FCMTPO

LENDING GUIDELINES

LUX AUS

April 22, 2024

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SUITE 100
PLEASANT GROVE, UT 84062
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NMLS#3112

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1.0 Fair Lending Statement

Federal law prohibits discrimination in connection with the origination of 1-4 family mortgage loans. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. Also, the Fair Housing Act prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and disability.

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2.0 Underwriting Philosophy

All loans must be prudently underwritten utilizing the FCM TPO program guidelines and industry standard best practices. DU Approve/Eligible, LPA Accept or DU Approve/Ineligible, LPA Accept/Ineligible for loan amount. All data points on the AUS should represent the loan attributes with the exception of the FCT TPO guideline overlays contained in this guideline. PIW waiver based on AUS recommendation is not allowed. Refer to Appendix A for a summary of overlays.

All loans must be in compliance with the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules established by the Consumer Financial Protection Bureau ("CFPB") as well as all regulatory compliance regulations.

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3.0 Products

3.1 Products Offered

This product description describes product guidelines and requirements for the following FCM TPO loan programs:

- Fully Amortizing Fixed Rate 15- and 30-year terms.
- Fully Amortizing 5yr/6m, 7yr/6m, and 10yr/6m SOFR ARM's.
  - 5yr/6m ARM qualified at the higher of the maximum potential Note rate after first adjustment or the fully indexed rate. The fully indexed rate is the sum of the index and the margin.
  - 7yr/6m and 10yr/6m ARM products are qualified at the Note rate.
- Interest Only Fixed Rate 30-year term.
  - Fixed Rate 30-year term (10 Year I/O, qualified using payment based on 20-year amortization including the principal component of the payment)
- Notes and Riders
  - Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for closing documentation. In the case when Fannie Mae doesn't offer current documentation, such as interest only products, a document vendor, such as Doc Magic or Ellie Mae should be utilized for forms.
- No Mortgage Insurance allowed.

NOTE: Refer to program matrix for specific offerings

3.2 ARM Parameters (30 Year Fully Amortizing)

3.2.1 5yr/6m SOFR ARM

The interest rate will be fixed for an initial period of five (5) years (60 payments). The initial rate change will take place effective as of the sixty-first (61st) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

3.2.2 7yr/6m SOFR ARM

The interest rate will be fixed for an initial period of seven (7) years (84 payments). The initial rate change will take place effective as of the eighty-fifth (85th) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

3.2.3 10yr/6m SOFR ARM

The interest rate will be fixed for an initial period of ten (10) years (120 payments). The initial rate change will take place effective as of the one hundred and twenty first (121st) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

3.2.4 Index

30 Day Average SOFR Index as published by the New York Federal Reserve.

3.2.5 Margin

The margin that is available is:

- 2.75% or 3.00%

3.2.6 Interest Rate Caps

The floor is equal to the margin.

NOTE: Refer to program matrix for specific offerings

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4.0 Regulatory Compliance

Loans must be originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws and regulations including without limitation the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules effective 3/1/21, the TILA-RESPA Integrated Disclosure (TRID) rule effective 10/3/15 and the laws and regulations listed below. All loans must be designated Safe Harbor QM (APR/APOR spread not equal to or greater than 1.5%) and Verification Safe Harbor QM as defined by § 1026.43 except interest only loans. Interest only loans will be classified as Non-QM and must not be high cost by federal or state definition (HOEPA, § 1026.32) or a higher priced mortgage loan (HPML, § 1026.35) and the points and fees are limited to 5% of the total loan amount, as determined by § 1026.32.

- Regulation X – RESPA
- Regulation Z – Truth in Lending
- Regulation G – SAFE Act – Federal Licensing and Registration
- Regulation H- SAFE Act - State Licensing and Regulation
- Regulation V – Fair Credit Reporting
- Regulation B – Equal Credit Opportunity
- Regulation P – Privacy of Consumer Financial Information (GLB)
- USA Patriot Act
- Fair Housing Act
- Dodd-Frank Act
- Federal high-cost loan regulations.
- State, local and county high cost and usury regulations.
- National Flood Insurance Act.

All applicable closing documentation and disclosures pertaining to the above regulations should be included in the closed file submission.

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5.0 Borrower Eligibility

Borrowers must have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower. All borrowers must have a valid social security number.

5.1 Eligible Borrowers

- U.S. Citizens
- Permanent resident aliens
  - Copy of valid resident alien card must be included in loan file.
- Non-permanent resident aliens
  - Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows:
  - E Series (E-1, E-2, E-3)
  - G Series (G-1, G-2, G-3, G-4, G-5)
  - H Series (H-1B, H-1C)
  - L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
  - NATO Series (NATO 1 – 6)
  - O Series (O-1)
  - TN-1, Canadian NAFTA visa
  - TN-2, Mexican NAFTA visa

See *USCIS.gov* for more information.

Must have a history of visa renewals and a minimum of two (2) year employment history in the U.S. Qualifying income must be from the U.S.

- Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document.
- Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.

5.1.1 Inter-Vivos Revocable Trusts

- Trust must be established by one or more natural persons, individually or jointly.
- The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
- 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.
- At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
- The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

5.2 Illinois Land Trusts

- Not eligible.

5.3 First Time Homebuyers

A first-time homebuyer is defined as a borrower who has not had ownership interest in a property within the last three (3) years from the application date. FCT TPO does not allow the use of verification of asset reports to identify recurring rent payments to potentially enhance the AUS credit assessment.

- Owner-occupied only.
- Maximum 80% LTV/CLTV.
- Maximum loan amount $2,000,000.
- Interest only not allowed.
- Maximum of four (4) borrowers per loan.

Co-borrowers on the transaction that is not defined as a first-time homebuyer the above restrictions do not apply.

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5.4 Ineligible Borrowers

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Borrowers who are party to a lawsuit.
- Borrowers with Diplomatic Immunity.
- Foreign Nationals.

5.5 Multiple Financed Properties

Per AUS

5.6 Ownership

Ownership must be fee simple only and must be in the name of the individual Borrower(s) or Trust. Borrower(s) may hold title as follows:

- Individual
- Joint Tenants

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6.0 Occupancy

6.1 Primary Residence

A primary residence is the property the borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any given time.

6.2 Second Home

The property must be occupied by the borrower from time-to-time and is suitable for year-round use. Typically, the property is located in either a resort or vacation area or for convenience in a city where the borrower works when the primary residence is in a distant suburb.

- 1 unit detached, attached, PUD, eligible condominiums and eligible New York cooperatives.
- Property may not be a time share or subject to a rental agreement.
- The property must be a reasonable distance from the borrower's primary residence.
- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days.
- Rental income from a second home cannot be used to qualify the borrower.

6.3 Investment Properties

An investment property is owned by the borrower but is not occupied by the borrower.

- 1-4 unit detached, attached, PUD, and eligible condominiums.

For cash-out refinance transactions of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the improvement or maintenance of a rental property is required. See Appendix B for form of Affidavit. Loans delivered without the affidavit will be subject to TILA compliance.

Cash out loan proceeds used for any personal use are not eligible as a Business Purpose loan and will be subject to TILA compliance.

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7.0 Eligible Transaction Types

7.1 Purchase

Must adhere to Agency guidelines.

- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If Seller has taken title to the subject property ninety (90) days or less prior to the date of sales contract the following requirements apply.
  - The property seller on the purchase contract is the owner of record.
  - LTV/CLTV will be based on the lesser of the prior sales price, current purchase price or the current appraised value.

Loans that are bank or relocation sales are exempt from the above requirements.

- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property.

7.2 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 the mortgage without advancing new money on the loan.

- Cash back to the borrower is limited to the lesser of $2,000 or 1% of the new loan.

Proceeds from the transaction may be used to payoff:

- Principal balance of the existing first lien.
- A purchase second lien and non-purchase second lien
- A co-owner pursuant to a written agreement.

The new loan may include the amount of prepaid items and closing costs.

7.2.1 Seasoning Requirements

- Payoff of purchase money first and/or second lien – no seasoning required.
- Payoff of a previous cash-out requires a minimum of 6 months seasoning (note to note date).
- Payoff of non-purchase second lien requires a minimum of 12 months seasoning from date of application.
  - When second lien is a HELOC/Line of Credit, evidence of no draws exceeding $2,000 in the past 12 months from the date of the application will be required.

7.2.2 Determining the Loan-To-Value

Loan-To-Value will be determined as follows:

Determining the Loan-To-Value	
Acquisition	**Valuation**
<= 6 months ago (Note to Note date)	Lesser of the original sales price or appraised value
> 6 months ago (Note to Note date)	Appraised value

7.2.3 Properties Listed for Sale

Properties currently listed for sale must be withdrawn prior to closing.

7.3 Cash-Out Refinance

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Existing second lien 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.

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- Additional cash in hand reflected on the settlement statement.

7.3.1 Seasoning Requirements

A minimum of 12 months from the later of:

- The original purchase; or
- Any subsequent first lien refinance transactions
  - Standalone second liens do not need to be included in the seasoning requirements

A minimum of 6 months seasoning is required when:

- The property is owned free and clear; or
- The borrower can document the property was acquired through an inheritance or buying out a co-owner pursuant to a legal agreement.

7.3.2 Determining the Loan-To-Value

The current appraised value may be used to determine the loan to value.

7.3.3 Properties Listed for Sale

Properties currently listed for sale must be withdrawn prior to closing.

7.3.4 Ineligible

Texas 50(a) (6) loans

7.4 Continuity of Obligation

For a refinance transaction to be eligible there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction.

Continuity of obligation is met when any one of the following exists:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently been legally awarded, the property (divorce, separation or dissolution of a domestic partnership).

Loans with an acceptable continuity of obligation may be underwritten, priced and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

7.5 Delayed Financing Refinance

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds were used to pay off or pay down the loan used to purchase the property. Funds received as gifts and used to purchase the property may not be reimbursed with the proceeds of the new loan. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas.

A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property.

7.6 Contract for Deed/Land Contract

Contracts for Deed/Land Contracts are ineligible.

7.7 Construction Loan Refinancing

Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:

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- Only the permanent financing on a construction to perm loan is eligible. Single closing construction permanent loan refinances are ineligible.
- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.
- The LTV/CLTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV/CLTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- Construction loan refinances in which the borrower has acted as builder are not eligible for purchase.

7.8 Non-Arm's Length Transaction

All of the parties to a transaction should be independent of one another. Except as indicated below if a direct relationship exists between or among the parties, the transaction is non-arm's length, and the related loan is not eligible for purchase. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:

- Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent.
- The borrower acting as his or her own real estate agent.
- The borrower is the employee of the originating lender.
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
- Investment property transactions must be arm's length.

For non-arm's length circumstances not specifically addressed above, please contact Underwriting for assistance as other transactions may be eligible on a case-by-case basis.

7.9 Lock Seasoning

To be eligible, the period between the closing date and the lock date cannot exceed 90 days.

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8.0 Credit Documentation Requirements

Unless expressly stated within this Guide follow AUS to evaluate and document credit.

8.1 Credit Documents Age

Follow AUS.

8.2 Credit Score

- The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian and TransUnion).
- For multiple borrowers the credit score is the lowest of all representative credit scores.
- If only one credit score or no credit score is reported borrower is not eligible. A minimum of two credit scores is required.
- No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.
- Credit rescores are not permitted unless the rescore is correcting erroneous line items or disputed accounts.

Note: Refer to the product matrix for minimum credit score requirements.

8.3 Minimum Credit Requirements

Follow AUS

8.4 Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required with 0 x 30 payment history.
- For rental verification, a standard VOR completed by a professional management company or 24 months bank statements/canceled checks and a lease agreement to document the term and payment are required.
- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.
- If the housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.

8.5 Credit Inquiries

All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.

- Borrower must be qualified with any new debt.

8.6 Liens, Judgments and Collections

- A satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lien position.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $1000.00 or if there are multiple accounts the total balance of all accounts cannot exceed $2,500.00.

8.7 Foreclosure, Deed-In-Lieu of Foreclosure, Bankruptcy, Short Sales and Modifications

At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale, deed-in-lieu or modification measured from the date of completion to the date of application.

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9.0 Employment and Income

Unless expressly stated within this Guide follow AUS to determine and document employment and income. All loan files should include an Income Analysis for detailing income calculations.

9.1 Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment history on the 1003.

9.2 Income Documentation Requirements

9.2.1 Salaried Borrowers

- Follow AUS
- Completed, signed and dated final Uniform Residential Mortgage Application. Most current forms must be used.
- Signed IRS Form 4506C.

9.2.1.1 Salaried Borrowers with Commission/Bonus Income

Commission income must be documented with a written VOE breaking down the bonus or commission income for the past 2 years or a year-to-date paystub and W-2's supporting the income. Commission/Bonus income with less than a 2-year history may not be used for qualification.

9.2.1.2 Verbal VOE – Current Employment

Verbal VOE of current employment documented in writing or via email is required to be obtained either no more than ten (10) business days prior to the Note Date. If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the verbal VOE requirements above and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note Date.

9.2.1.3 Tax Transcripts

Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. Wage transcripts are acceptable for W-2 borrowers. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

9.2.2 Self-Employed Borrowers

Borrowers with a 25% or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.

- Follow AUS
- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- Signed IRS Form 4506C.

Additional Requirements for P&L, Balance Sheet, and Business Bank Statements for Self-Employment Income used to Qualify:

Underwriters should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:

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1.	An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; and
2.	Balance Sheet.
OR	
1.	An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date; and
2.	Business bank statements from the most recent three months represented on the year-to-date P&L (see example below); and
3.	Balance Sheet.

Example: The business bank statements should be from March through May 2021 for a year-to-date profit and loss statement dated through May 31, 2021.

- The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the underwriter must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

9.2.2.1 Small Business Administration (SBA) Loans and Grant Requirements

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.

Proceeds from the PPP loan must not be included as business income or assets.

PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.

Follow all requirements in this section for underwriting self-employed borrowers.

9.2.2.2 Business Verification

The existence of the borrower's business must be verified in writing either no more than ten (10) business days prior to the Note Date. Methods of verifying the business include verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. Internet listings are not an acceptable source of verification.

9.2.2.3 Tax Transcripts

Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. The borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

9.3 Other Income

For all other acceptable income sources.

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- Follow AUS.

9.4 Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Restricted stock income (RSU).
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.
- Retained earnings.
- Automobile allowances.
- Virtual Currency

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10.0 Debts and Liabilities

Unless expressly stated within this Guide follow AUS to evaluate and document debts and liabilities.

10.1 Debt-to-Income

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The underwriter must ensure that all liabilities are included in qualifying.

Refer to the Product Matrix for the maximum allowable DTI.

10.2 Installment Debt

Follow AUS.

10.3 Revolving Debt

Follow AUS.

10.4 Home Equity Line of Credit (HELOC)

- For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.
- Subordination of HELOC loans is permitted up to a maximum of CLTV per matrix. The CLTV should be calculated using the full amount of any HELOCs (whether funds have been drawn).

10.5 Pending Sale of Departure Residence/Conversion of Departing Residence

Follow AUS.

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11.0 Assets

11.1 Source of Funds

Follow AUS.

- Gifts of equity are not allowed.

11.2 Reserves

Reserves must be verified and comprised of liquid assets that the borrower can readily access. Equity lines of credit, gift funds, business assets and cash out from the subject property on refinance transactions are not acceptable sources to meet the reserve requirement.

Refer to program matrix for required reserves.

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NMLS#3112

12.0 Property

12.1 Eligible Property Types

- 1-4 unit attached/detached owner-occupied and non-owner-occupied properties.
- 1-unit second homes.
- Low/mid/high-rise new and established agency warrantable condominiums. Condominiums with HOA in litigation are ineligible. Minimum square footage 400.
- Planned Unit Development (PUD).
- Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparables with similar acreage.

12.2 Ineligible Property Types

Manufactured Homes	Factory Built Housing	Geodesic/Dome Homes	Properties held as Leasehold
Condo Hotels	Log Homes	Non-Warrantable Condos	Timeshares
Unique Properties	Mixed Use Properties	Commercially Zoned Properties	Agriculturally Zoned Properties
Agriculturally/Residential	Rural Zoned Properties	Properties w/Oil or gas leases	>20 Acres
Working Farms	Mobile Homes	Properties Located in Puerto Rico, Guam, and US Virgin Islands	

12.3 Declining Markets

Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.

12.4 Land-to-Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

12.5 Appraisal Requirements

All appraisals must be completed on the most current Agency appraisal and conform to Agency appraisal practices and eligibility requirements.

- Property Inspection Waiver (PIW)/Value Acceptance, value acceptance + property data and hybrid appraisals are not allowed.
- Properties must be appraised within the twelve months that precede the date of the Note and Mortgage.
- Two (2) full appraisals are required for loan amounts >$2,000,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisals transferred or assigned from another lender are not acceptable.
- Appraisals must not be over 120 days old from the date of the Note. If the appraisal is over 120 days old a recertification of value needs to be performed.

12.6 Third Party Appraisal Review

A Collateral Desktop Analysis (CDA) from Clear Capital must be ordered for each loan with a collateral underwriter score greater than 2.5. A CDA is not required for loans with two appraisals, regardless of the collateral underwriter score.

- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.

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NMLS#3112

- If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible; unless, Field Review has been ordered and supports the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible.
- All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not provide relief from representations and warranties relating to the property and the appraisal including the underwriting thereof.

12.7 Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone to be eligible:

- If the property is in a zone where a Disaster End Date has been declared by FEMA, a post disaster inspection prior to closing to confirm the property value has not been impacted by the disaster.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current known fire boundaries.

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13.0 Additional Loan Attributes and Policies

13.1 Subordinate Financing

Allowed up to maximum CLTV per matrix. Secondary financing terms must conform to Agency guidelines.

- The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOCs (whether or not funds have been drawn).

13.2 Chain of Title

All transactions require a minimum twelve (12) month chain of title.

13.3 Balloon Mortgage

Balloon Mortgages are ineligible

13.4 Recasting/Re-Amortizing

Recasting or re-amortization of loans are ineligible

13.5 Prepayment Penalty

Loans with prepayment penalties are ineligible

13.6 Interested Party Contributions

Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.

LTV	Primary Residence/2nd Homes	Investment Properties
75.01% - 89.99%	6%	2%
≤ 75%	9%	2%

13.7 Seller Concessions/Contributions

Seller contributions in excess of the interested party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. The amount of the seller concession must be deducted from the purchase price and appraised value to determine the LTV.

13.8 HERO/PACE/Solar Panels

Any item that will include a UCC associated with the property and/or will create an easement on title is ineligible.

- Payoff of a HERO lien is considered cash-out.

13.9 Hazard Insurance

Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.

- Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

13.10 Escrows

Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.

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- All applicable loans must adhere to HFIAA regarding mandatory flood insurance escrow requirements for properties located in a Special Flood Hazard Area.
- Escrow holdbacks are not allowed.

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NMLS#3112

14.0 Title and Closing Documents

14.1 Forms

All Notes, security instruments, riders, addenda and special purpose documents used in connection with fully amortizing one to two family conventional first mortgages delivered to the Exchange must be prepared on approved Agency forms unless this guide specifically requires otherwise. See most recent Fannie Mae and Freddie Mac Selling Guides for reference.

- Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument.

14.2 Title

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the underwriter must ensure that those amendments provide the same coverage.

The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, and ARM loan types.

- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- The title insurance policy must ensure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- Any existing tax or mechanic's liens must be paid in full through escrow.

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NMLS#3112

Appendix A

Summary of Program Overlays to AUS and Fannie Mae/Freddie Mac Guidelines

Please reference guidelines for complete requirements.

Eligibility

- Minimum credit score, maximum DTI, maximum cash-out and reserves as per program matrix.
- A minimum of two credit scores is required for each borrower.
- Credit rescores are not permitted unless the rescore is correcting erroneous line items or disputed accounts.

First Time Homebuyers

FCM TPO does not allow the use of verification of asset reports to identify recurring rent payments to potentially enhance the AUS credit assessment.

- Owner-occupied property only.
- Maximum 80% LTV/CLTV.
- Maximum loan amount $2,000,000.
- Interest only not allowed.

Ineligible Borrowers

- Refer to section for overlays.

Business Purpose and Occupancy Affidavit

- For cash-out refinances of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the improvement or maintenance of a rental property is required. Loans delivered without the affidavit will be subject to TILA compliance.

Cash-Out Refinance

- Texas 50(a)(6) loans are ineligible.
- Cash-out is limited to the maximum amount stated on the Product Matrix.

Continuity of Obligation

- For a refinance transaction to be eligible there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction. See section for full requirements.

Delayed Financing

- Delayed financing refinances in which the borrowers purchased the subject property for cash must be within 90 days of application date. A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property.

Contract for Deed/Land Contract

- Contract for Deed/Land Contracts are ineligible.

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NMLS#3112

Non-ARM's Length Transaction

- If a direct relationship exists between or among the parties, the transaction is non-arm's length and the related loan is not eligible. See section for full requirements.

Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required with 0 x 30 payment history.
- If the housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.
- For rental verification, a standard VOR completed by a professional management company or 24 months bank statements or canceled checks and a lease agreement to document the term and payment are required.

Liens, Judgements and Collections

- Requirements for the treatment of liens, judgements, and collections. See section for full requirements.

Credit Events

- At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale, deed-in-lieu or modification measured from the date of completion to the date of application.

Income Documentation Requirements

- Commission/Bonus income with less than a 2-year history may not be used for qualification.
- Business Verification: Underwriter must verify the existence of the borrower's business in writing no more than ten (10) business days prior to the Note Date. Internet listings are not an acceptable source of verification.
- Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification.

Unacceptable Income

- Refer to section for overlays.

Source of Funds

- Gifts of equity are ineligible.

Cash Reserves

- The greater of the AUS reserve requirements or the reserve requirements in the Product Matrix are required. If AUS does not provide reserve requirements follow the Product Matrix reserve requirements. Business assets are not an acceptable source to meet the reserve requirements.

Property

Refer to guide section for overlays on the following:

- Eligible Properties
- Ineligible Properties
- Minimum square footage
- Appraisal requirements
- Third-party appraisal review requirements
- Properties located in FEMA declared disaster area

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Eligible Property Types

- Condos in litigation are ineligible

Declining Markets

- Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.

Additional Loan Attributes and Policies

- Refer to section for overlays.

HERO

- Payoff of HERO lien is considered cash-out.

FraudGuard

- Report of similar must be included in each file submission. The report should include a comparison of all participant names against industry watch and exclusionary list such as OFAC.

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