represents the normal consideration for the subject property sold unaffected by special financing or sales concessions granted by anyone associated with the sale.

A minimum of 3 closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Comparable sales utilized in the market approach should:

- Be within one mile of the subject property.
- Have been closed within the last 12 months.
- Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.

- Results in overall net adjustments, gross adjustments, and individual line items are reasonable and justified by the appraiser.
- Have a sales price that is within the general range of value as the subject.
- Have at least 3 of the comparables should be recently closed sales.

In instances where comparables conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparables.

9.11 Property Considerations

9.11.1 Accessory Dwelling Units (ADU)

Properties with an accessory unit (ADU) are acceptable if all the following are met:

- Property is typical, readily acceptable, and common in the subject's market area.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- Property must conform to all zoning laws and/or regulations.
- Appraisal contains 1 comparable with similar additional accessory unit.
- Accessory unit is substantially smaller than the primary dwelling.
- Legal non-conforming use is acceptable provided it does not adversely affect value and marketability.
- The existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property.

*Refer to **Program Matrix** for specific requirements.*

9.11.2 Dampness

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

9.11.3 Declining Markets/Values

Properties located in a declining market as indicated by the appraiser will require additional review by the underwriter and may be subject to a reduction in valuation.

*Refer to **Program Matrix** for specific requirements.*

9.11.4 Deed Restrictions

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

- Age Restricted Communities

Deed restrictions must be reviewed to ensure all of the following requirements are met:

- Appraisal supports property is common and typical for the market area.
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

9.11.5 Deferred Maintenance

Property must be in average or better condition. Properties in C5 or C6 condition are not acceptable. Deferred maintenance is allowed provided the neglected item is not structural in nature (as noted by the appraiser). Deferred items may be left "as is" if the aggregate cost to cure the deficiency does not exceed $2,000 or impact the safety or habitability of the property.

9.11.6 Disaster Areas

Underwriters are responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.
Adverse events that receive a formal disaster declaration issued by local, state, or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at https://www.fema.gov/disaster

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

The guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

Damage to the subject property must meet requirements in Deferred Maintenance.

9.11.6.1 Property Appraisal Completed Prior to a Disaster Incident

If the appraisal effective date is prior to the disaster incident, the following documentation is required:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- An exterior inspection completed by licensed third-party professional:
- Exterior inspection must certify the condition of the subject property and identify any impact to habitability or marketability.
- Inspection report must include photographs of the front, street view, and any damage to subject property.
- Inspection report and evidence of inspector licensing must be retained in loan file.
- Any damage must be repaired and re-inspected prior to closing. '

If the appraisal was complete at the time of the disaster but 'subject to completion' or 'subject to repairs', an Appraisal Update and/or Completion Report (FNMA Form 1004D) is required in addition to the inspections listed above.

9.11.6.2 Property Appraised After a Disaster Incident

When the appraisal effective date is after the disaster incident, no additional documentation is required.

9.11.6.3 Disaster Incident Post-Closing, Prior to Funding or Purchase

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- Appraisal Update and/or Completion Report (FNMA Form 1004D)

9.11.6.4 Verification of Employment

If a disaster event occurs after the Verbal Verification of Employment (VVOE) has been completed, an update must be obtained to ensure the borrower is still employed and with the same income.

9.11.7 Electrical Systems

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

9.11.8 Environmental Hazards

The appraisal report should note the existence of known environmental hazards and their effect on value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated.
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI)

A property inspection completed by a licensed inspector is required to make a final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.

9.11.9 Escrows for Work Completed

Not allowed

9.11.10 Flood Zone

The appraisal should indicate if the property is in a flood zone.

9.11.11 Foundation Settlement

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

Properties with evidence of sinkhole activity are ineligible for financing.

9.11.12 Heating Systems

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- The heat source is typical for the area.
- The heat source is permanently attached.
- The heat source is adequate for the dwelling.
- The heat source is externally vented.

9.11.13 Modular Homes

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing. Modular homes must meet all the following requirements:

- Must assume the characteristics of site-built housing; and
- Must be legally classified as real property; and
- Must conform to all local building codes in the jurisdiction in which they are permanently located.

9.11.14 Multiple Dwellings on One Lot

Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales.

9.11.15 Multiple Parcels

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

9.11.16 Private Roads

Properties on private roads are acceptable subject to the following:

- The title company must insure access to the subject property from a public street; and
- A legally enforceable agreement or covenant for maintenance of the street is required.
- The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners.
- If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. Any maintenance costs are to be included in the borrower's housing payment (PITIA).

9.11.17 Planned Unit Development (PUD)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all the following requirements must be met:

- Each unit owner's membership in the owners' association must be automatic and non-severable.
- The payment of assessments related to the unit must be mandatory.
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will provide acceptable security for the mortgage.

9.11.18 Property Types

9.11.18.1 Eligible

SFR or Townhome	2-4 Unit	Non-Warrantable Condo	Rural*
PUD Attached or Detached	Warrantable Condo	Modular	Condotels

** Refer to **Program Matrix** for specific rural property requirements.*

9.11.18.2 Ineligible

Manufactured/Mobile Homes	Log Homes	Community Land Trusts	Unique Properties	Mixed Use Properties
Builder Model Leaseback	Boarding Houses	Fractional Ownerships	Timeshares	Assisted Living/Continuing Care Facilities
Mandatory Country Club Memberships	Zoning Violations	Properties Under Construction	Working/Hobby Farms	C5 or C6 Property Condition Grades
Live/Work Condos	Geodesic Domes	Houseboats	Shouses	Industrial Zoning
Theme Park Resort Properties	Properties Subject to Rent Control	Barndominiums	Commercial Zoned (Unless Condo)	Agricultural
Properties used for the cultivation, distribution, manufacture, or sale of Marijuana	Hawaii properties located in lava zones 1 and/or 2		Homes on Native American Land (Reservations)	Co-Ops

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

9.11.19 Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use their knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

A property is considered rural if any of the following exists:

- Zoned as one of the following - Rural, Rural Residential, RA, Agricultural, or no zoning.
- The appraisal is marked as rural.
- The property is located on a gravel road; and
- Two of the three comparables are located more than 5 miles from the subject property.

Properties considered rural must meet the following requirements:

- Primary Residence and Second Home; and
- Less than or equal to 20 acres

*Refer to **Program Matrix** for specific rural property requirements.*

9.11.20 Septic System and Sewage Disposal System

Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or qualified entity stating:

- Sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property.

For systems one-year-old or less, the certification may be no more than one-year-old on the date of closing. For systems more than one-year old, the certification should be no more than 120 days old on the date of closing.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

10.0 Condominiums

A condominium is a form of ownership in which the interior space is individually owned, and the balance of the property (including land and building) is owned collectively with the other unit owners.

10.1 General Condominium Requirements

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- The subject unit must have at least 500 square feet of living space.
- Contains a full-size kitchen and a minimum of 1 bedroom.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be in an area where acceptability of condominium ownership is demonstrated.
- The project must follow all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.
- Condo projects must have acceptable insurance coverage.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance underwriting or due diligence.
- Projects with pending or threatened litigation are typically ineligible.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- The maximum loan concentration by an individual borrower in a single condo development is 10%.

10.1.1 Ineligible Projects

- Projects comprised of manufactured homes.
- Projects with units used for 'live-work."
- Projects managed and operated as a hotel or motel.
- Projects containing the word hotel or motel in the name.
- Projects that restrict the owner's ability to occupy the unit.
- Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy.
- Projects with non-incidental business operations owned or operated by the homeowners' association (such as a restaurant, spa, health club, etc.)
- Common interest apartments
- Timeshare or segmented ownership projects
- Continuing Care Retirement Communities or Life Care Facilities
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage.

10.1.1.1 Deferred maintenance

Projects with significant deferred maintenance or have received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions are not eligible.

Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:

- Full or partial evacuation of the building to complete repairs in required for more than seven days or an unknown period of time.
- The project has deficiencies, defects, substantial damage, or deferred maintenance that:
  - Are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements; or
  - Has improvements in need of substantial repairs and rehabilitation including many major components; or

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

- Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing; or
- Has critical repairs with on the following characteristics:
- Mold, water intrusions or potentially damaging leaks to the project's building; or
- Unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months. Excludes repairs made by the unit owner or repairs funded through special assessment.

10.2 Condominium Insurance Requirements

10.2.1 Coverage

Borrowers must carry H06 coverage for replacement of such items as flooring, wall coverings, cabinets, fixtures, built-ins, and any improvements made to the unit.
Project meets all Fannie Mae insurance requirements for property liability, and fidelity coverage.

10.2.2 Fidelity of Employee Dishonesty Insurance for Condominiums

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least the sum of three months of assessments on all units in the project is required.

10.2.3 HO-6

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

10.2.4 Deductible

The maximum deductible amount must be no greater than 5% of the face amount of the policy.

10.2.5 Flood Insurance

- The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
  - Building Coverage must equal the lesser of:
    - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
    - The total number of units in the condominium building times $250,000.
- Contents Coverage must equal the lesser of:
  - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
  - The maximum amount of contents coverage sold by the NFIP for a condominium building.

10.3 Condominium Project Reviews

A valid project review is required for all condominium transactions, along with a completed Condominium Project Questionnaire (or equivalent form). The Condominium Project Questionnaire may not be greater than 120 days old at the time of closing.

The project review methods below should be utilized to determine the acceptability of a condominium project:

PERS project approvals: *Fannie Mae Condo Project Manager*

Projects with Fannie Mae® PERS approvals are acceptable and can be found on the Fannie Mae® website. Projects must also meet the General Condominium Requirements and may not be an Ineligible Project. A PERS approval is valid for 18 months from the date of issue and must be valid as of the note date.

New projects are acceptable only with a PERS approval.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

FHA Approved Condominiums: *FHA-Approved Condominium Projects*
Projects with FHA condo approvals are acceptable and can be verified on the HUD website. Projects must also meet the General Condominium Requirements and may not be an Ineligible Project. An FHA condo approval must be valid as of the date of the note.

10.4 Condominium Project Questionnaire Review

For all established condominium projects without valid PERS or FHA approvals, or for projects that do not meet all the requirements of the various project review methods, a Condominium Project Questionnaire Review is required. The completed Condominium Project Questionnaire (or equivalent form) must reflect compliance with the following requirements:

Project must meet the definition of an established condo.

- For investment property transactions only, at least 50% of the total units in the project must be conveyed to purchasers as primary or second homes.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
- No single entity, the same individual, investor group, partnership, or corporation may own more than 20% of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5–20-unit projects, single entity ownership may not exceed 2 units.
- No more than 35% of the total square footage of the project may be used for commercial purposes.
- Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.

10.5 Established Projects

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% of the total units in the project must be owner occupied.
- All phases are completed.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.
- All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

10.6 New Projects

- 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at lease 50% of the units must be owner occupied.
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- HOA should be in control – projects under Developer or Builder control will be considered on a case-by-case basis only.

10.7 Non-Warrantable Condominium

When permitted, a Condominium Project Questionnaire is required.

MAX LTV	Refer to program matrix
Presale	At least 30% of the units must be sold or under bona fide contact
Investor Concentration	Up to 55% of units can be tenant occupied
Single Entity Ownership	A single entity can own up to 30% of units
Reserves	<10% replacement, maintenance, and/or deductible (MIN 5% required)
Material Litigation – Structural/Functional	Ineligible
Delinquent HOA	More than 15% - ineligible
Newley Converted	Ineligible

*Refer to **Program Matrix** for specific non-warrantable condo requirements.*

10.8 Condotels

Projects that are managed and operated as a hotel or motel, even though the units are individually owned.

- A project that includes registration services and offers rentals of units on a daily, weekly, or monthly basis.
- Occupancy Type: Primary, Second Home, or Investment.
- Units must have a minimum of 500 square feet with at least one separate bedroom.
- Unit must have a fully functioning kitchen with stove/oven (cooktop only not permissible)
- 50% of the total units in the project or subject's phase must be sold or under contract.
- All common elements in the project or legal phase must be 100% complete.
- HOA must be in control.
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%
- Property must be located in a resort or metropolitan area.
- Fractional ownership not permitted (including timeshares)
- Mandatory rental pools and/or rental requirements are not permitted. The borrower must have exclusive use of the unit.
- Occupancy restrictions or black-out dates not permitting year-round owner occupancy are not permitted.
- The maximum allowable borrower concentration is 20% ownership of the condo project.
- Project must have obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

*Refer to **Program Matrix** for program eligibility.*

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

11.0 Property Insurance

11.1 Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing.

11.1.1 Deductible Amount

The maximum allowable deductible is the maximum available from the NFIP, which is currently $10,000. The maximum allowed deductible for a PUD or condo project is $25,000.

11.1.2 Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.
The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

11.1.3 Minimum Flood Insurance Coverage

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling; or
- the unpaid principal balance of the mortgage

11.2 Hazard Insurance

Hazard insurance must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement. FCM Mortgage requires hazard insurance protection on all loans. A declaration page is required prior to closing for all loans as proof of insurance. On all refinance transactions, if the coverage termination date is within 30 days of the closing, FCM Mortgage will require evidence of continuing coverage. All borrowers must sign a fully completed loss payable endorsement on all loan transactions.
The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum:

- Wind
- Civil commotion (including riots)
- Smoke
- Hail
- Damages caused by aircraft vehicle or explosions.

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

Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless that have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

The HOI Policy must be effective for at least 60 days after the date of funding.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

11.2.1 Deductible Amount

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

11.2.2 Evidence of Hazard Insurance

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

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

Evidence of Insurance must provide the following information:

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

11.2.3 Rating Requirements

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

- Carriers rated by A.M. Best Company; Inc. must have:
  - "B" or better Financial Strength Rating in Best's Insurance Reports, or
  - "A" or better Financial Strength Rating and a Financial Size Category of "VIII" or greater in Best's Insurance Reports Non-US Edition

- Carriers rated by Demotech, Inc. must have an "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings
- Carriers rated by Kroll's Bond Rating Agency must have a "BBB" or better rating in Kroll Bond Rating Agency's Insurance Financial Strength Rating (IRSR)
- Carriers rated by Standard and Poor's must have a "BBB" or better Insurer Financial Strength Rating in the Standard and Poor's Ratings Direct Insurance Service

12.0 Title/Vesting Requirements

12.1 Title Policy Requirements

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect. Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

The final title policy vesting should reflect the name(s) of the individual borrower(s).

12.1.1 Title Policy Forms

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac

12.1.2 Title Policy Underwriting

A title insurer must be:

- duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as
- an acceptable rating from a rating agency,
- financial strength of the title insurer,
- adequate reserves, or
- record related to satisfactory title claim resolution.

Note: Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa

12.1.3 Gap Coverage

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

12.1.4 Borrower Information

All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than in 1003, the discrepancy must be addressed. The property seller's name must be cross-referenced to the purchase agreement and valuation chain of title.

12.1.5 Coverage Amount

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

12.1.6 Insured Name

Title policy must the seller as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

12.1.7 Age of Report

The preliminary title report/title commitment should be dated no later than 120 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

12.2 Vesting Requirements

Eligible forms of vesting are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter vivos revocable trust.
- Title vesting in an inter vivos revocable trust is permitted when Fannie Mae® requirements are followed.
  - Trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. Trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The Trustee must:

- Be the individual establishing the trust (or at least one of the individuals, if two (2) or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee must have the power to hold the title, and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.

The following documentation is required:

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

12.2.1 Limited Liability Companies, Partnerships, Corporations, and S Corporations

To vest a loan in an Entity, the following requirements must be met:

- Restricted to investment properties only.
- Purpose and activities are limited to ownership and management of real property.
- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) owners or members.
- Personal guaranties (full recourse) must be provided by members representing at least 25% ownership of the entity.
- Each Entity member providing a personal guaranty (full recourse) must complete a FNMA Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of individual(s) providing a personal guaranty needs to be reflected on the FNMA Form 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

The following Entity documentation must be provided:
Limited Liability Company

- Entity Articles of Organization or Partnership
- Certificate of Good Standing or equivalent
- Foreign LLC Certificate of Good Standing or equivalent if entity not formed in subject property state
- Certificate of Authorization for the person executing all documents on behalf of the Entity. The authorization may be determined in an Operating Agreement or other corporate documents. If not, a Borrowing Certificate is required.
  - Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)
- Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
- Tax Identification Number (Employer Identification Number - EIN)
  - Single Member LLC may use EIN or the guarantor social security number.
  - All multi-member LLCs must have an EIN.

Corporation

- Filed Certificate/Articles of Incorporation (and all amendments)
- By-Laws (and all amendments)
- Certificate of Good Standing (Issued by the Secretary of State (SOS) where the Corporation is incorporated)
- Tax Identification Number (EIN)
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation.
- Receipt of current year franchise tax payment or clear search

Partnership

- Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
- Partnership Agreement (and all amendments)
- Certificate of Good Standing (Issued by the SOS where the partnership is registered)
- Tax Identification Number (EIN)
- Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual(s):
  - Loan Application (FNMA Form 1003)
  - Completed for each member of the Entity providing a guarantee.
  - Section labelled “Title will be held in what Name(s)” should be completed with only the LLC name.
  - Personal Guaranty
  - Completed for each member of the entity providing a guarantee.
  - The guaranty should be executed at loan closing and dated the same date as the Note.
  - Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge. See *Spousal Consent* Form.
- Signed by the authorized signer for the entity:
  - Disclosures (e.g., GFE, TIL, ECOA)
  - Any state or federally required settlement statement.
  - Note, Deed of Trust/Mortgage, and all Riders.

12.2.2 Power of Attorney

- Limited Power of Attorney (POA) is acceptable for executing closing documents when it is specific to the transaction and contains an expiration date. Initial 1003 must be signed by the Borrower executing the POA.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

- Not permitted on Cash-Out transactions
- Not permitted on trusts of business entities
- Not permitted for Foreign Nationals
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.

Refer to *Sharp DSCR* for specific requirements.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

13.0 Mortgage Insurance

Not required

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

14.0 Sharp Full Documentation

14.1 Overview

Wage earners and self-employed borrowers documenting income with tax returns.

14.2 Qualifying FICO

To determine the representative score, refer to *Credit Score Requirements*.

14.3 Occupancy

Primary Residence, Second Home and Investment properties

14.4 Wage Earners

Income derived from a consistent hourly, weekly, or monthly wage must verify all of the following:

- W-2s for the most recent 1 or 2 years; and
- Pay stubs covering the most recent 30-day period with year-to-date earnings; and
- Signed and executed 4506-C (W-2 transcripts only); and
- Verbal Verification of Employment (VVOE) completed within 10 business days of closing.

14.5 Self-Employed

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.

Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.

Most recent personal & business tax returns (along with all schedules and K-1's) and YTD P&L from any businesses being used for qualification.

- Evidence of filing required, e.g. e-filing, tax refund, or proof of payment
- Evidence of any IRS filing extensions

Decline in Income

Declining income may be utilized for qualifying with signed letter of explanation from the Borrower.

14.5.1 Business Narrative

Required – Refer to the *Business Narrative Section* of this Guide for requirements.

14.6 Business Existence

Self-employed borrowers only:

- Independent verification of the business through a third party such as a CPA, regulatory agency, or applicable licensing.
- Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing.

14.7 Reserves

*Refer to **Program Matrix** for specific requirements.*

14.8 MAX DTI

*Refer to **Program Matrix** for specific requirements.*

14.9 First Time Homebuyers

*Refer to **Program Matrix** for specific requirements.*

14.10 Housing Payment History

*Refer to **Program Matrix** for specific requirements.*

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

15.0 Sharp Bank Statements – Business

15.1 Overview

Self-employed borrowers(s) may provide either 12- or 24-month most recent business bank statements to determine qualifying income.

15.2 Qualifying FICO

To determine the representative score, refer to *Credit Score Requirements*.

15.3 Occupancy

Primary Residence, Second Home and Investment properties.

15.4 Eligible Borrowers

- Borrowers who can provide evidence of self-employment for 2 years: or
- A minimum of no less than 1 year with evidence the borrower has been in the same line of work for no less than 2 years.
- Business must be in existence for no less than 1 year.

*Refer to **Program Matrix** for program specific requirements regarding less than 2 years self-employed.*

15.5 Business Existence

- Minimum of 1 year business existence must be verified using one of the following:
- Business License,
- Letter from Tax Preparer,
- Secretary of State Filing or equivalent.
- Verification of the business required within 10 calendar days prior to the note date.
- Phone listing with address verified for the borrower's business using the internet.

*Refer to **Program Matrix** for program specific requirements regarding businesses in existence less than 2 years.*

15.6 Business Ownership

- Ownership percent must not be less than 25% and ownership percent must be documented via third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA)), or California Tax Education Council-Registered Tax Preparer (CTEC)), Operating Agreement, or equivalent.

15.7 Evaluating Bank Statements

- Bank statements must be consecutive and reflect the most recent months available. Transaction histories are not acceptable.
- Statements must support stable and generally predictable deposits.
- Deposits must be reviewed for consistency. Inconsistent deposits must be evaluated by underwriting and may require a letter of explanation from the borrower.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
- ATM deposits may be included if there is a consistent pattern of such deposit.
- Accounts must be from a US Financial Institution

15.8 Multiple Accounts

- Up to 3 accounts may be used to determine qualifying income.
- Borrowers with more than 3 separate bank accounts must qualify using personal bank statements.

15.9 Unusual or Large Deposits

- Deposits equal to or exceeding 50% of the qualifying monthly income must be explained by the borrower and evaluated by underwriting.
- Deposits considered excessive or not typical will be eliminated from the qualifying income.
- Disallowed deposits include transfers from lines of credit, loans, rental income, one-time only deposit in 12 months, cash advances from credit cards, returns/refunds.

Underwriter Certification/Justification or notation on the 1008 is required when large deposits are included in the qualifying income.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

15.10 Non-Sufficient Funds

NSFs within the past 12 months that resulted in a fee charged by the financial institution must explained in writing by the borrower and evaluated by the underwriting.

- Transactions covered by overdraft protection do not need to be evaluated.

Underwriter Certification/Justification or notation on the 1008 is required when NSFs within the past 12 months exceed 3.

15.11 Transfers

- Transfers will require evidence that the source of transfer in business-related income.
- Transfers from a personal account will be ineligible.

15.12 Expense Factor

One of three (3) expense factors must be used when determining qualifying income:

15.12.1 Fixed Expense Factor

50%

Qualifying Income	Total Eligible Deposits (X) 50%, (X) Percent of Ownership / 24 or 12 Months = Qualifying Income

15.12.2 Business Expenses Letter

The Expense Letter must:

- Be prepared, signed, and dated by a third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA), or California Tax Education Council-Registered Tax Preparer (CTEC)).
- Include the name of the business.
- Expense Letter must be provided on the Tax Professionals letterhead.
- Expense Letter must specify the business expenses as a percentage of the gross annual sales/revenue.
- Tax Professional must verify the borrower's ownership percentage.
- Borrowers who file their own tax returns would be ineligible from using a Business Expense Letter.
- Tax Professional must attest that they are not related to the Borrower or associated with the Borrowers business.
- The minimum expense ratio is 10%.

Qualifying Income	Total Eligible Deposits (X) Expenses Factor, (X) Percent of Ownership / 24 or 12 Months = Qualifying Income

15.12.3 Profit and Loss (P&L) Statement

- The Profit and Loss must be prepared, signed, and dated by a third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA), or California Tax Education Council-Registered Tax Preparer (CTEC)).
- Tax Professional must verify the borrower's ownership percentage.
- Profit and Loss Statement must cover the same period as the bank statements.
- The monthly gross revenue from the P&L must be supported by the business bank statements provided.
- The minimum expense factor is 10%.

Qualifying Income	Net Income from P&L (less expense factor if applicable) (X) Percent of Ownership/ 24 or 12 Months = Qualifying income.

15.13 Reserves

Refer to the *Reserve Section* of this guide for additional requirements.

15.14 MAX DTI

*Refer to **Program Matrix** for specific requirements.*

15.15 First-Time Homebuyers

Refer to First-Time Homebuyer Section of this guide for requirements.

15.16 Housing Payment History

*Refer to **Program Matrix** for specific requirements.*

15.17 Non-Profit Entities

Ineligible

15.18 Income Combinations

Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

15.19 Declining Income

If bank statements review identify a decline in revenue the underwriter must determine whether the income has stabilized.

- Declining income may be acceptable with a letter of explanation signed by the Borrower.

Underwriter Certification/Justification or notation on the 1008 is required when there is evidence of declining income.

15.20 Gift Funds

Allowed – See Gift Funds Section of this guide for further details.

15.21 4506-C

When qualifying income is combined with other income sources such as wage income a 4506-C and transcripts are required for W-2 earnings only.

15.22 Business Narrative

Required – Refer to the *Business Narrative Section* of this Guide for requirements.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

16.0 Sharp Bank Statements - Personal

16.1 Overview

Self-employed borrowers(s) may provide either 12- or 24-month most recent personal bank statements to determine qualifying income.

16.2 Qualifying FICO

To determine the representative score, refer to *Credit Score Requirements*

16.3 Occupancy

Primary Residence, Second Home and Investment properties

16.4 Length of Self-Employment

*Refer to **Program Matrix** for specific requirements regarding:*

- Length of self-employment; and
- Length of business existence

16.5 Business Existence

Evidence of business existence must be verified using one of the following:

- Business License,
- Letter from Tax Preparer,
- Secretary of State Filing or equivalent.
- Verification of the business required within 10 calendar days prior to the note date.
- Phone listing with address verified for the borrower's business using the internet.

16.6 Business Ownership

Ownership percent must not be less than 25% and ownership percent must be documented via third-party Tax Professional (CPA, Tax Attorney, Enrolled Agent (EA), Paid Tax Professional (PTIN), or California Tax Education Council-Registered Tax Preparer (CTEC)), Operating Agreement, or equivalent.

16.7 Evaluating Bank Statements

- 12 or 24 months complete personal bank statements dated within 30 days of application.
- Transaction histories are not acceptable.
- If the account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded unless sourced.

16.8 Business Bank Statements

2 months business bank statements evidencing:

- Activity to support business operations; and
- Transfers to the personal account

*Refer to **Program Matrix** for specific requirements when business bank statements cannot be provided.*

16.9 Expense Factor

A 10% expense factor must be applied when business bank statements are not provided.

Qualifying Income	Total Eligible Deposits (X) Expenses Factor, (X) Percent of Ownership / 24 or 12 Months = Qualifying Income

16.10 Account Transfers

Transfers will require evidence that the source of transfer in business-related income.

16.11 Multiple Accounts

Only 1 account may be used to determine qualifying income.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

16.12 Income Combinations

Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

16.13 Reserves

Refer to *Reserve Section* of this guide for additional requirements.

16.14 MAX DTI

*Refer to **Program Matrix** for specific program requirements.*

16.15 First-Time Homebuyers

*Refer to **Program Matrix** for specific program requirements.*

16.16 Housing History

*Refer to **Program Matrix** for specific program requirements.*

16.17 Nonprofit Entities

Ineligible

16.18 Gift Funds

Allowed – See *Gift Funds* Section of this guide for further details.

16.19 4506-C

When qualifying income is combined with other income sources such as wage income a 4506-C and transcripts are required for W-2 earnings only.

16.20 Business Narrative Form

Required – Refer to the *Business Narrative Section* of this Guide for requirements.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

17.0 Sharp Debt Service Coverage Ratio (DSCR)

17.1 Overview

Business purpose loans using the monthly cash flow of the property to determine qualifying income.

17.2 Qualifying FICO

The Representative Credit Score is:

- 3 scores reporting - Lowest middle score amongst all borrowers on the loan.
- 2 scores reporting – Lowest score amongst all borrowers on the loan.

17.3 Occupancy

Investment properties only

17.4 Investor Experience

An experienced investor is an individual borrower having a history of owning and managing 1 commercial or non-owner occupied residential real estate property for at least 12 months during the most recent 12 months.

17.5 First Time Investor

Borrowers who have not previously, or currently owned or managed investment properties may be subject to additional requirements.

*Refer to **Program Matrix** for specific requirements.*

17.6 Short Term Rentals

Short term rental (e.g., AIRBNB, VRBO) are properties which are leased on a nightly, weekly, monthly, or seasonal basis.

- Minimum DSCR 1.0
- 5% LTV reduction required.
- 12-month rental history provided by on-line service.
- Evidence of active listing from on-line rental service
- First Time Investors – Not Permitted

17.7 Vacant/Unleased Properties

*Refer to **Program Matrix** for specific requirements.*

17.8 Determining Rental Amounts

17.8.1 Annual Rentals –

- Use the lower of the executed lease agreements or market rents from Fannie Mae Form 1007/1025, or
- If the executed lease agreement reflects a higher monthly rent, the higher amount may be used in the calculation with evidence of the higher amounts being received in the most recent 2 months.

17.8.2 Short Term Rentals –

Use the lower of the 12 months average of short-term rental history or market rent from Fannie Mae Form 1007/1025.
*Refer to **Program Matrix** for specific requirements.*

17.8.3 Vacant Properties –

Monthly Gross Rents are the monthly rents established on Fannie Mae Form 1007 or 1025.
*Refer to **Program Matrix** for specific requirements.*

17.9 DSCR Calculation

Debt Service Coverage Ratio is the Monthly Gross Rents divided by the fully amortizing PITIA (or ITIA for interest-only) payment of the subject property.

Example:
Monthly PITIA = $650.00

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

Estimated Monthly Market Rent = $850.00
Existing Lease Monthly Rent = $1,200.00

Using market rents of $850.00/PITIA $650.00 = DSCR 1.30

Short Term Rentals are subject to 80% of 1007/lease amounts to determine DSCR calculation.

17.10 Rent Loss Insurance

- Rent loss insurance for the subject property is required and must equal at least 6 months of local average monthly rents.
- Blanket policies covering multiple properties including the subject property are permitted.

17.11 Business Purpose/Occupancy Affidavit

The borrower must attest that the loan transaction is a business purpose and does not intend to occupy the subject property by signing the both the Business Purpose and Occupancy Affidavit.

17.12 Property Flips

Not permitted

17.13 Minimum DSCR

*Refer to **Program Matrix** for specific requirements.*

17.14 Mortgage & Rental Verification

- Any derogatory mortgage histories reporting on the credit report will be evaluated into the overall mortgage history.
- Any non-subject, non-primary mortgages not reporting on the credit bureau, additional history is not required.

*Refer to **Program Matrix** for allowable housing related payment history and housing event seasoning requirements.*

17.15 Primary Housing/Rent Free

All borrowers must presently maintain a primary residence. Evidence of primary occupancy is required.

- Borrowers currently rent free are not permitted.

Borrowers who own a primary residence must provide:

- On-line valuation such as Zillow evidencing primary home superior in value and/or appeal to subject.

Borrowers who rent a primary residence must provide:

- Evidence of an active lease in place

Primary residence should be supported by one of the following characteristics:

- Geographically consistent with borrower's place of employment; or
- General appeal and location of primary is superior to subject property.

17.16 Reserves

Refer to Reserves Section of this guide for requirements.

17.17 Assets

Funds for cash to close or reserves do not need to be sourced.

17.18 Gift Funds

Allowed – See *Gift Funds Section* of this guide for further details.

17.19 Maximum Property Acreage

*Refer to **Program Matrix** for allowable acreage.*

17.20 4506-C

Not required

17.21 Loan Application

Must be signed as individuals by all members of the Entity.
Section labelled "Title will be held in what Name(s)" should be completed with only the LLC name.

17.22 Personal Guaranty

Must be completed by each individual member of the Entity.

- The guaranty should be executed at loan closing and dated the same date as the Note.
- Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WI) must be accompanied with the Consent of Spouse Form

17.23 Business Purpose

The borrowers are required to execute the Borrower Purpose & Occupancy Affidavit.

17.24 Business Entity

- Ownership or title vesting in the name of the LLC, Partnership, or Corporation is acceptable.
- Individuals of the entity must qualify as the borrowers; ownership of the subject property may vest in the Entity.
- The borrower must be at least 25% or majority shareholder.

17.25 Business Entity Vesting Requirements

To vest in the Entity, the following requirements must be met:

- Entity created for the purposes of owning and managing real estate.
- Entity limited to a maximum of 4 owners (aka members, partners, or shareholders)
- Each Entity owner must apply as the borrower and complete a l003 as an individual applicant.
- Entity must be domiciled in a US State.

17.26 Power of Attorneys (POA)

Not permitted

17.27 Entity Documents

- Entity Articles of Organization or Partnership
- Certificate of Good Standing or equivalent
- Employer Identification Number (EIN) Verification Form
- Certificate of Authorization for the person executing all documents on behalf of the entity
- Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
- Corporation Specific Documents
- Filed Certificate/Articles of Incorporation (and all amendments)
- By-Laws (and all amendments)

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

18.0 Sharp 1099

18.1 Overview

For self-employed borrowers that do not operate under a corporation formation such as LLC, S-Corp or Partnership.
Examples:
100% commission, sole proprietors, gig workers or independent contractors.

18.2 Qualifying FICO

To determine the representative score, refer to *Credit Score Requirements*.

18.3 Occupancy

Primary Residence, Second Home and Investment properties are eligible.

18.4 Eligible Borrowers

- Borrowers must have been receiving 1099 income for a minimum of 1 year.
- The borrower must be in the same line of work for no less than 2 years.

18.5 Expense Factor

- 10% expense factor; or
- Written Verification of Employment (WVOE) may be obtained directly from the employer specifically stating the borrower is not required to pay for un-reimbursed work related or business expenses.

18.6 Evidence of Receipt

Most recent 30 days paystubs with YTD earnings.

18.7 Qualifying Income

12-month average from 1099 (less expense factor if applicable).

18.8 Reserves

Refer to the *Reserve Section* of this guide for additional requirements.

18.9 MAX DTI

Refer to program matrix.

18.10 Income Combinations

Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

18.11 Gift Funds

Allowed – See *Gift Funds Section* of this guide for further details.

18.12 Tax Returns and 4506-C

- Tax returns are not required.
- 4506-C - 1099s are validated with a wage and income transcript from the IRS.

18.13 Business Narrative

Required – Refer to the Business Narrative Section of this Guide for requirements.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

19.0 Sharp Profit and Loss

19.1 Overview
Self-employed borrowers(s) may provide a 12-month, 3rd party prepared P&L to determine qualifying income.

19.2 Qualifying FICO
To determine the representative score, refer to *Credit Score Requirements*.

19.3 Occupancy
Primary Residence, Second Home and Investment properties are eligible.

19.4 Eligible Borrowers
Borrowers must be self-employed for a minimum of 2 years.

19.5 Business Existence
Minimum of 1 year business existence must be verified using one of the following:
- Business License,
- Letter from Third-party (CPA, Enrolled Agent (EA), or Tax Attorney).
- Secretary of State Filing or equivalent.

A verification of the business is required within 10 calendar days prior to the note date.

19.6 Business Ownership
The borrower must have a minimum of 25% ownership interest in the company the Profit and Loss is being prepared for and the percentage must be documented via third-party Tax Professional (CPA, Enrolled Agent (EA)), or Tax Attorney), Operating Agreement, or equivalent.

PTIN preparers will not be accepted.

19.7 Profit and Loss Statement
- P&L must cover the most recent 12 months and be prepared by a Third-party Tax Professional, (CPA, Enrolled Agent (EA)), or Tax Attorney.
  - PTIN preparers will not be accepted.
- P&L must be signed by both the borrower and Tax Professional
- Third-party Tax Professional (CPA, Enrolled Agent (EA), or Tax Attorney) must attest to:
  - Filing the borrowers most recent tax returns
  - Analyzed the borrower's business financial statements to prepare the P&L.
  - Whether or not there is a relationship or affiliation with the borrower and/or business.
- Borrowers who self-prepare their own taxes are ineligible under this program.

19.8 Business Bank Statements – Tolarance Test
Most recent 2 months statements required.
- Total deposits from the bank statements must be with 35% of gross receipts listed on the Profit and Loss Statement.
  - Abnormal or large deposits evidenced in the bank statements must be explained by the borrower and the underwriter must notate the 1008 with justification when including amounts or amounts to be excluded.

19.9 Qualifying Income
Net income from the P&L, less the percent of ownership, divided by12 months.

19.10 Reserves
Refer to the *Reserve Section* of this guide for requirements.

19.11 MAX DTI
Refer to program matrix.

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

19.12 Income Combinations

Additional sources of income permitted when income type is documented and evaluated in accordance with this guide.

19.13 Gift Funds

Allowed – See *Gift Funds Section* of this guide for further details.

19.14 4506-C

Not Required

19.15 Business Narrative

Required

20.0 Sharp Asset Utilization

20.1 Overview

Assets may be used to determine qualifying income both alone and in conjunction with other income documentation (e.g. Wage Earner income).

Asset Utilization – Qualifying income determined using assets only.

Asset Supplementation – Assets used in combination with other income.

20.2 Qualifying FICO

To determine the representative score, refer to *Credit Score Requirements*.

20.3 Occupancy

Primary Residence, Second Home and Investment properties

20.4 Asset Seasoning

All eligible assets must be seasoned for a minimum of 6 months.

- Increases or decreases of ending balance from month 1 to ending balance of month 6 of 15% or more must be explained by the borrower and the underwriter must notate the 1008 with the justification of the fluctuation.

20.5 Minimum Requires Assets

The lesser of 1.5x the loan amount or $1MM.

20.6 Business Assets

Funds held in a business account are not eligible.

20.7 Qualifying Assets

The following personal assets are considered qualified assets and can be utilized to determine qualifying income:

- 100% of checking, savings, or money market accounts
- 70% of stocks, bonds, mutual funds
- Retirement Accounts
  - 70% of the vested balance when the borrowers age is ≥59 ½.
  - 60% of the vested balance when the borrowers age is <59 ½.

20.8 Calculating Qualifying Income

Total qualified assets, less down payment, closing costs, and required reserves, divided by program permitted months = qualifying income.

Total Qualified Assets	$1.7MM
- Down Payment	$100,000
- Closing Costs	$20,000
- Reserves	$20,000
Qualifying Income	**$1,560,000** Annualized over 12 months = $130,000

*Refer to **Program Matrix** for program permitted months.*

20.9 Reserves

Refer to *the* *Reserve Section* of this guide for requirements.

20.10 Debt-to-Income

*Refer to the **Program Matrix** for requirements.*

20.11 Gift Funds

Not permitted

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

20.12 Asset Documentation

All individuals listed on the account must be on loan.

21.0 Forms

The forms provided herein and identified in this section, are provided as example forms required for certain loans, in specific instances.

21.1 Self-Employed Business Narrative

SELF-EMPLOYED BUSINESS NARRATIVE FORM

Borrower Name: ______ Date: ______ Business Name: ______ Website: ______

Business Address: ______ Bus. Start Date: ______ Legal Structure (Partnership, Corp., LLC): ______

Is the Business Address different than the home address: Yes No

Business Ownership (%): ______ If less than 100%, who owns the remaining portion, and what percent? ______

Does the business have a physical location?
- ○ Yes
- ○ No

If more than 1 location, please specify. ______

Business Description: ______

Does Business Provide Sales of Goods, Services, or Both? ______

Location Type:
- ○ Commercial
- ○ Residential

Number of Employees:

Full Time ______

Part Time ______

Contractors ______

Any special considerations you would like to communicate to First Colony Mortgage regarding your bank statements, including source of deposits, wires, or withdrawals? ______

I/We hereby certify that the information provided in this form is true, accurate and complete. I/We understand that any misrepresentation made in this document may result in the loan application being declined.

Title: ______ Name: ______ Date: ______ Signature:

Rev. [illegible]

21.2 Business Purpose & Occupancy Affidavit

Business Purpose & Occupancy Affidavit (The "Affidavit")

Loan No: (the "Loan") ____________________

Borrower(s):____________________

Property Address: (the "Property") ____________________

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. I have applied for this Loan and am seeking financing for the Property for business purposes only. I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. The proceeds of the loan will be used to purchase, improve, or maintain the Property, and I intend to operate the Property as one or more rental units for profit. If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will, use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. I understand that Lender originating the Loan in reliance upon this Affidavit. If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an Event of Default under my Loan Documents, and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. I understand that the agreements and covenants contained herein shall survive the closing of the Loan.
6. I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by nonowner-occupied real property. I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the federal Truth-in-Lending Act (15 U.S.C. §§ 1601 et seq.) and its implementing Regulation Z (12 C.F.R. Part 1026), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.
7. I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.

Initial(s) __________ __________ __________ __________

The Property is not and will not be occupied by me or any member of the LLC or any family member

Borrower(s) / Borrowing Entity Members Signature: ____________________

Date:____________________

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

21.3 Personal Guaranty Agreement

Personal Guaranty Agreement

In consideration of ______________________________having its principal place of business at agreeing to lend the sum of _________________________ (loan amount) to____________________________ (the Guarantor), does hereby unconditionally guarantee to ____ its successor or assignee, as their interest may appear (the "Mortgagee"), jointly and severally with other guarantors, the payment of the loan when due (at maturity, by acceleration or otherwise), and any and all attorney's fees, costs, damages and expenses suffered or incurred by________________________________ rising out of the making of said mortgage, in the amount of ____________________________ and interest, plus attorney's fees, costs, damages and expenses, and any and all extensions and renewals thereof.

The liability of the undersigned shall exist and continue to exist whether or not the signature or name of the undersigned appears on any evidence of indebtedness from the borrower to the Mortgagee. The undersigned hereby waives notice of the acceptance of this guaranty and of any demand for payment hereunder, presentment, demand, protest, dishonor, or default or notice thereof with respect to the above transaction.

The undersigned agrees to be liable and pay for any deficiency if the note holder forecloses the mortgage securing the note pursuant to the terms of the mortgage and the proceeds received under a foreclosure proceeding, after deduction for expenses, are not sufficient to satisfy the indebtedness of the Borrower.

No extension of time or forbearance on the part of the Mortgagee with respect to the mortgage or modification of the terms and provisions of the mortgage shall operate to release any of the Guarantor's obligations hereunder nor shall any delay on the part of the Mortgagee in exercising any of its options, powers or rights under the mortgage or hereunder or a partial or single exercise thereof constitute a waiver of any other rights hereunder.

This guaranty shall be construed as an absolute, continuing and unlimited guaranty of payment without regard to the regularity, validity, or enforceability of any liability of and obligation of the Borrower hereby guaranteed; and the Mortgagee shall not be required to proceed first against the Borrower or any other person, firm or corporation or any collateral Security held by the Mortgagee to be deemed cumulative and the availing of one remedy or another not to be deemed an election of remedy.

Borrowing Entity ___________________

By Guarantor _____________________

Print Name:______________________

Date: ___________________________

(State of): ________________________

(County of) ss: _____________________

On the _______ (date) before me, the undersigned, a Notary Public in and for said State, personally appeared ____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is(are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

____

Notary Public Signature

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com

21.4 Consent of Spouse

CONSENT OF SPOUSE

I,___________________ spouse of ________________acknowledge that I have read the __________**[Guaranty]** dated as of_____________ **[Closing Date]**, by ___________________**[Name of Guarantor]** (the "Guaranty"), and that I know the contents of the Guaranty. I am aware that the Guaranty contains provisions guaranteeing amounts for the benefit of __________________**[Name of Borrower]** ("Borrower") and in support of that certain promissory note incurred by Borrower and payable to the order of ____________________ **[Name of Seller]** ("Seller"), as well as other obligations under the Guaranty:

I hereby expressly approve of the Guaranty in its entirety, including, but not limited to, that my spouse guarantees to Seller the full and prompt payment when due, whether at the Maturity Date or earlier, the entire amount due under the promissory note (as defined in the Guaranty).

I am aware that the legal and related matters contained in the Guaranty are complex and that I have been advised to seek independent professional guidance or counsel with respect to this Consent. I have either sought such guidance or counsel or determined after reviewing the Guaranty carefully that I will, and hereby do, waive such right.

Signed ______________________________________

Name of Spouse ______________________________

Spouse Address ______________________________

State of __________________________

County of _________________________

The foregoing instrument was acknowledged before me on this _____________, 20____ by _______________________________________ (spouse).

(Notary Seal)

Signature of Notary Public

2100 W. PLEASANT GROVE BLVD.
SUITE 100
PLEASANT GROVE, UT 84062
801-226-7456 | fcmtpo.com