Land Home

FINANCIAL SERVICES, INC.

*TPO Mortgage Solutions*SM

Wholesale • Correspondent • Fulfillment

# SELECT MORTGAGE GUIDELINES

**Guidelines are for use by mortgage professionals only and subject to change without notice.**

# TABLE OF CONTENTS

# RESPONSIBLE LENDING STATEMENT

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Loans should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, lenders must make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Lenders must verify information using third-party records that provide reasonably reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to be in compliance:

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan
2. Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
3. Monthly mortgage payment for this loan. You calculate this using the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal
4. Monthly payment on any simultaneous loans secured by the same property
5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner association fees or ground rent
6. Debts, alimony, and child support obligations
7. Monthly debt-to-income ratio or residual income, that you calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
8. Credit history

# PRODUCT HIGHLIGHTS

- Foreclosure, Short-Sale, Bankruptcy, and/or Loan Modification must be at least 12 month seasoned
- 1st lien programs
- Full income and alternative documentation
- Credit Score available down to 620
- Loan amounts up to $2,500,000
- 2-4 Family to 70% LTV
- Borrowers are allowed up to 10 financed properties including the subject
- Loans may be assumed by a qualified borrower after the initial fixed rate term

### INELIGIBLE STATES

- Texas (cash-out refinancing)
- US Territories

New York is now eligible as of 6/30/2018 (max LTV is 65%)

# INTEREST-ONLY

### QUALIFYING RATE

Qualify at the greater of the Start Rate or Fully Indexed Rate (i.e. Current Index + Margin) for income ratio calculations. The same rule applies to the Interest-Only programs (using the same criteria mentioned below, but it will be amortized over the remaining period after the IO period (25 or 23 years).

# LOAN PROGRAM TYPES

Conventional 5/1 & 7/1 Libor ARM and 5/1 & 7/1 Libor ARM Interest-Only. Based on 1-Year Libor Index. 5-2-5 Interest Rate Caps. Floor Rate equals Margin.

# HIGHER PRICED MORTGAGE LOAN (HPML) ELIGIBILITY

Higher Priced Mortgage Loans are considered as eligible as long as all required disclosures are provided, and compliance with the HPML appraisal rule is met.

For all HPML's an escrow account for property taxes and insurance must be established and funded for a minimum of 5 years.

# POINTS AND FEES

Points and fees are limited to a maximum of 3% on Owner Occupied transactions and 5% on Non-Owner transactions.

## LOCKING

File locked at “Conditional Approval.”

# SELECT MORTGAGE PRODUCTS

## PRODUCT CODES & MATRICES

| Program Name | Product Code | Matrix Document |
|---|---|---|
| Select 5/1 ARM | WE51L-078 | **Select 5/1 ARM** |
| Select 5/1 ARM I/O | WE51LIO-078 | |
| Select 12 Mo Bank Statements 5/1 ARM | WEBSL51L-078 | **Select 12 Mo Bank Statements 5/1** |
| Select 12 Mo Bank Statements 5/1 ARM I/O | WEBSL51LIO-078 | |
| Select Asset Depletion 5/1 ARM | WEASDP51L-078 | **Select Asset Depletion 5/1** |
| Select Asset Depletion 5/1 ARM I/O | WEASDP51LIO-078 | |
| Select 24 Mo Bank Statements 5/1 ARM | WEBS51L-078 | **Select 24 Mo Bank Statements 5/1** |
| Select 24 Mo Bank Statements 5/1 ARM I/O | WEBS51LIO-078 | |
| Select Lite Doc 5/1 ARM | WELD51L-078 | **Select Lite Doc 5/1 ARM** |
| Select Lite Doc 5/1 ARM I/O | WELD51LIO-078 | |

## SELECT 5/1 ARM STANDARD FULL DOCUMENTATION MATRIX

**LHFS Program Codes:** • **Fully Amortized: WE51L-078** • **Interest Only: WE51LIO-078**

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| **SFR / PUD** | **$2,500,000** | 700+ | 65% / 70% | 55% / 70% |
| | | 660-699 | 60% / 70% | N/A |
| | **$1,500,000** | 700+ | 80% / 80% | 75% / 75% |
| | | 680-699 | 80% / 80% | 70% / 70% |
| | **$1,000,000** | 660-679 | 70% / 70% | 60% / 70% |
| | | 640-659 | 65% / 70% | 55% / 70% |
| | | 620-639 | 60% / 70% | 50% / 70% |
| **2-4 Units** | **$2,500,000** | 700+ | 65% / 70% | 55% / 70% |
| | | 660-699 | 60% / 70% | N/A |
| | **$1,000,000** | 700+ | 65% / 70% | 65% / 70% |
| | | 660-699 | 60% / 70% | 55% / 70% |
| | | 640-659 | 55% / 70% | 50% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| **Condo** | **$1,000,000** | 700+ | 80% / 80% | 70% / 70% |
| | | 680-699 | 75% / 75% | 65% / 70% |
| | | 660-679 | 60% / 70% | 55% / 70% |
| | | 640-659 | 55% / 70% | 50% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |
| **Investment Properties** | **Max Loan Amount** | **FICO** | **Purchase / Rate Term Refi LTV/CLTV** | **Cash Out LTV/CLTV** |
| **SFR, PUD, 2-4 Family Units** | **$2,500,000** | 700+ | 60% / 70% | 55% / 70% |
| | **$1,000,000** | 680+ | 65% / 70% | 50% / 70% |
| | | 620-679 | 50% / 70% | 50% / 70% |
| **Condo** | **$1,000,000** | 700+ | 65% / 70% | 55% / 70% |
| | | 680-699 | 60% / 70% | 50% / 70% |
| | | 620-679 | 50% / 70% | 50% / 70% |

# SELECT 12 MO BANK STATEMENTS MATRIX

**LHFS Program Codes:** • **Fully Amortized: WEBSL51L-078** • **Interest Only: WEBSL51LIO-078**

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| SFR / PUD | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | | 660-699 | 55% / 70% | N/A |
| | $1,500,000 | 700+ | 75% / 75% | 75% / 75% |
| | | 680-699 | 70% / 70% | 70% / 70% |
| | $1,000,000 | 660-679 | 60% / 70% | 60% / 70% |
| | | 640-659 | 55% / 70% | 55% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |
| 2-4 Units | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | | 660-699 | 55% / 70% | N/A |
| | $1,000,000 | 700+ | 60% / 70% | 60% / 70% |
| | | 660-699 | 55% / 70% | 55% / 70% |
| | | 640-659 | 55% / 70% | 50% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| Condo | $1,000,000 | 700+ | 75% / 75% | 70% / 70% |
| | | 680-699 | 70% / 70% | 65% / 70% |
| | | 660-679 | 55% / 70% | 55% / 70% |
| | | 620-659 | 50% / 70% | 50% / 70% |
| **Investment Properties** | **Max Loan Amount** | **FICO** | **Purchase / Rate Term Refi LTV/CLTV** | **Cash Out LTV/CLTV** |
| SFR, PUD, 2-4 Family Units | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | $1,000,000 | 680+ | 60% / 70% | 50% / 70% |
| | | 620-679 | 50% / 70% | 50% / 70% |
| Condo | $1,000,000 | 700+ | 60% / 70% | 55% / 70% |
| | | 620-699 | 55% / 70% | 50% / 70% |

# SELECT 5/1 ARM 24 MO BANK STATEMENT MATRIX

**LHFS Program Codes:** • **Fully Amortized: WEBS51L-078** • **Interest Only: WEBS51LIO-078**

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| SFR / PUD | $2,500,000 | 700+ | 65% / 70% | 55% / 70% |
| | | 660-699 | 60% / 70% | N/A |
| | $1,500,000 | 700+ | 80% / 80% | 75% / 75% |
| | | 680-699 | 80% / 80% | 70% / 70% |
| | $1,000,000 | 660-679 | 70% / 70% | 60% / 70% |
| | | 640-659 | 65% / 70% | 55% / 70% |
| | | 620-639 | 60% / 70% | 50% / 70% |
| 2-4 Units | $2,500,000 | 700+ | 65% / 70% | 55% / 70% |
| | | 660-699 | 60% / 70% | N/A |
| | $1,000,000 | 700+ | 65% / 70% | 65% / 70% |
| | | 660-699 | 60% / 70% | 55% / 70% |
| | | 640-659 | 55% / 70% | 50% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| Condo | $1,000,000 | 700+ | 80% / 80% | 70% / 70% |
| | | 680-699 | 75% / 75% | 65% / 70% |
| | | 660-679 | 60% / 70% | 55% / 70% |
| | | 640-659 | 55% / 70% | 50% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |
| **Investment Properties** | **Max Loan Amount** | **FICO** | **Purchase / Rate Term Refi LTV/CLTV** | **Cash Out LTV/CLTV** |
| SFR, PUD, 2-4 Family Units | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | $1,000,000 | 680+ | 65% / 70% | 50% / 70% |
| | | 620-679 | 50% / 70% | 50% / 70% |
| Condo | $1,000,000 | 700+ | 65% / 70% | 55% / 70% |
| | | 680-699 | 60% / 70% | 50% / 70% |
| | | 620-679 | 50% / 70% | 50% / 70% |

# SELECT ASSET DEPLETION ELIGIBILITY MATRIX

**LHFS Program Codes:** • **Fully Amortized: WEASDP51L-078** • **Interest Only: WEASDP51LIO-078**

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| SFR / PUD | $2,500,000 | 620+ | 50% / 50% | 50% / 50% |
| | $1,000,000 | 620+ | 55% / 55% | 55% / 55% |
| 2-4 Unit Property / Condo | $2,500,000 | 620+ | 50% / 50% | 50% / 50% |

| Investment Properties | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| All Property Types | $2,500,000 | 620+ | 50% / 50% | 50% / 50% |

# SELECT 5/1 LITE ELIGIBILITY MATRIX

**LHFS Program Codes:** • **Fully Amortized: WELD51L-078** • **Interest Only: WELD51LIO-078**

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| SFR / PUD | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | | 660-699 | 55% / 70% | N/A |
| | $1,500,000 | 700+ | 75% / 75% | 75% / 75% |
| | | 680-699 | 70% / 70% | 70% / 70% |
| | $1,000,000 | 660-679 | 60% / 70% | 60% / 70% |
| | | 640-659 | 55% / 70% | 55% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |
| 2-4 Units | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | | 660-699 | 55% / 70% | N/A |
| | $1,000,000 | 700+ | 60% / 70% | 60% / 70% |
| | | 660-699 | 55% / 70% | 55% / 70% |
| | | 640-659 | 55% / 70% | 50% / 70% |
| | | 620-639 | 50% / 70% | 50% / 70% |

| Owner Occupied / Second Home | Max Loan Amount | FICO | Purchase / Rate Term Refi LTV/CLTV | Cash Out LTV/CLTV |
|---|---|---|---|---|
| Condo | $1,000,000 | 700+ | 75% / 75% | 70% / 70% |
| | | 680-699 | 70% / 70% | 65% / 70% |
| | | 660-679 | 55% / 70% | 55% / 70% |
| | | 620-659 | 50% / 70% | 50% / 70% |
| **Investment Properties** | **Max Loan Amount** | **FICO** | **Purchase / Rate Term Refi LTV/CLTV** | **Cash Out LTV/CLTV** |
| SFR, PUD, 2-4 Family Units | $2,500,000 | 700+ | 60% / 70% | 55% / 70% |
| | $1,000,000 | 680+ | 60% / 70% | 50% / 70% |
| | | 620-679 | 50% / 70% | 50% / 70% |
| Condo | $1,000,000 | 700+ | 60% / 70% | 55% / 70% |
| | | 620-699 | 55% / 70% | 50% / 70% |

*Interest Only Loans are interest only for the initial 60 months, then are fully amortizing for the remaining 300 months.
**In addition to the refinance of any properties owned free and clear, the payoff/pay down of any debt other than the following will be considered cash-out transactions:

- First mortgages liens
- Home Equity Lines of Credit (HELOC) which have had no draws taken in the past 12 months
- Purchase money second mortgage liens
- Closed end second mortgage liens at least 12 months' old

†Cash Out transactions with an LTV ≤ 55% are not limited to the cash in hand the borrower can receive. Transactions with an LTV > 55% are limited to $300,000 cash in hand to the borrower.

# ELIGIBILITY OVERVIEW

## INELIGIBLE LOAN FEATURES

The following features are not allowed:

- Pre-Payment Penalties
- Negative Amortization
- Balloon Payments
- Interest Rate Buy-Downs
- Terms Greater than 30 Years

## VESTING

Ownership must be fee simple in name of individual(s). (No Trust, LLC, etc.).

## POWER OF ATTORNEY

Loans closed via a Power of Attorney (POA) are ineligible.

## MINIMUM/MAXIMUM LOAN AMOUNTS

Minimum Loan Amount is $50,000 and Maximum Loan Amount is $2,500,000.

See **Program Matrices** for Sub-Limits based on Credit Score and LTV.

## ASSUMABILITY

Loans may be assumed by a qualified Borrower after the initial fixed rate term.

## INELIGIBLE STATES

Properties located in the following geographic regions are not eligible:

- Texas (cash-out refinancing)
- US Territories
- In all cases, state specific regulations supersede LHFS guidelines.

New York is now eligible as of 6/30/2018 (max LTV is 65%)

## NON-ARMS-LENGTH TRANSACTIONS

A Non-ARM's-Length transaction is a transaction between family members (related to the Borrower by blood, marriage, adoption or legal guardianship), coworkers, friends or anyone associated with the transaction, such as the listing agent, builder, mortgage lender or broker. Non-ARM's length transactions may be eligible under this program at the sole discretion of LHFS.

## INELIGIBLE PROPERTY TYPES

Ineligible properties include but are not limited to:

- Condominiums not warranted by Fannie Mae
- Condotels
- Co-ops
- Income-Producing Enterprises (Farm; Bed & Breakfast; Assisted Living)
- Leasehold Properties
- Log Homes
- Manufactured Homes
- Properties over 5 acres
- Timeshares

## LOANS TO ONE BORROWER

Loans to one Borrower from LHFS may not exceed 8 properties and/or $2,500,000.

## MAXIMUM FINANCED PROPERTIES

Borrowers are allowed up to a total of ten (10) financed properties with all lenders, including subject property.

## ADDITIONAL

The LHFS Non-QM Addendum must be signed/executed in order to accept loan files under this program.

# TRANSACTIONS

## PURCHASES

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to- value.

**Note:** The Borrower may not be on title prior to the loan closing. The seller that is on title (the vested owner of record) must be the individual who executes the sales contract. Additionally, the seller must be on title prior to when the settlement statement and closing docs are executed.

## OWNER-OCCUPIED RESIDENCY REQUIREMENT

A property will not be considered a primary residence unless at least one of the Borrowers occupies all or part of the subject property within thirty (30) days of the note date, and will occupy the subject property as his/her primary residence for at least twelve (12) consecutive months from the Note date. In addition:

- The Homeowner's insurance policy must show the same mailing address and subject property address.
  **Note:** If the Borrower uses a P.O. Box, and occupancy cannot be verified, a formal occupancy inspection is required.
- If the subject property is two-to-four family property, the appraisal must indicate the unit the Borrower intends to occupy in the property and the information indicating the unit to be owner-occupied must be consistent with all documentation in the file.
- If the Borrower currently owns other properties (not being sold as part of the subject transaction), the Correspondent must review to determine that the Borrower's intent to occupy the subject property is reasonable. The loan file must contain supporting documentation.
- The purchase agreement must show the Borrower's intent to occupy the subject property.
- The Borrower may not receive any cash back on a purchase transaction.

## FOR-SALE-BY-OWNER

FSBO transactions must be closed through escrow with an executed real estate sales contract in the file.

## GIFT FUNDS

Gift funds from immediate family members are acceptable on Owner-Occupied transactions with Standard Documentation if a minimum of 10% of the purchase price comes from Borrower's funds. All other transactions require 30% from Borrower's own funds.

## SWEAT EQUITY

Gifts of "Sweat Equity" are not allowed.

## SELLER CONTRIBUTIONS

Sellers Contributions to Purchase Transactions are restricted as follows:

- Contributions cannot exceed 6% of the purchase price for owner occupied/second-home transactions;
- Contributions cannot exceed 3% of the purchase price for Investment/Non-Owner-Occupied Transactions.

## PROPERTY FLIPS

When the subject property is being resold within 180 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a "flip". To determine the time period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be ARM's length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction.
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: **http://www.consumerfinance.gov/regulations/appraisals-for-higher-pricedmortgage-loans**. A second appraisal is required in the following circumstances:

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

## SECONDARY FINANCING

Only institutional secondary financing is acceptable. (LHFS does not provide secondary financing).

## DEPARTURE RESIDENCES

If the Borrower's current primary residence is pending sale but will not close with title transfer prior to the new transaction, both the current and proposed mortgage payments (PITIA) must be used in qualifying for the new loan.

If the Borrower’s prior residence is being departed and retained as a second home or investment property, Borrower must have at least 30% equity position in the property or the new loan will be ineligible.

If the Borrower is converting a current primary residence to a second home, both the current and proposed mortgage payments (PITIA) must be used in qualifying for the new loan.

If the Borrower is converting a current primary residence to an investment property, Rental Income from the newly converted property can be used to qualify, using 75% of the current lease minus the full PITIA. All of the following must be obtained to confirm leasing of the property:

- Fully executed lease agreement
- Security deposit from the tenant
- Bank statement showing the deposited security funds

# REFINANCE TRANSACTIONS

## GENERAL REFINANCE REQUIREMENTS

Rate & Term and Cash-Out refinance transactions are allowed

## CONTINUITY OF OBLIGATION

For both rate/term and cash-out refinance transactions, there must be continuity of obligation if an outstanding lien will be satisfied through the refinance.

An acceptable continuity of obligation exists when any of the following are present:

- At least one Borrower obligated on the new loan must be a Borrower obligated on the existing loan being refinanced;
- At least one Borrower has been on title and residing in the property for a minimum of six months and has either paid the mortgage for the last six months or can demonstrate a relationship (spouse, domestic partner) with the current obligor; or
- At least one Borrower has recently inherited or was legally awarded the property through a divorce or separation.

## RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

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

If the most recent first mortgage transaction on the property was a cash-out refinance within the last six months, the new mortgage can only be rate/term refinance. It is not eligible for cash-out. Note date to note date is used to calculate the six months.

On rate/term transactions, the Borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $2000.

## CASH-OUT REFINANCE

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

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

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

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens that are being paid off
- Cash in hand reflected on the HUD-1 or Closing Disclosure as appropriate.

A signed letter from the Borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. The purpose of the cash-out is also reflected on the loan application.

Delayed financing transactions (initiation of a cash-out refinance immediately after a cash purchase) are permitted.

Cash-Out Limits Funds to be transferred directly to the Borrower during Cash-Out Refinance are subject to the LTV of the subject loan at the conclusion of the transaction. Loans with an LTV greater than 55% are subject to a maximum of $300,000. These limitations are applicable to all Cash-Out transactions. Any cash out limitations are superseded by maximum allowable LTV's.

| LTV | Cash in Hand Limit |
|---|---|
| LTV ≤ 55% | No Limit |
| LTV >55% | $300,000 |

## SEASONING

LHFS has No Seasoning Requirement for Rate & Term or Cash-Out refinances. See **Appraisal Requirements** for value determination guidance.

## PROPERTIES LISTED FOR SALE

Refinances for properties currently listed for sale are not eligible. To be eligible for a refinance, properties previously listed for sale must have been off the market and the listing canceled at least 1 day prior to the application date of the loan.

Place a copy of the canceled listing in the file and perform a current multiple listing service search to verify that the property is not currently listed by a different realtor. In addition, the loan file must contain evidence that the Borrower is occupying the property and an explanation letter on Borrower's intent to occupy, reason for listing the home and why they are now refinancing. Note: Investment and Second Home properties do not require these two documents.

## BENEFIT TO THE BORROWER

In compliance with Fair Lending standards, Refinances must provide a bona fide benefit to the Borrower(s).

When determining the benefit on a transaction, one of the following items should exist to support the benefit to the Borrower(s):

1. Lower principal and interest payment
2. Lower interest rate
3. Pay-off of a balloon payment
4. Consolidation of debt
5. Resolution of loss mitigation actions
6. Pay-off of a tax lien
7. Cash-Out Proceeds to Borrower(s) in excess of the costs and fees to refinance
8. Pay-off of a Construction loan
9. Pay-off of property taxes

On a loan where the only benefit is monthly savings, closing costs and fees must be taken into account and recouped within state-specified time frames as applicable. Originators must adhere to any state-specific or federal benefit to Borrower compliance requirements. Benefit to the Borrower must be calculated based on the qualifying housing payment.

## REFINANCE IN TEXAS

Cash-Out Refinances in Texas are Not eligible.

## INHERITED PROPERTIES

Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited less than 12 months prior to application, the transaction is considered a cash-out refinance and is subject to the following requirements:

- Equity owners must be paid through settlement. A written agreement signed by all parties stating the terms of the buy-out and property transfer must be obtained.
- Subject property has cleared probate and property is vested in the Borrower's name.
- Current appraised value is used to determine loan-to-value.

## BUYING OUT A CO-OWNERS INTEREST

A finance transaction resulting from a divorce settlement and/or dissolution of a domestic partnership, wherein the Borrower(s) is required to buy-out the interest of the other owner may be considered Rate & Term if the following apply:

- The subject property was jointly owned by the parties for at least twelve (12) months prior to the funding of the new loan, with documentation to evidence this;
- Fully-executed written agreement or court-approved divorce decree that references the terms of the property settlement and proposed disbursement of refinance proceeds.
- The Borrower(s) who will be acquiring sole ownership of the subject property may not receive any of the funds from the refinance.

# BORROWERS

A Borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage or deed of trust note. If two or more individuals own the property jointly and are jointly and severally liable for the note, all are considered Borrowers.

## CUSTOMER IDENTIFICATION PROGRAM

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all Borrowers. Correspondents must ensure the true identities of all Borrowers have been documented.

## US CITIZENS

United States Citizens are eligible for financing.

## PERMANENT RESIDENT ALIENS

A permanent resident alien is a person who is not a US citizen, but is legally able to maintain permanent residency in the United States. Permanent resident aliens are eligible. The Borrower must provide the INS evidence as follows:

- Alien Registration Receipt Card I-151 (referred to as a "green card").
- Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (i.e. "green card").
- Alien Registration Receipt Card I-551 that has an expiration date on the back (Conditional Resident Alien Card), and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
- Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years), reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

The US Citizenship and Immigration Services website is:

**http://www.uscis.gov/tools/reports-studies/immigration-forms-data**

## NON-PERMANENT RESIDENT FOREIGN NATIONALS

Non-Permanent Resident Aliens and Borrowers with Diplomatic Immunity are **not eligible** for financing.

## NON-OCCUPANT CO-BORROWERS

Non-Occupant Co-Borrowers must be disclosed on the initial loan application, cannot be added at a later date to qualify, and must be related to the primary Borrower on the loan.

## FIRST-TIME HOMEBUYERS

Borrowers are considered First-Time Homebuyers (FTHB) when there is no evidence of the Borrower(s) owning a residential property in the prior three (3) years. FTHB's generally must fulfill specific requirements in addition to the conditions stipulated for experienced homebuyers (See **program matrices** for details).

# STANDARD INCOME DOCUMENTATION OPTION

## "SELECT 5/1 ARM" DOCUMENTATION (FULL-DOC)

The standard documentation option is designed for both salaried and self-employed Borrowers using primarily FNMA documentation guidelines. All documentation outlined should be present in the loan file submitted for review. For all Full Doc loans, the lesser of LFHS Documentation requirements or DU findings will be required.

## SALARIED BORROWERS (FULL-DOC)

Salaried income from employment should be from related fields if the Borrower has held multiple jobs. In some cases, an employer does not offer year-round employment for a certain position, such as the building trades or farm workers (seasonal income). The evaluation of stable earnings must be based upon whether the Borrower(s) is able to consistently generate a similar amount of income from the employers listed.

If the income is determined to be stable, the next step is to develop an income figure from the verified information which represents dependable earnings as a basis for repayment of the loan. Special attention must be given to additional compensation in the form of overtime (OT), bonus, commission, or from other acceptable sources, so that the income used to qualify is truly representative of what the Borrower will continue to earn. Variances in earnings from these sources must be carefully evaluated to determine if income is stable.

For salaried Borrowers, pay stubs covering at least one (1) month's year-to-date (YTD) earnings along with the most recent two (2) years W2 statements are required to verify the income. Second job income will require receipt of pay stubs covering at least one (1) month's year-to-date (YTD) earnings and most recent two (2) years W-2 statements. For qualifying purposes, the second job income will be based on a two-year average of the W-2's.

Borrowers with commission, bonus or overtime (OT) income greater than 25% of base income will require pay stubs, W2's and personal tax returns covering the most recent two (2) year period. Bonus, overtime and commission less than 25% of base income will require a written Verification of Employment (VOE) to confirm a two (2) year average and proof of continuance.

With the exception of what is stated in these Guidelines, the Product will default to Fannie Mae manual underwriting guidelines for acceptable sources of income for qualification purposes. Please reference the "**Employment and Other Sources of Income**" section of the Fannie Mae Single Family Seller Guide for additional information regarding income documentation and qualification guidelines.

## SELF-EMPLOYED BORROWERS (FULL-DOC)

Self-Employed Borrowers are identified as any individual(s) who has a 25% or greater ownership interest in a business. The following factors must be considered when analyzing a self-employed Borrower:

- The ability of the business to continue generating and distributing sufficient income to enable the Borrower to make payments on the requested mortgage.
- The demand for the product or service offered by the business.
- The financial strength of the business, and
- The location and nature of the Borrower's business
- The stability of the Borrower's income

Self-Employed Borrowers must have been in business for at least two (2) years in order to be considered for qualification.

Self-employed Borrowers will be required to provide the most recent two (2) years personal tax returns (all schedules) and two (2) years business tax returns, if applicable (i.e. Partnership, LLC, S-Corporation, or C-Corporation). In addition, the following is required:

- A signed 4506-T and 1040 tax transcripts covering the most recent two (2) years is required.
- Evidence of the existence of the business for the past two (2) years (i.e. a Certified Public Accountant (CPA) letter).
- If more than 120 days has passed since the filing of the latest Schedule C or business tax return, a dated year-to-date (YTD) unaudited profit and loss (P&L) statement is required.

## FIXED INCOME

This applies to income sources such as social security (including dependent's social security), disability payments (temporary or permanent), VA disability, retirement/pension, or alimony/child support. If this income is used for qualification of the Borrower(s), evidence of income and probability that it will continue for at least three (3) years past the application date must be provided.

**Note:** Borrowers who are on a temporary leave from their current job for reasons such as maternity or parental leave, short-term disability, and other temporary leave types that are considered acceptable by law and/or the Borrower's employer will be considered for eligibility on a case-by-case basis, subject to Fannie Mae guidelines for Temporary Leave Income as defined in Fannie Mae's Selling Guide B3-3.1-09, Other Sources of Income.

If the fixed income source is verified as non-taxable income, it may be adjusted or "grossed-up" by 125%, provided that:

- Only the net income will be used for determining disposable/residual income; Medicare and insurance payments are to be omitted.
- The Borrower(s) clearly benefits as a result of income being grossed-up to qualify.
- The Borrower's net income (before gross-up) is sufficient to pay all debts.

Non-taxable income that is not allowed to be grossed up includes:

- Foreign earned income
- Foster care income
- Housing allowance

## CAPITAL GAINS AND LOSSES

Capital gain or loss that is a one-time transaction will not be considered as a gain or loss in determining the income available to the Borrower(s). However, if the Borrower's business has a constant turnover of assets that produce recurring gains or losses, the capital gain or loss may be considered in line with the following:

- An average of the gains or losses for the last two (2) years as disclosed on the Borrower's Income Tax Form 1040, Schedule D, will be used to calculate the income.
- When the income from this source represents a substantial portion of the Borrower's income, the Borrower's tax returns for the past two (2) years must be reviewed (regardless of documentation type) to determine an accurate estimated of average earnings. For example, an asset sold during the year might be an income-producing asset, which could result in a reduction in future income.
- Borrowers must have an asset base in order to use capital gain or loss on an on-going basis.

## FARM INCOME

Net farm income reported on the Borrower's income tax return (Schedule F) is eligible with the addition of depreciation, pension, amortization and depletion.

**Note:** Farm income cannot be generated by the subject property as income producing farm properties are ineligible.

## INTEREST AND DIVIDEND INCOME

Interest and dividend income may be used for qualification if it has been verified through two (2) years tax returns as a stable source of income, and if additional verification is obtained as proof that the funds are still on deposit in the financial institution and/or investment portfolio account. Income must be proportionately reduced if funds are used for closing in a purchase money transaction.

## MILITARY INCOME

Income verified for clothing allowance, quarters allowance, hardship or hazard pay may be included as stable income if there is a likelihood of continuance. BAH and BAS allowances may be grossed up due to their non-taxable status. Other allowances may be grossed up if documentation is provided evidencing the allowance is nontaxable.

## NOTE INCOME

Note income is eligible for qualification, so long as a complete copy of the note (all pages) is provided, outlining the terms and conditions of repayment. The repayment period must extend at least three (3) years past the application date of the loan.

## RENTAL INCOME

In order to use rental income for qualification, all applicable transactions (2-4 unit primary residences and all investment properties) will require a rental income analysis to determine a positive or negative cash flow. Rental income on a Second Home transaction is not allowed. One of the following is required to support leases or rental income on the application:

- Rent Survey Form 1007 and Operating Income Statement (FNMA Form 216)
- Federal Income Tax Returns (1040's) with Schedule E

Actual rents must be documented with copies of the signed lease agreements. Net cash flow for properties, other than the subject property, will be calculated using Schedule E from the Borrower's federal tax returns (1040's) for the past two (2) years.

A positive cash flow will be added to gross income; negative cash flow will be added to total liabilities and used to qualify the Borrower(s). Room rents will not be considered as income for qualifying purposes. A loan for an investment property generating a negative cash flow will be closely scrutinized and should present adequate purpose for the Borrower's circumstances.

Rental income received from a family member may not be used as income without copies of a minimum six (6) months cancelled rental checks provided by the tenant/family member.

Income received from rental properties will be calculated using one of the following methods:

- Owned at Least One (1) Year: For properties owned for one or more tax years, cash flow can be calculated in one of the following manners:
  - 75% of actual rents, established by copies of signed leases, OR
  - Net income from 1040 tax return Schedule E, plus depreciation.
- Owned less than One (1) Year: For properties owned less than one tax year, cash flow must be based on 75% of the lesser of actual or market rents.

## TRUST INCOME

Trust income may only be derived from an irrevocable trust or a revocable trust where a Borrower who is the beneficiary has also established the trust. In order to verify trust income, a complete copy of the original trust agreement showing the terms and conditions of the income that will be received must be provided.

In lieu of the copy of the trust agreement, a certification letter from the trust administrator may be obtained, outlining the total income paid to the Borrower, method of payment, duration of the trust and any non-taxable portion is required.

Receipt of this income must be verified to continue for at least three (3) years past the date of the application.

With the exception of what is stated in these Guidelines, the Product will default to Fannie Mae manual underwriting guidelines for acceptable sources of income for qualification purposes. Please reference the "**Employment and Other Sources of Income**" section of the Fannie Mae Single Family Seller Guide (SectionB3-3.1) for additional information regarding trust income.

# ALTERNATE INCOME DOCUMENTATION OPTIONS

## OVERVIEW OF ALTERNATIVE DOCUMENTATION (ALT-DOC)

LHFS offers Alt-Doc programs for both Self-Employed and Salaried/Salary-Plus Commission Borrowers. Any of our Alt-Doc options are intended only to minimize the amount of documentation that is required for a qualified Borrower, and should in no way be construed as "stated income".

Borrowers utilizing Alt-Doc options may have a Standard Documentation Co-Borrower on the loan. Any Alt-Doc Borrowers on a loan will cause the loan to be considered Alt-Doc for pricing and review purposes.

Note: Borrowers classified as investors (e.g. Day Traders; Real Estate Investors who do not have ownership in a company; etc.) ARE NOT considered Self-Employed for the purposes of LHFS's Non-QM Program. They are ineligible for Alt-Doc options and must qualify under a Standard Doc program.

## "SELECT 12 MO BANK STATEMENT 5/1 ARM"

The "Select 12 Mo Bank Statement 5/1 ARM" program is available to any Borrower with a 25% or greater ownership in a business. It utilizes twelve (12) months of personal bank statements to determine business-income stated on the loan application (1003). Income is considered to be transfers or deposits from business accounts, deposits from business accounts through an ATM, or payroll check deposits.

The income should be averaged over twelve (12) months. A twelve (12) month P&L prepared by the Borrower or a third-party CPA/Tax Preparer must also be provided, covering the same time period as the bank statements to reasonably validate the income shown on the bank statements if business bank statements are used to qualify. P&L gross earnings should be within 15% of bank statement gross deposits to be considered reasonable validation of income.

The 12 months' bank statement option is designed for Borrowers with an established self-employment history (minimum of two years in the same business). Stability is a critical component in evaluating the Borrower's continuing ability to meet his/her obligations. Borrower(s) must provide evidence of the existence of the business for at least two (2) years. Acceptable documentation includes a copy of the business license, business credit report, and/or a Certified Public Accountant (CPA) letter.

**Note:** Any tax returns provided will cause the loan to become ineligible for alternate documentation programs and require it to be submitted for review as a standard/full -doc loan. Use of this processing feature for Borrowers who normally would not qualify under Full Documentation processing is not acceptable.

The Self-Employed Borrower(s) must provide the most recent, consecutive twelve (12) months personal bank statements (all pages). Sole Proprietors and 100% business owners (joint owner with spouse is acceptable) may use both personal and/or business bank statements when utilizing the Select 12 Mo Bank Statement 5/1 ARM option. A combination of business and personal is prohibited.

- If personal statements are utilized, 100% of the eligible deposits can be used for qualifying
- If business statements are utilized, up to 80% of the eligible deposits can be used for qualifying (percentage should be based on the amount of expenses the business incurs.

Deposits coming from sources other than the business must be deducted from the 12-month total. Examples include but are not limited to: (i) deposits from Social Security; (ii) transfers from another (non-business) account; (iii) tax refunds or income deposited from a known employer.

- The Borrower(s) must be the only person(s) shown as the account holder(s). Bank statements reflecting other individuals who are not applicants for the loan will not be used for qualifying purposes, unless the other individual is a spouse in which case an access letter will be required.
- Bank statements reflecting the occurrence (one time or isolated incident) of NSF funds, wire transfers, overdraft protection transfers, negative ending balances, and transfers from other accounts must be satisfactorily explained. Bank statements reflecting any of these items without a satisfactory explanation is an indicator of cash-flow problems and will not be acceptable.
- Deposits that are larger than typical for the account may be included with a satisfactory explanation from the Borrower(s). Supporting documentation may be required.
- The 12-month history must be represented by the same account. Changing of accounts should be supported with a valid explanation.

# "SELECT 24 MO BANK STATEMENT 5/1 ARM"

The "Select 24 Mo Bank Statement 5/1 ARM" program is similar to the "Select 12 Mo Bank Statement 5/1 ARM" option but utilizes 24-Months Bank Statements rather than twelve months. It too is available to any Borrower with a 25% or greater ownership in a business. It utilizes twenty-four (24) months of personal bank statements to determine business-income stated on the loan application (1003). Income is considered to be transfers or deposits from business accounts, deposits from business accounts through an ATM, or payroll check deposits. The income should be averaged over twenty-four (24) months.

A twelve (24) month P&L prepared by the Borrower or a third-party CPA/Tax Preparer must also be provided, covering the same time period as the bank statements to reasonably validate the income shown on the bank statements if business bank statements are used to qualify. P&L gross earnings should be within 15% of bank statement gross deposits to be considered reasonable validation of income.

The 24 months' bank statement option is designed for Borrowers with an established self-employment history (minimum of two years in the same business). Stability is a critical component in evaluating the Borrower's continuing ability to meet his/her obligations. Borrower(s) must provide evidence of the existence of the business for at least two (2) years. Acceptable documentation includes a copy of the business license, business credit report, or a Certified Public Accountant (CPA) letter.

**Note: Any tax returns provided will cause the loan to become ineligible for alternate documentation programs and require it to be submitted for review as a standard/full -doc loan. Use of this processing feature for Borrowers who normally would not qualify under Full Documentation processing is not acceptable.**

Use of this processing feature for Borrowers who normally would not qualify under Full Documentation processing is not acceptable.

The Self-Employed Borrower(s) must provide the most recent, consecutive twenty-four (24) months personal bank statements (all pages). Sole Proprietors and 100% business owners (joint owner with spouse is acceptable) may use both personal and/or business bank statements when utilizing the "Select 24 Mo Bank Statement 5/1 ARM" option. A combination of business and personal is prohibited.

- If personal statements are utilized, 100% of the eligible deposits can be used for qualifying
- If business statements are utilized, up to 80% of the eligible deposits can be used for qualifying (percentage should be based on the amount of expenses the business incurs.

Deposits coming from sources other than the business must be deducted from the 24-month total. Examples include but are not limited to: (i) deposits from Social Security; (ii) transfers from another (non-business) account; (iii) tax refunds or income deposited from a known employer.

- The Borrower(s) must be the only person(s) shown as the account holder(s). Bank statements reflecting other individuals who are not applicants for the loan will not be used for qualifying purposes, unless the other individual is a spouse in which case an access letter will be required.
- Bank statements reflecting the occurrence (one time or isolated incident) of NSF funds, wire transfers, overdraft protection transfers, negative ending balances, and transfers from other accounts must be satisfactorily explained. Bank statements reflecting any of these items without a satisfactory explanation is an indicator of cash-flow problems and will not be acceptable.
- Deposits that are larger than typical for the account may be included with a satisfactory explanation from the Borrower(s). Supporting documentation may be required.
- The 24-month history must be represented by the same account. Changing of accounts should be supported with a valid LOE.

## “SELECT LITE DOC 5/1 ARM”

The “Select Lite Doc 5/1 ARM” program is available to Self Employed, salaried, wage earner, and/or commissioned Borrowers.

**Self Employed Borrower** must provide most recent year tax return (personal and business, if applicable), a YTD P&L and/or paystub showing YTD income. In addition, Self Employed borrowers will be required to provide a CPA/tax preparers attestation of the borrower’s ownership and that the borrower has been self-employed in the same business for a minimum of two (2) years

**Commission/Salary + Commissions Borrowers** must provide the most recent year tax return and the most recent paystub showing YTD income*

**All other Salary Borrowers** must provide the most recent year W2 and the most recent paystub showing YTD income

The most recent two (2) months personal bank statements must also be provided, to validate required reserves.

A processed 4506-T, IRS transcripts required for 1-year, in line with W-2.

A written VOE is also required. The VOE must reflect income for the single year period shown on the single year tax return/W-2. The VOE must also reflect the total amount of time the borrower has been employed with that entity.

*When a borrower’s commissions are 25% of the total income, a copy of the tax return for the same period must be analyzed in conjunction with a stand-alone W-2 in order to determine if there are any unreimbursed expenses.

## “SELECT ASSET DEPLETION 5/1 ARM”

Asset Depletion (AD) can be used to supplement other income in order to lower the DTI ratio and meet ATR requirements, subject to certain limitations.

Eligible assets include cash or cash equivalents and marketable securities (i.e. Certificates of Deposit, money market accounts, savings, stocks & bonds (70%), and mutual funds).

Ineligible assets include equity in real estate and private (not publicly traded) stocks.

Retirement assets may only be used for AD if the Borrower is retirement age (at least 59 ½).

All assets considered for AD must be verified through either an account statement from the most recent 30-day period, or a written Verification of Deposit.

The amortization period used to calculate depletion of the asset will be based on a 5% factor, which is equivalent to a 20-year amortization of the asset. For example, if an asset value is $1,000,000 and the factor is 5%, the amount of the asset than can be used to supplement income is $50,000 annually.

If AD is used to support ATR determination, the AD calculations must be clearly documented in the file.

# CREDIT ANALYSIS

## MORTGAGE/RENT

0 x 30 in past twelve (12) months (no exceptions) as evidenced by a credit report, 12 months canceled checks, or an institutional VOM/VOR. 12 months of canceled checks or bank statements must be obtained if borrower is making payments to an individual or interested party. Properties owned free and clear are considered 0 x 30.

## CREDIT REPORT

A credit report is required for every Borrower on the loan application who will sign the note. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) or ITIN (Individual Taxpayer Identification Number) is required for all Borrowers on the loan. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the Borrower has resided in the last 2 years. Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required.

## AGE OF CREDIT REPORT

The credit report and other credit documentation may not be more than 90 days old at time of loan closing.

## CREDIT SCORES

Each Borrower must have valid credit scores from at least 2 of the 3 repositories: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon.

The Borrower's representative credit score is determined by the following:

- If all three (3) scores are reported for the individual Borrower, the middle score would be used for that Borrower.
- If only two (2) scores are reported for the individual Borrower, the lower of the two scores will be used.
- If there are multiple Borrowers on a loan application, the lower of the representative scores will be used for qualification.

## TRADE LINES

Two (2) active trade lines, seasoned for at least twenty-four (24) are required with activity in the last 12 months is required. They may be installment or revolving lines of credit. For primary residence and second home transactions, only the primary wage-earner must meet the minimum trade line requirement. For investment property transactions, all Borrowers on the loan must meet the requirement.

## FRAUD ALERTS

The three credit repositories have also developed automated messaging to help identify possible fraudulent activity on a credit report. Examples include Initial 90-day Fraud Alerts, Extended Fraud Alerts, Active Duty Alerts, and HAWK Alerts. All Fraud Alerts must be fully resolved for the loan to be eligible.

## INQUIRIES

Recent inquiries may indicate that the consumer has actively been seeking credit. A signed letter of explanation from the Borrower or creditor is required for all inquiries within the most recent 120 days to determine whether additional credit was granted as a result of the Borrower's request.

## DEROGATORY CREDIT

The credit history of the Borrower(s) should be reviewed to determine whether there are any major indications of adverse or derogatory credit. Adverse or derogatory credit information does not necessarily mean the Borrower's credit is not acceptable. The Borrower's overall credit history should be evaluated to determine the level of risk.

## INSTALLMENT AND REVOLVING DEBTS

Past due consumer debts can be no more than 30-days past due at time of closing. Rolling late payments are considered delinquent for each late occurrence.

## TIMESHARE ACCOUNTS

For credit review purposes, timeshare obligations are considered installment loans.

## LITIGATION

Any litigation involving the Borrower, including bankruptcy, foreclosure, deed-in-lieu, pre-foreclosure, short sale, judgments, tax liens, collection accounts, and charge-offs must be evaluated separately and meet the Program requirements. All derogatory credit that will impact the Borrower's title must be paid off at or prior to closing. Title must insure the first lien position without exception.

## BANKRUPTCY

Must be seasoned at least twelve (12) months. No exceptions. This applies to all chapters (7, 11, 13). See rate sheet for adjustment for seasoned less than thirty-six (36) months.

## FORECLOSURE OR DEED-IN-LIEU/SHORT SALE/MODIFICATION

Waiting period is twelve (12) months from finalization to the date of the loan application. See rate sheet for adjustment for seasoned less than thirty-six (36) months.

## JUDGMENT, TAX LIEN, COLLECTION, AND CHARGE-OFF

Must be paid off with no new derogatory credit in the past twelve (12) months. (Medical Excluded).

# REQUIREMENTS FOR LETTERS OF EXPLANATION

A written Letter of Explanation may be needed to address information reported in the credit profile. Explanation letters must address the matter sufficiently and be signed by all Borrowers acknowledging accuracy of the information. A copy of the written explanation must be included in the loan file.

A Letter of Explanation may be required for reasons including, but not limited to the following situations:

## Profile Inconsistencies

The information contained in the credit report must be examined for consistency with other file documentation including Borrower's address history, employment information and name variations. Discrepancies must be adequately explained and questionable explanations researched.

## Social Security Number Discrepancies

Any inconsistency in social security numbers reported must be fully explained.

## Questionable Credit Activity

An explanation letter may be required to address reported activity that could indicate they credit is not being successfully managed. Instances of questionable credit activity may include, but is not limited to a profile that includes recently opened revolving accounts that are at or near their limits or Borrowers that are overextended or overly reliant on the use of revolving credit combined with a consistently delinquent payment history.

## Credit Inquiries

A written statement addressing all credit inquiries made within the prior 120 days (other than an inquiry related to the subject loan) is required and must state that no additional credit accounts were obtained by the Borrower other than those reflected on the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the Borrower must be qualified with the monthly payment.

## Adverse and Derogatory Credit

A written explanation is required to explain the circumstances causing adverse or derogatory credit addressing the following items:

- The explanation is consistent with the adverse information;
- The explanation establishes a credible cause for the late payments;
- The Borrowers represent an acceptable credit risk and exhibit the ability and willingness to repay the mortgage; and
- How the problem has been resolved and is not likely to recur.

## Extenuating Circumstances

The Borrower must provide a letter of explanation to address the nature of the events that led to extenuating circumstances, including bankruptcy or foreclosure-related actions. The letter must prove that the Borrower had no reasonable options other than to default on their financial obligations.

Derogatory information that was the result of extenuating circumstances must be supported with appropriate documentation and an explanation regarding the relevance of the documentation. Examples of documentation that can be used to support extenuating circumstances include documents or official records that confirm the event (such as a copy of a divorce decree, notice of job layoff, job severance papers) or that illustrate factors that contributed to the Borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns).

# LIABILITIES

## INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the Borrower's debt-to-income ratio. Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the Borrower's qualifying income, the originator should review the overall transaction to ensure the remaining payments will not impact the Borrower's ability to handle the new mortgage payment. Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

## REVOLVING DEBT

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

Revolving accounts are allowed to be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

## BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the Borrower(s) personal credit report, the Borrower is personally liable for the debt and it must be included in the debt-to-income ratio. Debts paid by the Borrower(s) business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 6 months canceled checks drawn on the business account;
- Tax returns reflect the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

If the debt is less than 6 months old, the payment must be included in the debt-to-income ratio.

## ALIMONY AND CHILD SUPPORT

Monthly alimony, child support or separate maintenance fees must be included in the Borrower's debt-to- income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order.

## STUDENT LOANS

For all student loans, whether deferred, in forbearance, or in repayment, the greater of the following must be utilized to determine the monthly payment for the debt in the Borrower's qualifying debt ratios:

- 1% of the outstanding balance; or
- the actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the Borrower)
- If the payment currently being made cannot be documented or verified, then 1% of the outstanding balance must be used.

# EMPLOYMENT/INCOME ANALYSIS

### ADEQUATE AND STABLE INCOME

Income and employment analysis is a key element of the underwriting process and must be used to determine whether the Borrower's ability to repay is reasonable. Income documentation provided by the Borrower must be reviewed and verified for this purpose. Additionally, the income must be considered stable, likely to continue, and sufficient to enable the Borrower to repay the debt in a timely manner.

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. An explanation for the decline should be obtained. In instances where there is sufficient information to support the use of the income, the most recent lower income must be used for qualification.  Employment should be stable with at least a two (2) year history in the same job or in the same line-of-work. Self-employed Borrowers must have been in business for at least two (2) consecutive years.

The Borrower(s) must explain in writing any employment gaps that exceed one (1) month. Borrowers must be currently employed.

## DEBT-TO-INCOME

### RATIO REQUIREMENTS

The Debt-to-Income ratio is calculated by dividing the Borrower's total monthly obligations by the Borrower's total monthly qualifying income. LHFS does not utilize a separate Housing Expense Ratio (i.e. "Front-End Ratio), but rather rolls up all debts as defined by Ability to Repay (ATR) rules. The allowable DTI ratio depends on the LTV as shown below:

| LTV | Maximum DTI |
|---|---|
| 65% or Below | 55% |
| 65.01% or Higher | 50% |

***First Time Homebuyers are limited to 43% DTI when using one of LHFS's Alternative Documentation programs.***

## RESIDUAL INCOME REQUIREMENT

Loans with DTI ratios of ≤ 43% require no residual income.

Loans with DTI ≥ 43.01% require residual income. Residual Income is defined as the cash flow remaining after all monthly obligations have been paid. The requirement = 0.0045 (0.45%) of the Unpaid Principal Balance of the mortgage (i.e. UPB x 0.0045 = required residual income).

# ASSET ANALYSIS

## ASSET RESERVES

The Borrower must have sufficient liquid assets available to pay the down payment and the costs associated with obtaining the mortgage, meet any required investment criteria, and provide required reserves following closing.

A Borrower's ability to accumulate assets provides insight into the Borrower's ability to successfully manage personal finances.

Assets from acceptable sources must be verified for down payment, closing costs, prepaid items and reserves.

## MINIMUM RESERVE REQUIREMENTS

| Loan Amount | Required Reserves |
|---|---|
| $50,000 - $650,000 | 6 months verified PITI |
| $650,001 - $1,000,000 | 9 months verified PITI |
| $1,000,001- $1,500,000 | 12 months verified PITI |
| $1,500,001 - $2,500,000 | 18 months verified PITI |

When calculating reserves for Investment/Non-Owner Occupied properties, PITI plus additional property expenses must be used:

- Any Homeowner's Association dues;
- Any Special Assessments;
- Any Subordinate Financing payments.
- Hazard, Flood, and Mortgage Insurance premiums (if applicable);
- Principal and Interest (P&I);
- Real Estate Taxes;

Borrowers with additional financed properties are required to document an additional 2 months PITI for each property in addition to the reserves on the subject property.

## DOCUMENTATION OF ASSETS

Assets can be cash in the bank, stocks, bonds, IRA's, 401K's, mutual funds or retirement accounts. For stocks and bonds, 70% of the value may be considered for reserves. For vested retirement funds, 60% of the value may be considered for reserves.

For most asset types, documentation should include all pages of the most recent two months' consecutive statements or the most recent quarterly statement.

If the Borrower(s) is not of retirement age, he/she must document that they have unrestricted access to all retirement-based funds used for closing costs, down payments and post-closing reserves.

Significant disparities between the current account balance and the opening balances may require additional explanation, as will large or irregular deposits.

Proceeds from a Cash-Out Refinance transaction on the subject property may be used to meet reserve requirements.

## DOWN PAYMENT

The greater the down payment, the less risk the proposed loan may have. On Owner-Occupied transactions with Standard Documentation a minimum of 10% of the purchase price must come from Borrower's own funds. All other transactions require 30% down payment from Borrower's own funds. Down payments must be sourced and seasoned at least sixty (60) days before the application date.

## BUSINESS FUNDS

Use of business funds/assets may be considered acceptable for down payment, closing costs and post-closing reserves when a Borrower is self-employed. The Borrower must be identified as an owner of the account and it must be verified in accordance with standard requirements.

- No more than 50% of the business funds can be used for the down payment and closing costs. Unused balance may be utilized to meet reserve requirements. OR
- A letter from a CPA must be obtained verifying that the withdrawal/use of funds for the transaction will not have a negative impact on the business.

## UNACCEPTABLE ASSET SOURCES

The following sources of funds may not be used in the calculation of assets:

- 1031 Tax Deferred Exchange proceeds on owner-occupied property or second home
- Assets from margin accounts
- Cash advances from a credit card or other revolving account
- Cash-on-Hand: also known as mattress money
- Commission from the sale of the subject property
- Funds for closing Disaster Relief Loans or Grants
- Funds that have not been vested Borrowers
- Gifts which must be repaid in full or partially
- Loan proceeds
- Proceeds from unsecured loans or personal loans
- Salary/ bonus advances received against future earnings
- Seller-Funded Down Payment Assistance Programs
- Stock options and non-vested restricted stock
- Sweat Equity

# OCCUPANCY TYPES

## PRIMARY RESIDENCE

A primary residence is a 1-4 Unit property occupied by the Borrower as his or her principle residence (may also be referred to as owner-occupied).

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

- Property is located in the same general area as the Borrower's employment
- Borrower intends to occupy subject property as his/her principal dwelling
- Property possesses physical characteristics that accommodate the Borrower's family

## SECOND HOME

A second home is a dwelling occupied by the Borrower in addition to the Borrower's primary residence (may also be referred to as a vacation home).

Second homes are eligible for financing and are restricted to one-unit dwellings only.

Typically, second homes should meet the following criteria:

- Be located a reasonable distance (e.g. at least 50) miles from the Borrower's primary residence or be in a resort area
- Must be occupied by the Borrower for some portion of the year
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the Borrower to rent the subject property or give control of the subject property to a management firm.

## INVESTMENT PROPERTY

An Investment Property is a 1- 4 Unit Non-Owner Occupied property. To be acceptable, it must not be one of the ineligible property types spelled out in the **Eligibility Overview** section at the beginning of these guidelines.

# APPRAISAL REQUIREMENTS

## GENERAL APPRAISAL RESPONSIBILITIES

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. Transferred appraisals are not accepted.

Lender is responsible for all of the following:

- The accuracy and completeness of the appraisal and its assessment of the marketability of the property.
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for determining the value.
- Compliance with the ECOA Valuations Rule, which requires notifications to Borrowers (1) of their right to receive copies of appraisals within three (3) days of application, and (2) that copies of appraisals and other written valuations be delivered to them on the earlier of (a) promptly upon completion, or (b) three (3) business days before closing.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.

## UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

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

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- Operating Income Statement for 2-4 unit investment properties (FNMA Form 216)

## NUMBER OF APPRAISALS AND SPECIAL REQUIREMENTS GUIDELINE

| Loan Amount | Appraisal Requirements |
|---|---|
| ≤ $1,000,000 | One (1) full appraisal with 3 comps sold within past 6 months |
| >$1,000,000 | Two (2) full appraisals with 5 comps Sold within past 12 months |

All transactions require a new appraisal. For properties purchased or refinanced within the past 6 months, the lesser of the purchase price or current appraised value will be utilized to determine subject property value. If the property valuation has increased by 10% or more in the past 7-12 months, a second appraisal will be required.

If a property has been "flipped" within 180 days, a second appraisal will be required. The requirement for a second appraisal will be waived if the following criteria are met:

- The loan is a non-HPML transaction,
- The LTV is ≤ 40%, and
- Loan Amount is ≤ $1,000,000

## PROPERTY CONDITION

All properties are must have an "average" or "good" rating to be eligible for under this Program. All factors that negatively impact the property's condition must be considered when assessing the overall risk of the loan file.

These factors include:

Deferred Maintenance

"Subject to" items must be described in detail. The appraiser must determine the nature of the repairs and include the cost-to-cure. Deferred maintenance that exceeds 2.5% of the property value or that affects its basic habitability will require a Satisfactory Completion Certificate (Freddie Mac Form 442).

Debris, Graffiti, or Trash

Properties showing an excessive amount of debris, graffiti or trash may require clean-up. If necessary, a Satisfactory Completion Certificate (Freddie Mac Form 442) and photos will be required.

Infestation

If there is any indication of termites or any other infestation, the infestation issue must be investigated, treated, and remedied.

Roof Damage

Properties with visible evidence of roof leaks and/or interior water damage (e.g. ceiling stains) must be addressed at time of underwriting, even if the appraisal does not list them specifically in the report. If any of these conditions exist, a roof certification must be obtained, indicating a remaining useful and physical life of at least three (3) years.

Other Unacceptable Property Conditions

- Boarded-up properties
- Properties that pose an imminent threat to the health and safety of the occupant.
- Inadequate foundations that do not meet the current code requirements for the local municipality
- Inadequate heating (must be permanent affixed legal heating systems)
- Properties without water or public electricity
- Cantilevered or properties on stilts, posts or piers.
- Shared services for well, septic or utilities that are private agreements
- Properties showing evidence of mold
- Environmental hazards or nuisances

## Disaster Areas

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

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

Guidelines for disaster areas should be followed for 90 days from the incident period ending date or the date the adverse event occurred, whichever is later.

When the appraisal was completed **prior to the disaster** incident, an interior and exterior inspection of the subject property is required.

- Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability.
- Inspection report must include photographs of the front, rear and street view of the property.
- Any damage must be repaired and re-inspected prior to purchase.
- File must contain a copy of the inspection report and evidence of inspector licensing.
- An appraisal update or final inspection from the appraiser must also be obtained. Appraiser must comment on the adverse event and certify that there has been no decline in value. Existing damage must meet **"Deferred Maintenance"** guidelines above.

When the inspection date of the appraisal is after the disaster incident, the following requirements must be met:

- Appraiser must comment on the adverse event and any effect on marketability or value.
- Existing damage must meet **"Deferred Maintenance"** guidelines.

## PERSONAL PROPERTY

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal.  If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

## AGE OF APPRAISAL

The appraisal report must be completed within 90 days of closing. A new appraisal is required if the original appraisal is aged beyond this timeframe. A recertification of value is required after 90 days and is allowed up to 120 days. A new appraisal is required after 120 days.

## REPAIR ESCROWS

Escrows for work completion are not allowed.