NON-CONFORMING (Jumbo) PRODUCT GUIDELINES

(701 Product Code)

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Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

PROGRAM MATRIX

- Correspondent loans are ineligible
- For Any Guidelines Not Specifically Addressed, Please Refer To *MSF Conventional Guidelines*

One-Unit Single Family Detached/Attached, PUD, Condo Purchase and Rate & Term Refinances					
Occupancy	Loan Amount	Credit Score	Max. Ratios	Reserves	LTV/CLTV/HCLTV
Primary Residence	$2,000,000	700	40%	9 Months	80%
Occupancy	Loan Amount	Credit Score	Max. Ratios	Reserves	LTV/CLTV/HCLTV
Second Home	$1,500,000	700	40%	18 Months	70%
Two-Unit Purchase and Rate & Term Refinances					
Occupancy	Loan Amount	Credit Score	Max. Ratios	Reserves	LTV/CLTV/HCLTV
Primary Residence	$1,000,000	700	40%	9 Months	70%

Cash-Out Refinances (Only Eligible on One-Unit Properties)					
Occupancy	Loan Amount	Credit Score	Max. Ratios	Reserves	LTV/CLTV/HCLTV
Primary Residence	$1,000,000	700	40%	9 Months	70%
Primary Residence	$1,500,000	700	40%	9 Months	65%
Primary Residence	$2,000,000	700	40%	9 Months	60%

AGE OF DOCUMENTS*

Type of Document	Length of Validity to Note Date
• Appraisal	• 120 days
• Credit Report	• 120 days
• Survey	• 90 days
• Closing Protection Letter	• 90 days
• Verbal VOE • Self-Employed	• 10 days • 30 days
• Title Commitment	• 90 days
• VOR/VOM	• 120 days
• Assets	• 120 days

* For all other documents reference *MSF Conventional Guidelines* Age of Documents Matrix

ASSETS

Assets

- The borrower must verify sufficient assets to cover any down payment and closing costs associated with the mortgage transaction as well as retain enough assets to meet any reserve requirement
- Acceptable types of asset verification include the borrower's most recent bank statement (all pages) dated within 120 days of closing, most recent quarterly statement if accounts only report quarterly, or a Verification of Deposit with minimum two month average balance completed by the financial institution, or an internet printout
  - The internet printout must contain the same information as the traditional documentation
- All asset verification must be legible and cannot contain any alterations, erasures, or similar indications that changes have been made

- Large deposits exceeding 25% of the total monthly qualifying income are to be explained and documented if used for funds to close/reserves

ASSET SOURCES

Borrowed Funds Secured by an Asset

- Borrowed funds secured by an asset are an acceptable source of funds for the down payment and closing costs since the borrowed funds represent a return of equity
- Assets that may be used to secure funds include:
  - Automobile
  - Artwork
  - Collectibles
  - Real estate
  - Financial assets
  - Savings accounts
  - CD's
  - Stocks
  - Bonds
  - 401k
- When qualifying the borrower, the underwriter must consider the monthly payments for secured loans as a debt
  - If the secured loan doesn't require a monthly payment MSF must calculate an equivalent amount and consider it a recurring debt
- Documentation:
  - Verification of the value of the asset must be provided
  - A copy of the note securing the financing must be provided
  - Evidence that the party providing the secured loan is not a party to the sale

Business Assets

- If business funds are used for down payment, closing costs and/or reserves, the borrower must be the sole proprietor or 100% owner of the business
- A CPA letter verifying no impact to the business is required
  - Any significant withdrawal should be considered in relation to the overall strength of the borrower's company
- A borrower's use of business funds with only 50% ownership interest in the business will be considered on an exception basis if all other guidelines have been met and there are no other red flags associated with the transaction. MSF would also require:
  - a CPA letter confirming withdrawal of the funds would not have a negative impact on the business and
  - an authorization letter from the business partner confirming access to the business funds

Cash Reserves

- See *program matrix* for minimum reserve requirements

Cash Value of Life Insurance

- Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs and reserves
- MSF must assess repayment or additional obligation considerations to determine the impact on borrower qualification or reserves
- If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrowers life insurance policy do not have to be considered in the total debt to income ratio
- If additional obligations are indicated, the obligation amount must be factored into the total debt to income ratio or subtracted from the borrowers financial reserves

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

- To document receipt of funds from the insurance company MSF must obtain:
  - A copy of the check from the insurer OR
  - Payout statement issued by the insurer
- If not surrender value is given, the available amount will be based on 60% of the current value less any outstanding loans

Checking and Savings Accounts

- Acceptable documentation:
  - The most recent one complete bank statement with the previous month's ending balance or
  - VOD with a minimum two month average balance will be required to verify accounts used to close the transaction and to verify reserves

Community Seconds and Subsidy programs

- See *Subordinate Financing*

Credit Card Financing

- Not permitted except for payment of certain costs that may be paid early in the loan process:
  - Appraisal
  - Lock in fee
  - Commitment fee
  - Credit report fee
  - In no case may credit card financing be used for down payment funds

Earnest Money Deposit

- The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs
- Verification of source of funds:
  - If the deposit is being used as part of the borrowers minimum contribution requirement, MSF must verify that the funds are from an acceptable source
  - Bank statements must be seasoned according to matrix requirements and must evidence that the average balance for this time was large enough to support the amount of the deposit
    - If a copy of the cancelled check is used to document the source of funds, the bank statements must cover the period up to and including the date the check cleared the bank
- Receipt of the deposit must be verified by:
  - Copy of canceled check, or
  - Copy of check not canceled with bank statement to evidence check cleared

Existing Home Equity

- The proceeds from the sale of the borrower's current residence are an acceptable source of down payment and closing costs. A copy of the Final Closing Disclosure (CD) is required

Gift Funds

  - Seller funded gifts/grants are ineligible
- **Documentation Requirements**
  - Gifts must be evidenced by a letter signed by the donor, called a gift letter
  - The gift letter must:
    - Specify the dollar amount of the gift
    - Specify the source of the funds for the gift
    - Specify the date the funds were transferred
    - Include the donors statement that no repayment is expected AND
    - Indicate the donor's name, address, telephone number and relationship to the borrower
- **Gifts of Equity**
  - Gifts of equity are an acceptable source of down payment and closing costs
  - The LTV is based on the lower of the sales price or the appraised value

  - For all gift of equity transactions, the following applies:
    - The gift of equity must be provided by a relative (parent, grandparent, legal guardian, sibling, child, and borrower's spouse), domestic partner, fiancée, or fiancé
    - The gift of equity cannot be a bail out of a relative or other individual
    - The donor of the gift of equity cannot be affiliated with the builder, developer, real estate agent, broker, or any other interested party to the transaction
    - A gift letter explaining the type of gift is required and should also include the relationship of borrower and donor
    - The gift of equity is to be identified in the sales contract
    - The property must sell at fair market value as determined by the appraisal
    - The final equity exchange must be documented on the Final Closing Disclosure (CD)
- **Gifts from a Relative**
  - The donor must be an immediate family member (parent, grandparent, sibling, child, legal guardian or domestic partner)
  - A gift letter is required. The gift letter should include the relationship of the donor to the borrower, the address of the donor, phone number of the donor, the amount of the gift, the source of the funds for the gift, and confirmation that no repayment is required
- **Gifts from a Church, Municipality, or Non-profit Organization**
  - Gifts or grants from a church, municipality or non-profit organization are an eligible source of funds
  - A copy of the award letter or a copy of the legal agreement stating the specific terms and conditions of the gift is required
  - The document must verify that no repayment is required as well as include the terms of how the funds will be transferred
- **Verifying Donor Ability of funds and transfer of gift funds**
  - MSF must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrowers account
  - Acceptable documentation includes the following:
    - A copy of the donors check and borrowers deposit slip
    - A copy of the donors withdrawal slip and the borrowers deposit slip
    - Evidence of the donor's ability to provide funds

<u>Ineligible Assets</u>
- Credit card cash advance
- Salary/bonus advance for future earnings
- Personal or Unsecured Loans
- Gift funds which must be repaid in full or in part
- Proceeds from a cash-out refinance cannot be used to meet reserve requirements
- Anticipated Savings
- Cash-on-hand/Mattress Money
- Sweat Equity (labor performed by the Borrower or goods or materials provided by the Borrower)
- Net proceeds from a 1031 exchange

<u>Inheritance</u>
- Inheritance is an acceptable source of funds
- The following documentation is required:
  - A copy of the will or a letter from the trustee documenting the distribution of the estate
  - Evidence of receipt of the funds by borrower

<u>Insurance Settlement/Lawsuit</u>
- If the borrower will be using funds received from an insurance claim or lawsuit settlement, the borrower will need to provide the following:
  - Copy of the settlement agreement or judgment evidencing the amount of the borrower's portion of the settlement

  - Copy of the settlement check evidencing receipt of the funds and deposit into borrower's account

IRS Refund
- Refund checks from the state revenue and IRS departments are acceptable sources of funds
- Satisfactory documentation is required to evidence the refund:
  - Copies of the refund checks OR
  - Copy of the federal/state tax return AND a bank statement showing the deposit

Land Equity
- In a construction-to-permanent financing conversion loan, the land equity may be applied toward the down payment
  - If the land was purchased within 12 months from the date of the mortgage application, the cost of the land must be used to calculate the equity
  - If the land was purchased more than 12 months prior to the date of the mortgage application, a current appraisal should be used to establish the equity value

Lease/Rent with Option to Purchase
- The portion of the payment which exceeds market rents can be applied to the down payment and closing costs
- The following documentation is required:
  - Copy of the lease agreement
  - Cancelled check(s) for the security deposit
  - The most recent 12 months cancelled checks for the rent payments
  - Evidence of market rent via an appraisal

Pooled Funds
- Borrower may pool their funds with a gift from a relative who has lived with the borrower for the previous 12 months to come up with the down payment
- The following documentation is required:
  - Evidence of shared residency
  - Confirmation that the relative will continue to live with borrower

Repayment of a Loan to Family/Friend
- Funds received by the borrower for repayment of loans to family or friends is acceptable provided the documentation requirements are met:
  - Borrower can evidence the transfer of the funds to the family member/friend at the onset of the loan
  - Borrower can demonstrate they had the ability to have made the loan

Retirement Accounts
- Vested funds from individual retirement accounts (IRA/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment, closing costs, and reserves
- MSF must verify the ownership of the accounts and the borrower's actual receipt of the funds realized from the liquidation of the assets if needed to complete the transaction
- Borrower must evidence their ability to access the funds prior to retiring
  - If the retirement account only allows withdrawals in connection with the borrower's employment termination, retirement (unless the borrower is of retirement age), or death, the vested funds cannot be considered effective reserves
- When funds from retirement accounts are used for reserves, MSF does not require the funds to be withdrawn from the account(s)
  - MSF will use 60% of the total account value less any outstanding loans for the available amount

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

Sale of Personal Assets or Property

- Proceeds from the sale of personal assets or property are an acceptable source of funds for the down payment, closing costs and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction
- Documentation requirements required are:
  - Evidence the borrower owns the asset
  - The value of the asset as determined by an independent and reputable source
  - The transfer of ownership of the asset as documented by either a bill of sale or a statement from the purchaser
- The borrowers receipt of the sale proceeds from documents such as:
  - Deposit slips
  - Bank statements
  - Copy of purchasers cancelled check

Sales & Financing Concessions

- Interested Party Contributions (IPCs) are defined as financing concessions or sales concessions and consist of funds provided by someone other than the borrower to pay costs associated with obtaining a mortgage that are normally the responsibility of the property purchaser
- They may be paid by the seller, lender, or by any other third party who has an interest in the property sale or purchase transaction
- A contribution, monies not paid by the borrower, may be paid by the seller or by any other interested party to the transaction, such as the builder, the developer, the real estate agent, the broker, or an affiliate of any such party
- A relative, domestic partner, fiancée, fiancé, municipality, non-profit organization, or employer is not considered an interested party unless he is the property seller or is affiliated with the property seller
- Interested party contributions are allowed for recurring and non-recurring closing cost credits but cannot exceed the actual cost/fees and cash back to borrower not to exceed $2,000 or 2%, whichever is less
  - Principal Reductions are not allowed
- When the transaction contains IPCs, the sales contract, Good Faith Estimate, loan application, appraisal report, and Closing Disclosure (CD) must include or address all financing arrangements that have been negotiated between the buyer and the seller
- The maximum interested party contribution is based on the lower of the sales price or appraised value
- The maximum limit is 3%
- **Costs/Fees (financing concessions) that are subject to IPC Limits**
  - The following items are considered interested party contributions:
    - Origination, discount points, commitment fees
    - Cost for interest rate shortfalls
    - Appraisal costs
    - Transfer taxes
    - Stamps
    - Attorney fees
    - Survey charges
    - Title insurance premiums or charges
    - Real estate tax service fees
    - Funds to subsidize a temporary or permanent interest rate buy down.
    - Funds that are passed from an interested party to a non-profit and then to the buyer for payment of closing costs.
    - Prepaid items - interim interest charges (limited to 30 days), real estate taxes covering any period after settlement (but only if taxes are being escrowed for future payments), hazard insurance premiums (maximum 14 months), and initial or renewal mortgage insurance premiums.
    - Items paid by the seller that are normally the responsibility of the buyer
- **Costs/Fees (financing concessions) not subject to IPC Limits**

- Buyer/broker fees paid by the seller as part of the real estate commission, as long as the commission being paid is typical of that real estate market
- Transfer related charges if they are common and customary for the seller to pay all or a portion of the charges
  - Examples are transfer tax, stamp tax, costs of title insurance policies and surveys, recording fees and attorney fees
- Gift funds from a donor that complies with gift policy
- Gifts or grants from a non-profit organization that do not obtain funding from the seller or any other interested party to the transaction

Short Funds to Close Variance

- Not allowed

Stocks, Stock Options, Bonds and Mutual Funds

- **Government Bonds**
  - The following documentation is required:
    - A letter from the redeeming institution confirming the redemption amount
    - Acceptable documentation is required to evidence the funds have been liquidated/cash in and deposited into borrower's account
  - The value of government bonds must be based on their purchase price unless the redemption value can be documented
- **Stocks and Mutual Funds**
  - When used for down payment or closing costs, MSF must determine ownership and the value of the asset at the time of sale or liquidation (net of any margin accounts) by obtaining:
    - The most recent monthly or quarterly statement from the depository investment firm confirming the value, type of security, account activity, and current value
  - Receipt of funds must be verified
  - Non vested restricted stock is ineligible

Trust Accounts

- Funds disbursed from a borrowers trust account are an acceptable source for the down payment, closing costs and reserves provided the borrower has immediate access to the funds
- To document the trust funds, MSF must:
  - Obtain a copy of the trust agreement
  - Obtain written documentation of the value of the trust account from either the trust manager or the trustee AND
  - Document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on the trust income used in qualifying the borrower for the mortgage
  - Document the withdrawal of the funds

Trade Equity

- The seller may take the borrower's existing property in trade as all or part of the down payment as long as the borrower's equity contribution is a true-value consideration
- The equity contribution is calculated by deducting the outstanding balance of all liens against the property that is being sold or traded, plus transfer fees from the lesser of that property, the lesser of that property's appraised value, or the amount agreed upon by the parties
- An appraisal for the property being traded is required
- A preliminary title report is required to verify the ownership of the property and to determine if there are any existing liens on the property
- Transfer of the property must be completed prior to or simultaneous to the closing of the proposed property and evidenced by a Final Closing Disclosure (CD)

BORROWER ELIGIBILITY

Borrower Eligibility

- Borrowers must be either U.S. Citizens or lawful permanent or non-permanent residents of the United States have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located
  - Must have a valid social security number
  - Must be natural persons not legal entities
  - Must have legal right to work in the US
- For borrowers who do not have a primary form of identification due to age, disability or religious reasons the borrower must provide four basic pieces of CIP information (name, physical address, date of birth and social security number or tax identification number) along with two forms of secondary identification
- The following forms of secondary identification are acceptable:
  - Firearm license
  - Insurance card
  - Credit Card
  - Social Security Card
  - Utility bill
  - Birth Certificate
  - Property Tax Bill
  - Voter Registration Card
  - Tax Returns
- Any secondary identification used to verify identity must be documented, noting the type of document, the identification number, the place of issuance, and if any, the date of issuance and expiration date

First Time Homebuyer (FTHB)

- A first time homebuyer (FTHB) as an individual who is purchasing the subject property as their primary residence and has not had any ownership interest (sole or joint) in a residential property during the previous 3 year period preceding the date of purchase of the subject property

Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors

- Co-borrowers eligible with the following requirements:
  - Must execute the note and the security instrument
  - Income, assets, and liabilities of the co-borrower must be documented if used for qualifying purposes
  - The liabilities of the co-borrower must be considered in ratios when the subject property lies in a community property state

Separated Borrower

- If a borrower is separated, documentation is necessary to determine the division of assets, liabilities, and potential obligations
  - If the borrower is legally separated, a copy of the recorded legal separation agreement is required in order to exclude specific obligations that would otherwise be included in the borrower’s qualifying ratios
  - If the borrower is not legally separated, additional documentation is not required. The borrower is a married individual and all joint obligations will be included in the borrower’s qualifying ratios. The non-borrowing spouse is required to sign the Security Instrument and all applicable documentation required by state law in order to perfect the lien

Non-Occupant Co-Borrower

- The following applies when a non-occupant co-borrower is on the loan:
  - The occupying borrower must demonstrate the ability and willingness to repay the mortgage by qualifying on their own with DTI of 40%

- Although the income from the non-occupant co-borrower can be used to offset certain weaknesses of the occupying borrower (i.e.: limited reserves, limited credit history, higher than normal qualifying ratios), the income from the non-occupant borrower cannot be used to offset significant or recent instances of major derogatory credit in the occupant borrower's credit history or lack of stable employment history
- The non-occupying co-borrower must be a blood or legal relative, domestic partner, fiancée or fiancé
- The Occupying Borrower's DTI may not exceed program guidelines or the loan will be refused to be purchased
- Transactions with a non-occupant co-borrower are subject to PMI availability if required

Ineligible Borrowers

- Corporations, estates, life estates, limited or general partnerships, not-for-profit organizations, schools, churches, etc.
- Builders, Developers and Real Estate Agents
- Employee loans or associated parties (i.e. mortgage broker)
- Due to the inability to compel payment or obtain judgment, the following Borrowers are ineligible for financing:
  - Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdictions;
  - Foreign nationals
  - Borrowers who are citizens and not employed in the U.S. AND do not claim the income earned outside of the US on their tax returns
    - Regardless of citizenship or immigration status
  - Borrowers whose income is not likely to continue for at least three years
    - e.g., a bonus or an inheritance
- Borrowers who do not meet the other eligibility requirements set forth in this guide
- Borrowers without a valid, legitimate social security number
- Borrowers who have a history of using invalid/illegitimate social security numbers
- No party involved in the transaction can be on any government-published exclusionary list

Separated Borrower

- If a borrower is separated, documentation is necessary to determine the division of assets, liabilities, and potential obligations
  - If the borrower is legally separated, a copy of the recorded legal separation agreement is required in order to exclude specific obligations that would otherwise be included in the borrower's qualifying ratios
  - If the borrower is not legally separated, additional documentation is not required. The borrower is a married individual and all joint obligations will be included in the borrower's qualifying ratios. The non-borrowing spouse is required to sign the Security Instrument and all applicable documentation required by state law in order to perfect the lien

Non-Arm's Length (Identity of Interest) Transactions

- Non-Arm's length (Identity of Interest) transactions are ineligible
- Non-Arm's length transactions involve a personal relationship or business relationship (outside of the subject transaction) between the Borrower and any interested party to the transaction
- Examples of Non-Arm's Length transactions are (but are not limited to):
  - Family sales or transfers
  - Builder/developer transactions
  - Renters buying from landlords
  - Employees working for a family member/relative

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Non-US Citizen Borrowers

- In order to ensure that the borrower is legally able to reside and work in the U.S., a valid Social Security Number (SSN) is required for all non-U.S. citizen borrowers whose income and/or assets are being used to qualify for a loan
- The documentation listed below ***is not*** acceptable in lieu of a valid Social Security Number as they do not evidence the borrower's right to earn income in the U.S:
  - Individual Tax Identification Number (ITIN)
    - Issued to individuals who are ineligible for Social Security Numbers and is for tax purposes only
    - An ITIN is a 9-digit number beginning with the number "9" and formatted like a SSN
  - Matricula Consular Card issued by the Mexican Consulate to individuals who are otherwise undocumented (no green card or valid visa)
    - Matricula Consular Cards do not support legal residency in the U.S.

  Note: An ITIN # does not authorize work in the U.S or provide eligibility for social security benefits or the earned income tax credit –reference http://www.irs.gov/Individuals/General-ITIN-Information

Permanent Resident Alien

- A Permanent Resident Alien is defined as an individual who is granted the right to work and live permanently in the United States
  - They are entitled to the same rights, products, programs, and lending parameters as U.S. citizens
- A borrower who is a Permanent Resident Alien is subject to the following requirements:
  - Must be employed in the United States
  - Have a 2 year employment history that is expected to continue for at least 3 years
  - 2 year credit and income history
    - If the borrower has been employed in the U.S. less than 2 years, additional credit, asset and income references/documentation may be required to support the credit decision
    - Only documentation that meets the same standards for authenticity, accuracy, and completeness that applies to other types of documentation will be considered
- Evidence is required to document the borrower's legal status in the U.S. Below are acceptable forms of documentation:
  - 1-551: Permanent Resident Card (AKA Green Card or Alien Registration Receipt Card) that has an expiration date on the back (valid for 10 years)
  - 1-155: Conditional Permanent Resident Card (Conditional Alien Registration Receipt Card) that has an expiration date on the back (valid for 2 years), as long as it is accompanied by a copy of the USCIS form 1-751 (Petition to Remove the Conditions on Residence)
  - Un-expired Foreign Passport with an un-expired stamp stating: Processed for 1-155 or 1-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm/dd/yy. Employment Authorized
  - If the Resident Alien/Permanent Resident Card is expired or will expire within 6 months, an Unexpired UCIS Form I-797 Notice of Action, indicating Form I-90 (Application to Replace Permanent Resident Card) has been filed is required
- Resident Alien/ Permanent Resident Cards issued between 1977 and 1989 were issued without expiration dates
  - Such cards are still valid, and are acceptable as evidence of permanent residency

Non-Permanent Resident Alien

- Non-permanent resident aliens are non U.S. citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the UCIS
- Evidence is required to document the borrower's legal status in the U.S. Below are acceptable forms of documentation:
  - Unexpired foreign passport with an attached unexpired Arrival-Departure Record (Form I-94/I-94A, I-94W or I-95) stamped and dated with the U.S. Immigration Visa Classification, date of entry and admitted until (expiration) date, OR

- Unexpired Arrival –Departure Record (Form I-94/I-94A, I-94W or I-95) AND Proof of Canadian citizenship –I.E. unexpired Canadian passport, birth certificate, or Certificate of Canadian Citizenship Card, and
- Employment Authorization Card (Form I-766)

Non-Permanent Resident Alien in Adjustment of Status (AOS)

- Unexpired foreign passport with an attached unexpired Arrival-Departure Record (Form I-94/I-94A, I-94W or I-95) stamped and dated with the U.S. Immigration Visa Classification, date of entry and admitted until (expiration) date
- Unexpired UCIS Form I-797C, Notice of Action, indicating Form I-485 (Application to Register Permanent Residence of Adjust Status) has been filed and accepted
  - Acceptable Visa Classifications A-1, A-2, A-3, E-1, E-2, E-3, G-1, G-2, G-3, G-4, G-5, H-1b, H-1c, K-1, K-3, J-1, L-1
  - Visa Classifications E-3, K-1 and L-2 are not allowed
  - Foreign Nationals are not allowed or those with Visa classification other than the ones above

Additional Visa Requirements

- If the visa will expire within six (6) months of note date and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided
  - If the borrower will or has changed employers at or after loan application, a new visa must be obtained
- A Notice of Approval may also be used as sufficient evidence of lawful U.S. residency
  - This document MUST reference one of the acceptable visa classifications types noted above. In addition, the visa must still be valid and unexpired
- If the petitioner (employer) on a Notice of Approval is different than the employer listed on the loan application for the borrower, the Notice of Approval is no longer valid
- Any application to change status alone is NOT sufficient evidence of lawful U/S. residency
- If a non-permanent resident alien is borrowing with a U.S. citizen it does NOT eliminate or reduce any visa or alien documentation requirements

Occupancy

- Eligible occupancy types include:
  - Primary residences for one to two unit properties, including condos
  - Second home residences for one unit properties, including condos
- The new refinance transaction must represent the same occupancy as the existing loan (i.e. Second Home to Second Home)
- Transactions where occupancy is questionable are ineligible

Payment Shock

- Payment shock applies to the percentage of increase of the proposed housing payment in relation to the existing housing payment
- Payment shock is considered when determining the risk and evaluating the borrower
- Generally, MSF prefers the payment shock to be less than 200%. However, borrowers with a higher payment shock are eligible based on the entire loan documentation, credit depth, employment history, reserves, etc.
- For example:
  - Borrower rents for $1200 per month
  - Proposed PITI on purchase transaction is $3500
  - The payment shock is 192%. $1200 - $3500 divided by $1200 = 191.67%

Power of Attorney

- A Power of Attorney is not permitted if the loan is closing in the name of a trust
- MSF will allow a Specific Power of Attorney or a General Power of Attorney appointed by the borrower subject to the following requirements:
  - A signed LOE from the borrower as to why the borrower cannot sign the final documents and is appointing a Power of Attorney for the transaction

  - The Power of Attorney must be approved by both the Third Party Investor and the Closing Attorney prior to docs
  - The original 1003, original initial disclosures, and purchase contract (if applicable) signed by the borrower
- The attorney-in-fact must have a familial, personal, or fiduciary relationship with the borrower
  - The Power of Attorney must contain a durability clause stating the power of attorney is not affected by the subsequent disability or incapacity of the principal, or similar words showing the principal's intent that the authority give the attorney-in-fact may be exercised even if the Principal becomes disabled or incapacitated
- Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney
- POA to have durability clause in which the principal indicates that the power of attorney remains in effect in the event of incapacitation the principle
  - the lender;
  - any affiliate of the lender;
  - any employee of the lender or any other affiliate of the lender;
  - the loan originator; any employee of the employer of the loan originator
  - title insurance company providing the title insurance policy or any affiliate of such title insurance company (including but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate; or
  - any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent
- As used herein, the borrower's relative includes any person defined as a relative in this guide or a person who is a fiancé of the borrower
- For refinance transactions, an individual who would otherwise be prohibited from serving as an attorney –in-fact or agent under the restrictions above may execute the required loan documents on behalf of the borrower(s), provided all of the following conditions are met:
  - The attorney-in-fact or agent is not an employee of the lender
  - The power of attorney expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property
  - The power of attorney expressly authorizes the attorney in fact or agent to execute the required loan documents on behalf of a borrower only if the borrower has, to the satisfaction of the attorney-in-fact or agent in a recorded, interactive session conducted via the Internet, both
    - confirmed his or her identity; and
    - reaffirmed, after an opportunity to review the required loan documents, his or her agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required loan by such attorney-in-fact

Trusts (available for Refinances only)

- MSF will accept loans to fund in the name of an Inter Vivos Revocable Trust, (also called a living trust, family trust, or revocable living trust), only on refinances subject to the following:
  - A copy of the recorded trust documents
  - At least one of the individuals must be a Primary Beneficiary and an occupying borrower whose income and assets are used to qualify for the loan AND
  - If no institutional trustee was appointed, this same individual must be a trustee
  - The living trust agreement must contain specific language giving the trustee the power to revoke the trust
    - The trustor can change or cancel the trust at any time for any reason during the trustor's lifetime
    - The ability to revoke the trust allows the trustor to regain control of the property
  - The mortgaged property held in the trust may be owner occupied single family (condo and PUD included), or a second home
  - At least one of the trustors whose income and assets are used to qualify must occupy the property

- MSF will require both Attorney and Third Party Investor approval
- The title commitment cannot contain any exceptions to coverage based on the mortgaged property being held in a trust
- A Power of Attorney is not acceptable if the loan is closing in the name of a trust
  - The trustee must execute the documents

COLLATERAL

Acreage/Agricultural Use

- Maximum Acreage Allowed is five (5) acres
- Properties with large parcels or lot sizes must be appraised in its entirety
- The appraisal must include comments on the actual parcel/lot size and if the parcel/lot size is typically for the neighborhood or area
- Loan amounts may be reduced on properties with land values that exceeds 40% of the appraised value of the property
  - To avoid a reduction in loan amount, the appraisal report must provide data which indicates that like-size properties with similar land values are typical and common in the subject's market area

Adjustments

- Adjustments should not exceed 25% gross and should be less than 15% net and 10% line item
- If adjustments are made to the appraisal for effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.
- Comparable sales are to be adjusted to the subject property with an exception for sales and financing concessions which are adjusted to the market at the time of sale.
- Time adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of the appraisal for the subject property.

Note, Adjustments outside of the above parameters typically require an appraisal review.

Commercial Usage

- If any part of the square footage has commercial usage the maximum allowable CLTV is 10% below program maximum

Comparable Sales

- Comparables provided outside of subject's neighborhood need to be addressed by the appraiser. If the appraiser provides comparables outside of subject's neighborhood in lieu of available closer comparables, the appraiser must explain in detail why the more distant comparables were selected.
- When the subject is an attached condominium, at least 2 comparable sales from outside the project and outside of the influence of the developer, builder, or property seller must be used
- When the subject is located in a new subdivision, new PUD, or in recently converted or new condominium project, the appraiser must use:
  - One comparable from inside the subject subdivision or project,
  - One comparable from outside the subject subdivision or project, and
  - One comp from either inside or outside of the subject subdivision or project
- At a minimum at least two comparable sales must be outside of the influence of the developer, builder, or property seller

Deed Restrictions

- Properties with deed restrictions are limited to One to Two Units dwellings and purchase or rate and term refinance only
- MSF will not extend financing on properties with deed restrictions that can potentially hinder MSF's first mortgage position
- Any deed restriction must be subordinate to MSF's mortgage
- The restriction cannot prevent the mortgagee to claim any hazard insurance settlement condemnation awards, prohibit mortgagee's legal right to remedy default under the mortgage terms, or restrict a notice of default or foreclosure to be sent to any third party
- A copy of the deed restriction is required
- For condominium projects, the number of restricted units must be disclosed

- The association may have the first right of refusal to purchase the unit but should not have the first right to lease, sale, or transfer a unit in connection with a mortgage foreclosure, acceptance of a deed in lieu of foreclosure, etc.
- The condominium documents cannot restrict the unit owner's right to sell, transfer or convey the unit
- Limitations/restrictions to unit owners for occupancy or specified age groups are permissible provided the limitations are legally valid and necessary to maintain the character of the project

- **Deferred Maintenance**
  - Property must be in average or better condition
  - Deferred maintenance may be permissible provided the neglected item(s) is not structural in nature or have a negative effect on marketability
    - Deferred item(s) may be left in "as is" condition if the cost to correct does not exceed $4000
- **Environmental Hazards**
  - The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the property.
  - Properties located adjacent to or containing environmental hazards are ineligible for financing.
  - Environmental hazards include, but are not limited to:
    - Evidence of radon above EPA safety levels which is left untreated.
    - Properties built on or near toxic waste dumps, clean- up sites, etc.
    - Evidence of toxic molds or other contagions
  - Properties must conform to FNMA/FHLMC hazardous substance guidelines
- **Functional Kitchen**
  - All properties require a function kitchen consisting of a working sink and stove/oven
    - Properties with only a microwave or a hot plate are not acceptable
- **Crawl Space Considerations**
  - Crawl spaces must have a minimum height of 18 inches
- **Repair Requirements**
  - At its discretion, underwriting may require any repairs considered necessary to ensure good and marketable property
  - Repairs may be ordered regardless of whether the property is appraised "as is" or "subject to repairs"
- **Security Bars**
  - Properties with security bars must comply with local fire codes and must have quick releases or safety releases on at least one window in each bedroom
  - Bedrooms must have adequate egress to the exterior of the home
    - Occupants must be able to get outside of the home if there is a fire

<u>Appraisal</u>

- All PDF appraisals must be first-generation reports
- MSF requires all appraisals to comply with Agency guidelines, comply with Home Valuation Code of Conduct issued by Federal Housing Finance Agency and must meet the minimum standards established by FIRREA, USPAP and any implementing regulations in effect at the time the appraiser signed the appraiser's certification
- Although MSF follows standard Agency appraisal guidelines, any differences noted in this section of the manual will supersede
- Loan Amounts > $1,000,000 require two full interior/exterior appraisals
  - The lower of the two values will be used
- Appraisers listed on the MSF Ineligible Appraiser List are ineligible to complete appraisals for loans done through MSF

<u>Appraisal Management Companies (AMC)</u>

- All appraisals must be ordered through an acceptable AMC

<u>RELS Valuation</u>

Condominiums

- A condominium is a form of ownership characterized by holding title to a single unit together with a proportionate undivided ownership interest in the common elements. The common elements typically include land, roofs, floor, walls, lobbies, and community spaces and facilities. The common elements are generally maintained, but not owned, by a non-profit homeowner's association.
- Condominium projects are classified as either a new project or an established project. They are further classified as warrantable and non-warrantable.
- **New Projects**
  - New projects are defined as a project in which less than 90% of the total units have been conveyed to the unit owners
  - New projects also include projects that are not complete (new construction, proposed construction, or proposed or incomplete conversion of an existing building to a condominium) and/or are subject to additional phasing
  - New projects are also defined as a project in which the developer is still in control of the condos
- **Established Projects**
  - Established projects are projects in which at least 90% of the units have been purchased and conveyed to the unit purchaser
  - Established projects are also projects in which the construction or conversion is complete, is not subject to additional phasing, and the project has been turned over to the homeowners association by the developer
- **Documentation Required**
  - Condo information letter
  - Master deed and bylaws
  - Minutes of last two association meetings
  - Current and previous year's budgets
  - Master Policy and HO6 (Walls In)
  - Evidence of Fidelity Bond
- **Insurance Requirements for all Condominiums**
  - **Master Policy**
  - Liability Coverage minimum $1 million per occurrence
  - Hazard minimum 100% of the insurable replacement cost, deductible may not exceed 5% of the policy face amount per building
  - Fidelity Bond minimum 3 months' worth of dues (not required for projects with less than 20 units
  - Insurance policy cannot include other condo projects, associations or self-insuring
  - All units covered by the master policy must be listed directly on the policy
  - **Flood Insurance**
  - Minimum required is the lesser of 100% of the insurable value or maximum coverage allowed per NFIP; coverage of each unit should be the lesser of $250,000 or the amount of it's replacement cost (i.e. the replacement cost of all units combined or the number of units x $250,000
  - Deductible may not exceed $25,000 per building located in the flood zone
  - Must be escrowed
  - **HO6 / Walls In**
  - The HO-6 policy must have coverage that is greater than or equal to 25% of the unit's appraised value
  - The deductible must be 5% or less
- **Warrantable Condominiums**
  - **Warrantable Established Condominiums**
  - 10% of the budget has been set aside for reserves for capital expenditures, the appropriate line items are noted on budget, and there is adequate funding for insurance deductibles
  - All phases, units, amenities, and common areas must be 100% complete and not subject to additional phasing

- The non-residential / commercial square footage must be less than 20% of the total project square footage
- No single entity may own more than 10% of the total units in the entire project
- Control of the HOA must be turned over to the unit owners
- The project must currently be free of litigation, mediation, or other legal issues
- **Warrantable New Condominiums**
- The subject legal phase and prior legal phases are substantially complete I.E. units are complete subject to selection of buyer preference items
- Common elements are fully complete. 25% of the units in the subjects building must be sold and conveyed to parties other than the builder/developer.
- Non-Residential/Commercial square footage must be < 20% of the total project square footage
- No more than 15% of the total number of units in the project are 30 or more days delinquent in payment of HOA assessments
- HOA assessments will begin once the developer has ceased to pay operating expenses attributable to the project whether or not all units have been sold
- When any unit owner other than the developer pays assessments the developer must pay the assessments attributable to the unsold units
- At least 10% of the budget provides for funding replacement reserves for capital expenditures and deferred maintenance
- There is adequate funding for insurance deductible amounts
- The condominium project has been created and exists in full compliance with applicable state law, the requirements in which the project is located, and with all other applicable laws and regulations governing creation of the project
- Any right of 1st refusal in the project docs will not adversely impact the rights of a mortgagee or its assignee to
  - A) Foreclose or take to a condo unit pursuant to the remedies in the mortgage
  - B) Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor
  - C) Sell or lease a unit acquired by the mortgagee or its assignee
- The documents that allow the HOA to retain 1st right of refusal are not exercised in any way that constitutes unlawful discrimination or that is likely to impair marketability
- The project docs state or applicable law provides that amendments of a material adverse nature to 1st lien mortgagees be agreed to by mortgagees that represent at least 51% of the unit votes (based on one vote for east 1st mortgage owned subject to first lien mortgages)
- The project docs state or applicable law provides that any action to terminate the legal status of the project or to use insurance proceeds for any purpose other than to rebuild, must be agreed to by First Lien mortgagees that represent at least 51% of the unit votes (based on one vote for east 1st mortgage owned subject to first lien mortgages)
- The project docs give the mortgagee and guarantor of the mortgage on any unit in the project the right to timely written notice of any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage
- The project docs give the mortgagee and guarantor of the mortgage on any unit in the project the right to timely written notice of any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit for which it holds the mortgage
- The project docs give the mortgagee and guarantor of the mortgage on any unit in the project the right to timely written notice of a lapse, cancellation, or material reduction of any insurance policy maintained by the HOA
- The project docs give the mortgagee and guarantor of the mortgage on any unit in the project the right to timely written notice of any proposed action that requires the consent of a specified percentage of mortgagees
- The project documents do not give a unit owner or any other party priority over any rights of the 1st mortgagee of the unit pursuant to its mortgage in the case of payment to the unit owner of proceeds from termination or insurance proceeds or condemnation awards for losses to or taking of units and/or common elements
- The sales program and marketing materials recognize and provide procedures for complying with all laws pertaining to advertising and sale of real estate, the form and contents of sales contracts and the method for handling deposits connected with the sale

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

- **1-10 Unit Condominiums (both warrantable & non-warrantable)**
  - No single entity may own more than one unit
  - All units must have separate metering
  - Must be typical for the area
- **Detached or Site Condominiums**
  - Detached or Site condominiums are units that resemble a detached single-family dwelling
  - The project can either be established or newly constructed
  - To perform a limited review on a detached/site condo, all of the following apply:
    - The subject property is a single detached unit in a condominium project and is not a manufactured home
    - The project is not ineligible as defined above
    - The appraiser has commented in the appraisal the effect on marketability of an individual unit
    - All comparable sales must be similar detached/site condominiums
      - One must be from a competing project and one must be from the subject's project
      - If the project is new construction and the comparable sale is within the subject's project, the comparable cannot be from the same builder
    - The mortgage title insurance policy satisfies the special title insurance requirements for units in a condominium project
    - If the project is new, the completion requirements may be waived if the items are minor and do not have a major impact on marketability
    - The unit may be covered by individual hazard and flood insurance and is required to carry coverage the same as a detached single dwelling or the unit may be covered by a master policy
      - If the unit consists only of air space and the dwelling and site are considered common areas, a master insurance policy is required
    - The units in the project must be owned in fee simple or leasehold
      - The unit owners must be the sole owners of and have rights to the use of the project's facilities, common elements, and limited common elements
      - If the project is leasehold, the terms of the lease must meet Fannie Mae requirements

Declining/Soft Markets

- A market will be deemed "declining" if:
  - Appraiser indicates in Neighborhood Section that market is declining
  - Appraiser indicates anywhere in comments that market is declining
  - Any Appraisal Review indicates that the market is declining
  - Appraiser marks "declining" in the Property Values Section
  - Web resources used by underwriting indicate the subject is located in a declining market
- Appraisals for properties located in declining markets require a minimum of 2 comps sold within the last 90 days and a minimum of 2 current listings

Electrical Systems

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

Foundation Settlement

- If the appraisal report notes evidence of excessive foundation settlement, the appraiser must clearly define the effect on value and marketability of the subject property
- Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing
  - A structural engineer's report or a report by a licensed contractor stating that the subject is structurally sound will be required prior to closing

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

Geographic Restrictions

- For a complete list of states MSF is licensed in go to
  - Retail: *http://www.freedomfs.com/about/locations/*
  - Wholesale: *http://www.msofco.com/wholesale-lending/approved-states/*
- Regardless of MSF licensing, this product is ineligible in the following states:
  - AK, HI, MA, NY

Heating Systems

- A central heat source with ductwork or baseboard in all rooms is required on all properties
- A heating certification from a licensed heating contractor may be required whenever the property has a gravity heating furnace or when the appraisal states a fair or poor rating on the adequacy of the system
- Any inadequacies must be corrected prior to closing
- A solar or wood-burning heating system must contain a central backup system to be acceptable

Historical Properties

- Properties that are registered historical landmarks/buildings may require additional documentation from planning and zoning concerning any restrictions placed on rehabilitation or maintenance of property
- Appraisal must address any effect on marketability caused by the designation

Ineligible Properties

- MSF will not extend financing on the following property characteristics:
  - Any dwelling located on land not held in fee simple or leasehold
  - Properties on leased land in which the lease does not meet requirements
  - Properties without a minimum of one clearly defined bedroom separated from main living area by walls
    - Bedroom must contain a closet
    - Any 2 unit dwellings in which any unit has less than one clearly defined bedroom separated from main living area by walls, Bedroom must contain a closet
  - Income producing properties (i.e. farms, ranches and orchards, wineries, bed and breakfast, school, etc.)
  - Unique properties (earth geodesic, etc.)
  - Units without a functional kitchen or a working heat source
  - Properties in fair or less than average condition
  - Commercially or industrially zoned properties
  - Properties utilized as a place of worship
  - Multi-family dwellings containing more than 4 units
  - Properties subject to hazardous conditions or near EPA hazardous or superfund sites
  - Properties that do not have full utilities meeting all standard and local code
  - Unimproved Land
  - Properties with deferred maintenance exceeding $4000
  - Properties with an escrow holdback to bring the condition to average or complete construction after the close of escrow
  - Land Trusts in Illinois
  - Manufactured / Mobile Homes
  - Properties in the states of Hawaii, Alaska, New York and Massachusetts
    - Regardless of licensing eligibility
  - Co-Ops
  - Properties without legal recorded rights of ingress / egress (landlocked with no recorded road agreement, easement, or deeded right of way)
  - Properties with more than one residential home located on the property
  - Properties in less than average condition
  - Non-warrantable condos

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

Leasehold Property

- When a mortgage is secured by a Leasehold Estate, or is subject to the payment of "ground rent", the borrower has the right to use and occupancy for a stated term under certain conditions contained within the lease
- The leasehold agreement must last at least five (5) years longer than the term of the loan
- A complete and legible copy of the lease must be provided
- The valuation of a property that is subject to a leasehold interest may require a complex analysis, so the appraiser must develop a thorough, clear, and detailed narrative to be included in the appraisal report that identifies:
  - Terms of the lease
  - Remaining term of the lease as of the effective date of the appraisal
  - Any restrictions and conditions of the lease agreement or ground lease and discuss what effect, if any, they have on the value and marketability of the subject property
- In developing the sales comparison approach to value, the appraiser must use as comparable sales properties that have similar leasehold interests
- When there are sufficient numbers of closed comparable sales or properties with similar leasehold interests available, the appraiser should use them in the analysis of the market value of the leasehold estate for the subject property and report them in the sales comparison analysis grid on the applicable appraisal report form
  - If the market does not have enough adequate comparable sales available with similar leasehold interests, the appraiser may use sales of similar properties with different lease terms OR,
  - If necessary, sales of similar properties that are fee simple estate ownership may be used, as long as the appraiser explains why they had to be used
    - When using fee simple estate ownership comparable sales, the appraiser must make the appropriate adjustments for the difference in ownership and support these adjustments with documentation in the appraisal
- At a minimum, the appraisal must contain at least two (2) sales that are similar leasehold estate interest comparable sales, which can be either closed, or pending sales

Pest Infestation

- If the appraisal report or sales contract notes evidence of termites or other insect infestation or if the Estimated/Final Closing Disclosure (CD) reflect a charge for a termite inspection, a pest inspection report certifying treatment of the infestation prior to closing is required
  - Any significant structural damage due to pest infestation must be corrected prior to closing
  - Water stains noted within the report will result in a roof inspection by a licensed roofer with a minimum 3-5 year remaining life expectancy

Plumbing

- A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system
  - Any inadequacies must be corrected prior to closing

Private Roads

- Properties on private roads are acceptable subject to all of the following:
  - The title company must affirmatively insure access to the subject property from a public street
  - Any maintenance costs are included in the Borrower's housing ratios
  - A copy of the road maintenance agreement is required

Private Water Supply

- Private water supply for properties whose water sources are derived from a well, shared well, community well, or other private source must meet the following guidelines:
  - Single Family Residence
  - Water supply provides a year-round source of water.
  - Water is potable and complies with state and local health standards

- Mechanical systems utilized to provide water to the subject property are in good working order
- A water certification is required if the appraiser or purchase contract indicates the necessity and the report should be provided by a city, county, state (or governing body) official or a qualified entity stating:
  - The water supply system is in property working order and pumping an adequate supply of water for the property; and
  - The water supply is potable and complies with local and/or state health authority standards. (In absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption)
  - The water certification(s) must be dated no more than 120 days prior to the Note Date

PUD's

- Both attached and detached PUDs have two classification types: established projects (Type E) and new projects (Type F)

- **Detached PUDs**
  - Detached PUDs, both Type E (established projects) and Type F (new projects) do not require a review provided all units in the project are detached
  - Two units or multi-units detached PUDs encumbered by one lien are ineligible
- **Attached PUDs**
  - Attached PUDs, both Type E (established projects) and Type F (new projects) must meet the following:
    - The project meets MSFs eligible project requirements.
    - The project is not ineligible as defined in the ineligible projects topic of this chapter (i.e. the project is not a conversion).
    - The project does not consist of any manufactured housing.
    - The subject unit meets the insurance requirements.
    - The subject unit is 100% complete.
    - The unit owners are in control of the HOA.
    - The marketability of an attached PUD is established.
    - For Type F, the project is 70% pre-sold and 50% conveyed
  - Planned Unit Developments (PUD's) must comply with the PUD project requirements of *Fannie Mae* or *Freddie Mac*
    - Guidelines under this topic that differ from Fannie Mae published guidelines will supersede

Rural Properties

- Agricultural properties, income producing properties, farms, etc. are ineligible for financing
- A property indicated by the appraisal as rural, or containing any of the following characteristics, is usually considered a rural property:
  - Neighborhood is less than 25% built-up
  - Area around the subject is zoned agricultural
  - The photographs of the subject show a dirt road
  - Comparable's are more than five miles away from the subject
  - Subject property is located in a community with a population of less than 25,00
  - Distances to schools and/or amenities are greater than 25 mile
  - Subject property and/or comparable's have lot sizes greater than 10 acre
  - Subject property and or comparable's have outbuilding or large storage shed
- Rural properties must comply with the following criteria:
  - The property must be residential in nature
  - The property must conform to existing zoning
  - The parcel or lot must be of a size that is common and customary for the market as supported by the appraisal and the comparable sales
  - The property must be easily accessible by roads that meet local standards and must have adequate working utilities
  - The property should not have many outbuildings

Sewage Disposal System

- Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity
- The report should be provided by a city, county, state (or governing body) official or qualified entity stating:
  - The sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
  - Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property
- For systems one year old or less, the certification may be no more than one year old on the date of loan closing
- For systems more than one year old, the certification may be no more than 120 days old on the date of loan closing

CREDIT

Authorized Users

- Underwriting will review credit report trade-lines in which the borrower has been designated as an authorized user in order to ensure the trade-lines are an accurate reflection of the borrower's credit history. If the underwriter believes the authorized user trade-lines are not an accurate reflection of the borrower's credit history, the trade-lines will not be used to meet the minimum trade-line requirements. Unless the following are met:
  - Another borrower in the mortgage transaction is the owner of the trade-line ; or
  - The borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.
- If written documentation of the borrower's monthly payments on the authorized user trade-line is provided, then the payment history – particularly any late payments that are indicated- must be considered in the credit analysis and the monthly payment obligation must be included in the debt – to –income ratio
- When ensuring trade-lines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of his/her own, the underwriter must establish:
  - The relationship of the borrower to the owner of the account,
  - If the borrower uses the accounts, and
  - If the borrower makes the payments on the account
- If the authorized user trade-line belongs to another borrower on the mortgage loan, no additional investigation is needed. On the other hand, if the borrower has several trade-lines in good standing and only a minor number of authorized user accounts, the underwriter could make the determination that:
  - the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and
  - the information reported on the credit report is an accurate reflection of the borrower's credit history
- Underwriting is not required to review an authorized user trade-line that belongs to the borrower's spouse when the spouse is not on the mortgage transaction

Credit

- A borrower's credit history is considered to be one of the strongest indicators of the borrower's willingness and ability to repay the mortgage
- A borrower who maintains an excellent long credit history is more apt to continue managing his credit obligations in a timely manner
- A printed/written credit report is required for all borrowers applying for financing
- Each borrower must have an acceptable credit profile

- The borrower's credit history should demonstrate his willingness and ability to manage his financial obligations in a timely manner is a key element in determining the comprehensive risk for a mortgage
- The borrower's overall credit history, including but not limited to, credit score, repayment patterns, credit utilization, and level of experience in using credit has an effect on the eventual default risk of a mortgage
- As such, the underwriter will assess the risk through a comprehensive review of the borrower's credit history

Credit Report

- The credit report must:
  - Not be greater than 120 days old at the time of closing
  - Identify each applicant by name and verify the individual's social security number
  - Any social security number discrepancy must be disclosed by the Credit Reporting Agency
  - Be an original report with no corrections, erasures, white out, etc.
  - Show the names of the national repositories used to compile the information
  - Be issued by a consumer reporting agency that obtains or verifies all information from sources other than the borrower
  - Provide the name, address and phone number of the reporting agency preparing the report.
  - Provide a credit score from each repository accessed
  - Report all inquiries made within the previous 120 days
  - Search all repositories for each locality in which the borrower has resided during the previous 2 year period
  - Access at least two national repositories and identify those which were accessed for compiling report
    - Acceptable repositories are Equifax, Experian, and Trans Union
  - Verify all disclosed accounts including but not limited to the date the account was opened, the high credit limit, the current status, the current balance, required payment, the date of the last activity on the account, and a payment history which provides a historical status of each account with the number of times the account has been past due
    - If a creditor does not include a reference on an open account, a separate written verification may be required at underwriter's discretion
    - Open accounts must have been updated within 90 days of the credit report
  - Contain a search of at least two public record sources and disclose any tax liens, judgments, bankruptcies, and foreclosures that are reportable under the Fair Credit Reporting Act.
- **Gap Credit Reports(Pre-Close Credit Report)**
  - A "Gap" Credit report or evidence that an Undisclosed Debt Monitoring review has been included in the FraudGUARD report will be required on all first mortgage loans prior to close, when the initial credit report is greater than 14 days old at time of closing.
  - Gap credit reports and Undisclosed Debt Monitoring reviews expire 14 days after issuance. If the loan is not closed in 14 days, an additional Gap credit report or Undisclosed Debt Monitoring review is required.
- **Credit Score**
  - MSF requires a minimum of two valid/usable credit scores for each qualifying borrower
- **Fraud/Regulatory Alerts**
  - Completed FCRA form addressing any alerts which appear under the regulatory message and fraud alert section of the credit report is required

Consumer Credit Bureau Blocks

- Consumers have the ability to block or freeze access to their credit when they are victims of identity theft
- The reporting agencies will advise of a security block or security freeze.
- All security freezes from all bureaus will need to be lifted in order for MSF to decision a loan

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

Derogatory Credit

- **Bankruptcy / Foreclosure / Deed-in-Lieu / Short Sale / Credit Counseling / Repossessions**
  - A borrower is not eligible for financing if the borrower has a Bankruptcy discharged in the previous 5 years and/or a foreclosure, deed in lieu or short settled within the previous 5 years
  - Multiple bankruptcies or multiple foreclosures are not eligible for purchase
  - A bankruptcy can either be a Chapter 7 in which the borrower discharges all debt or a Chapter 13 in which the borrower completes a reorganization of debt
  - The age of a bankruptcy is calculated from the date of the discharge for Chapter 7 and Chapter 13
  - A Chapter 13 must be discharged in order for the loan to be eligible
    - A borrower with a Chapter 13 that has been dismissed is ineligible
  - A Chapter 13 discharge indicates a re-establishment of debt by the borrower by meeting the terms of the repayment plan
  - A Chapter 13 becoming a Chapter 7 is considered one bankruptcy provided the Chapter 13 was not dismissed by the court
  - If the Chapter 13 was dismissed and borrower then filed a Chapter 7, the borrower would be ineligible
  - A foreclosure is defined as any 120-day mortgage late within the last 60 months, notice of default, settlement on a real estate secured trade line, deed-in-lieu, and forbearance agreements
    - The age of the foreclosure is calculated from the date settled or the date of the most recent 120-day mortgage late
  - Borrowers are required to have re-established credit from like sources (i.e.: revolving, installment, mortgage) paid satisfactorily and which meet the minimum trade-line requirements
  - A letter of explanation is required from the borrower
  - A repossession must have been concluded over 60 months from application date
    - Evidence of date of completion must be provided
- **Collections and Charge-Offs**
  - Collections
    - Collections opened within the last 12 months and totaling $1,500 or more in aggregate are to be paid at or prior to closing. (Medical collections are excluded)
  - Charge-offs
    - Charge-Off Accounts under $500 total or > 5 years old (paid or unpaid) are excluded
- **Forbearance**
  - Forbearance is an agreement to rearrange the terms of the original mortgage
  - For evaluation purposes, forbearance or a loan workout is considered a foreclosure
  - A LOE is required from the borrower
- **Past Due**
  - Past due account may be required to be brought current or paid off
- **Restructured Loans (Modifications)**
  - Restructured loans are ineligible, unless the re-structure was over 12 months old, the borrower is 0x30 on mortgage subsequent to re-structure and a net tangible benefit can be demonstrated
  - A restructured loan is a mortgage loan in which the terms of the original transaction have changed resulting the in the forgiveness of the mortgage or a restructure of the mortgage either through a modification or the origination of a new loan that results in any of the following:
    - Forgiveness of a portion of the principal and/or interest on either the first or second lien
    - Application of a principal curtailment by or on behalf of the investor to simulate forgiveness
    - Conversion of any portion of the original mortgage debt to a soft subordinate mortgage
    - Conversion of any portion of the original mortgage debt from secured to unsecured
  - Payoff demands that are significantly lower than what is reporting on the credit report or VOM as the high balance of the loan will be carefully examined
- **Seasoning Requirements**
  - Loan application may not be executed by borrower(s) until all applicable seasoning requirements have been met

  - The execution date of the Public Trustee's Deed or Special Warranty Deed will be used to determine the foreclosure date for any applicable seasoning requirement
- **Tax Liens and Judgments**
  - Tax liens and judgments (paid or unpaid) opened within the last 5 years or greater than $500 total will be considered derogatory credit and result in a denial for unsatisfactory credit history
  - Tax liens and judgments less than $500 total and opened greater than 5 years are excluded
  - All open tax liens and judgments must be paid off prior to or at closing
    - Tax liens and judgments are not allowed to remain open as they could affect MSF's first lien position

- **Written Explanations**
  - A satisfactory written explanation signed by the Borrower(s) explaining the reason(s) for adverse credit is required if determination is made that the adverse credit has a significant negative impact on the creditworthiness of the Borrower(s)
  - The explanation must satisfactorily identify the reason(s) for the adverse credit and the timing of the event(s) must be consistent with other application information
  - A Borrower with an unfavorable credit history may be deemed acceptable if the occurrences of adverse credit use do not appear to be typical for the Borrower and are due to circumstances beyond the Borrower's control
    - Additionally, the instances should not be indicative of the Borrower's negligence or unwillingness to repay

Incorrect Reporting

- If the borrower states information reporting by the credit bureaus is inaccurate or incorrect (i.e. lates, public records, trades that do not belong to the borrower), the borrower will need to provide a LOE, documentation supporting the letter, and the dispute must be documented with the credit bureaus

Housing Verification

- A housing payment history (mortgage/VOM, rental/VOR or combination of the two) covering the most recent 24 months, with no late payments, must be verified either by the credit bureau or by direct verification
  - A VOM is required if current mortgages are not reflected on credit report
- VORs are acceptable from a property management company
  - Borrowers who rent from an individual are required to provide the most recent 12 months cancelled rent checks to evidence the rental payment history
- In addition, private party mortgages and borrowers renting from an entity affiliated with the transaction require 12 months cancelled rent checks
- 12 months bank statements are also acceptable with copy of the rental agreement as long as amounts and deposit dates match up to the agreement

Liabilities

- **Alimony/Child Support/Separate Maintenance**
  - Monthly alimony, child support or separate maintenance obligations with six months or more payments remaining are included in the DTI
  - The following documentation is required
  - Copy of the recorded divorce decree, separation agreement, or property settlement agreement is required to evidence the amount and duration of the payment
  - If there are fewer than six months of payments remaining, payments may be excluded from the DTI
- **Balloon Payment Notes**
  - Balloon Payment Notes scheduled to come due or that have scheduled payments beginning within twelve months of the new mortgage's loan closing must be included in debt ratios as an anticipated monthly obligation
- **Borrowers Retaining their Current Residence**
  - Also see *Departure Residence*

- When a borrower is purchasing a new home and retaining his/her current residence, it is often a source of concern for occupancy fraud and potential risk to the company
- The borrower(s) must sign the Occupancy Affidavit Form prior to closing

- **Business Debt**
  - Business debts for which the Borrower is personally liable are included in the debt calculation up to the amount of the personal recourse
  - These debts include business paid personal debt, unless proof of payment by the business is established
  - If the account is new, it must be included in the DTI calculation
  - These debts may be excluded from the DTI calculation if a minimum of twelve (12) months of consecutive canceled checks from the business account are provided
  - If the account has a history of delinquencies, the liability will be factored in the borrower's debt ratio
  - If the business does not reflect any expenses related to the obligation on the tax returns, the liability will be counted in the borrower's debt ratio
- **Contingent Liabilities**
  - A Contingent liability existed when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.
  - **Exemption from contingent liability policy on mortgage assumptions**
  - The debt is not factored in the borrower's monthly recurring debt if borrower provides all of the following documentation:
    - Proof of transfer of ownership
    - A copy of the executed assumption agreement
    - A 12 month payment history for the property purchaser that assumed the mortgage showing timely payments have been made via credit report or direct verification from the servicer, or
    - Value of the property as established by an appraisal or the sales price on the Closing Disclosure (CD)/HUD-1 Settlement Statement from the sale of the property, results in a loan-to-value (LTV) ratio of 75% or less
  - If documentation cannot be provided evidencing consistent, timely payments or the obligation has a history of delinquencies, the liability will be factored in the borrower's debt ratio
  - **Contingent Liability on Cosigned Obligations**
  - Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigned/co-obligor on a car loan, student loan, mortgage, or any other obligation
  - **Exemption from contingent liability on co-signed obligations**
  - If the borrower obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the consumer's monthly obligations
- **Co-signed Debts**
  - Debts that have been co-signed by the Borrower may be excluded from the Borrower's DTI ratio If the borrower obtains documented proof that the primary obligor has been making regular payments during the previous twelve (12) months, and does not have a history of delinquent payments on the loan during that time
- **Debt Payoff/Consolidation**
  - MSF discourages the payoff or pay down of debt in order for a borrower to meet qualifying ratios
  - Installment loans may be paid off or paid down to 6 months or less
    - The underwriter will use prudent judgment when evaluating a borrower who has paid down debt
  - Pay off of revolving debt to meet qualifying ratios will be considered on a case-by-case basis
  - Potential credit abusers are not eligible to pay off debt to qualify
  - MSF's underwriter cannot stipulate or otherwise condition for the pay off or pay down of revolving debt in order for borrower to qualify
  - Debts that are paid off or will be paid through the transaction are excluded from the debt ratio

- **Deferred Student Loans**
  - A qualifying payment of 1% of the balance will be included in the debt ratio for all deferred student loans if no other documentation is submitted to show the payment (ex. Copy of installment loan agreement or a direct verification obtained from the creditor)
  - Student loans listed as delinquent must be brought current
- **Demand Loans**
  - A demand loan does not have a monthly payment as it becomes due and payable in full on a specified date
    - The debt may not be secured
  - If the note is due within 12 months preceding the date of closing and the borrower has sufficient reserves available to repay the obligation in full, the obligation is not counted in the monthly debt ratio
  - If the borrower does not have sufficient reserves available to repay the obligation in full at the end of the two year period, the obligation is treated as an installment loan and will be factored in the debt ratio
    - The qualifying payment will be calculated by the original loan amount, amortization period, and interest rate
- **Departure Residence**
  - If the transaction is a purchase and the borrower is retaining their current principal residence, or the sale of current residence will not close prior to new transaction the following must be met:
  - **Current principal residence is pending sale:**
  - If the current principal residence is pending sale but the transaction will not be closed (with title transfer to a new owner) prior to the close of the new transaction, then both the current and the proposed mortgage payments are used to qualify the borrower for the new transaction
  - **Current principal residence is converting to a second home:**
  - If borrower is converting his current principal residence to a Second Home, then both the current and the proposed mortgage payments and taxes, insurance, and association dues must be included in the ratios
  - **Current principal residence is converting to an investment property:**
  - When a Borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis under the circumstances listed in the table located on the next page
  - **Relocations**
  - The borrower is relocating with a new employer, or being transferred by the current employer to an area not within a reasonable and locally –recognized commuting distance
  - A properly executed lease agreement (that is a lease signed by the borrower and lessee) of at least one year's duration after the loan is closed is required. Evidence the security deposit or the first's month's rent has been paid to the borrower is required
  - **Sufficient Equity in Vacated Property**
  - The borrower has a loan-to-value ratio of 75% or less, as determined either by:
    - A current (no more than 6 months old) residential appraisal , or
    - Comparing the unpaid principal balance to the original sales price of the property
  - The appraisal in addition to using form 1004 or 1073 may be an exterior only appraisal using forms 2055 or 1075
- **Garnishment**
  - A garnishment is an order to attach property or income to satisfy non- payment of a debt
  - Documentation to indicate the type of obligation, the amount of debt, the length of time required to repay the debt in full and the applicant's explanation are required
  - The monthly payment of the garnishment should be included in the borrower's debt-to-income ratio
- **Installment Debt**
  - Is the monthly obligation on accounts with fixed payments and terms (e.g., car loans, student loans, etc.)

- The monthly payments may be excluded from the DTI calculation if there are fewer than 6 months of payments remaining to repay the debt in full
  - Borrower must have verified assets remaining after closing in an amount no less than the amount needed to cover the excluded payments

- **Lease Payments**
  - Leases payments are included in the debt ratio regardless of the number of payments remaining as the expiration of the lease generally leads to a new loan or a new lease
    - Therefore, it is considered a recurring monthly expense
- **Loans Secured by a Personal Financial Asset**
  - If the borrower uses a personal financial asset as security for a loan, MSF will not include the monthly payment in the borrower's debt ratio
    - A personal financial asset consists of 401K, individual retirement account, life insurance policy, certificates of deposit, stocks, bonds, etc.
    - In order to omit the monthly payment from the debt ratio, the borrower will need to provide a copy of the security instrument verifying the borrower's financial asset as collateral for the loan
  - If the same asset will be used to satisfy a reserve requirement, the amount available will be calculated using the current account balance of the asset minus any outstanding loans and related fees
- **Obligations Not Considered Debt**
  - Obligations not considered debt, and therefore not subtracted from gross income include:
    - Federal, State, and local taxes
    - FICA or other retirement contributions , such as 401k accounts (including repayment of debt secured by these funds)
    - Commuting Costs (unless reported on IRS 1040s as an unreimbursed expense)
    - Union Dues (unless reported on IRS 1040s as an unreimbursed expense)
    - Open accounts with $0.00 balances
    - Automatic deductions to savings accounts
    - Child care
    - Voluntary deductions
- **Payroll Deductions**
  - The underwriter will determine if any payroll deductions, other than standard deductions, appearing on the borrower's pay stub will be included in the debt ratio
  - The deduction can consist of credit union, employer loans, garnishments, child support, and 401K loans
  - If the payment will be included in the debt ratio, documentation will be required to support the monthly payment of the debt and the balance
- **Real Estate Loans**
    - See also *Rental Income*
  - Real Estate Loans including HELOCS for all properties owned as well as tax, insurance and association fees must be included in the Debt to income calculation
    - Copies of notes, mortgage statements, tax bills, dec pages, and association dues invoices must be provided
  - Monthly taxes, insurance, and HOA dues for real estate owned free and clear are required to be included in the debt to income calculation
    - Borrower must provide evidence the property is owned free and clear (O&E or property profile) and provide the tax bill, dec page, and HOA dues invoice
- **Revolving Debt**
  - The minimum monthly payment for revolving charge accounts must be included in the monthly debt ratio
    - If the credit report does not indicate the minimum monthly payment, the underwriter will use the greater of $10 or 5% of the outstanding balance

  - MSF will not factor the monthly payment in the borrower's debt ratio for open 30-day charge accounts provided the borrower has sufficient assets to cover the unpaid balance or will receive reimbursement of the charges from his employer prior to the transaction closing
- **Special Assessments**
  - If the subject property is located in a special assessment district, the locality has the right to assess homeowners for the cost of developing the area (roads, sewers, schools)
  - Any special assessments stated within the appraisal and/or the title commitment must be included in the borrower's debt ratio
  - If the special assessment district is having financial difficulties, the underwriter will evaluate the borrower's ability to repay the mortgage should additional assessments be imposed
- **Unreimbursed Business Expenses**
  - Schedule A Unreimbursed Business Expenses are actual cash expenses that must be deducted from the adjusted gross income
  - Automobile loan payments and automobile lease payments that are included as unreimbursed expenses on the tax returns are considered recurring debts and are factored in the debt ratio
    - They are not deducted from the income

<u>Trade-line Requirements</u>

- Minimum of 3 trade-lines required.1 trade-line rated at least 12 months and 2 trade-lines rated at least 6 months
- At least 1 of the 3 trade-lines must be open and active
- Alternative credit may be used as a substitute for only 1 trade-line provided the alternative line has a 12 month history

<u>Qualifying Ratios (Debt to Income (DTI))</u>

- DTI is set forth in the program *matrix*; under no circumstances may the DTI on a loan file exceed 40%
- **Housing Payment Ratio:**
  - When calculating the monthly housing – to debt income ratio, the following are included in the proposed housing expense:
    - For ARM loans, the proposed principal and interest payment on the first and second(if applicable) mortgages secured by the subject property
    - For ARM loans, the principal and interest payment is calculated based on the maximum interest rate that may apply during the first five years after the date of the first periodic payment
      - For example, the maximum interest rate on our 5/1 ARM product is the greater of the start rate plus 2% (based on 2/2/5 caps) or the fully indexed rate
      - The maximum interest rate on our 7/1 ARM product is the greater of the start rate or fully indexed rate. The fully indexed rate is the current index at time of consummation plus the margin
    - The monthly amount of the hazard insurance
    - The monthly amount of the real estate taxes
    - The monthly amount of the mortgage insurance premium (if applicable)
    - The monthly amount of home owner association dues (if applicable)
    - The monthly amount of the flood insurance (if applicable)
    - The monthly leasehold payment (if applicable)
    - Any special assessments
  - If the property is a new construction or recently built the taxes are based on the estimated taxes for the completed improvements versus the unimproved land
  - Underwriting, funding, and docs will use 1% of the purchase price / appraised value if the current county / city tax rate is unknown
- **Debt to Income Ratio:**
  - When calculating the monthly debt-to-income the following are included:

- The proposed monthly housing expense including monthly payment on any simultaneous loans secured by the same property
- Monthly payments on all recurring obligations including alimony and child support
- Monthly payments for taxes and insurance
- HELOC interest only payment of fully drawn line amount used for DTI calculations

- The maximum qualifying ratios are noted in each program matrix

DOWNPAYMENT, CLOSING COSTS & RESERVES

Down Payment

- See *Assets*

Reserves

- Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using his or her financial assets
- Minimum required reserves may vary depending on a number of factors, including:
  - The transaction
  - The occupancy status and amortization type of the subject property
  - The number of units in the subject property
  - The number of other financed properties the borrower currently owns AND
  - The status of the borrowers current principal residence (pending sale or converting to second home or investment property)
  - PITIA is defined as:
  - Principal and Interest
  - Hazard, flood, mortgage insurance premiums (as applicable)
  - Real estate taxes
  - Ground lease
  - Special assessments
  - Association dues
  - Any payments on subordinate mortgages loans secured by the subject property
- Certain assets are discounted when used for reserves; refer to the applicable asset type for additional information

INCOME

Eligible Income Sources

- **Automobile Allowance and Expense Account Payments**
  - Automobile allowances are considered acceptable income provided receipt of such income has been documented for the most recent two years and the income is likely to continue
    - Automobile allowances that have been received for less than two years will not be considered in the qualifying income
  - Only the amount by which the Borrower's auto allowable or expense account payments exceed actual expenditures may be considered income
  - The Borrower must provide IRS form 2106 and complete and signed tax returns for the most recent 2 years
  - Written verification from the employer that the payments will continue must be obtained
  - If the Borrower used the standard per-mile rate in calculating auto expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income (2011 = 22 cents 2012= 23 cents, 2013 = 23 cents)
    - Updated depreciation rates may be found on *IRS.gov*
  - To arrive at the add-back the factor times the number of business miles reported is used
    - The most conservative figure derived from the most recent year avg., or most recent 2 yr. avg. will be applied

- The following expenses must be treated as recurring debt:
  - The Borrower's monthly car payment; and
  - Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance
- **Bonus Income**
  - Bonus income is an eligible source of income provided the borrower has a documented two (2) year history of receipt
  - Bonus income can be paid monthly, quarterly, annually, or as part of an incentive plan
  - The nature of the bonus income must be consistent in order to use the bonus for qualifying
  - Bonus income should be averaged over a 24 months period
    - If there is a decline in bonus income, a period of three to four (3-4) years must be evaluated to determine if the income is stable and can be used for qualifying
    - If the income is used, the most conservative figure derived from YTD average, most recent year average, or most recent 2 year average. will be applied
  - If the bonus income is 25% of the borrower's annual income, the most recent 2 years tax returns are required
- **Capital Gain/Loss**
  - Capital Gains or losses generally occur only one time, and should not be considered when determining effective income
  - Review the entire Schedule D and do not review only page 1 of the 1040s
  - If the individual however, has a constant turnover of assets resulting in gains or losses, the gain or loss must be considered when determining the income
  - The most recent three (3) years tax returns are required to evaluate an earnings trend, if the trend:
    - Results in a gain, it may be added as effective income, or
    - Consistently shows a loss, it must be deducted from the total income
  - The underwriter must be able to document anticipated continuation of income through verified assets
    - Example; Capital gains for an individual who purchases old houses, remodels them, and sells them for profit may be considered
- **Child Support, Alimony or Maintenance Income**
  - Alimony and/or child support are an eligible source of income provided it continues for a minimum of three (3) years after the date of the mortgage application and borrower has a minimum twelve (12) months history of receiving the full income on a regular and timely basis
  - A copy of the recorded divorce decree, recorded legal separation agreement, court order, or voluntary payment agreement (voluntary agreement must be drafted and witnessed by a third party attorney or mediator) is required to evidence the award of alimony and/or child support and to evidence the payment amount of the alimony and/or child support along with the duration of the payment
  - When utilizing this source of income, MSF will take into consideration the borrower's regular receipt of the payment and any limitations on the continuance of the payment (i.e.: the age of the children for whom the support is being paid)
  - If there is no legal recorded document for the award, the income cannot be used in qualifying the borrower
  - The borrower must provide evidence of receipt of payments for alimony or child support
    - Acceptable documentation is the borrower's bank statements showing electronic deposits, and copies of the checks along with deposit slips that show regular consistent payments
  - MSF will consider the regularity and timeliness of the payments, as well as whether the borrower received all or only part of the full amount that was due
    - If the borrower has been receiving the full, regular, and timely payment for alimony or child support for 12 months, the income is considered stable
  - If the borrower has been receiving the full, regular, and timely payment for alimony or child support for 6-12 months, the income may be acceptable provided the underwriter can adequately document the payer's ability and willingness to make timely payments
  - Alimony or child support received for less than 6 months, or in an untimely or infrequent manner may not be used to qualify

- **Commission Income**
  - Commission Income must have been received for the most recent two (2) years and documented with the two (2) most recent year's complete tax return, two (2) most recent years w-2s and the most recent paystub including a minimum of 30 days YTD employment
  - If the income is used, the most conservative figure derived from YTD average, most recent year average, or most recent 2 year average will be applied
  - The Borrower's income may also qualify when the portion of earnings not attributed to the commission would be sufficient to qualify
  - Borrowers whose commission income has been received for more than 1 year, but less than 2 years may be considered if the likelihood that the income will continue can be documented and soundly rationalized
    - An example of this would be a situation in which the Borrower's compensation was changed from salary to commission within a similar position with the same employer
    - Commission income received for less than 1 year may never be used for qualifying
  - Unreimbursed business expenses must be subtracted from gross income.
- **Disability Income**
  - Long-term disability benefits may be used as qualifying income provided the likelihood of three (3) years continuance from the application date is demonstrated
  - The following documentation must be provided:
    - A copy of the award letter, w-2, or other equivalent documentation showing income type, source, and amount
    - The most recent 1 month bank statement or other equivalent documentation evidencing current receipt
  - If the disability benefit is provided by an employer, private insurer, and/or has a pre-determined expiration date, obtain a copy of the certificate of coverage award letter or other equivalent documentation evidencing a disability income benefit and / or policy date that exceeds three years
  - Pending or current re-evaluation of medical eligibility for insurance and / or benefit payment is not considered an indication that the insurance and / or benefit payment will not continue
- **Dividend/Interest Income**
  - Interest and dividend income may be used as acceptable stable income if it has been received for the past two (2) years as documented by the borrower's most recent two (2) years personal tax returns (and applicable 1099s) and it is expected to continue for a minimum of three (3) years from the date of the mortgage application
  - For qualifying, the income will be averaged over 24 months
  - The borrower must provide evidence of ownership of the assets on which the interest and/or dividend income was earned
  - Any assets used for down payment or closing costs must be subtracted from the borrower's total assets before calculating expected future interest or dividend income
  - This taxable/tax exempt income may be added back to adjusted gross income
- **Employment by a Relative/Family Business**
  - In addition to normal employment verification, a borrower employed by a family owned business is required to provide evidence that he/ she is not an owner of the business via:
    - Copies of the most recent 2 year's complete and signed personal tax returns, and either
      - A statement from the business's tax preparer OR
      - A signed copy of the corporate tax return showing ownership interest
  - Written VOE forms are not an acceptable source of verification
  - In the event the Borrower owns more than 25% of the company, full *self-employed* documentation must be provided
- **Foster Care Income**
  - Income derived from foster care payments may be considered if it is regular, recurring and likely to continue for three years
  - Acceptable documentation verifying foster-care income is:
    - Letters from the organizations providing the income
    - The borrower's most recent two years personal tax returns, OR

  - Copies of the borrower's deposit slips or bank statements that confirm the regular deposit of the payments
  - A two-year history of past receipt is required
    - If a borrower has not been receiving this type of income for two full years, the income may still be used as long as the borrower has at least a 12-month history of providing foster care services and this income does not represent more than 30% of the total gross income that is used to qualify the borrower
  - Income used to qualify must be averaged over a two (2) year period
  - Projected income may not be used in the calculation

- **Homeownership Subsidies**
  - A monthly subsidy may be treated as income, if a Borrower is receiving subsidies under the housing choice voucher home ownership option from a public housing agency
    - Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting the subsidy will be assumed to continue for at least three years
  - If the Borrower is receiving the subsidy directly, the amount received is treated as income
    - The amount received may also be treated as nontaxable income and be "grossed up" by 25 percent
  - The Underwriter may treat this subsidy as an "offset" to the monthly mortgage payment (that is reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to income and debt-to-income ratio)
  - The assistance payment must be paid directly to the servicing creditor or placed in an account that only the servicing creditor may access
- **Military Income**
  - Borrowers employed in military services typically receive compensation in addition to base pay, which may be used as qualifying income
  - Rations, base housing pay, hazard, flight pay, etc. may be considered, provided that the income is typical for the position held, and can be documented with one year proof of continuance
  - Non-taxable income may be "grossed up" by 25% on most programs
    - See *Non-Taxable Income* section for more details
  - Income paid to military reservists while they are fulfilling their reserve obligations also is acceptable if it meets the same stability and continuity requirements applied to other types of second-job income
- **Mortgage Credit Certificates**
  - Ineligible
- **Mortgage Differential Income**
  - An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed loan payments
  - These payments may be considered as acceptable stable income if the Borrower's employer verifies its subsidy in writing, stating the amount and duration of the payments
    - The payments must continue for at least three years from the date of the loan application
    - The differential payments should be added to the Borrower's gross income when calculating the qualifying ratio
    - They cannot be used to offset directly the loan payment, even if the employer pays them to the lender rather than to the borrower
- **Note Receivable Income**
  - Note receivable income may be used as qualifying income if received for at least two (2) years and expected to continue for at least three (3) more years from the date of the mortgage application
  - Acceptable evidence includes:
    - A copy of the note to establish the amount and length of the payment and
    - The previous two (2) year's federal tax returns to evidence receipt of income or copies of bank statements to evidence deposit of note income received
  - Payments on a newly executed note that specifies a minimum duration of three years are ineligible as they are not considered stable income

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

- **Overtime Income**
  - Overtime income is an eligible source of income provided the borrower has a documented 2 year history of overtime earnings. There must also be a likelihood of the overtime income continuing in order to use the income for qualification.
  - Overtime income should be averaged over a 24 months period. If the income is used, the more conservative figure derived from YTD avg., most recent year avg., or most recent 2 yr avg. will be applied.
  - VOES are acceptable provided the borrower is not related to the employer, and are supported by a paystub and tax transcripts.
- **Part-Time Income**
  - A borrower who has a part-time job must have a continuous two (2) year history of part-time employment if the income will be used to qualify
  - The most conservative figure of YTD average, most recent year average, or 2 year average must be used in qualifying
  - Borrowers with less than a continuous two (2) year history may still be eligible if the part-time income has been received for a minimum of 12 months, the income is stable, there is a strong likelihood of continuance, and the income is averaged
- **Public Assistance Income**
  - Income from public assistance may be considered as an acceptable income source if documentation is provided to show the income has been received for the past two (2) years, and is expected to continue to be received for at least three years from the date of the mortgage application
  - Acceptable forms of documentation are letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments
- **Rental Income**
  - See also *Departure Residence*
  - Rental income can be used as a qualifying income provided the transaction meets all of the documentation requirements outlined in this section
  - Rental income may be generated from the following sources:
    - Subject property being financed is an owner-occupied 2 unit primary residence
    - If the subject property being financed is a single family or 2 unit investment property the borrower must have a 2 year continuous history of managing rental property that is free of unexplained gaps greater than three months
      - such gaps could be explained by student, seasonal, or military renters or property rehabilitation
  - Rental income received from other investment properties the borrower owns
  - **Rental income from the subject property:**
  - The appraiser is to provide a Single Family Comparable Rent Survey (Form 1007) for 1 unit investment properties or a Small Residential Income Property Appraisal Report (Form 1025) for 2-4 unit properties and an Operating Income Statement (Form 216)
  - The borrower is to provide the most recent two years personal tax returns to calculate the rental income
  - If the borrower acquired the investment property subsequent to the most recent year tax return, a copy of the executed lease agreement is required
  - If using a lease agreement, only 75% of the gross rents may be used to offset the mortgage payment
  - **Other investment property that the borrower currently owns but is not the subject:**
  - If borrower is retaining his current residence as a rental, the borrower may use up to 75% of the gross rental income less outstanding liens, taxes and insurance for qualifying if there is documented equity of at least 25 percent in the existing property (value derived from a full appraisal),
  - • The rental income must be documented with:
    - A copy of the fully executed lease agreement
    - The receipt of a security deposit from the tenant and deposit into the borrower's account
    - If the 25 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment

        - Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction
  - Any income derived from rental properties may be used as income after adding back depreciation
  - If rental properties generate a loss, it must be included as a liability
- **Retirement or Pension Income**
  - Retirement or pension income is an acceptable source of income provided the borrower can evidence regular receipt of payments
  - The borrower will need to provide all of the following:
    - Verification from prior employer or from Federal tax returns for most recent 2 years
    - Copy of the award letter , 1099 or equivalent documentation showing income type, source, and amount
    - Most recent one month bank statement or other equivalent documentation evidencing consistent receipt of the retirement income
  - When the retirement income is received in the form of a monthly annuity payment or a monthly distribution from a 401(k), IRA, or Keogh, documentation is required to determine that the income is expected to continue for at least three years after the date of the mortgage application
- **Royalty Income**
  - Royalty income may be used for qualifying provided the borrower has at least a twelve (12) months history or receiving the royalty payment
  - This is documented with the borrower's most recent two (2) years personal tax returns
  - The royalty income reported on the tax returns must cover at least a twelve (12) month period
  - The royalty payments must continue for a minimum of three years after the date of the mortgage application
  - Depreciation may be added back to adjusted income
- **Seasonal Income**
  - Borrower must demonstrate a two year history in the same job and reasonably expect to be rehired over the next season(s)
  - The most conservative figure of YTD average, most recent year average or 2 year average must be used in qualifying
- **Second/Multiple Job income**
  - Income from a second or multiple job is an eligible source of income provided;
    - the borrower has a continuous 2 year history of working two or more jobs
    - The most conservative figure of the most conservative figure of YTD avg., most recent yr. avg. or 2 year avg. must be used in qualifying
- **Social Security Income**
  - Social Security income must be verified by a Social Security Administration benefit verification letter or other equivalent documentation showing income type and amount, and the most recent two months bank statements or equivalent documentation evidencing current receipt
  - If any benefits expire within the first full three years of the loan, the income may not be used in qualifying
    - If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three years of loan origination, the creditor shall consider the income effective and likely to continue
    - Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue
  - All or a portion of the Social Security income may be grossed up if deemed non-taxable by the IRS
    - In order to "gross up" the most recent year's tax return will be required to determine the taxable portion

- **Trust Income**
  - Trust income may be used as income for qualifying if the borrower has a two year history of receiving trust income and the income will continue for a minimum of three years from the date of the mortgage application
  - A copy of the Trust Agreement is required to confirm the amount, frequency, and duration of the payments
  - If the Trust Agreement is not available, a statement from the trustee confirming the amount, frequency and duration of the payments is acceptable
  - A copy of the borrower's most recent two years personal tax returns are required to evidence receipt of the trust income
  - Lump-sum distributions from the trust made before the loan closes may be used for the down payment or closing costs if they are verified by a copy of the check or the trustee's letter that shows the distribution amount and a copy of the receipt from escrow/title
    - The withdrawal of funds however cannot negatively affect income
- **Unemployment Benefits**
  - Unemployment benefits—such as those received by seasonal workers—may be considered as an acceptable income source if the income is documented, has been received for the previous two (2) years, and is predictable and likely to continue
  - Copies of the borrower's most recent personal tax returns are required to establish a two year history receiving the benefit
- **VA Benefits**
  - Direct Compensation for service –related disabilities from the Department of Veterans Affairs is acceptable
  - The Borrower must provide the awards letter issued from the Department of Veterans Affairs
  - The income is non-taxable, therefore may be "grossed up"
  - Education benefits used to offset education expenses are not acceptable

Non-Taxable Income

- **Types of Non Taxable Income**
  - Certain types of regular income may not be subject to Federal tax. Such types of non-taxable income include:
    - Some portion of Social Security, income Federal government employee retirement income, Railroad Retirement Benefits and some State government retirement income
    - Certain types of disability and public assistance payments
    - Child support
    - Military allowances
    - Other income that is documented as being exempt from Federal income taxes
- **Adding Non-Taxable Income to a Borrower's Gross Income**
  - The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income
  - The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount
    - Additional allowances for dependents are not acceptable
  - The underwriter must be able to document and support the amount of income grossed up for any non-taxable income source and should use the tax rate used to calculate the borrower's last year's income tax
  - If the borrower is not required to file a Federal tax return the tax rate to use is 25%

Projected Income

- **Analyzing Projected Income**
  - Projected or hypothetical income is not acceptable for qualifying purposes
  - Exceptions are permitted however for income from the following sources provided they are guaranteed and reasonable (within 10% of current) as documented with completed standard VOES and or letters from employer:

- Cost of living adjustments;
- Performance raises
- Bonuses

- **Projected income for borrowers planning to retire within the next 3 months**
  - Borrowers must document the start date of the benefits, the amount of benefits and the duration of the benefits. (Example, retiring within next 3 months and will be receiving pension for 10 years or lifetime benefit)
- **Projected income for new job**
  - Projected income is acceptable for qualifying purposes for a borrower schedules to start a new job within 30 days of closing if there is a guaranteed, non-revocable, contract for employment
  - The borrower must have sufficient verified current income or verified cash reserves to support the mortgage payment and any other obligations between the loan closing and the start of the new employment
    - Examples of this type of scenario are teachers whose contract begins with the new school year, or physicians beginning residency after the loan closes
    - Underwriter will consider 60 days with compensating factors on a case-by-case basis

<u>Temporary Employment and Leave</u>

- **Temporary Job Income**
  - Temporary income will be reviewed on a case by case basis
  - If this is the borrower's sole source of income and the income is needed for qualifying, the borrower is required to have a two (2) year continual history of working temporary jobs in the same line of work to use the income for qualification
  - The most conservative figure of YTD average, most recent year average or 2 year average must be used in qualifying
- **Temporary Leave**
  - Temporary leave from an employer may encompass various circumstances e.g. family and medical leave, short–term disability, maternity, other temporary leave with or without pay
  - Temporary leave is generally short in duration
  - The period of time that a borrower is on temporary leave may be determined by various factors such as applicable law, employer policies, and short term insurance policy and/or benefit terms
  - Leave ceases being considered temporary when the borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to employment
  - **Determining Qualifying Income and Borrower Capacity to Meet Obligations While on Temporary Leave:**
    - During a temporary leave, a borrower's income may be reduced and / or completely interrupted. The underwriter must determine that during and after the temporary leave the borrower has capacity to repay the mortgage and all other monthly obligations
      - The underwriter's determination must be based on required documentation, underwriter's personal knowledge, and available information
  - **Borrower returning to current employer prior to or on the first mortgage payment due date**
    - Qualifying income in the amount of borrower pre-leave gross monthly income is allowable
  - **Borrower returning to current employer after the first mortgage payment due date**
    - Qualifying income in the amount being received for the duration of the temporary leave is allowable
  - **Documentation requirements**
    - The following documentation is required for all borrowers on temporary leave:
      - Documentation to verify the Borrower's pre-leave income and employment (paystub and W-2) regardless of the leave status
      - Written statement from the borrower confirming the borrowers intent to return to the current employer and the intended date of return
      - Documentation generated by current employer confirming the Borrower's eligibility to return to the current employer after temporary leave. Acceptable forms of employer documentation may be obtained from the employer include but are not limited to :

    - An employer–generated leave statement
    - A family Medical Leave Act document or
    - Other documentation generated by the employer or a third party verifier on behalf of the employer
  - In addition, the following documentation is required for Borrowers returning to the current employer after the first mortgage payment due date:
    - Documentation evidencing the amount, duration and consistency of all temporary leave income sources being used to qualify the borrower (e.g., short term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave
    - All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements of and be verified via most recent monthly statement
    - A written rationale explaining the analysis used to determine the qualifying income, regardless of the underwriting path

Employment History

- The borrower's qualifying employment for the two (2) years preceding the date of the application must be verified and documented
- The Borrower must:
  - Explain any gaps in employment that span one or more months, and indicate if he/she was in school or the military for the recent 2 full years,
    - Providing evidence supporting this claim such as college transcripts, or discharge papers
- Allowances can be made for seasonal employment typical for building trades and agriculture if documented with a 2 year history, and letter from employer that seasonal employment is typical for the industry
- 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.
- Military employment or college history as verified above may be used in lieu of a complete two (2) year work history, when combined with current employment

Continuance

- Employment may be assumed ongoing if the Borrower's current employer verifies current employment and does not indicate that employment has been, or is set to be terminated
- The Underwriter should not rely upon a verification of current employment that indicates employment is likely to cease, such as a statement that the employee has given (or been given) notice of employment suspension or termination

Income Stability

- A two year history of employment in the same or similar line of work for wage earners and a two year history for commissioned or self-employed earning is required.
- History of less than two years may be considered if able to define and document a post-secondary degree or schooling in the same field with school transcripts

Substantial Increases or Decreases in income

- An increase or decrease of 10% or more from all sources of income is to be explained and documented
- MSF's underwriter will determine if the change is reasonable and substantiated
- The circumstances surrounding the fluctuation will be evaluated to determine the stability of income

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

4506-T

- A fully executed IRS Form 4506-T must be included in all loan files. Two year's transcripts are required to verify personal tax returns, subsequent amendments and W-2's
  - Transcripts are required to verify all W-2's, 1099's and/or tax returns submitted and/or used for qualifying per published guideline
- If corporate or partnership business income is used for qualifying, a separate fully executed IRS Form 4506-T for that business must be included in all loan files. Two year's transcripts are required to verify business tax returns and subsequent amendments.
- If transcripts reflect any tax amount due and owing, evidence paid in full or payment plan to include in debt ratios may be required at underwriter discretion
- If a loan is underwritten prior to filing deadline for the most recent year taxes and if borrower has not filed their most recent year tax returns, obtain the previous two year's transcripts
- Loans closed prior to filing deadline for the most recent year taxes, if the borrower has filed the most recent year tax returns, and the tax transcripts are not yet available, the tax transcript request will be returned from the IRS and reflect "No Record of Return Filed", the following must be provided:
  - Prior year tax transcript showing "No Record of Return Filed"; and,
  - Copy of the most recent year tax return and W-2's
  - Evidence the refund for the most recent tax year has been received or a copy of the canceled check for the IRS Tax payment; and,
  - Previous two years transcripts
  - Please see below if borrower filed an extension
  - Most recent tax returns can be used for qualifying at underwriters discretion provided one of the following are met:
    - Stamped by IRS
    - Proof of e-filing
    - 8821 executed and verified by MSF
- Loans closed on or after filing deadline for the most recent year taxes, tax return transcripts will be required on all loans. IF a borrower has filed an extension, the following must be provided:
  - Evidence of filed extension and tax payment made by copy of canceled check or bank statement to evidence the IRS payment has been made and received; and,
  - Tax transcript showing "No Record of Return Filed"; and,
  - Previous two years transcripts
  - Most recent tax returns can be used for qualifying at underwriters discretion provided one of the following are met:
    - Stamped by IRS
    - Proof of e-filing
    - 8821 executed and verified by MSF
- Loans with an extension and closed on or after extension deadline for the most recent year taxes, the following must be provided:
  - Evidence of filed extension and tax payment made; and,
  - Tax transcript showing "No Record of Return Filed"; and,
  - Previous two years transcripts
  - Most recent year's tax returns and proof they have been filed by one of the following:
    - Stamped by IRS
    - Proof of e-filing
    - 8821 executed and verified by MSF

Self-Employed Income

- Self-employed borrowers are eligible with a documented two (2) year history of the existence of the business and evidence of current existence
- Borrowers who receive income from any of the following sources are considered self-employed:
  - A borrower who has 25% interest in a business that is a sole proprietorship (Schedule C), general and limited partnership (K-1 and 1065), corporation (1120) or a S-corporation (1120S)

        - A borrower whose combined business interests comprise 25% of the total income
        - Borrower who receives commission income 25% of the total income
        - Borrower whose income is exclusively investments (interest income, dividends, capital gains, or real estate)
        - Borrower who is a contract worker and receives 1099 income
        - Borrowers who are wage earners and also received 25% of their annual income in the form of bonus, commissions, and/or overtime
    - Self-employed borrowers are required to provide the most recent two (2) years personal tax returns with all schedules K-1s and W-2s, the most recent 2 years business tax returns with all schedules if applicable, a YTD Profit and Loss statement (P&L statement), and a most recent balance sheet
        - YTD P&L and Balance sheet only required for Corporations, S-Corps, or partnerships
        - They are not required for Schedule C income
        - Note: A combination of one year of employment and formal education or training in the line of work the individual is self-employed or in a related occupation is also acceptable
    - A business license is required to document the current existence of the business. If state or local agencies do not require the business to have a license, a CPA letter or other documentation may be provided to establish the validity and length of operation of the business
        - A printout from the applicable Secretary of State may only be used to document the date self- employment began, not the current existence of the business
    - The underwriter must both establish an earnings trend, and analyze the business strength.
- **Establishing a Self-Employed Borrower's Earnings Trend**
    - When qualifying income, the underwriter must establish the consumer's earnings trend from the previous two years using the consumer's tax returns
    - If the Borrower provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings
    - If the Borrower is not subject to quarterly tax returns or does not file them, then the income shown on the P&L and Balance Sheet may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings
    - If the P&L and Balance Sheet submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns the income must be based solely on the income verified through the tax returns
    - If the Borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L and Balance Sheet is less than the prior year's tax return the consumer's most recent year's tax return or P&L and Balance Sheet must be used to calculate his/her income
- **Analyzing The Business's Financial Strength**
    - The underwriter must consider the business's financial strength by examining annual earnings
    - Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable
- **Analyzing Income on IRS Form 1040**
    - The amount shown on a Borrower's IRS from 1040 as adjusted gross income must either be increased or decreased based on the underwriter's analysis of the individual tax return and any related tax schedules
    - Schedule A Unreimbursed Business Expenses
        - Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income
    - Schedule A Other Expenses
        - In order to be deducted from adjusted income, the other expense must be recurring and indicated over the most recent 2 year
        - An example of this would be significant expenses incurred for managing investment accounts
    - Schedule B Interest and Dividend Income
        - The taxable / tax exempt income may be added back to the adjusted gross income only if it has been received for the past two years and is expected to continue
        - If the interest bearing asset will be liquidated as a source of the cash investment, the amount must be appropriately adjusted

- Schedule C Business Income and Loss
  - Sole proprietorship income calculated on schedule C is business income
  - Depreciation or depletion, as well as business use of home and mileage depreciation may be added back to adjusted income. Non- recurring "other" income and meals and entertainment exclusion must be deducted from adjusted income
- Schedule D Capital Gains and Losses
  - Capital gains or losses generally occur only one time and should not be considered when determining effective income
  - If however the borrower has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income
  - Three years tax returns are required to evaluate an earnings trend
  - If the trend results in a gain, it may be added as effective income
  - If is consistently shows a loss it must be deducted from the income
  - The underwriter must document anticipated continuation of effective income through verified assets
    - An example of this would be a borrower who purchases old homes, remodels them and sells them for profit
- Schedule E Rents and Royalties
  - Depreciation is to be added back to adjusted income
- Schedule E Income from Partnerships and Corporations
  - See Analyzing Business returns below
  - K-1s which indicate income and loss and well as percentage of ownership are typically provided with business returns and transferred to schedule E of the Borrower's 1040
- Schedule F Farm Income or Loss
  - Depreciation, depletion or casualty loss, Non-Taxable portion of ongoing Coop/CCC payments, and business use of home may be added back to adjusted income
  - Non-recurring other income must be deducted from adjusted income

- **Analyzing Corporate Tax Returns (IRS Form 1120)**
  - Corporate compensation to the officers, generally in proportion to the percentage of ownership is shown on the Corporate tax returns IRS form 1120 and Individual tax returns
  - When a Borrower's percentage of ownership does not appear on the tax returns, the information must be obtained from the corporation's accountant, along with evidence that the borrower has the right to any compensation
  - In order to determine a Borrower's self-employed income from a corporation the adjusted business income must be determined and multiplied by the borrower's percentage of ownership in the business
- **Guidelines for Analyzing Corporate Tax Returns**
  - The following items on the next page found on Form 1120 must have an adjustment made in order to determine adjusted business income
    - Depreciation and Depletion. Add the corporations' depreciation and depletion back to the after-tax income
    - Amortization and Casualty Loss may be added back to after tax income
    - Fiscal Year Vs. Calendar Year. If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return
    - Taxable Income. Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability
    - Mortgage, Notes, Bonds Payable in less than 1 year must be subtracted from after tax income
    - Meals and Entertainment must be subtracted from after tax income
    - Other Non-recurring income or loss must be added / subtracted from after tax income
    - Cash Withdrawals. The Borrower's withdrawals of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating
- **Analyzing "S" Corporation Tax Returns (IRS Form 1120s)**
  - An "S" corporation is generally a small start- up business with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership

  - Income for owners of “S” corporations comes from IRS form W-2 wages, and is taxed at the individual rate
  - The IRS form 1120S Compensation of Officer’s line item is transferred to the Borrower’s individual IRS 1040
  - When a Borrower’s percentage of ownership does not appear on the tax returns, the information must be obtained from the corporation’s accountant, along with evidence that the borrower has the right to any compensation
- **Guidelines for Analyzing “S” Corporation Tax Returns**
  - The following items below found on Form 1120 must have an adjustment made in order to determine adjusted business income:
    - Depreciation and Depletion. Add the corporations’ depreciation and depletion back to the after-tax income
    - Amortization and Casualty Loss may be added back to after tax income
    - Fiscal Year Vs. Calendar Year. If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return
    - Taxable Income. Taxable income is the corporation’s net income before Federal taxes. Reduce taxable income by the tax liability
    - Mortgage, Notes, Bonds Payable in less than 1 year must be subtracted from after tax income
    - Meals and Entertainment must be subtracted from after tax income
    - Other Non-recurring income or loss must be added / subtracted from after tax income
    - Cash Withdrawals. The Borrower’s withdrawals of cash from the corporation may have a severe negative impact on the corporation’s ability to continue operating
- **Analyzing Partnership Tax Returns (IRS 1065)**
  - A partnership is formed when two or more individuals from a business, and share in profits, losses, and responsibility for running the company
  - Each partner pays taxes on his/her proportionate share of the partnership’s net income
  - The underwriter must review the IRS form 1065 to assess the viability of the business
- **Guidelines for analyzing partnership tax returns**
  - The following items below found on Form 1065 must have an adjustment made in order to determine adjusted business income:
    - Depreciation and Depletion. Add the corporations’ depreciation and depletion back to the after-tax income
    - Amortization and Casualty Loss may be added back to after tax income
    - Fiscal Year Vs. Calendar Year. If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return
    - Taxable Income. Taxable income is the corporation’s net income before Federal taxes. Reduce taxable income by the tax liability
    - Mortgage, Notes, Bonds Payable in less than 1 year must be subtracted from after tax income
    - Meals and Entertainment must be subtracted from after tax income
    - Other Non-recurring income or loss must be added / subtracted from after tax income
    - Cash Withdrawals. The Borrower’s withdrawals of cash from the corporation may have a severe negative impact on the corporation’s ability to continue operating
  - Guaranteed Payments to Partner reflected on K-1 should be added to the Borrower’s income received from form 1065

Verification of Employment

- Verbal VOE’s are required for all loans and must meet the following criteria:
- **Self Employed Borrower Verification**
  - For Self Employed borrowers, independently obtain and document a phone number and address for the business.
  - The lender must document the existence of the borrower’s business within 30 business days of the note. This can be accomplished through:

    - A 3rd party, such as a CPA, regulatory agency, or the applicable licensing bureau, AND
    - By verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance
  - If the contact is made verbally, the lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information
- **Wage Earner Verification**
  - A verbal verification of employment dated within 10 business days of funding is required for all non-self-employed borrowers
  - The verification of employment must include the phone number contacted to complete the verbal, which must be documented as associated with the business
  - The verification should be completed through the Human Resource Department of the employer, the owner of the company or direct supervisor for small businesses
  - As part of the verification, the employer must be asked about borrower's probability of continued employment
    - If an employer refuses to answer the question, this must be documented on the VVOE
  - Electronic verifications of employment completed through Work Number for Everyone or TALX are acceptable as well
    - If the VVOE is obtained from The Work Number, the 10-day timeframe is measured from the date of the request to the vendor, not the date the information was updated in the vendor's database. However, the information must have been updated within the past 35 days
  - This policy applies to all income types with the exception of passive and self-employed income (see below for self-employment verification requirements)
  - If the borrower has seasonal employment, the borrower must be employed at the time of closing to be eligible
- **Written Verifications of Employment**
  - Income and employment for non-self-employed Borrowers may be obtained via direct written verification from the Borrower's employer and borrower paystubs
  - The verification must be signed by a member of the company's human resource department or one of the business owners/officers
  - At a minimum, the verification must include:
    - Borrower's name
    - Position
    - Dates of employment
    - Base salary
    - YTD Earnings

PROGRAM DETAILS

Escrow Holdbacks

- Ineligible

Escrow Waivers

- Escrow accounts required for all loans in all states
  - Except CA where an escrow waiver is eligible (LTV may never exceed 80% to waive escrows)
  - A pricing adjustment may apply
- Escrow accounts cannot be waived when flood insurance is required

Excluded Parties Lists

- All parties involved in each transaction are screened for inclusion on various lists, including without limitation:
  - Freddie Mac's Exclusionary List;
  - GSA List of Excluded Parties
  - Office of Foreign Asset Control (OFAC);

- Approved Buyer's internal exclusionary list
  - If a match is determined, the loan may be ineligible
- All name variations found throughout the loan file must be run when performing the searches. This requirement includes:
  - Borrowers
  - Seller
  - Builder
  - Processor
  - Underwriter
  - LO
  - Account Executive
  - Listing Agent & Listing Company
  - Selling Agent & Selling Company
  - Title Agent
  - Title Company
  - Closing Attorney
  - Appraiser and Appraisal Company

Flood Certificate

- See also *flood Insurance*
- MSF requires all Loans submitted for purchase contain, at a minimum, a flood zone determination with life-of-loan service verifying whether the property lies in a Special Flood Hazard Area (SFHA)
- The Flood Certificate must reflect the information required on FEMA's current Standard Flood Hazard Determination Form, including:
  - Property Address
  - Flood Zone
  - NFIP Map, Panel, Suffix Number
  - NFIP Map Date
  - NFIP Community Name
  - Community Status
  - Name of the flood certification Vendor
  - Vendor's Certificate Number
  - The Flood Zone indicated on the flood determination must match the flood zone on the insurance policy

Property Insurance

- **Flood Insurance**
  - See also *flood certificate*
  - Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard
  - Minimum amount of flood insurance required is the lessor of 100% of the insurable value or maximum coverage allowed per NFIP
    - Coverage of each unit should be the lesser of $250,000 or the amount of it's replacement cost (i.e. the replacement cost of all units combined or the number of units x $250,000
    - Deductible may not exceed $25,000 per building located in the flood zone
  - For condominium projects, the homeowners association should provide a project blanket policy with coverage for the building in which the unit is located. Coverage must be the lesser of 100% of the replacement cost of the building in which the unit is located, including all the common elements and property, or the maximum coverage available under the National Flood Insurance Administration Program times the number of units in the building
  - Other requirements:
    - The Borrower name and the subject property must be on the flood insurance application or binder;
    - Evidence of coverage must be provided at closing; and
    - The insurance must be maintained throughout the duration of the loan

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

- **Hazard Insurance**
  - The insurance carrier must have an *S & P rating* of at least BBB+ or a Best rating of B++
  - The coverage should allow for claims to be settled on a replacement cost basis
  - Policies that limit or exclude coverage that are normally included under extended coverage endorsements (i.e. windstorm, hurricane, hail damages, etc) are not acceptable unless the borrower is able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril
  - **Policy Requirements**
    - In addition to the name, address, phone number of the insurance carrier and the agent's name, the following is required on the policy:
      - The insurance policy must list the borrower(s) as the insured.
        - If the insurance policy is a master policy of a condominium project, the association must be listed as the insured with the borrower also listed on the policy
      - The property address must match that of the appraisal and title, including the unit number, if applicable
      - MSF's loan number and mortgagee clause must be reflected on the policy.
      - The premium amount and balance due must reflect on the policy
      - The deductible cannot exceed 5% of the dwelling coverage
      - The effective and expiration date. For purchase transactions, the expiration date should be one year from the effective date
      - On refinance transactions, the policy must have a minimum of 90 days from the date of loan purchase remaining
    - All policies renewed or purchased for the subject transaction require a copy of the paid receipt
  - **Coverage Amount**
    - The amount of the coverage depends on the insurable value. The minimum amount of coverage must be equal to or greater than the replacement value, which is 100% of the insurable value as established by the insurance provider. The insurable value is not based on the loan amount.
    - For condominium projects, if the master policy does not provide coverage of the interior of the unit, the borrower is required to obtain "walls in" coverage, also known as HO-6 policy. The HO-6 policy must provide a minimum coverage of 25% of the unit's appraised value
- **Landslide Insurance**
  - Landslide/liquefaction insurance is required on all properties where the appraisal notes a high risk slide area
  - 10% maximum deductible allowed
- **Maximum Deductible**
  - The maximum deductible for hazard insurance on all property types may not exceed 5% of the dwelling coverage. The deductible requirement differs for additional forms of insurance (I.E windstorm, flood, sink hole, earthquake)
- **Rent Loss Insurance**
  - Rent loss insurance covers rent losses that are incurred during the period that the property is being rehabilitated following a casualty
    - The coverage must be for at least six months' rent loss
  - Rent loss insurance must be maintained for:
    - Two to four Unit primary residences and one to four unit investment properties when rental income from the subject property is used to qualify the borrower
  - Rent loss insurance may be waived when:
    - Rental income from the subject property is not used for qualifying, and
    - PITIA and operating expense from the subject is included in the borrower's qualifying ratios
- **Sinkhole Insurance**
  - Sinkhole insurance is required on all properties deemed by MSF to be in a sinkhole hazard area

- Further if title reflects a previous verification of a sinkhole, or appraisal denotes previous damage caused by a sinkhole (whether repaired or not) sinkhole coverage is required
- 10% maximum deductible allowed

- **Windstorm Insurance / Hurricane Insurance**
  - Windstorm Coverage will be required on all properties located in a coastal community with a flood zone V as determined by the flood certification
  - Windstorm coverage is generally included under the standard extended coverage policy through an endorsement
    - If the policy excludes or limits the windstorm coverage, it is not acceptable
  - The borrower must obtain a separate policy or endorsement from another commercial insurer that with the existing policy provides adequate total coverage
  - The maximum deductible for windstorm coverage is the highest of 5% of dwelling coverage or $5,000

Minimum Loan Amount

- Conforming loan limit + $1.00:

Units	Minimum Loan Amount
• 1	• $ 424,100
• 2	• $ 543,000
• 3	• $ 656,350
• 4	• $ 815,650

State Specific Initial Disclosures

- For State Specific Initial Disclosures, please click *here*

Survey Requirements

- A survey is required where typical in the market area
- In areas where surveys are not customary, the title insurance policy must insure against loss or damage by any violation, variation, encroachment or adverse circumstance which would have been disclosed by an accurate survey. The Survey must indicate the location of:
  - Subject plot
  - Any easements
  - Lines
  - Encroachments
  - Building lines
  - Street lines
  - Boundary lines
  - Structures and/or
  - Improvements

Title Policy/Commitment

- A full title policy is required on all loans.
- The policy must be written by a title insurer who has an acceptable rating from at least one of the national independent rating agencies
  - If the title insurer does not have an acceptable rating, the insurer must be fully covered by reinsurance with a company that does have an acceptable rating
- Title commitment is valid for 90 days prior to docs
- The policy also must contain the following:
  - The amount of coverage must be equal to a minimum of the original principal amount of the Mortgage
  - Proposed insured to reflect MSF's mortgagee clause
  - Must be held in fee simple or leasehold
  - Schedule A stating the legal
  - Schedule B stating the easements, restrictions, and exceptions to the coverage.
    - Any encroachments or restrictions violations must have insuring language

- All applicable endorsements including an environmental protection lien endorsement, ALTA endorsement 8.1 or ALTA 8
- The appropriate survey endorsement
    - Survey exceptions are not permitted
    - Areas that do not require a survey will require an ALTA 9 endorsement or CLTA endorsement 116
- Real Estate taxes must be current
    - Future taxes must reflect as not yet due and payable
- A 24 month chain of title
- Any subordinate liens must be included in the policy and state they are subordinate to MSF's first mortgage lien
- 1992 ALTA loan title insurance policy with the creditor's rights exclusions
- Any real estate taxes due within 60 days of loan closing must be paid on the Closing Disclosure (CD)

PROGRAM SUMMARY

Ability to Repay and Qualified Mortgage Rule

- All loans must meet the Ability to Repay and Qualified Mortgage provisions of the Dodd-Frank Act

Underwriting

- All loans will be manually underwritten but are also required to be run through DU and must receive an Approve/Ineligible or Approve/Eligible response
    - **All transactions will receive final underwriting decision from the 3rd party investor and will be subject to their turn times**

TRANSACTION DETAILS

Eligible Terms & Programs

- 5/1 Libor ARM's (2.25 Margin, 2/2/5 Caps)
- 7/1 Libor ARM's (2.25 Margin, 5/2/5 Caps)

Eligible Transactions

- Purchase
- Rate & Term (Limited Cash-out) Refinance
- Cash-out Refinance

High Cost Loans

- High Cost loans as defined by HOEPA or any "High Cost", "threshold", "covered", or "predatory" loans as defined by federal, state or local law are ineligible

Ineligible Transactions & Programs

- Ineligible loan types include but are not limited to the following, provided, however, that in the event that any of these limitations would violate the requirements of the Equal Credit Opportunity Act or the Fair Housing Act, the provisions of those laws and implementing regulations are controlling:
    - Section 32 loans
    - Blanket loans, covering multiple properties
    - Bridge loans
    - Deed-Restricted Properties
    - Higher Priced Mortgage Loans (HPML/Section 35)
    - Investment Properties
    - Model Home Lease-Backs
    - Loans to fund escrows for work completion except as provided in this guide
    - Loans to officers / owners of MSF's approved mortgage brokers, correspondents

- Flip transactions
- Refinance transaction of a previous 701 loan debt that was included in a Chapter 7 bankruptcy and not re-affirmed
- A loan where any party of the transaction appears on a government-published exclusionary list
- Borrowers less than 18 years old or otherwise legally incapable of entering into a contract
- Refinancing of a subsidized loan, including loans subsidized by Habitat for Humanity, U.S. Department of Agriculture, FHA with a recapture or any city/county grant
- Borrowers with diplomatic Immunity or otherwise excluded from U.S. jurisdiction
- Cross-collateralization
- Straw Borrowers or straw buyer
- Builder/seller bailout plans
- Multiple property payment skimming, which typically involves investors who purchase investment properties with seller carry back financing and collect rents but do not make the mortgage loan payments
- Foreclosure bailouts of any kind. (An arms-length purchase of a short sale is not deemed a foreclosure bailout)
- Texas 50(a)(6) (cash out) transactions as described in this guide
- A borrower who currently owns a multi-unit property as his primary residence and is purchasing another owner occupied multi-unit property located in the same city/town.
- Restructured loans are ineligible, unless the re-structure was over 12 months old, the borrower is 0 x 30 on mtg subsequent to re-structure and a net tangible benefit can be demonstrated. A restructured loan is a mortgage loan in which the terms of the original transaction have changed resulting the in the forgiveness of the mortgage or a restructure of the mortgage either through a modification or the origination of a new loan that results in any of the following:
  - Forgiveness of a portion of the principal and/or interest on either the first or second lien.
  - Application of a principal curtailment by or on behalf of the investor to simulate forgiveness.
  - Conversion of any portion of the original mortgage debt to a soft subordinate mortgage.
  - Conversion of any portion of the original mortgage debt from secured to unsecured.
  - Payoff demands that are significantly lower than what is reporting on the credit report or VOM as the high balance of the loan will be carefully examined
- Any loan that includes a Real Estate Agent/Broker rebate or credit that is not disclosed in the purchase contract and Closing Disclosure (CD)

Interest Only Option

- Ineligible

Land Contract or Lease with Option to Buy

- A land contract (also known as contract for deed, contract sale, contract purchase) is a form of seller financing in which the seller retains title to the property while the buyer makes regular payments to the seller
- Once the buyer pays the number of payments and/or amount specified in the contract, the seller conveys the title to the buyer
- A mortgage in which the proceeds are used to pay the outstanding balance of a land contract or contract for deed may be considered as either a purchase or a refinance transaction
- Contracts may either be recorded on unrecorded
  - In the instance of an unrecorded contract, the age of the contract and interest of the borrower must be documented by a third party source, be notarized, and evidence of ownership (Utility or Phone Bill) prior to application date must be provided
- **Purchase Transaction**
- If the land contract or contract for deed was executed within the 12 months prior to the loan application date, the transaction will be considered a purchase
- Proceeds are used to pay the outstanding balance on the installment land contract only
- No loan proceeds can be disbursed to the borrower
- The LTV is calculated on the lower of:
  - The appraised value at the time the new mortgage is closed or

- The total acquisition cost
  - The total acquisition cost is defined as the purchase price indicated in the original land contract plus any out of pocket expenses paid by the borrower for rehabilitation, renovation, or energy conservation improvements

- **Refinance Transaction**
- If the land contract or contract for deed was executed more than 12 months prior to the loan application date, the transaction will be treated as a rate/term refinance
- Proceeds from the refinance transaction may include the sum of the outstanding balance of the installment sales contract and the costs incurred for rehabilitation, renovation, or energy improvements
- A new appraisal is required and the LTV must be calculated using the appraised value of the new mortgage transaction
- Items required for seasoning:
  - Lease Option / Land contract recorded 12 months prior to application
  - Lease Option / Land Contract unrecorded but notarized 12 months prior to application
  - Proof of ownership for 12 month period * utility or phone bill) prior to application

Purchases

- A purchase transaction is a transaction in which the proceeds are used to finance the purchase of a property
- The LTV is based on the lower of the sales price or current appraised value
- A copy of the fully executed purchase contract and all attachments or addenda is required for all purchase transactions
- All purchasers on the sales contract must also take title
  - All persons on title or to be on the title must sign the sales contract
    - If someone does not wish to be on the title, they must be removed from the sales contract
  - A purchaser on the sale contract does not need to be a borrower, however

Refinances

- All refinance transactions must have a net tangible benefit to the borrower
- A refinance transaction replaces an existing loan(s) with a new loan to current owners, or places financing on a property currently owned by the borrower where no financing exists
- Refinance transactions will be classified as either Rate/Term or Cash-Out
- 6 months title seasoning is required on refinance transactions
- In general, a refinance must put the borrower in a better position; This can be evidenced by one or more of the following:
  - Lower payment
  - Lower interest rate
  - Convert from ARM to fixed rate
  - Pay off a balloon payment
  - Convert from negative amortization loan to a fully-amortizing loan
  - Consolidate debt
  - Pay off tax lien

  Note: Depending upon the property's location, additional evidence of benefit to the borrower may be required due to state or local regulations
- The value used for LTV/CLTV when the property has been owned for 6 months or less is the lessor of the purchase price or appraised value
- **Rate/Term Refinances**
  - The LTV for any refinance with over 6 months seasoning is calculated on the current appraised value
  - The mortgage amount is limited to sufficient funds required to accomplish the following:
    - Pay off the unpaid principal balance of the existing first lien mortgage, including any prepayment penalty

    - Pay off the unpaid principal balance of any existing subordinate mortgage that was used to purchase the subject property including any prepayment penalty
        - A copy of the Final Closing Disclosure (CD) executed by buyer and seller from the previous transaction may be required
    - Pay closing costs (including prepaid expenses)
    - Disburse incidental cash to the borrower of no more than $2,000 or 2% of the loan amount, whichever is lower
    - Payoff the unpaid principal balance of a subordinate mortgage seasoned over 12 months
    - Principal curtailments are not permitted.
  - Payoff of any delinquent taxes as reflected on title renders transaction a cash out transaction
  - The proceeds from a rate and term transaction to buyout an ex-spouse is permitted as long as the borrower provides a copy of the recorded settlement agreement indicating the spouse is to be bought out
- **Cash-Out Refinances**
  - A refinance is considered cash-out if it exceeds any of the limitations indicated for rate/term refinances, or if it involves disbursement of loan proceeds to pay off or pay down unsecured or unseasoned debt
  - There is a 6-month title-seasoning and 6 months mortgage seasoning requirement for all cash out refinance transactions
  - Any prior refinances (limited cash out or cash out) must have closed at least 6 months prior to the note date of the new transaction
  - If the property was acquired less than 6 months from the application date, the loan is ineligible for cash out refinance transaction
  - Properties acquired more than 6 months from the application date will have the LTV/CLTV based on the current appraised value
  - Properties with less than one year seasoning may require documentation supporting any increases in value
  - Cash out restrictions are the following:
    - Maximum cash-out: $250,000
    - Maximum cash-in-hand: $100,000
  - A Cash Out Purpose Letter is required to explain where the funds will be used

Subordinate Financing

- Subordinate/secondary financing is permitted as an acceptable source of funds up to the maximum CLTV offered by the program
  - See *program matrix*
- Subordinate financing may be provided by an institutional lender, or the property seller
  - Subordinate financing from any other source is ineligible
- A copy of the note for the subordinate lien is required to document the financing terms
- The following restrictions apply:
  - The subordinate lien must require regular payments of a minimum of interest only
  - The subordinate loan may not allow negative amortization
  - The subordinate lien must fully amortize and cannot have a maturity or balloon date less than two years from the date of the note
  - The interest rate on the subordinate lien must be at current market rate but never less than 2%. This applies to both institutional and seller held lien
  - The subordinate lien cannot include any wraparound terms that combine the amount owed on the first mortgage with that of the subordinate mortgage
  - The subordinate lien must permit repayment in full at any time without penalty
- In all instances, the following items are required:
  - A copy of the subordinate note or direct verification from the lien holder verifying all items detailed above must be obtained
    - A copy of the unsigned subordination agreement prior to closing
    - A copy of the executed subordination agreement at closing

Note: At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to the published guidelines, all AUS requirements must also be met.

Seller Carry Back

- If the seller is providing the subordinate financing, the following applies:
  - The subject property must be owner occupied or second home
  - The sales contract needs to disclose the seller is providing secondary financing
  - All payments related to the secondary lien are included in the debt ratio
  - The lien must be recorded and clearly subordinate to MSF's first mortgage
  - A copy of the note is required to determine the terms of the subordinate lien
  - Regular payments of Principal and Interest Only or Interest only required
  - The subordinate lien cannot have a call option less than two years
  - The subordinate lien must permit repayment in full at any time without penalty
  - No non-arm's length transaction in which there is a relationship between the buyer and the seller

TRID Requirements

- All loan must have a signed Intent to Proceed disclosure
- MSF loans under the 701 program are not assumable and the disclosures should be marked accordingly
- MSF will not lend on loans where the borrower has waived any of the required seven or three day wait periods as required by the rule. This includes:
  - Seven days prior to consummation
  - Three days prior to consummation and
  - Three day rescission Period