

# LENDING GUIDELINES

LUX AUS

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## **1.0 Fair Lending Statement**

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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.

## **2.0 Underwriting Philosophy**

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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.

## 3.0 Products

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### 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

## **4.0 Regulatory Compliance**

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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 and the TILA-RESPA Integrated Disclosure (TRID) rule effective 10/3/15. 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.

## **5.0 Borrower Eligibility**

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Follow the AUS and applicable current Agency Selling Guideline requirements unless otherwise addressed.

A comprehensive fraud report (FraudGuard or similar) must be included in each file. The report must provide loan-level information on valuation, fraud detection and include a comparison of all participant names against industry watch and exclusionary list such as OFAC. All red flags on the report must be addressed and cleared.

### **5.1 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.

### **5.2 Ineligible Borrowers**

The following borrowers are ineligible:

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Borrowers who are party to a lawsuit.
- Borrowers with Diplomatic Immunity.
- Foreign Nationals.

### **5.3 Multiple Financed Properties**

Follow AUS

### **5.4 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



## **6.0 Occupancy**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

## **7.0 Transaction Types**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

- Shared appreciation loans not permitted.
- The assignment of a purchase contract is not eligible unless the transferor is a family member and there is no change to the purchase price.
- Texas 50 (a)(6) loans are not eligible
- Single-Close Construction-to-permanent financing is not eligible.

### **7.1 Cash-Out Refinances**

- For cash-out refinance transactions of an investment property a borrower signed a 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 loan proceeds used for any personal use are not eligible as a Business Purpose loan and will be subject to TILA compliance.

### **7.2 Lock Seasoning**

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

## **8.0 Credit Documentation Requirements**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified 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).
- Averaging credit scores to determine is not permitted.
- 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.
- Credit rescoring 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.

### **8.1 Mortgage/Rental History**

- A minimum of twenty-four (24) months verified mortgage history is required with 0 x 30 payment history.
- A minimum of twelve (12) months verified rental history is required with 0 x 30 x 12 payment history. For rental verification, a standard VOR completed by a professional management company or 12 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 x 12 and 0 x 30 x 24 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.

### **8.2 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.

### **8.3 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.

Modifications that were not the result of a distress situation are not subject to the waiting period.

## **9.0 Employment and Income**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

### **9.1 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 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. 1099 transcripts are acceptable for 1099 borrowers. Tax transcripts are not required for newly received income such as retirement, social security and trust income that would not appear on the prior year tax returns. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

## **10.0 Debts and Liabilities**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

## **11.0 Assets**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

### **11.1 Source of Funds**

- Gifts of equity are not allowed.
- Business assets used must be accompanied by a CPA letter confirming that the withdrawal of the funds from the business will not harm the financial strength of the business.

### **11.2 Reserves**

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.

## 12.0 Property

Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

### 12.1 Property Types

- Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparables with similar acreage.

**Note:** Refer to program matrix for specific property type eligibility.

#### 12.1.1 Non-Warrantable Condominiums

When permitted, a full project review required. Condo project’s legal phase, including common elements of the project is substantially completed.

- Only one non-warrantable feature permitted from the list below. All other Agency condo requirements must be met.
- Commercial Space greater than 35% but less than or equal to 50% owned and controlled by the HOA must be separate and distinct from the condo project HOA.
- Commercial space must be compatible with residential use (such as stores, offices, restaurants or bars, among other commercial spaces) and must compliment the neighborhood. The commercial space shall be deemed to include eligible spaces above and below grade, excluding parking.
- Condo projects (new or converted) must have at least 30% of the condo units sold or under a pending sales contract (common areas must be complete). For a specific legal phase or phases, at least 30% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers.
- For condo projects where replacement reserves are less than 10%, the following conditions must be met:
  - Less than 10% but no less than 7%, replacement reserves are permitted if the current reserve balance exceeds 10% of the operating expense for such project.
  - Less than 7% of replacement reserves are permitted if the current reserve balance exceeds 20% of the operating expenses.
  - Regardless of the replacement reserves percentage amount, the balance sheet must be provided, and the date of the balance sheet must be within 12 days of the Note date.
- Maximum ownership by one entity is 25% for projects with more than 10 units. For projects with 10 units or less, follow the applicable current Agency selling guide requirements. Units owned by the developer, sponsor or succeeding developer that are vacant and being actively marketed for sale are not included in the calculation. Units currently leased, including units owned by the developer, sponsor or succeeding developer, must be included in the calculation.
- Condo projects located in Florida must meet all Agency condo requirements and are not eligible as non-warrantable condominiums.

**Note:** Refer to program matrix for eligibility.

### 12.2 Ineligible Property Types

Manufactured Homes	Factory Built Housing	Geodesic/Dome Homes	Properties held as Leasehold
Condo Hotels	Log Homes	Co-ops	>20 Acres
Unique Properties	Mixed Use Properties	Commercially Zoned Properties	Agriculturally Zoned Properties
Agriculturally/Residential	Rural Zoned Properties	Properties w/Oil or gas leases	Hawaii lava zones 1 and 2
Working/Hobby Farms	Mobile Homes	Properties Located in Puerto Rico, Guam, 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 Appraisal Requirements**

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

- All loans require a full interior/exterior appraisal.
- Properties with a C5 property condition rating are not allowed.
- All appraisal deficiencies must be resolved prior to closing.
- 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.

#### **12.5 Third Party Appraisal Review**

A desk review with or without MLS (Collateral Desktop Analysis (CDA) from Clear Capital) for each DU loan with a Collateral Underwriter (CU) or LPA loan with a Loan Collateral Advisor (LCA) score greater than 2.5 or no score. A desk review is not required for loans with two appraisals, regardless of the CU or LPA score.

- A copy of the desk review should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- All discrepancies between the appraisal and the desk review must be reconciled. If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible; unless, a 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 a desk review does not provide relief from representations and warranties relating to the property and the appraisal including the underwriting thereof.

#### **12.6 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.

#### **12.7 Escrow Holdbacks**

Not permitted



## **13.0 Additional Loan Attributes and Policies**

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Follow the AUS and applicable current Agency Selling Guidelines requirements unless otherwise specified.

### **13.1 Subordinate Financing**

- Shared appreciation loans not permitted.
- 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 Recasting/Re-Amortizing**

Recasting or re-amortization of loans are ineligible

### **13.3 Temporary Buydown**

Temporary buydown mortgages are ineligible.

### **13.4 Prepayment Penalty**

Loans with prepayment penalties are ineligible

### **13.5 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.

## **14.0 Title**

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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.