06/23/2024

JUMBO PRIME

UNDERWRITING GUIDELINE

LENDER YOU CAN TRUST

NEXCAP HOME LOANS

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1 Introduction

1.1 Underwriting Philosophy

All loans must be prudently underwritten utilizing the program guidelines and industry standard best practices. All loans must be manually underwritten and fully documented. All loans submitted to the NEXCAP for purchase and sale must conform to the Underwriting Guidelines.

For scenarios not specifically addressed in the following Underwriting Guidelines, please utilize the most recent Fannie Mae or Freddie Mac Selling Guide for assistance.

1.2 Fair Lending and Fair Credit Reporting Act (FCRA) Notices

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.

It is the responsibility of all buyers and sellers to ensure that they adhere to these laws and their underlying principles in connection with mortgage loans purchased and sold over the NEXCAP.

2 Program Matrix

JPC (FIXED & ARM)					
PRIMARY RESIDENCE					
Purchase & Rate/Term Refinance					
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**	**Reserves**
1-2 units	$1,000,000	80%/80%/80%	720	43%	12
	$2,000,000	75%/75%/75%	720	41%	18
	$3,000,000	75%/75%/75%	760	41%	36
	$3,000,000	70%/70%/70%	760	41%	24
3-4 units	$2,000,000	70%/70%/70%	720	43%	18
	$3,000,000	65%/65%/65%	760	41%	36
Cash-Out Refinance					
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**	**Reserves**
1-2 units	$1,000,000	70%/70%/70%	740	43%	18
	$1,500,000	65%/65%/65%	740	43%	18
3-4 units	Not permitted				
*Max Cash-Out amount is $350,000 for 1-2 Units					
SECOND HOMES					
Purchase & Rate/Term Refinance					
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**	**Reserves**
1 unit	$1,500,000	70%/70%/70%	740	43%	18
Cash-Out Refinance					
Not permitted					
INVESTMENT					
Purchase & Rate/Term Refinance					
Units	**Max. Loan Amount**	**LTV/CLTV/ HCLTV**	**Min. FICO**	**Max. DTI**	**Reserves**
1 unit	$1,500,000	65%/65%/65%	760	40%	36
Cash-Out Refinance					
Not permitted					

- Minimum Loan Amount: Must be $1 over the current one-unit conforming loan limit.
- Florida and Georgia Condominiums secured as investment property are not permitted.

3 Eligible Products

- 15 and 30 Year Fully Amortizing Fixed Rate
- 5/6, 7/6 and 10/6 Fully Amortizing SOFR ARM

4 ARM Information

- 5/6, 7/6, 10/6: Rate is fixed for the first Five (5), Seven (7) or Ten (10) years respectively to applicable product and then adjusts every 6 months thereafter.
- INDEX: 30 Day Average SOFR Index as published by the New York Federal Reserve.
- MARGIN: 2.75 (subject to change as this is a pricing component)
- CAPS: 5/6: 2/1/5 (Initial, Periodic, Lifetime) , 7/6 and 10/6: 5/1/5 (Initial, Periodic, Lifetime)
- Floor: 2.750%
- The Loan is subject to the indicated Rate Cap Adjustment (up or down), but the Adjustment may never be greater than the Lifetime Adjustment over the Note Rate. The Loan Interest Rate can never adjust lower than the Margin.
- Conversion Feature is not available.
- Balloon mortgages are not eligible for purchase.
- Recasting or re-amortized transactions are not eligible for purchase.

FULLY AMORTIZING

Qualifying Ratios are based on PITI payment with the principal and interest payments amortized over the loan term.

- 5/6 SOFR: (2/1/5 Cap Structure)
  - Qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate + Initial Cap (2%).
- 7/6 and 10/6 SOFR: (5/1/5 Cap Structure)
  - Qualify borrower(s) at the greater of the fully-indexed rate or Note Rate.

5 Subordinate Financing

New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted.

- Maximum LTV / CLTV / HLTV for subordinated HELOCS will be based on the fully drawn balance.
- Subordination of an existing loan is permitted up to maximum LTV allowed.
- Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties.
- In cases in which a HELOC is resubordinated to the subject mortgage, a 1% minimum payment of the total line amount will be used regardless of whether the HELOC has a zero balance. If the HELOC balance is greater than zero, the minimum payment under the HELOC terms will be used.

6 Temporary Buy downs

Temporary buy down mortgage loans are not eligible for purchase.

7 Borrower Eligibility

7.1 Eligible Borrowers

- **U.S. Citizen / Permanent Resident Alien**

All US citizens and Permanent Resident Aliens are eligible provided that the borrower must be a natural person.

- **Non-Permanent Resident Aliens**

Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows: See USCIS.gov for more information.

  - 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, H-2, H-3, H-4)
  - L Series (L-1A, L-1B, L-2)
  - NATO Series (NATO 1 – 6)
  - Series (O-1)
  - TN-1, Canadian NAFTA visa
  - TN-2, Mexican NAFTA visa

- Must have a valid Social Security Number.
- Must have a minimum of two (2) year employment history in the U.S and 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.
- Must have a two (2) year established U.S based asset history. No funds from outside the U.S are allowed.
- Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.

7.2 Ineligible borrowers

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Community Land Trusts
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Non-occupant co-borrowers.
- Foreign Nationals.
- Borrowers with Diplomatic Immunity.

7.3 Trusts

Revocable Living Trusts are a permitted borrower if the trust complies with Fannie Mae or Freddie Mac criteria. Irrevocable trusts are not eligible.

- 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 loan origination of 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.

7.4 Power of Attorney

- A power of attorney is allowed per FNMA guidelines (See FNMA B8-5-06).

8 Occupancy

8.1 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.

- 1-4 units detached, attached, PUD, eligible condominiums, and eligible New York cooperatives.

8.2 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, subject to a rental agreement or other shared ownership arrangements.
- 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 be significant.
- Rental income from a second home cannot be used to qualify the borrower.

8.3 Investment Property

- An investment property is owned by the borrower but is not occupied by the borrower.
- For cash-out refinance transactions of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, 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.

Departing Residence

The reserve requirements for the subject property from the LTV, Loan Amount, FICO, DTI & Reserves Requirements fact sheet must be applied in addition to the Departure Property policies defined below.

- **Current principal residence is pending sale or up for sale, but the transaction will not be closed (with title transfer to a new owner) prior to the new transaction (evidence that property is up for sale or pending sale is required):**
  - **The following reserve requirements must be met for all loans:**
    - If the borrower can qualify with both properties in DTI, count both payments plus two months PITIA reserves for the departure property.
    - If the borrower cannot qualify with both properties in DTI:
    - If there is an accepted contract, a minimum of 6 months PITIA reserves on the departure property is required and payment on the departure property does not have to be included in the DTI.
    - If there is no contract on the departure property, a minimum of 24 months PITIA reserves for the departure property is required and the payment on the departure property does not have to be included in the DTI.
- **The current principal residence is being converted to a second home:**
  - The PITIA for the current and proposed mortgage payments must be used to qualify the borrower for the new mortgage loan; and
  - Minimum of 6 months of PITIA reserves are required for the departure property.
- **The current principal residence is being converted to an Investment Property:**
  - **Equity must be documented with**
    - A current appraisal (2055 or better), minus any liens. The appraisal may not be dated more than 180 days prior to the note date;

- **If 25% or more equity is in the departure property:**
  - If the borrower has a documented two-year history of managing rental properties, 75% of the rental income can be used to calculate rental income. The following must be obtained:
  - A copy of the fully executed lease agreement, **and**
  - Twelve months of PITIA for the departure property is required to be in reserves

    OR
  - If the Borrower does not have a documented two-year history of managing investment property via the Borrowers federal tax returns, then signed leases may not be used for rental income or to offset the mortgage for the newly converted investment property unless the following criteria are met:
    - ✓ FICO is >760; **and**
    - ✓ $100,000 in post-close reserves or the reserves required for the transaction, whichever is greater.

- **If less than 25% equity in the departure property or they qualify with both payments:**
  - Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and
  - A copy of the fully executed lease agreement; and
  - Minimum reserves of 6 months of PITIA for are required for the departure property.

8.4 Multiple Financed Properties

- When subject is primary: No more than 5 financed properties including the subject
- When subject is second/investment home: No more than 4 including the subject.

9 Purpose

9.1 Purchase

- 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 within ninety (90) days prior to the date of sales contract the following requirements apply;
  - Property seller on the purchase contract is the owner of record.
  - Increases in value should be documented with commentary from the appraiser.

  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.

9.2 Rate and Term Refinance

- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.
- Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.
- For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the HUD-1 Settlement Statement/Closing Disclosure from the subject acquisition transaction.
- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.
- The mortgage amount may include the:
  - Principal balance of the existing first lien.
  - Payoff of a purchase second lien with no draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit. 12 months seasoning is not required.
- Cash back to the borrower is limited to the lesser of $5000 or 1% of the new mortgage loan.

9.3 Cash-Out Refinance

- Borrower must have held title for a minimum of 6 months from closing date. Inherited properties are exempt from this seasoning requirement.

- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- Properties that have been listed for sale within the past 6 months of closing date are not eligible for a cash-out refinance. If the property was listed within the previous 6 – 12 months from closing date, a letter from the borrower explaining the reason for retaining the property is required.
- If the subject property was purchased within the 6-12 month period prior to the closing date for the new loan the LTV will be based on the lesser of the sales price or the current appraised value.
- If the subject property was purchased more than 12 months from the closing date for the new loan LTV will be based off the current appraised value.
- Texas Cash-Out refinances are ineligible.
- Cash out is limited to the maximum amounts stated on the Product Matrix.

9.4 Continuity of Obligation

For a refinance transaction to be eligible for purchase 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 paid the mortgage for the last 12 months.
- The borrower has recently been legally awarded, the property (divorce, separation or dissolution of a domestic partnership).
- If prior to closing, the property is owned and held in a LLC that is majority-owned by the borrower, the time it was held in the LLC may be counted towards meeting the borrower's six month ownership requirement.

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.

9.5 Delayed Financing

Delayed financing is ineligible.

9.6 Texas Refinance Loans

- Texas cash out is ineligible.
- A new refinance transaction that includes the payoff of an equity line of credit, the payoff of any loan that is a Texas Section 50(a)(6) loan, or provides any cash to the borrower at closing makes the new loan subject to Texas Section 50(a)(6) requirements and is not eligible.

9.7 Contract for Deed/Land Contract

The payoff of an installment loan land contract is not eligible.

9.8 Construction to Permanent

- Ineligible

9.9 Non-Arm's Length Transactions

- Ineligible

10 Employment and Income

The following requirements apply to manually underwritten loans.

10.1 Income Sources and Calculation of Income

All income sources and method of income calculation must meet most recent Agency/Appendix Q Standards for Determining Monthly Debt and Income. The loan file should include an Income Analysis form detailing income calculations.

- The non-taxable portion of fixed income such as Social Security income, VA benefits, Pensions and Annuity income may be grossed-up twenty five percent (25%).
- Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of commission income to total income.

10.2 Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history. Gaps in employment over thirty (30) days during the most recent two (2) year period require a satisfactory letter of explanation from the borrower. All borrowers contributing income for qualification must be employed at present employment for a minimum of six (6) months to qualify if there is a gap in employment during the previous two (2) years.

10.3 Income Documentation Requirements

Appendix Q states that a borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25 percent or more of a corporation, limited liability company, partnership, sole proprietorship or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the "Self-Employed Borrowers" subsection below. This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if the lender only relied upon the borrower's salary or other income to establish eligibility. All required documentation as described here and in the following sections must be obtained prior to closing and submitted in the closed loan file.

10.3.1 Salaried Borrowers:

Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.

W-2's from all employers for the past two (2) years. All W-2's must be computer generated.

If the borrower does not have 2 years of employment due to previously being in school a copy of the school transcript is required.

Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated.

Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification.

Unreimbursed business expenses must be deducted from income regardless if the borrower's commission income is less than 25% of total income.

Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business and personal tax returns.

Signed IRS Form 4506T. The 4506T transcripts need to be obtained from the IRS prior to closing and used to validate the income documentation used to underwrite the loan. Any income documentation discrepancy between the IRS transcripts and the supporting income documentation (Paystubs, W-2's, tax returns, etc.) as provided by the borrower must be reconciled and adequately addressed by the lender. The transcripts must be included in the file submission.

10.3.2 Commission/Bonus

- For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a 2-year history of the receipt of the income is required.
- This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, further supported by a year-to-date paystub.
- A year-to-date paystub, W-2's and tax returns alone will not satisfy the documentation requirements for bonus, commission or any other non-base salary compensation.

10.3.3 Vested Restricted Stock

- RSU may be considered as qualifying income if the loan documentation supports.
- Documentation of receipt of restricted stock income for the most recent 2 years and the likelihood of is continuance.
- 2 most recent year end paystubs and W2s to verify the history of RSU receipt
- Vesting Schedule and Award Letter to verify the likelihood of its continuance
- The restricted stock must be fully vested.
- Printout/screenshot verifying company is publicly traded and verify the stock price on the date of application.

- Note: Restricted stock received from a sign-on type award can be used towards establishing the history of receipt of RSU income, but those shares cannot be considered in the income calculation.

10.3.4 Self-Employed Borrowers:

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

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.

- For business income being used for qualifying the most recent signed two (2) years tax returns, including all schedules, both individual and business returns are required. All personal and business tax returns must be signed and dated prior to closing.

  Signed IRS Form 4506T. The 4506T transcripts must be obtained from the IRS for personal tax return prior to closing and used to validate the income documentation used to underwrite the loan. Business tax transcripts are not required. Any income documentation discrepancy between the IRS transcripts and the supporting income documentation (Paystubs, W-2's, tax returns, etc.) as provided by the borrower must be reconciled and adequately addressed by the lender. The transcripts must be included in the file submission.

  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.

- Required Documentation:

1. 2 years most recent personal and business tax returns with all Schedules and W-2s or 1099s
2. An unaudited year-to-date P&L and balance sheet, 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
3. Business bank statements from the most recent 3 months represented on the year-to-date P&L

   Note: Corporate income may not be used unless the borrower owns 100% of the business.

   *** Small Business Administration (SBA) Loans and Grants 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.

4. Proceeds from the PPP loan must not be included as business income or assets.
5. PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.
6. Follow all requirements in this section for underwriting self-employed borrowers.
7. Verification of Active Business:

   The lender must verify the existence of the borrower's business within five (5) calendar days prior to closing.

10.3.5 Rental Income

1) Calculating Rental Income on Non-Subject Property

Does the Borrower Have a History of Receiving Rental Income from the Non-Subject Property?	Documentation Requirements
Yes	The two most recent federal tax returns with Schedule E; and If the property generating income does not appear on the most recently filed tax return, a current lease is required. Rental income must be documented based on requirements for Partial or No Rental Income on Tax Returns reflected below. Income should be calculated using 75% of the gross income.
No	Income/loss should be calculated by using 75% of the gross income and verified by current leases.

2) Calculating Rental Income on Subject Property

Does the Borrower Have a History of Receiving Rental Income from the Non-Subject Property?	Transaction Type	Document Requirements
Yes	Refinance	The two most recent federal tax returns with schedule E; or Current lease agreements that reflect consistent gross rental income if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns below).
No	Purchase	Copies of the current lease agreement(s), if property is currently rented. To calculate the monthly rental income amount for qualifying use 75% of the gross rental income reflected on the lease agreement or verified on form 1007, 1025.
No	Refinance	Copies of the current lease agreements(s), if property is currently rented. To calculate the monthly rental income amount for qualifying, use 75% of the gross rental income reflected on the lease agreement or verified on form 1025/72 or 1007/1000.

10.3.6 Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.
- Retained earnings.
- Non-occupant income.
- Retirement asset used as qualifying income

11 Asset Documentation and Calculations

11.1 Source of Funds

The borrower must have sufficient liquid assets to meet the requirements for down payment, pre-paid items, closing costs and reserves.

8. Funds needed for closing must be verified with copies of the most recent two (2) months bank statements including all pages.
9. Large deposits, defined as a single deposit that exceeds 50% of the total monthly qualifying income, must be sourced.
10. Acceptable sources of verified funds include:
    - Bank deposits
    - Stocks, stock options, bonds, and mutual funds. Stocks and bonds will be discounted at 70% of value for reserves.
    - Sale of real property.
    - Sale of personal property with supporting documentation.
    - Disbursement from a Trust Fund.
    - Disbursement from an IRA/401K.
    - Disaster relief grants. Borrowers may use lump sum grant for down payment. No minimum contribution is required. Grant may not be used for closing costs or reserve requirements. Document that payment received is an actual grant and not a loan. Subordinate lien against the property is ineligible.
11. Business funds can be used for down payment with a letter from an accountant verifying the following:
    - Borrower must have 100% ownership of the business
    - The funds are not a loan.
    - Withdrawal of the funds will not negatively impact the business.

12. Gift funds are an acceptable source of funds as follows for primary residences.
    - Gift donor must be a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a fiancé or domestic partner.
    - Gift letter from donor that incudes name, address, telephone number and relationship to

borrower
- Evidence of funds transfer and receipt prior to closing.
- Gifts of equity are not allowed to be used as a source of funds.
- Gift is not an eligible source to cover reserves

13. A minimum down payment from borrower's own funds is required as indicated below:

LTV	Minimum Borrower Contribution	
70% or less	Primary	5%
Greater than 70%	Primary	10%
ALL LTVs	Second and Investment	Borrower must make full down payment

11.2 Interested Party Contributions and Abatements

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.

Primary Residence, Second Homes : Max 6%

Investment: Max 2%

11.3 Reserve Requirements

All loans require a minimum cash reserve. Reserves must be verified and comprised of liquid assets that borrower can readily access.
Equity lines of credit, gift funds, and cash out from refinance transactions are not acceptable sources to meet the reserve requirement.

Vested funds from individual retirement accounts (IRA/SEP/Keogh/401K accounts) are acceptable sources of funds for reserves. If the retirement assets are in the form of stocks, bonds, or mutual funds, in order to be considered for reserves, the account must be discounted by 30% to account for market volatility and proof of liquidation is required.

Reserve requirements are based on subject PITIA based on qualifying rate.

12 Credit Reports and Scores

12.1 Credit Documents Age

For all transaction types credit documents may not be older than 90 days from the Note date.

12.2 Credit Score

14. 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).
15. For multiple borrowers the credit score is the lowest of all representative credit scores.

16. If only one credit score or no credit score is reported borrower is not eligible.
17. See Product matrix for minimum credit score requirements.

12.3 Minimum Credit Requirements

18. All borrowers on the transaction needs to consist f a minimum 4 tradelines, one of which is open and has a minimum of 24 months history, the other 3 may be open or closed but must be rated for at least 12 months.

12.4 Mortgage/Rental History

i. A minimum of twenty four (24) months verified housing history is required; 0 x 30 lates.
ii. Any loan in forbearance/deferment is not eligible.
iii. For rental verification a standard VOR completed by a professional management company or 24 months bank statements or canceled checks are required. If the landlord is a management company, the management company must be listed in the local telephone directory and the file must contain a copy of the list. If the listing is not available, 12 months canceled checks must be provided.

12.5 Credit Inquiries

19. All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.
20. Borrower must be qualified with any new debt.

12.6 Liens, Judgments, Dispute and Collections

21. Satisfactory explanation for any delinquent credit from the borrower is required.
22. Borrower must pay off all delinquent credit that has the potential to impact lien position.
23. Any disputed account should be resolved with no remaining balance, and credit supplement is acceptable.
24. The total balance of all outstanding collection should be less than $2000. Otherwise, 5% of the balance of each outstanding collection account for all borrowers must be included in the DTI.

12.7 Bankruptcy, Foreclosure, Deed-In-Lieu of Foreclosure and Short Sales

25. 4 years waiting period required from the date the Ch.7 or 11 bankruptcy was discharged or dismissed
26. 4 years waiting period required from the date the Ch.12 or 13 repayment plan was dismissed.
27. 5 years waiting period required for the multiple bankruptcy filings
28. A satisfactory letter of explanation for the event from the borrower is required.
29. Borrower must show reestablished credit and meet the minimum credit requirement.

30. Min. 4 years waiting period is required for Deed-In-Lieu or short sales
31. Min. 7 years waiting period is required for foreclosures.

13 Liabilities and Ratios

13.1 Debt-to-Income Ratio

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, rent, alimony, child support, and other consistent and recurring expenses. The seller must ensure that liabilities are included in qualifying. This includes debts paid by another entity such as the borrowers business or debts being paid by a family member. Refer to the Product Matrix for the maximum allowable DTI.

If Contingent Liability is a mortgage must count in DTI's unless court ordered

13.2 Installment Debt

32. Even if the debt does not extend beyond 10 months, it must be included in the DTI.

13.3 Revolving Debt

33. All revolving debt is included for qualifying regardless of number of payments remaining.
34. The monthly payment amount of a revolving account shown on the credit report may be used for qualifying.
35. If the monthly payment amount of a revolving account is not shown on the credit report a payment of five percent (5%) of the balance may be used for qualifying.
36. Payoff of revolving debt to qualify is not permitted. The debt listed on the credit report must be used to calculate the DTI.

13.4 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.

14 Property

14.1 Eligible Property Types

37. 1-4 units attached/detached owner-occupied properties.
38. unit second homes.
39. Low/mid/high-rise new and established Fannie Mae or Freddie Mac warrantable condominiums.
    - Warrantable condominium types S and T.
    - Limited review is not eligible. All attached condominiums require full lender review with or without Condo Project Manager (CPM). The conventional Condo and PUD warranty form must

be used to warrant the condo project.
- The project must be reviewed within the 3 months preceding the date of the note.
- New condominiums (type R) with PERS approval for Florida condos. New condominiums may not be subject to additional phasing or annexation.
- All supporting documentation used by the lender to determine eligibility and warranty type criteria must be submitted in the file; including the project acceptance certification generated by CPM, and unexpired PERS approval, as applicable.
- Minimum square footage 400.

40. Planned Unit Development (PUD).
41. Fannie Mae or Freddie Mac established warrantable Cooperatives (Co-ops) located in New York 5 boroughs and Nassau, Suffolk, Rockland and Westchester counties only.
    - Owner occupied and second home only.
    - All co-op projects require a full lender review and must consist of 5 or more units.

14.2 Ineligible Property Types

- Manufactured Homes
- Factory built housing
- Properties with income producing attributes
- Condo hotel units
- Log homes
- Unwarrantable condominiums
- Condominiums with HOA in litigation
- Timeshare units
- Geothermal homes
- Unique properties
- Mixed use properties
- Working farms
- Hobby farms
- Commercial properties
- Industrial or Agricultural Zoned Properties
- Properties with more than 10 acres
- Properties held as leasehold
- Properties located in Puerto Rico, Guam, and US Virgin Islands.
- Properties with an oil and gas lease
- All Deed Restricted Properties, including Age Only

14.3 Declining Markets

Reduce maximum LTV by 5% for any property located in an area of declining property values as reported by appraiser.

Subject properties located in the following area may be considered to be in depreciating markets regardless of the appraiser's analysis.

Property Address State	MSA #	State & County Codes	Metro/Micro Area Name	County Name
AR	26260	05057	Hope AR Micropolitan Statistical Area	Hempstead County (AR)
FL	17500	12051	Clewiston FL Micropolitan Statistical Area	Hendry County (FL)
IA	43980	19041	Spencer IA Micropolitan Statistical Area	Clay County (IA)
IA	15460	19057	Burlington IA-IL Micropolitan Statistical Area	Des Moines County (IA)
IL	15460	17071	Burlington IA-IL Micropolitan Statistical Area	Henderson County (IL)
MN	47420	27167	Wahpeton ND-MN Micropolitan Statistical Area	Wilkin County (MN)
MS	15020	28085	Brookhaven MS Micropolitan Statistical Area	Lincoln County (MS)
ND	47420	38077	Wahpeton ND-MN Micropolitan Statistical Area	Richland County (ND)
NM	31060	35028	Los Alamos NM Micropolitan Statistical Area	Los Alamos County (NM)
OK	49260	40153	Woodward OK Micropolitan Statistical Area	Woodward County (OK)
TX	15220	48049	Brownwood TX Micropolitan Statistical Area	Brown County (TX)
TX	32220	48203	Marshall TX Micropolitan Statistical Area	Harrison County (TX)
TX	20580	48323	Eagle Pass TX Micropolitan Statistical Area	Maverick County (TX)
VA	14140	51185	Bluefield WV-VA Micropolitan Statistical Area	Tazewell County (VA)
WA	49420	53077	Yakima WA Metropolitan Statistical Area	Yakima County (WA)
WV	14140	54055	Bluefield WV-VA Micropolitan Statistical Area	Mercer County (WV)

14.4 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. Because 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.

14.5 Appraisal Requirements

42. All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
43. Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a new appraisal needs to be performed. For new construction an appraisal update on form 1004D is required.
44. Two (2) full appraisals are required for loan amounts > 1.5 million. Appraisals assigned from another lender are not acceptable. LTV will be based on lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
45. Appraisal transfer is not allowed.

14.6 Third Party Appraisal Review

46. The seller must order an appraisal desk review product for each loan from a vendor listed on the Approved Appraisal Desk Review Vendors.
47. 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.
48. If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, the seller has the option to then ask the NEXCAP to order a Field Review to support 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 for purchase.
49. All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.
50. Loans submitted with a collateral underwriter score of 2.5 or lower are exempt from the above requirement.

14.7 Properties Located in a Disaster Area

For properties located in a FEMA declared disaster area a re-inspection is required to be performed by the original appraiser. A written certification is required from the appraiser to confirm that the property value has not been impacted by the disaster.

For FEMA declared natural disasters, the inspections must be dated after the disaster end date is declared by FEMA.

15 Additional Requirements

15.1 Subordinate Financing

51. New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted.
52. Maximum LTV / CLTV / HLTV for subordinated HELOCS will be based on the fully drawn balance.
53. Subordination of an existing loan is permitted up to maximum LTV allowed.
54. Cash-out transactions are not eligible for subordination of existing liens.
55. Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties.
56. In cases in which a HELOC is resubordinated to the subject mortgage, monthly amount on credit report will be used. If no monthly payment amount is shown on credit report, 1% minimum payment of the maximum line amount will be used for qualifying. If HELOC has a zero balance and no draws within 24 months of application no payment need be include in DTI. Withdrawal activity must be documented with a transaction history for the line of credit.
57. If the HELOC is subordinated to the subject property follow subordinated debt guides, you will be required to use the "stressed" payment and HTLTV
58. If on non subject property, use current payment as reported.
    - If they are drawing on it for the purchase: get updated credit supplement, updated statement or get updated balance and figure min payment form HELOC agreement

15.2 Chain of Title

59. All transactions require a minimum twelve (12) month chain of title.
60. For purchase transactions seller must have taken title to the subject property a minimum of ninety (90) days prior to the date of sales contract.

15.3 Escrow

It is recommended that escrow account be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.

15.4 Escrow Holdback

Escrow Holdback are not eligible.

15.5 Hazard Insurance

61. Properties where the insurance coverage on the declaration page does not cover the loan amount must be have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
62. Hazard insurance must have the same inception date as the date of disbursement. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

15.6 HERO/PACE

HERO and PACE are not eligible.

15.7 Solar Panels

- Appraisal must evidence the presence of solar.
- UCC filings and easements on title are only acceptable with solar lease or Power Purchase Agreements that follow Section B2-3-04 in FNMA guideline.
- Solar agreement must be provided and payments will be included in DTI ratio.
- Properties with solar are only eligible for fixed rate 30-year term only

15.8 Prepayment Penalty

Mortgage loans with prepayment penalties are not eligible for purchase.

15.9 Section 32: High-Cost Loans

High-cost loans (Section 32) as defined by applicable state and/or local regulations are not permitted.

15.10 State Restrictions

63. Guam, Puerto Rico and US Virgin Islands not allowed.
64. Hawaii (lava zones 3 thru 9 only).
65. Texas cash out not allowed.

15.11 Title and Closing Documentation

15.11.1 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 NEXCAP must be prepared on approved Agency forms unless this guide specifically requires otherwise. See most recent Fannie Mae or Freddie Mac Selling Guide for reference.

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

15.11.2 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 lender must ensure that those amendments provide the same coverage. The title insurance policy/commitment must be dated within 90 days and insure the exact loan amount.

66. 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, Co-op share loans and ARM loan types.
67. The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).

68. The title insurance policy must insure 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.
69. 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.
70. Construction loan refinance: When closed as a single transaction for both the construction loan and the permanent financing, the policy must be dated concurrently with the date of the mortgage and must include (1) a "pending disbursements" clause and (2) a final endorsement to the title policy that extends the effective date of the coverage to the later of the final construction advance date or the endorsement date.
71. Any existing tax or mechanic's liens must be paid in full through escrow.