REMN WHOLESALE FANNIE MAE PRODUCT DESCRIPTION

REMN WHOLESALE FANNIE MAE PRODUCT DESCRIPTION

CONFORMING PRODUCT MATRIX

Owner Occupied

Transaction Type	Units	Maximum LTV[1]/CLTV[2]/HCLTV			Loan Amount[3]	Credit Score[4]
		Amortization Type	DU 10.2	DU 10.3		
Purchase Limited Cash-Out	1 Unit	Fixed Rate	97.00%[6]		See Below	Per AUS
		ARM	95.00%			
	Manufactured Home	Fixed Rate/ARM (7/6 and 10/6 only)	95.00%			
	2 Unit	Fixed Rate/ARM	95.00%		See Below	Per AUS
	3-4 Unit	Fixed Rate/ARM	95.00%		See Below	Per AUS
Cash-Out[5]	1 Unit	Fixed Rate/ARM	80.00%		See Below	Per AUS
	Manufactured Home	Fixed (15-20yr only)/ARM (7/6 and 10/6 only)	65.00%			
	2-4 Unit	Fixed Rate/ARM	75.00%		See Below	Per AUS

Second Home

Transaction Type	Units	Amortization Type	DU 10.2	DU 10.3	Loan Amount	Credit Score
Purchase Limited Cash-Out	1 Unit	Fixed Rate/ARM	90.00%		See Below	Per AUS
	Manufactured Home	Fixed Rate	90.00%			
Cash-Out[5]	1 Unit	Fixed Rate/ARM	75.00%		See Below	Per AUS

Non-Owner Occupied

Transaction Type	Units	Amortization Type	Maximum LTV/CLTV/HCLTV	Loan Amount	Credit Score
Purchase	1 Unit	Fixed Rate/ARM	85.00%	See Below	Per AUS
	2-4 Unit	Fixed Rate/ARM	75.00%	See Below	Per AUS
Limited Cash-Out	1-4 Unit	Fixed Rate/ARM	75.00%	See Below	Per AUS
Cash-Out[5]	1 Unit	Fixed Rate/ARM	75.00%	See Below	Per AUS
	2-4 Unit	Fixed Rate/ARM	70.00%	See Below	Per AUS

Maximum Loan Limits 2024

Number of Units	Contiguous States District of Columbia & Puerto Rico	Alaska, Guam, Hawaii & US Virgin Islands
1	$766,550	$1,149,825
2	$981,500	$1,472,250
3	$1,186,350	$1,779,525
4	$1,474,400	$2,211,600

Maximum Loan Limits 2023

Number of Units	Contiguous States District of Columbia & Puerto Rico	Alaska, Guam, Hawaii & US Virgin Islands
1	$726,200	$1,089,300
2	$929,850	$1,394,775
3	$1,123,900	$1,685,850
4	$1,396,800	$2,095,200

Footnotes

[1] LTV ≥80.01% requires Mortgage Insurance (Must follow more restrictive of these guidelines or MI Guidelines). Financed MI; the maximums as indicated above cannot be exceeded with DU Version 9.1.

[2] 105% CLTV Community Seconds: With the exception of ARM loans, the CLTV ratio may exceed the limits stated above only if the mortgage is part of a Community Seconds transaction. However; 5, 7 & 10 year ARM loans are limited to the LTV/CLTV/HCLTV ratio indicated above.

[3] REMN Minimum Loan Amount - $50,000. ($150,000 for Investment Properties)

[4] DU performs its own analysis of the credit report data, but in no case will credit scores be <620.

[5] If the property was purchased within the prior six (6) months, the borrower is ineligible for a cash-out refinance transaction unless the loan meets the Delayed Financing Exception Guidelines.

[6] LTV, CLTV and HCLTV Ratios greater than 95.00%: Purchase transactions, at least one (1) borrower must be a first-time home buyer (excluding HomeReady). Limited Cash-Out Refinances, FNMA must be owner of existing mortgage.

HIGH-BALANCE LOAN PRODUCT MATRIX				
Primary Residence				
Transaction Type	**Units**	**Maximum LTV/CLTV/HCLTV**		**Credit Score**
Purchase Limited Cash-Out	1 Unit	Fixed Rate/ARM	95.00%	Per AUS
	2 Unit	Fixed Rate/ARM	85.00%	Per AUS
	3-4 Unit	Fixed Rate/ARM	75.00%	Per AUS
Cash-Out	1 Unit	Fixed Rate/ARM	80.00%	Per AUS
	2-4 Unit	Fixed Rate/ARM	75.00%	Per AUS
Second Home				
Purchase Limited Cash-Out	1 Unit	Fixed Rate/ARM	90.00%	Per AUS
Cash-Out	1 Unit	Fixed Rate/ARM	75.00%	Per AUS
Non-Owner Occupied				
Purchase	1 Unit	Fixed Rate/ARM	85.00%	Per AUS
	2-4 Unit	Fixed Rate/ARM	75.00%	Per AUS
Limited Cash-Out	1-4 Unit	Fixed Rate/ARM	75.00%	Per AUS
Cash-Out	1 Unit	Fixed Rate/ARM	75.00%	Per AUS
	2-4 Unit	Fixed Rate/ARM	70.00%	Per AUS

Maximum Loan Limits for High Cost Areas 2024		
Number of Units	**Contiguous States & District of Columbia**	**Alaska, Guam, Hawaii & US Virgin Islands**
1	$1,149,825	N/A
2	$1,472,250	N/A
3	$1,779,525	N/A
4	$2,211,600	N/A

Maximum Loan Limits for High Cost Areas 2023		
Number of Units	**Contiguous States & District of Columbia**	**Alaska, Guam, Hawaii & US Virgin Islands**
1	$1,089,300	N/A
2	$1,394,775	N/A
3	$1,685,850	N/A
4	$2,095,200	N/A

- High Balance mortgage loans (HBLs) are subject to high-cost area loan limits set annually by the Federal Housing Finance Agency (FHFA). Refer to FNMA's website for eligible areas and loan limits for each area; see Loan Limits Page. The Loan Look-Up Table 2024 can be found under the Resources section on the left side of the page.
  Note: Regarding refinance of existing FNMA loans, the refinance loan must meet the loan limits applicable at the time of sale of the refinanced loan to FNMA, regardless of whether higher limits might have applied to the existing loan being refinanced.
- Puerto Rico and a number of other states do not have any high cost areas in 2023/2024.

HIGH BALANCE PRODUCT OVERVIEW	
HBL Loan Purpose	» Purchase, Limited Cash-Out Refinance & Cash-Out Refinance eligible on all property types & occupancy types for High Balance. See High Balance Loan Product Matrix for details.
HBL Property Type	» 1-4 Unit; including condos
HBL Underwriting	» DU Approve/Eligible recommendation must be received.
HBL Mortgage Insurance	» Loans with >80% LTV, mortgage insurance is required and are subject to MI guidelines. **The more restrictive of REMN or MI company guidelines apply.** » Eligible MI products: – Borrower-paid Mortgage Insurance (BPMI). Monthly or single premiums are eligible. – REMN WS-paid Mortgage Insurance (LPMI). Single premium only. » Eligible MI options: – Financed MI eligible for BPMI single premium – Non-refundable – Refundable (eligible with BPMI single premium only) – Renewal type, as applicable ▪ Level/constant ▪ Declining /amortized REMN approved MI companies: Arch, Essent, Enact, MGIC, National, Radian **LPMI** » Broker must indicate LPMI when locking loan. Refer to REMN WS Rate Sheet for pricing.
HBL Appraisal Requirements	Standard appraisal requirements apply.

REMN WHOLESALE FANNIE MAE PRODUCT DESCRIPTION

97% PRODUCT OPTION MATRIX		
	Fannie Mae Standard 97%	**FNMA HomeReady***
Eligible Loan Type	Fixed Rate up to 30yrs	Fixed Rate up to 30yrs
Loan Purpose	Purchase Limited Cash-Out Refinance	Purchase Limited Cash-Out Refinance
Property & Occupancy	1-unit Primary Residence (SFR, Warrantable Condo/PUD)	1-unit Primary Residence (SFR, Warrantable Condo/PUD); 2-4 unit allowed to standard LTV/CLTV's
LTV/CLTV/CLTV Limits	Purchase/Limited Cash-Out – 97.00%* LTV/CLTV/HCLTV CLTV's up to 105% - allowed w/ Community 2nd loan. *Limited Cash-Out Refi w/ 95.01-97% LTV – existing loan must be owned or securitized by Fannie Mae.	1 Unit Purchase – 97% LTV* / 105% CLTV** 1 Unit LCOR – limited to 95% LTV/CLTV **CLTV's up to 105% allowed w/ eligible Community Seconds program. *Limited Cash-Out Refi w/ 95.01-97% LTV – existing loan must be owned or securitized by Fannie Mae.
Maximum Loan Amount	$766,550	$766,550 High Balance loan limits allowed at standard LTV/CLTV limits.
Underwriting Method	DU Approve/Eligible only	DU Approve/Eligible only
First Time Homebuyer (Purchase)	At least one (1) borrower must be a FTHB	Not required
Non-Occupant Co-Borrowers	Non-Occupant Co-Borrowers are permitted up to 95% w/ DU Approve/Eligible findings	Non-Occupant Co-Borrowers are permitted up to 95% w/ DU Approve/Eligible findings
Ownership of Other Property	No limit on borrower's ownership in other residential property at time of closing.	Borrowers (Occupant & Non-Occupant) are allowed to own other residential properties at time of loan transaction. Max financed properties is 2, including subject.
Borrower Income Limits	No Income Limits	» Total annual qualifying income may not exceed 80% of the AMI (area median income) for the property's location » DU findings will reference Fannie Mae AMI's
Boarder Income	Not permitted	Permitted – 1 unit only Up to 30% of the qualifying income Must document at least 12mos of shared residency Boarder cannot be obligated on the mortgage or have ownership interest in the property
Accessory Dwelling Units	Not permitted	Permitted – 1 unit only Rental income from the unit considered in qualifying the borrower per rental income guidelines.
Mortgage Insurance Coverage	35%	25%
Cash on Hand	Not allowed	Allowed – 1 unit only
Homeownership Education & Housing Counseling	Homeownership education & counseling required for at least one (1) borrower on purchase transactions with LTV/CLTV/HCLTV > 95%, when all occupying borrowers are first-time homebuyers	Homeownership education & counseling required for at least one borrower on purchase transactions when all occupying borrowers are first-time homebuyers
*Please reference the REMN FNMA HomeReady Product Description for additional program guidelines and criteria that apply to Fannie Mae HomeReady.		

<table>
<tr><th colspan="4">97% LIMITED CASH-OUT REFINANCE TRANSACTIONS</th></tr>
<tr><td>Existing Loan</td><td colspan="3">» HomeReady & Standard Fannie Mae 97% LTV
» REMN must document that the existing loan being refinanced is owned (or securitized) by FNMA. Documentation may come from;
– REMN’s servicing system,
– Current servicer (if REMN is not the servicer),
– FNMA’s Loan Lookup Tool; or,
– Any other source confirmed by REMN.
» REMN must inform DU that FNMA owns the existing mortgage.</td></tr>
<tr><td rowspan="2">LTV, CLTV and HCLTV Ratios</td><td>LTV</td><td>CLTV</td><td>HCLTV</td></tr>
<tr><td>95.01% - 97.00%</td><td>95.01% - 97.00%
105.00% - With Community Seconds® loan.</td><td>95.01% - 97.00%</td></tr>
<tr><td>Maximum Loan</td><td colspan="3">» $766,550</td></tr>
<tr><td>Eligible Loan Type</td><td colspan="3">» Fixed Rate
– Up to 30-year terms</td></tr>
<tr><td>Ineligible Loan Type</td><td colspan="3">» High Balance
» Adjustable Rate
» HomeStyle Renovation®</td></tr>
<tr><td>Property and Occupancy</td><td colspan="3">» 1 Unit Principal Residence (including Condo/PUD)
» Manufactured housing is not permitted.</td></tr>
<tr><td>Underwriting Method</td><td colspan="3">» DU ONLY
» Approve/Eligible</td></tr>
<tr><td>Mortgage Insurance Coverage</td><td colspan="3">» 35%</td></tr>
<tr><td>Other</td><td colspan="3">» All standard limited cash-out refinance policies apply.</td></tr>
</table>

PRODUCT OVERVIEW	
Eligible Transactions	» Purchase » Limited Cash-Out Refinance » Cash-Out Refinance » Homestyle Renovation – refer to REMN Wholesale HomeStyle Product Description for specific guidelines
Eligible Properties	» 1-4 Unit - A one-unit property with an accessory dwelling unit (ADU) is defined as a one-unit property and subject to all one-unit requirements, unless otherwise stated. » Condominiums (Attached – Established Projects Only/Detached) » Townhomes – PUD's (Attached/Detached) » Manufactured Homes (in all states except for New York) – see Manufactured Home Product Compare on www.remnwholesale.com for complete guidelines/criteria » TBD (To Be Determined) Properties
Ineligible Transactions	» Manual Underwrite » Permanent Buydown » DU Findings without Approve/Eligible recommendation » MCC (Mortgage Credit Certificate) programs; allowed after closing (cannot be used for qualifying purposes) » Land Trusts (Community Land Trusts are eligible) » Loans subject to Private Transfer Fees (PTF's) – Excluding loans with private transfer fees paid to homeowners' associations, condominiums, and certain tax-exempt organizations that use private transfer fee proceeds to benefit the property. Fees that do not directly benefit the property would disqualify mortgages from being originated by REMN. » Power of Attorney on a Cash-Out Refinance transaction. » Loans with PACE or HERO programs as a secondary/subordinate financing option (all states) » Loans with qualifying income earned from state-legalized marijuana businesses, where the income is not standard W-2 and/or is considered self-employed. Please refer to General Income Documentation Requirements section for further details. » Loans where a borrower(s) has a Deferred Action for Childhood Arrivals (DACA) status and does not meet the eligibility requirements as defined in the Non-U.S. Citizens section.
Ineligible Properties	» Non-warrantable condo & new attached condo projects » Cooperatives » Vacant land or land development properties, » Properties that are net readily accessible by roads that meet local standards, » Agricultural properties, such as farms or ranches, » Units in Condo or Co-op Hotels (See B4-2.1-02 Ineligible Projects 5-28-2014) for complete listing of ineligible properties, » Boarding houses (Group Homes are not considered to be boarding houses), » Bed and breakfast properties; or » Properties not suitable for year-round occupancy regardless of location. » Properties located in Lava Zones 1 & 2 » Manufactured homes located in the state of New York
Excluded Party Lists	» REMN WS requires that a DataVerify DRIVE report be generated and analyzed for all loans at approval and updated prior to underwriting clearance.
Assumption	» Not permitted
Prepayment Penalty	» Not permitted

Mortgage Insurance	» Loans with >80% LTV, mortgage insurance is required and are subject to MI guidelines. **The more restrictive of REMN or MI company guidelines apply.** » Eligible MI products: – Borrower-paid Mortgage Insurance (BPMI). Monthly or single premiums are eligible. – REMN WS-paid Mortgage Insurance (LPMI). Single premium only. » Eligible MI options: – Financed MI eligible for BPMI single premium – Non-refundable – Refundable (eligible with BPMI single premium only) – Renewal type, as applicable ▪ Level/constant » REMN approved MI companies: Essent, Enact, Radian, Arch Mortgage Insurance, MGIC, National » **LPMI:** Broker must indicate LPMI when locking loan. Refer to REMN WS Rate Sheet for pricing.

REMN WHOLESALE FANNIE MAE PRODUCT DESCRIPTION

<table>
<tr><th colspan="6">PRODUCT OVERVIEW</th></tr>
<tr><td rowspan="4">Mortgage Insurance LTV Determination for New York State</td><td colspan="5">Under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the “fair market value” of the property. The term “fair market value” is not defined in the statute but has been defined by the NY insurance regulator as being the “appraised value”.
The following table identifies the value calculation that is to be used for mortgage loans secured by properties in New York for policies that are based on the LTV ratio.</td></tr>
<tr><td colspan="2">LTV Ratio Calculation</td><td colspan="3">Policy</td></tr>
<tr><td colspan="2">LTV ratio based on the appraised value</td><td colspan="3">» REMN WSs must base their determination of when mortgage insurance (MI) is required solely on the appraised value of the property. If the appraised value exceeds the sales price, this determination may result in MI not being placed on the mortgage loan as would otherwise be required using FNMA’s standard definition.
» If this calculation results in MI not being placed on the loan as would otherwise be required, REMN must deliver the loan to FNMA using the MI Absence Reason Type of “No MI Based on Original LTV” (Sort ID 429).</td></tr>
<tr><td colspan="2">LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation) for all property types</td><td colspan="3">» Irrespective of the use of appraised value or sales price for determining whether MI is required, the standard LTV calculation must be used to determine the level of MI coverage that is required on the mortgage loan. (See MI Coverage Requirements for additional information).
» The standard LTV ratio calculation must also be used to:
• Determine whether the loan satisfies any of FNMA’s other eligibility criteria that are based on the LTV ratio of the loan;
• Determine any loan-level price adjustments that include LTV or CLTV ratios as a risk attribute; and
• When the loan is delivered to FNMA (Sort ID 254). The standard LTV ratio must be delivered, even if the appraised value or sales price is used to determine that mortgage insurance is not required.</td></tr>
<tr><td rowspan="3">MI Coverage Requirements (Standard)</td><td>Transaction Type</td><td>80.01% - 85.00%</td><td>85.01% - 90.00%</td><td>90.01% - 95.00%</td><td>95.01% - 97.00%</td></tr>
<tr><td>Fixed Rate
≤ 20 Years</td><td>6%</td><td>12%</td><td>25%</td><td>35%</td></tr>
<tr><td>Fixed Rate
> 20 Years
ARMS</td><td>12%</td><td>25%</td><td>30%</td><td>35%</td></tr>
<tr><td>ARMs</td><td colspan="5">» REMN Securitized ARM Product
– Terms: 5/6, 7/6 & 10/6
– Caps: 5/6 ARM – 2/1/5; 7/6, 10/6 ARMs - 5/1/5
– Margin: 3.000
– Index: 30-Day Avg Secured Overnight Financing Rate (SOFR)
» Qualifying Payment
– Initial fixed rate period of 5 years or less (6 Month to 5 Year ARM) – Qualify at the greater of the indexed note rate or the note rate + 2%.
– Initial fixed rate period of greater than 5 years (7/6 and 10/6) - Qualify at no less than the note rate.
▪ The fully indexed rate is defined as the index plus margin, as entered in DU.
▪ HPML and HPCT are qualified at the greater of the note rate or the fully indexed rate.
» The index and margin are required for all ARM loans submitted for underwriting for DU.</td></tr>
</table>

PRODUCT OVERVIEW

Temporary Buydowns

General Requirements for Loans with Temporary Interest Rate Buydown Plans

- Temporary interest rate buydowns are allowed on fixed-rate mortgages for principal residences or second homes provided the rate reduction does not exceed 2%, and the rate increase will not exceed 1% per year
- The buydown plan must be a written agreement between the party providing the buydown funds and the borrower
- All of the terms of the buydown plan must be disclosed to Fannie Mae, the mortgage insurer, and the property appraiser
- The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage note.

Buydown Funds Provided by Interested Parties to the Transaction

- When the source of the buydown funds is an interested party to the property sale or purchase transaction, Fannie Mae's interested-party contribution limits apply

Who Funds the Buydown

- Temporary buydowns may be funded by the following (No Exceptions):
  - The Lender
  - The Listing or Selling Real Estate Agent
  - The Seller
- Borrower-Funded buydowns are not eligible

Buydown Agreements

- The buydown agreement must provide that the borrower is not relieved of his or her obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available
- The buydown agreement may include an option for the buydown funds to be returned to the borrower if the mortgage is paid off before all of the funds have been applied
- A copy of the buydown agreement must be included in the delivery documentation for the mortgage

Eligible Transaction Types

- The following table lists the transaction types that are eligible and ineligible for temporary buydowns:

Transaction Type	Eligibility
Principal Residence	Eligible
Second Homes	Eligible
Investment Properties	Ineligible
Rate & Term Refinance Transactions	Ineligible
Cash-Out Refinance Transactions	Ineligible
ARMs	Ineligible
Texas Section 50(a)(6) Refinances	Ineligible
Manufactured Homes	Eligible

Qualifying the Borrower

- When underwriting loans that have a temporary interest rate buydown, REMN must qualify the borrower based on the note rate without consideration of the bought-down rate

Terms of the Buydown

- REMN does not place a limit on the total dollar amount of an interest rate buydown
- REMN offers 3/2/1, 2/1, 1/1/1, 1/1, and 1/0 options
- The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period
- An interest rate buydown plan must provide for:
  - A buydown period not greater than **36** months, **and**
  - Increases of not more than 1% in the portion of the interest rate paid by the borrower in each twelve (12) month interval

More frequent changes are permitted as long as the total annual increase does not exceed 1%

PRODUCT OVERVIEW

Temporary Buydowns (Cont'd)

Buydown Funds

The following are Fannie Mae requirements for treatment of buydown funds:

- » Buydown accounts must be established and fully funded by the time REMN submits the mortgage to Fannie Mae for purchase or securitization
- » Funds for buydown accounts must be deposited into custodial bank accounts
  Note: Buydown funds cannot be included in accounts with REMN's other corporate funds
- » The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the note
- » Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied
- » Buydown funds cannot be used to pay past-due payments
- » Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio

Disposing of Buydown Funds

- » If the mortgage is liquidated or the property is sold during the buydown period, REMN should dispose of the buydown funds in the following manner:

Status of Mortgage	Disposition of Funds
The mortgage is paid in full	The funds should be credited to the total amount required to pay off the mortgage, or they may be returned to either the borrower or REMN, as specified in the buydown agreement
The mortgage is foreclosed	The funds are used to reduce the mortgage debt
The property is sold, and the mortgage is assumed by the purchaser	The funds may continue to be used to reduce the mortgage payments under the original terms of the buydown plan

Delivery Requirements

- » The following special feature codes (SFC) must be delivered, depending on the type of interest rate buydown:

If the temporary interest rate buydown provides for:	Then the mortgage loan must be identified with:
– A difference of 2 percentage points or less between the actual note rate and the "bought down" interest rate, or – A buydown period of 2 years or less	SFC 009
– A difference of more than 2 percentage points between the actual note rate and the "bought down" rate, or – A buydown period greater than 2 years	SFC 014

<table>
<tr><th colspan="3">PRODUCT OVERVIEW</th></tr>
<tr><td>Occupancy</td><td colspan="2">» Owner Occupied
» Second Home
» Non-Owner Occupied</td></tr>
<tr><td rowspan="6">Principal Residence Properties</td><td colspan="2">» A principal residence is a property that the borrower occupies as his or her primary residence. The following table describes conditions in which FNMA considers a residence to be a principal residence even though the borrower will not be occupying the property.</td></tr>
<tr><td>Borrower Types</td><td>Requirements for Owner-Occupancy</td></tr>
<tr><td>Multiple Borrowers</td><td>Only one borrower needs to occupy and take title to the property, except as otherwise required for mortgage that have guarantors or co-signers.</td></tr>
<tr><td>Military Service Borrowers</td><td>A military service member borrower currently on active duty and temporarily absent from their principal residence because of military service is considered to be an owner occupant. Lenders must verify the borrower's temporary absence from the subject property by obtaining a copy of the borrower's military orders.
The military orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument. Loans that meet these requirements must be delivered with Special Feature Code 754.</td></tr>
<tr><td>Parents of legal guardian wanting to provide housing for their handicapped or disabled adult child</td><td>If the child is unable to work or does not have sufficient income to qualify for a mortgage on his/her own, the parent or legal guardian is considered the owner/occupant.</td></tr>
<tr><td>Children wanting to provide housing for parents</td><td>If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his/her own, the child is considered the owner/occupant.</td></tr>
<tr><td>Second Home Properties</td><td colspan="2">» Second Home Requirements
– Must be occupied by the borrower for some portion of the year
– Is restricted to one-unit dwellings
– Must be suitable for year-round occupancy
– Borrowers must have exclusive control over the property
– Must not be rental property or a timeshare arrangement
• If rental income is identified from the property, the loan is eligible for delivery as a Second Home as long as the income is not used for qualifying purposes, and all other requirements for Second Homes are met (including the occupancy requirement above).
– Cannot be subject to any agreements that give a management firm control over the occupancy of the property.</td></tr>
</table>

PRODUCT OVERVIEW	
Investment Properties	» An investment property is owned but not occupied by the borrower. An LLPA applies to all mortgage loans secured by an investment property. These LLPA's are in addition to any other price adjustments that are otherwise applicable to the particular transaction. » For borrowers who are natural-person individuals, eligibility and pricing for group homes will be the same as currently provided under the terms and conditions established for investment, second home, or owner-occupied properties, depending on the particular occupancy status. » Investment properties that are or will be leased to business entities for use as a group home are eligible for purchase by Fannie Mae (provided all borrowers are individuals).
Tax Exemptions / Abatements	» There can be no uncertainty about whether the borrower qualifies for the homestead, abatement or other tax exemption or reduction. » In order for the lower amount to be used for qualifying purposes; the abatement, homestead or exception must remain in place for a minimum of five (5) years after closing. » Note: If the Underwriter has knowledge that a "Homestead" is considered "Permanent" (example: Florida – OR – Single Family in IL), the time period does not need to be documented and the UW can note the same on the Loan Transmittal (1008).
Escrow/Impounds	» First mortgages generally must provide for the deposit of escrow funds to pay as they come due, including taxes, ground rents, premiums for property insurance, and premiums for flood insurance. However, escrow deposits for payments of premiums for borrower-purchased mortgage insurance (MI), if applicable, are mandatory. » Fannie Mae does not require an escrow deposit for proper ty or flood insurance premiums for an individual unit in a condo or PUD when the project in which the unit is located is covered by a blanket insurance policy purchased by the homeowner's association (HOA) » If a special assessment levied against the property was not paid at loan closing, the borrower's payment must include appropriate accruals to ensure that any estimated annual payment toward the assessment will be accumulated by the time it comes due. » For certain refinance transactions where the borrower is financing real estate taxes in the loan amount, an escrow account is required, subject to applicable laws or regulations – see Cash-Out Refinance section for more information.

PRODUCT OVERVIEW	
Escrow Waivers – REMN WS Policy	» REMN WS allows for the waiving of escrows, depending on the loan type, the LTV, and the borrower(s) financial ability to pay the lump sum payments of taxes and insurance. – REMN WS allows for the partial waiver of tax and homeowners insurance escrows. However, if a waiver is chosen for: ▪ Taxes – all taxes must be waived. For example, a borrower may not waive county taxes and escrow for school taxes. ▪ Insurance – all insurance (hurricane, wind, etc.), with the exception of flood, must be waived. – Flood insurance escrow waivers are not permitted – For subject properties not located in CA, REMN WS does not allow for the waiving of escrows when a loan requires mortgage insurance, regardless if the mortgage insurance is REMN WS-paid or borrower-paid. – For subject properties located in CA, an escrow waiver is permitted if the LTV is < 90%. – Escrow deposit accounts for ALL refinance transactions where the current year or prior year taxes were sixty (60) days or more delinquent and are being included in the new loan amount may not be waived. » Any conflict between REMN WS policy and state law must default to the state law. » **Cash-Out Refinance** – Escrows/impounds cannot be waived if the new loan amount includes the financing of real estate taxes that are more than sixty (60) days delinquent, unless requiring an escrow account is not permitted by applicable state law or regulation. – For example, if a particular state law does not allow a REMN WS to require an escrow account under certain conditions, the loan would be eligible for sale to Fannie Mae without an escrow account. » **High LTV Refinance** – Escrows/impounds cannot be waived » For further details and complete guidance on this topic, please reference the REMN WS Escrow Waiver policy & procedure.
Non-Arm's Length Transactions	» Non-Arm's Length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property » FNMA allows for the purchase of existing properties » Newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest or employment) with the builder, developer or seller of the property, FNMA will only purchase mortgage loans secured by primary residences » FNMA will not purchase mortgage loans on newly constructions homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer or seller of the property » Non-Arm's Length transactions are not eligible when using Delayed Financing
Principal Curtailment	» A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. » REMN may apply a curtailment to refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements » If the borrower receives more cash back than is permitted for limited cash-out refinances, REMN can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan. – For example, if the borrower received $4,500 cash back at closing on a loan amount of $400,000, REMN could apply a $2,500 curtailment. This would result in "net cash back" to the borrower of $2,000, thus meeting FNMA's limited cash-out refinance requirement. For a High LTV Refinance loan; borrower received $2,750 cash back at closing on a loan amount of $400,000, REMN could apply a $2,500 curtailment. This would result in "net cash back" to the borrower of $250, thus meeting High LTV Refinance option requirement. » If the curtailment is made at the time of closing, it must be documented on the CD with the amount of the curtailment and the reason.

<table>
<tr><th colspan="2">PRODUCT OVERVIEW</th></tr>
<tr><td>Power of Attorney</td><td>» Please refer to the following links:
– REMN WS POA Policy & Procedure Checklist.
– Fannie Mae Selling Guide POA Requirements</td></tr>
<tr><td>DU Loan Casefiles</td><td>» Approve/Eligible Findings required.
» High LTV Refinance Option– when a limited cash-out refinance loan casefile that meets minimum LTV requirement for high LTV refinance is underwritten in DU, internal data will be used to determine if Fannie Mae owns the loan on the property, and if that loan is eligible to be refinanced using this option.
– DU does not have the ability to determine if a loan casefile is a high-priced loan under Reg Z
– REMN WS is not relieved of complying with Reg Z by only adhering to the stricter representative credit score and DTI ratio. The loan must comply in all respects with Reg Z requirements for such loans including the underwriting and consumer protection requirements.
▪ A high-priced loan is one where the final APR exceeds the average prime offering rate by more than 1.5% - based on the index at the time the interest rate was set/locked.
▪ If a High LTV Refinance loan is HPML and the DTI exceeds 45% <u>OR</u> the credit score is below 620 the loan is INELIGIBLE.
NOTE: This is a FNMA eligibility requirement; there will be no exception to DTI or Score.
» When DU identifies bankruptcy, foreclosure, deed-in-lieu, pre-foreclosure, or mortgage charge-off, it is up to REMN to determine if the waiting period has been met. DU will indicate that the waiting period is measured from the disbursement date of the new loan, not the credit report date.
Waiting Period
» On loan casefiles where DU measures the waiting period and uses that information in the eligibility assessment, the credit report date will continue to be used as DU does not know the disbursement date of the new loan. For loan casefiles that will have met the waiting period requirement based on the disbursement date, but not credit report date, REMN may pull a new report after the waiting period has elapsed in order to receive an Eligible recommendation.</td></tr>
<tr><td>Compensating Factors</td><td>» For loans underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan and the minimum reserves that may be required for the transaction
– Reserves may be considered a compensating factor in DU's risk analysis and may serve to improve the underwriting recommendation.
» For loans underwritten through DU, DU will determine the maximum allowable debt-to-income ratio based on the overall risk assessment of the loan file.
– DU will apply a maximum allowable total expense ratio of 45.00%; with flexibilities offered up to 50.00% for certain loan files with strong compensating factors as accepted by DU.
• With release of DU 10.3, cash-out refinance transactions for borrowers with DTI ratio exceeding 45% must have at least six (6) months reserves. If < 6mos, an Ineligible recommendation will be received.</td></tr>
</table>

<table>
<tr><th colspan="3">PRODUCT OVERVIEW</th></tr>
<tr><td rowspan="5">DU Credit Report Analysis</td><td colspan="2">Prior Bankruptcy, Foreclosure, Deed-in-Lieu, Pre-foreclosure Sales and Charge-Off Mortgage Accounts
» See Identification of Significant Derogatory Credit Events, Waiting Period and Re-Established Credit for additional information on these types of accounts.
NOTE: DU is not able to identify whether the borrower’s derogatory credit event(s) was the result of extenuating circumstances. See Extenuating Circumstances for additional information.
» Per the requirements of Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit, an amount of time must elapse (the “waiting period”) after a significant derogatory credit event before the borrower is eligible for a new loan. The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to measure whether or not the applicable waiting period has been met. However, because the credit report date may not result in an accurate calculation of the waiting period (it is earlier than the disbursement date), REMN may use the disbursement date to confirm that the waiting period has been met.</td></tr>
<tr><td>Event</td><td>Measurement of Waiting Period</td></tr>
<tr><td>» Bankruptcy
» Foreclosure</td><td>» If the completion, discharge or dismissal dates (as applicable) reflected in the credit report are complete and appears to comply with the applicable waiting period requirements, DU will issue a recommendation, but REMN must still confirm that the waiting period has been met and may base our determination on the disbursement date of the new loan.
» If the completion, discharge or dismissal dates (as applicable) reflected in the credit report are complete, but do not appear to comply with the applicable waiting period requirements, a Refer with Caution recommendation will be issued. DU uses the date of the credit report to determine whether or not the applicable waiting period has been met. REMN may obtain an updated credit report and resubmit to DU after the required time has elapsed.
» If the completion, discharge or dismissal dates (as applicable) reflected in the credit report are incomplete, REMN must confirm that the waiting period has been met and base our determination on the disbursement date of the new loan.</td></tr>
<tr><td>» Deed-in-Lieu of Foreclosure
» Pre-foreclosure Sale
» Mortgage Charge-Off</td><td>» DU is not able to determine when the even occurred. Therefore, it is not able to confirm if the applicable waiting period has been met.
» REMN must confirm the waiting period requirement has been met and may base our determination on the disbursement date of the new loan.</td></tr>
<tr><td colspan="2">» Approve/Eligible Findings required.</td></tr>
</table>

Multiple Properties Financed	**REMN Wholesale Overlay:** » Borrowers who own more than four (4) properties (including the subject property) are not eligible for financing with REMN Wholesale. This includes properties owned free and clear. Exceptions may be granted on a case-by-case basis with REMN Wholesale Executive management approval. A price adjustment may apply. FNMA's standard eligibility and underwriting policies apply for any loans granted an exception. » No multiple simultaneous loan submissions allowed if contingent to qualify » REMN limits its exposure to a maximum of 4 loans per borrower. If a management exception is obtained the following apply: **Loan and Borrower Requirements** » A borrower may finance multiple properties if qualified and if the following requirements are met: – The loan must comply with FNMA's limitations on the maximum number of financed properties, including ownership interests in financed properties as well as eligibility, delivery and reserve requirements. – The borrower must have sufficient assets to close after calculating reserve requirements. Additional reserve requirements apply, based on the number of financed properties a borrower will own. Please see Reserve Requirements. **Limits on the Number of Financed Properties** » If the property being delivered to FNMA is secured by the borrower's principal residence, there are no limitations on the number of properties that the borrower will have financed. » If the mortgage is secured by a second home or investment property, the multiple financed properties policy applies. » The financed property limits – applies to borrower's ownership of 1-4-unit residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is excluded from the borrower's DTI in accordance with Debts Paid By Others section. – applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to FNMA; – includes the borrower's principal residence if it is financed; and – is cumulative for all borrowers (though jointly financed properties are only counted once). » The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property: – Commercial real estate – Multifamily property consisting of more than four (4) units – Ownership in a timeshare – Ownership of a vacant lot (residential or commercial), or – Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home). **Examples – Counting Financed Properties** » The borrower is personally obligated on mortgages securing two (2) investment properties and the co-borrower is personally obligated on mortgages securing three (3) other investment properties, and they are jointly obligated on their principal residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. Thus, the borrowers have six (6) financed properties. » The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five (5) other investment properties. In addition, they each own their own principal residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth (8th) financed property. » The borrower is purchasing a second home and is personally obligated on his or her principal residence mortgage. Additionally, the borrower owns four (4) two-unit investment properties that are financed in the name of a limited liability company (LLC) of which he or she has a 50% ownership. Because the borrower is not personally obligated on the mortgages securing the investment properties, they would not be included in the property count and the result is only two (2) financed properties. » The borrower is purchasing and financing two (2) investment properties simultaneously. The borrower does not have a mortgage lien against his or her principal residence but does have a financed second home and is personally obligated on the mortgage, two existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this instance, the borrower will have five (5) financed properties because the financed building lot does not need to be included in the property count.

Applying the Multiple Financed Property Policy to DU Loan Casefiles	» If the borrower is financing a second home or investment property that is underwritten through DU, the maximum number of financed properties the borrower can have is ten (10). – **REMN WS OVERLAY** – REMN WS limits the maximum number of financed properties for a second home or investment property transaction to **four (4).** Any loans exceeding this overlay must receive an exception approval from REMN Wholesale Executive Management, along with a corresponding price adjustment for the exception. » If the borrower will have one (1) to six (6) financed properties, FNMA's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). » If the borrower will have seven (7) to ten (10) financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility policies apply. » DU will determine the number of financed properties for the loan casefiles based on the following approach: – If the Number of Financed Properties field is completed, DU will use that as the number of financed properties. REMN WS must complete this field with the number of financed 1-4-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated. – If the Number of Financed Properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or that are associated with a mortgage or HELOC in the liabilities section of the loan application, as the number of financed properties. – If the Number of Financed Properties field and the REO information was not provided, DU will use the number of mortgages and HELOC's disclosed in the liabilities section of the loan application as the number of financed properties. – **NOTE**: In order to account for he subject property, DU will add "1" to the number of financed properties on purchase transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties. » After determining the number of financed properties, DU will use that value to assess the eligibility of the loan, including the minimum credit score requirement for seven to ten (7-10) financed properties, and the minimum required reserves to be verified by the Underwriter. » DU will issue a message informing REMN WS of the number of financed properties that DU used and where that information was obtained (Number of financed Properties field, REO section, number of mortgages on application, or number of mortgages on the credit report). – If DU used the information provided in the Number of Financed Properties field or in the REO section as the number of financed properties, and that information is inaccurate, REMN WS must update the data and resubmit the loan casefile to DU. – If DU used the number of mortgages and HELOCs on the loan application or credit report as the number of financed properties, and that number is inaccurate, REMN WS must provide the correct number in the Number of Financed Properties field, or complete the Real Estate Owned section of the loan application and resubmit the loan casefile to DU.

Multiple Properties Financed Minimum Reserve Requirements	» If the borrower owns other financed properties (determined in accordance with Applying the Multiple Financed Property Policy to DU Loan Casefiles), additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid balance (UPB) for mortgages and HELOCs on these financed properties. The percentages are based on the number of financed properties: – 2% of the aggregate UPB if the borrower has 1-4 financed properties, – 4% of the aggregate UPB if the borrower has 5-6 financed properties, or – 6% of the aggregate UPB if the borrower has 7-10 financed properties. » The aggregate UPB calculation does not include the mortgage and HELOC's that are on – The subject property, – The borrower's principal residence, – Properties that are sold or pending sale, and – Accounts that will be paid by closing (or omitted in DU on the online loan application) – **Note:** DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application. » If there are multiple second home or investment property applications for the same borrower(s) simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications. – *Example* – Two refinance applications are being simultaneously processed for two investment properties owned by the borrower. The application for property A requires reserves of $5,000. The application for property B requires reserves of $10,000. Because the reserves are covering the same properties, REMN WS does not have to verify $15,000 in reserves, but only those required per each application.

Subordinate Financing	» See Eligibility Matrix on page 3 for CLTV/HCLTV limits » If subordinate financing HELOC; full line amount must be used to determine HCLTV » Unless it qualifies as a Community Seconds loan, an agreement under which a borrower is obligated to pay a third-party (other than a co-owner of the subject property) a share in any appreciation in the value of the subject property is not permitted. » REMN WS must consider any subordinate liens secured by the subject property, regardless of the obligated party, when calculating CLTV & HCLTV ratios. This includes business loans, such as those provided by the Small Business Administration. » Except as described below or in the Community Seconds section, no other type of recorded instrument documenting or securing the borrower's obligation to pay an amount in connection with funds advanced to the borrower in relation to the first mortgage is permitted, unless those funds have been advanced to the borrower by a co-owner of the subject property. Regardless of whether it qualifies as financing, eligible subordinated or unsecured PACE structures are permitted. » Acceptable Subordinate Financing Types; – Variable payment mortgages that comply with the details below. – Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur. – Mortgages with deferred payments in connection with employer subordinate financing (see below). – Mortgage terms that require interest at market rate. » If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price. » Unacceptable Subordinate Financing Terms; – Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments). – Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five (5) years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments). Note: FNMA will accept these subordinate financing terms when the amount of subordinate debt is minimal relative to the borrower's financial assets and/or credit profile. – Subordinate financing that restricts prepayment (that is; subordinate liens with prepayment penalties). – Mortgages with PACE or HERO programs as a subordinate/secondary financing option are not eligible for financing (all states). » Eligible Variable Payment Terms for Subordinate Financing; – Variable payments for subordinate financing that does not qualify as an eligible Community Seconds loan are permitted if the following provisions are met: ▪ With the exception of HELOC's when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage (HELOC's, the monthly payment does not have to remain constant). ▪ The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments). » Eligible Repayment Terms for Employer Subordinate Financing; » If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal or interest or interest only. Employer subordinate financing may be structured in any of the following ways; – Fully amortizing level monthly payments, – Deferred payments for some period before changing to fully amortizing level payments, – Deferred payments over the entire term; or, – Forgiveness of the debt over time. » The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing. » Defining Refinance Transactions Based on Subordinate Lien Payoff;

	The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

Subordinate Financing Underwriting Considerations	**Refinance transaction includes payoff of the first lien and…**	**REMN must underwrite the transaction as a…**	**Comments**
	The payoff of a purchase money second with no cash out	Limited Cash-Out Refinance	N/A
	The payoff of a non-purchase money second, regardless of whether additional cash out is taken	Cash-Out Refinance	N/A
	The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is not taking cash out except to the extent permitted for a limited cash-out refinance transaction	Limited Cash-Out Refinance	The subordinate lien must be re-subordinated to the new first lien mortgage loan.
	The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property and the borrower is taking cash out	Cash-Out Refinance	N/A

Community Seconds

- » REMN WS must approve all Community Second scenarios on a loan level basis.
- » A borrower of a mortgage loan secured by a principal residence may use funds received from a Community Seconds mortgage to fund all or part of the down payment provided the Community Seconds is not funded in any way through the first lien mortgage, such as premium pricing.
- » The following are not permitted with Community Seconds:
  - Second Homes,
  - Investment Properties,
  - Cash-Out Refinance; and,
  - ARMS with initial adjustment period less than five (5) years.
- » The following table describes the minimum borrower contribution requirements for transactions that contain a Community Second:

LTV/CLTV/HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
≤ 80%	1-4 Unit Primary Residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a Community Seconds.
> 80%	1 Unit Primary Residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a Community Seconds.
	2-4 Unit Primary Residence	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, a Community Seconds can be used to supplement the down payment, closing costs, and renovations (including those that are energy-related) or to fund a permanent interest rate buydown

Non-Community lending mortgages may be used in a Community Seconds Transaction with the following limitations:

- All non-community lending mortgages are eligible, with the exception of ARMs with an initial fixed-rate period of less than 5 years.
- The transaction is limited to a purchase or limited cash-out refinance.
- For a limited cash-out refinance transaction, the Community Seconds mortgage holder must acknowledge

<u>Repayment</u>

- » Repayment of the Community Seconds mortgage may be structured in any number of ways as long as the terms are consistent with terms Fannie Mae considers acceptable, including:
  - requiring fully amortizing, equal monthly payments;
  - deferring payments for some period before changing to fully amortizing, equal monthly payments;
  - deferring payments over the entire term, unless the loan is paid off or the property is sold before the maturity date of the mortgage; or
  - forgiving the debt over time
- » When the borrower's employer is the provider of the Community Seconds mortgage, the financing terms may provide for the employer to require full repayment of the debt should an employee's employment

terminate (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds mortgage.

» Where repayment of the Community Seconds mortgage is deferred for five years or more, REMN is not required to include a monthly payment for the Community Seconds mortgage in its calculation of the borrower's debt-to-income ratio. Where repayment is deferred for fewer than five years, the lender must include the monthly payment amount that will be required after the end of the deferral period in its calculation.

» The maturity date of the Community Seconds mortgage, or the due date of any balloon payment on the Community Seconds mortgage, may not be before the earlier of 15 years after the note date of the first mortgage, or the maturity date of the first mortgage.

» The interest rate for the Community Seconds mortgage must be fixed and may not be more than 2% (200 basis points) higher than the initial note rate of the first mortgage.
  - **Note:** Interest that is imposed as a penalty should the mortgage be declared in default and called due and payable under its terms is not subject to this interest rate cap

» The Community Seconds mortgage may not provide for negative amortization, however, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is deferred for a period of time, negative amortization will be acceptable provided:
  - the amount of scheduled monthly interest deferred on the Community Seconds mortgage for any full calendar month within the initial five years (of the Community Seconds loan) may never exceed the scheduled monthly principal payment of the first mortgage for that month (see below for an example);
    - interest is accrued on a simple-interest basis at a fixed rate; and
    - the accrued interest is fully deferred until
      - sale or transfer of the property,
      - the loan is refinanced or the first mortgage is paid in full, or
      - declaration of an event of default under the subordinate note or the security instrument.

Example

» In the following example, the loan is eligible as the amount of deferred, accrued interest for July on the Community Seconds loan is less than the scheduled principal payment for the first mortgage for the same month.

Note Date: May First Payment Date: July	First Mortgage	Community Seconds
UPB	$150,000	$30,000
Interest Rate	5%	7%
Maximum Accrued, Deferred Interest - July	N/A	$175 ($30,000 @ 7% / 12)
Scheduled Principal Payment – July _	$180.23	N/A

Community Seconds: Shared Appreciation Transactions	» Shared appreciation programs are a type of Community Seconds offering that create affordability for eligible borrowers by providing down payment, closing cost assistance, and/or funding for renovations to the property (including energy-related improvements) in exchange for repayment of an interest-free loan and a share in any future appreciation to the property. » Shared Appreciation transactions are subject to the following: – Must comply with the requirements in the Community Seconds section – Interest (deferred or otherwise) is not permitted, other than default interest on overdue principal or a share in appreciation. – Expenses or fees must not be imposed on the borrower after loan origination, except in cases of default or in connection with borrower-initiated transactions, as defined in the program's legal documentation – After completion of the obligations to the shared appreciation provider (or its assignee), including payment of any shared appreciation in value, the borrower must not have any further obligation to the shared appreciation provider or any assignee. <u>Repayment</u> » The following table describes the requirements related to repayment of a shared appreciation loan.

Criteria	Requirements
Repayment of the Community Seconds loan and payout of appreciation	» The shared appreciation loan and any share in appreciation must only be payable in connection with one or more of the following events as specified in the shared appreciation program's legal documentation: – a specific date, which must not be earlier than the scheduled maturity date of the first mortgage granted in connection with the purchase of the property; – repayment in full of the first mortgage (except when the shared appreciation loan is being resubordinated in connection with a refinance; – acceleration of the first mortgage in accordance with its terms (for purchase mortgages only, this is limited to acceleration after the conclusion of loss mitigation or other measures to cure a delinquency); or – an unauthorized transfer or unauthorized change in occupancy status of the property, or an event of default relating to the failure to maintain collateral (after notice and an opportunity to cure). » In addition, the program's legal documents must allow the borrower an option to prepay the loan in its entirety at any time and to pay all other amounts due to the provider, including any shared appreciation. » If the shared appreciation loan becomes due and payable, all amounts then due and payable to the first mortgagee must be paid first, followed by other entitled parties, such as the shared appreciation provider and the borrower.
Basis for determining the amount of appreciation	» In the program's legal documentation, the appreciation in value must be based on one of the following: – When the property is sold on the open market, the appreciation must be based on the actual sales price of the property. – In any other instance, the appreciation must be based on an appraisal from a state licensed or state-certified appraiser obtained in accordance with the program's terms, or if explicitly indicated as permitted in the program's legal documents, a current value established by a third-party, commercial automated valuation model (AVM). » For limited cash-out refinances, appreciation in value may be based on any method included in the program's legal documentation.

	Provider's share of appreciation	Except as permitted below, the provider's share of appreciation must not exceed the Standard Percentage" which is derived by dividing the original shared appreciation loan amount by the original sales price. For example, if the provider contributed a 10% down payment towards the purchase of a home, the provider cannot share in appreciation greater than 10% (the Standard Percentage) when the home is sold. **Exceptions** The provider's share of appreciation may be greater than the Standard Percentage in either of the two scenarios below: 1. The borrower must first recover the following (which will result in a reduction in the amount of appreciation) before the provider is able to share in appreciation: – any portion of the down payment that came from the borrower's own funds, – reasonable costs of selling the property (such as a sales commission), – the costs of any improvements made by the borrower to the property (provided they were allowed under the program's legal documentation and not otherwise taken into account in determining the amount of appreciation), and – the principal portion of all payments the borrower made on the first mortgage. 2. The provider may share in appreciation greater than the Standard Percentage if – in the first year following origination of the shared appreciation loan, the share does not initially exceed 75%, or – after the first year following origination of the shared appreciation loan, the share is reduced at least proportionally each year, so the share is equal to or less than the Standard Percentage no later than five years following origination of the shared appreciation loan. » For example, if the provider's share of appreciation is 70% in the first year, and the Standard Percentage is 10%, then the provider's share must decrease by at least 15% annually (70% minus 10%, divided by 4), so that in the second, third, and fourth years, the provider's share of appreciation must not exceed 55%, 40%, and 25%, respectively.
	» REMN must report SFC 176 when delivering a loan with shared appreciation	

<table>
<tr>
<td>Loans with Resale Restrictions</td>
<td>

» Fannie Mae will purchase loans that are subject to one or more of the following types of resale restrictions:
  - income limits
  - age-related requirements
  - employment-related requirements
  - occupancy requirements
  - first-time homebuyer requirements
  - restrictions on group homes or homes that are principally used to serve residents with disabilities

» Some restrictions are likely to occur only in combination with others and it is permissible more than one resale restriction to apply to a single loan

» Fannie Mae will purchase loans secured by properties subject to resale restrictions in the following circumstances:
  - When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period),
  - Upon the recordation of a deed-in-lieu of foreclosure, or
  - When the resale restrictions survive foreclosure.
    - Note: If the resale restrictions survive foreclosure, REMN represents and warrants that the resale restrictions do not impair the servicer's ability to foreclose on the restricted property

» There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.

» The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

» The presence of resale restrictions must not impair Fannie Mae's legal rights to cure a default under the loan terms, to foreclose on the subject property, or to otherwise protect Fannie Mae's interests under the mortgage.

» The following table describes the eligibility requirements for loans with resale restrictions

<table>
<tr><th>Criteria</th><th>Requirements</th></tr>
<tr><td>Loan Eligibility</td><td>The loan must be a fixed-rate or ARM with an initial fixed period of five years or more.</td></tr>
<tr><td>Borrower Eligibility</td><td>» Borrowers must meet applicable criteria of the deed restriction.
» If income limit requirements are imposed by both the resale restrictions and the terms of the mortgage, the most restrictive will apply.
» Note: Age-related restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of an investment property.</td></tr>
<tr><td>Property Type</td><td>One- and two- unit properties are eligible, including PUDs, and condos. Manufactured homes are not eligible unless they are located in a PERS-approved project.</td></tr>
</table>

<u>Appraisal Requirements</u>

» In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.

» REMN must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that they must include the following statement in the appraisal report:
  - "This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the

</td>
</tr>
</table>

	latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure." » In cases where the resale restrictions survive foreclosure or a deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions. » The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability. Delivery » REMN must report SFC 631 when delivering a loan secured by a property with resale restrictions that survive foreclosure or a deed-in-lieu foreclosure.

Shared Equity Transactions

- Loans originated in connection with the following shared equity programs are eligible for purchase by Fannie Mae:
  - Community land trusts
  - Income and resale price restrictions
- Fannie Mae will not purchase shared equity loans where the borrower is required to submit to arbitration to resolve disputes with the shared equity program unless the mandatory arbitration provision provides, or is amended to provide, that, in the event of a transfer or sale of the related mortgage or an interest in the related mortgage loan to Fannie Mae, the mandatory arbitration clause immediately and automatically becomes null and void and cannot be reinstated.
- The following table describes eligibility requirements for shared equity transactions:

<table>
<tr><th>Criteria</th><th>Community Land Trusts</th><th>Income and Resale Price Restrictions</th></tr>
<tr><td>Eligible Shared Equity Providers</td><td colspan="2">» Shared equity providers must comply with the eligible provider requirements in Community Seconds. Additionally, the following flexibilities are permitted:
○ Legal entities that are owned exclusively by a nonprofit organization are also considered eligible shared equity providers. For example, an LLC wholly owned by a nonprofit organization is considered an eligible shared equity provider.
○ Shared equity providers are not considered interested parties to the transaction.</td></tr>
<tr><td>Required Counseling</td><td>» The shared equity provider must comply with the provisions of the Model Ground Lease relating to counseling the prospective borrowers.</td><td>» The shared equity provider must have an established procedure that requires counseling or similar engagement with prospective borrowers to ensure such individuals are educated on the specific terms of the income and resale price restrictions, including the calculation that will be used to determine the maximum resale price. This counseling or engagement must be conducted at least 30 days prior to the closing of any purchase transaction. Examples may include, but are not limited to:
○ one-on-one counseling specific to the transaction,
○ a program summary document in plain language, or
○ an attorney review of the program with the prospective homebuyer.</td></tr>
<tr><td>Eligible Borrowers</td><td colspan="2">» Because of the affordable terms that they offer, shared equity programs include restrictions on borrower eligibility and on the resale price of the property. Eligible borrowers must satisfy the specific eligibility criteria set up by the shared equity program.
» Note: If income limit requirements are imposed by both the shared equity provider and the first mortgage, the most restrictive will apply.</td></tr>
</table>

Eligible Property and Occupancy Types	» All loans secured by one- and two-unit principal residence community land trust properties are eligible for purchase by Fannie Mae. Manufactured homes subject to a community land trust are also ineligible unless they are located in a Fannie Mae-approved condo or PUD project. » The leasehold estate created by the community land trust ground lease must constitute real property under applicable law. » Improvements owned by the lessee may be held in fee simple or as a unit in a detached or a Fannie Mae-approved attached condo.	» All loans secured by one- and two-unit principal residence properties are eligible for purchase by Fannie Mae.
Eligible Loans	» Eligible loans include purchase and refinance transactions. Loans must be fixed-rate or ARMs with an initial fixed period of five years or more.	
Underwriting Considerations	» These loans may be underwritten manually or through DU. » Any recurring monthly fees or expenses associated with the shared equity program must be included in the monthly housing expense for qualifying purposes.	

<u>Affordable LTV Calculation: Resale Restrictions that Terminate at Foreclosure</u>

» When resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure, the sales price is typically not a reliable indicator of market value for the property because the sales price does not include the subsidy from the shared equity provider. The appraised value is more indicative of the actual value of the property in the event of a foreclosure or acceptance of a deed-in-lieu of foreclosure (disregarding factors that may affect value after origination and prior to foreclosure). Accordingly, for these types of transactions, REMN must use the "Affordable LTV" calculation to determine LTV, CLTV, and HCLTV ratios.

» The Affordable LTV calculation divides the loan amount by the appraised value of the property, rather than the lesser of the sales price or the appraised value. The following table provides an example of the Affordable LTV calculation method.

Item	Amount
Appraised Value	$200,000
Shared Equity Program Subsidy Amount	$40,000
Subsidized Sales Price	$160,000
First Mortgage Loan Amount	$160,000
Affordable LTV Ratio (first mortgage loan amount divided by the appraised value)	80%

» When using the Affordable LTV calculation, REMN must
  - for DU loans, enter "Affordable LTV" in the Product Description field in the online application, which will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value); and
  - for all loans, use the appraised value to determine the
    - minimum down payment;
    - the borrower contribution, if applicable, that must be made from the borrower's own resources; and
    - the level of mortgage insurance required.

<u>LTV Calculation: Resale Restrictions that Survive Foreclosure</u>

» When resale restrictions survive foreclosure or a deed-in-lieu of foreclosure, the lender must use the lesser of the sales price or appraised value of the property with resale restrictions when calculating the LTV, CLTV, and HCLTV ratios, which is the standard method of calculation. Fannie Mae requires use of the standard calculation on the lower value due to the presence of resale restrictions, which limit the property's sales price in the event of foreclosure or acceptance of a deed-in-lieu of foreclosure.
» **Note**: This does not apply to loans secured by community land trust properties, which require the resale restrictions to terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or acceptance of a deed-in-lieu of foreclosure.

Appraisal Requirements

» For properties in a community land trust, the appraisal requirements can be found in B4-1.4-06, Community Land Trust Appraisal Requirements.
» For properties with income and resale price restrictions, the following requirements apply:
  - In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions. The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that they must include the following statement in the appraisal report:
    - "This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."
  - In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions. The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

Title Insurance and Delivery Requirements

» The following table describes title insurance and delivery requirements for shared equity transactions

Criteria	Community Land Trusts	Income and Resale Restrictions
Title Insurance Requirements	The title insurance policy or an endorsement to the policy must expressly confirm all of the following: » the recording of the complete community land trust ground lease or ground lease memorandum; » the recording of the Community Land Trust Ground Lease Rider (Form 2100); » the community land trust loan is secured by a first lien on the leasehold estate and the improvements; » there are no existing loans or other liens on the fee estate, except as may be permitted under Form 2100; » the ground lessor's reversionary interest is subordinate to the community land trust loan; and » there are no related community land trust ground lease occupancy and resale restrictions, covenants, or agreements that "run with the land," and that have been recorded apart from the ground lease, except as may be permitted under Form 2100.	The title insurance policy or an endorsement to the policy must expressly reflect all of the following: » the source and terms of the resale restrictions are included in the public land records so that they are readily identifiable in a routine title search, and » the recording of the Shared Equity Amendment (Form 2200).

<table>
<tr>
<td></td>
<td>
<table>
<tr>
<td>Pre-Delivery Considerations</td>
<td colspan="2">Prior to delivering the loan to Fannie Mae, the lender must confirm:
» any payments or assessments required to be paid by the borrower under the legal documentation (including ground lease rents for community land trusts) are not past due, and
» the borrower is not in default under any other provisions of the legal documentation, nor has the shared equity provider claimed such a default.</td>
</tr>
<tr>
<td>Special Feature Codes and Delivery Requirements</td>
<td>The lender must include the following in the delivery data:
» SFC 054,
» the value of the leasehold (inclusive of the improvements) as the appraisal amount, and
» the Affordable LTV ratio</td>
<td>The lender must include the following in the delivery data:
» SFC 630 and the Affordable LTV when the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure.
» SFC 631 when the resale restrictions survive foreclosure or a deed-in-lieu of foreclosure.
» SFC 177 when the Grounded Solutions Network 2021 Model Declaration of Affordability Covenants with Refinance and Resale Restriction and Purchase Option form was used.</td>
</tr>
</table>
» See B5-5.3-04 for Massachusetts Resale Restriction Loan Eligibility Requirements.
</td>
</tr>
<tr>
<td>Purchase</td>
<td>» Mortgage amount limited to; lesser of the Sales Price, Appraised Value or Maximum Loan Limit.
» Minimum borrower contribution requirements for the selected mortgage loan type must be met.
» Proceeds from the transaction must be used to:
– Finance the acquisition of the subject property,
– Finance the acquisition and rehabilitation of the subject property,
– Convert an interim construction loan or term note into permanent financing; or,
– Payoff the outstanding balance on an installment land contract or contract for deed.
See Paying off Land Contract Requirements.
» If the loan has financed MI, loans underwritten to DU Version 9.1 are subject to 95.00% LTV cap. The “total” loan amount may not exceed 95.00% of the lesser of the sales price, appraised value or maximum loan limit.
» Proceeds from the transaction may not be used to give the borrower cash other than the following:
– An amount representing reimbursement for the borrowers’ overpayment of fees and charges, including refunds that may be required in accordance with curtail federal laws or regulations.
– A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears.
Note: If the borrower receives cash back for a permissible purpose as listed above, REMN must confirm that the minimum borrower contribution requirements associated with the selected mortgage product, if any, have been met. Reimbursements or refunds permitted above may also be applied as a Principal Curtailment. A pro-rated real estate tax credit is not an interested party contribution, and it cannot be considered when determining if the borrower has sufficient assets for the transaction.</td>
</tr>
</table>

PRODUCT OVERVIEW	
Purchase of Pre-foreclosure or Short Sale Properties	Allowable Fees, Assessments & Payments » Borrowers may pay additional fees, assessments or payments in connection with acquiring a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees, assessments or payments include; but are not limited to: – Short sale Processing Fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees); Note: This fee does not represent a common & customary charge; therefore, it must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. – Payment to a subordinate lienholder; and, – Payment of delinquent taxes or delinquent HOA assessments. » The following requirements apply: – The borrower (buyer) must be provided with written details of the additional fees, assessments or payments and the additional necessary funds to complete the transaction must be documented. – The servicer that is agreeing to the pre-foreclosure or short sale must be provided with written details of the fees, assessments or payments and has the option of renegotiating the payoff amount to release its lien. – All parties (buyer, seller and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees, assessments or payments. – CD must include all fees, assessments and payments included in the transaction.

Limited Cash-Out Refinance	» Limited cash-out refinance transactions must meet the following requirements: – The transaction is being used to pay off an existing 1st mortgage (including an existing HELOC in first lien position) by obtaining a new 1st mortgage secured by the same property; or for single closing construction-to-permanent loans to pay construction cost to build the home, which may include paying off an existing lot lien. – At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if REMN documents that: ▪ The borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or ▪ the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust. – Only subordinate liens used to purchase the property may be paid off with the new mortgage. – Subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions). **Acceptable Uses**: the following are acceptable in conjunction with a limited cash-out: – Modifying the interest rate and/or term for the existing mortgage(s), – Paying off the existing first mortgage (which may include additional amounts required to pay off the loan, such as prepayment penalties, a deferred balance resulting from completion of a prior loss mitigation solution, and late fees), – Single close Construction-to-Permanent transactions, paying for construction costs to build a home; which may include the paying off of an existing lot lien. – Two close Construction-to-Permanent transactions, to pay off an existing construction loan and documented constructed cost overruns that were incurred outside of the interim construction financing. (These construction costs overruns must be paid directly to the builder at closing) – Financing the payment of closing costs, points and prepaid items. With the exception of real estate taxes that are more than sixty (60) days delinquent, borrower can include real estate taxes in the new loan as long as an escrow account is established subject to applicable law or regulation (i.e. if a particular state law does not allow REMN to require an escrow account). – Receiving cash back in an amount that is not more than the lesser of two percent (2%) of the balance of the new refinance mortgage amount or $2,000, – Buying out a co-owner pursuant to an agreement, – Paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property (when the subordinate loan is a Community Seconds, payoff may include any required payment of the share of appreciation due to the Community Seconds provider under the terms of the shared appreciation agreement). REMN must document that the entire amount of the subordinate financing was used to acquire the property; or, – Paying off the unpaid principal balance of certain PACE loans (FNMA Selling Guide B5-3.4.01). » REMN must document that all proceeds of the existing subordinate lien were used to fund part of the subject property purchase price. » Existing Subordinate Liens that will not be paid off; when a new limited cash-out refinance will not satisfy existing subordinate liens, the existing lien must be clearly subordinated to the new mortgage. » New Subordinate Financing; when a borrower obtains new subordinate financing with refinance of 1st mortgage loan, FNMA treats the transaction as a limited cash-out provided the mortgage meets the eligibility criteria for a limited cash-out refinance. **Note:** It is acceptable for borrowers to obtain cash from the proceeds of the new subordinate loan.

PRODUCT OVERVIEW	
Limited Cash-Out Refinance (Continued)	**Cash Back to the Borrower** – As noted above, the borrower may receive a small amount of cash back in a limited cash-out refinance transaction. REMN may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided: – The CD clearly identifies the refund with a notation for the reason; and, – The loan file includes documentation to support the amount and reason for the refund. – This applies to standard limited cash-out refinances transactions and High LTV Refinance transactions. **Refinances to Buy Out an Owner's Interest** – A transaction that requires one owner to buy out the interest of another owner (result of divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out if the secured property was jointly owned for at least 12 months preceding disbursement date of the new loan. – All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the date of the disbursement date of the new loan. – Borrowers who acquire sole ownership of the property may not receive any of the proceeds of the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to FNMA's underwriting guidelines. **97.00% LTV, CLTV and HCTLV** – Permitted for standard limited cash-out refinance transactions if FNMA is the owner of the existing loan. **Ineligible transactions** » When the following exist, the transaction is ineligible as limited cash-out – No outstanding 1st lien on the subject property (except for single-closing construction-to-perm), – Proceeds are used to pay off a subordinate lien that was not used to purchase the property – Proceeds are used to pay off a Property Assessed Clean Energy (PACE) loan or HERO loan obtained prior to July 6, 2010, as FNMA requires these transactions to be manually underwritten, which REMN WS does not allow – **REMN WS OVERLAY** – The borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and, – Short-term refinance mortgage loan that combines a 1st mortgage and a non-purchase money subordinate mortgage into a new 1st mortgage or any refinance of that loan within 6 months – Subject property is currently listed for sale – The borrower completed a cash-out refinance transaction with a note date 30 days or less prior to the application date of a new refinance secured by the same property. – See Modified Mortgages

Cash-Out Refinance	» Cash-out refinance transactions must meet the following requirements – The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it. – If an existing first mortgage is being paid off through the transactions, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply: ▪ To any existing subordinate liens being paid off through the transaction, or ▪ When buying out a co-owner pursuant to a legal agreement. – At least one borrower must have been on title for at least six months prior to the disbursement date of the new loan. See below for exceptions. – For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves is required. – Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan. – At least one borrower must have been on title to the subject property for at least six (6) months prior to the loan disbursement date of the new mortgage loan. Time held in an LLC that is controlled or majority owned by the borrower(s) is allowed to count towards the borrower's six-month ownership requirement. This ownership policy applies in addition to the requirement that an existing first mortgage being paid off through the refinance is at least 12 months old. The following exceptions apply: ▪ There is no waiting period if REMN documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership). ▪ The delayed financing requirements are met; see Delayed Financing Exception for details. ▪ If prior ownership was held in an inter-vivos/revocable trust in the borrower's name and meets FNMA criteria (as defined in FNMA Selling Guide B2-2-05: Inter Vivos Revocable Trusts), this can be applied towards ownership seasoning if title had transferred from the trust to the borrower. – For the maximum allowable LTC/CLTV/HCLTV ratios for cash-out refinances see *Eligibility Matrix.* **Acceptable Uses**; the following are acceptable uses for cash-out refinance transactions; – Paying off the unpaid principal balance of the existing first mortgage, – Financing the payment of closing costs, points and prepaid items. Borrower can include prepaid real estate taxes in the new loan amount if those taxes are due within 60 days prior to or 60 days following the closing date of the new loan. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation, – Paying off any outstanding subordinate lien of any age, – Taking equity out of the subject property that may be used for any purpose, – Financing a short-term refinance mortgage loan that combines a first mortgage and a non- purchase money subordinate mortgage into a new first mortgage or a refinance of the short-term refinance loan within six months **Ineligible transactions**; when the following exist, the transaction is ineligible as a cash-out – The mortgage is subject to temporary interest rate buydown – The subject property was purchased by the borrower within the six months preceding the disbursement date of the new loan (except if Delayed Financing Exception requirements are met) – Investor and second home borrowers with five to 10 financed properties are ineligible for cash- out refinance transactions unless all of the Delayed Financing Guidelines are met – The subject property is currently listed for sale at time of disbursement of the new loan. – For certain transactions on property that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for a cash-out refinance (See *FNMA B5-3.4-01*) – Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date executed – The new loan includes the financing of real estate taxes that are more than 60 days delinquent an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow REMN to require an escrow account under certain circumstances, the loan would be eligible for sale to FNMA without an escrow account. – See Modified Mortgages

PRODUCT OVERVIEW	
Cash-Out Refinance (Continued)	**Paying off Installment Land Contract** – The proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed within the 12 months preceding the date of application with REMN; FNMA will consider the mortgage loan to be a purchase money mortgage loan. – The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower. – When the installment land contract was executed more than 12 months before the date of the loan application with REMN, FNMA will consider the mortgage loan to be a limited cash-out refinance. In this case, the LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed. – Cash-out refinance transactions involving installment land contracts are not eligible.

Delayed Financing Exception	» Borrowers who purchased the subject property within the past 6 months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance transaction if all of the following requirements are met: – The original purchase transaction was an arms-length transaction. – For this transaction, the borrower(s) must meet FNMA's borrower eligibility requirements as described in B2-2-01 General Borrower Eligibility Requirements (07/17/2013). The borrower(s) may have initially purchased the property as one (1) of the following: ▪ A natural person, ▪ An eligible inter vivos revocable trust, when the borrower is both the individual establish the trust and the beneficiary of the trust, or ▪ An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%. – The original purchase transaction is documented by the CD, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to the trustee may be substituted for a CD if a CD was not provided to the purchaser at the time of sale. The preliminary title search/report must confirm that there are no existing liens on the subject. – The source of funds for the purchase transaction are documented (such as; bank statements, personal loan documents, HELOC on another property). – If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the CD for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used the purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. **NOTE**: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan. – The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, pre-paid fees and points on the new mortgage loan (subject to maximum LTV/CLTV/HCLTV ratios for the transaction). – As FNMA consider this a cash-out refinance transaction, a Power of Attorney (POA) is not eligible. – **This is considered a cash-out refinance transaction** and thus, all other cash-out refinance eligibility requirements must be met. Cash out pricing is applied to the transaction. – All other cash-out refinance eligibility requirements are met. Cash out pricing is applied.

Student Loan Cash-Out Refinances	» Allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met: – The loan must be underwritten in DU; DU cannot specifically identify these transactions but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind REMN WSs about certain requirements below; however, REMN WS must confirm the loan meets all of the requirements outside of DU – The standard cash-out refinance LTV/CLTV/HCLTV apply, as per the Product Matrix – At least one (1) student loan must be paid off with proceeds from the subject transaction with the following criteria: ▪ Proceeds must be paid directly to the student loan servicer at closing; ▪ At least one (1) borrower must be obligated on the student loan(s) being paid off, and ▪ The student loan must be paid in full – partial payments are not permitted. – The transaction may also be used pay off one of the following: ▪ An existing first mortgage loan (including an existing HELOC in first-lien position); or ▪ A single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien. – Payoff of other non-mortgage debts is not allowed; if this is the case, standard cash-out refinance criteria & LLPA's apply – Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. – The transaction may be used to finance the payment of closing cost, points and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation. – The borrower may receive cash back in an amount that is no more than 2% of the new refinance loan amount, or $2,000. REMN WS may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations, or apply a principal curtailment » Unless otherwise stated, all other standard cash-out refinance requirements apply.

PRODUCT OVERVIEW	
Conversion of Construction-to-Permanent Financing	» The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence. » Construction-to-permanent financing can be structured as a transaction with one closing or a transaction with two separate closings. REMN will **not** provide the construction financing (one closing transaction). The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction. » All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is closed with REMN. REMN must retain in its individual loan file a Form 1004D or a completion alternative of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the loan, REMN must retain a certificate of occupancy or an equivalent form from the applicable government authority. » Units in a condo project and manufactured housing are not eligible for construction-to- permanent financing. **Two-Closing Transaction** » Two-closing construction-to-permanent mortgage transactions utilize two separate loan closings with two (2) separate sets of legal documents. A modification may not be used to update the original note; rather a new note must be completed and signed by the borrowers. The first closing is to obtain the interim construction financing (and may include the purchase of the lot) and the second closing is to obtain the permanent financing upon completion of the improvements. REMN does not provide financing for constructions loans; however, we will provide financing for the permanent financing. – REMN will underwrite the borrower based on the terms of the permanent mortgage. – Two-Closing Construction-to-Permanent mortgages are subject to the limited cash-out and cash-out refinance maximum LTV, CLTV and HCLTV ratios provided in the Eligibility Matrix. » Cash-out refinance transaction requires the borrower to have held legal title to the lot for at least 6 months prior to the closing of the permanent mortgage. » All other standard cash-out refinance eligibility and underwriting requirements apply.

PRODUCT OVERVIEW	
Texas Home Equity 50(a)(6)	» Cash-out refinance – Owner Occupied – All borrowers must reside in the home – Non-occupant co-borrowers are not allowed – Maximum 80% LTV/CLTV – 1 Unit SFD, PUD or Condo (2-4 Unit not eligible) – Approve/Eligible DU Findings – Maximum of 10 acres » Maximum 2% fee limitation for all closing costs, fees and charges – Excluded: Prepaids, Appraisal Costs, Survey Costs, Title Insurance Premiums, Title Examination Report & Bona fide discount points used to buy down the interest rate (borrowers will have to sign an "Election to pay Discount Points" affidavit at closing » Notice Concerning Extension of Credit – Borrower & non-borrowing spouse (if applicable) MUST sign a Notice Concerning Extensions and Credit (aka "12 Day Disclosure") – 12 days must pass from the time this disclosure is signed and the day the loan is scheduled to close » Survey required » Loan must be closed at Closing Agents Office; cannot close at borrower's home » Borrower must receive a copy of the Final 1003 with the CD for review a minimum of 24 hours prior to closing and send back to REMN Close » Community Property State; all married parties regardless if on loan or not must sign Deed of Trust and Notice of Right to Cancel » Borrower(s) cannot sign early (i.e. cannot sign before the date of the closing package) » Deed of Trust; Trustee must be completed on Security Instrument (must be a Texas resident and is typically an attorney) – HE Deed of Trust must be executed at closing » Property taxes are due in December of each year; Tax Certificates are generally provided – School, City, County & MUD taxes are common » Home Equity Waiting Periods: – "12 Day Disclosure" - the loan cannot close until the Notice Concerning Extensions and Credits has been signed and received by REMN for 12 days. – 24 Hours - must pass after the borrower(s) have signed their final CD and final 1003 loan application before the loan can close – 12 Months - the loan may not close sooner than 12 months after the closing of the previous (a)(6) loan. » Ineligible transactions: – Freddie Open Access/Relief – Loans with an interest-only period – Loans with a potential for negative amortization – Loans with temporary interest rate buy downs – Property with an Agriculture (AG) Exemption – Loans with Property Inspection Waivers (PIW)/Appraisal Waivers » Fixed rate terms available: – 10 year – 15 year – 30 year » ARM terms available: No assumptions and no buydowns allowed. Qualifying Payment: Initial fixed rate period of 5 years – Qualify at the greater of the indexed note rate or the note rate + 2%. Initial fixed rate period of greater than 5 years (7/6 and 10/6) - Qualify at the greater of the note rate or the fully indexed rate. The fully indexed rate is defined as the index plus margin, as entered in DU. The index and margin are required for all ARM loans submitted for underwriting to DU. – 5/6 SOFR ARM – 2/1/5 caps – 7/6 SOFR ARM – 5/1/5 caps – 10/6 SOFR ARM – 5/1/5 caps » A power of attorney is permitted in connection with a Texas Section 50(a)(6) mortgage loan. » **NOTE**: Texas Section 50(F)(2) Refinance transactions are eligible with Fannie Mae with no restrictions.

BORROWERS	
Eligible Borrowers	» FNMA purchases or securitizes mortgages made to borrowers who are natural persons that have reached the age at which the mortgage note can be enforced; there is no maximum age limit.
Types of Individuals	**Borrower and Co-Borrower** » Owns property and is liable for the debt » Signs all documents – Application – Note – Mortgage/Deed of Trust and is on title (Deed) » Income, assets and debt used in qualification **Non-Occupant Co-Borrower** » Owns property and is liable for the debt, but does not live in the subject property » May or may not have an ownership interest in the subject property as indicated on the title » Signs the Application, Note, Mortgage/Deed of Trust and is on title (Deed) » Does not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker » DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his/her principal residence, DU will consider the income, assets, liabilities, and credit of that borrower. » Assets that are owned by the non-occupant co-borrower can be included in the five percent (5%) minimum borrower contribution requirement (when applicable), and those funds must be entered in DU. Total liquid assets for the occupying borrower and non-occupant co-borrower are included in DU's calculation of total available assets. **Co-Signer** » Has **no** ownership interest in the property, but is liable for the debt » Signs all documents except the Mortgage/Deed of Trust (no ownership interest) – Application – Note » Income, assets and debt used in qualification » Do not have an interest in the property sales transaction; such as the property seller, builder or the real estate broker **Co-Mortgagor** » Has ownership interest in the property but, is **not** liable for the debt » Signs all *collateral* documents (Mortgage/Deed of Trust, TIL & Right to Rescind; as applicable) Signature is to subordinate their interest in the property to the lien » Income, assets and debts <u>not</u> used in qualification **Marital Rights** » Has **no** ownership interest in the property nor liable for the debt » Only used in States where they have an "interest" in the property due to marital status » Signature on *collateral* documents determined by State law **Down Payment and Qualifying Ratio Requirements** » When the guarantor's, co-signers or non-occupant co-borrower's income is used for qualifying purposes, and that guarantor, co-signor, or co-borrower will not occupy the subject property, the LTV/CLTV ratio may not exceed 95% (unless a Community Second is part of the transaction, in which case the CLTV ratio may not exceed 105% or the maximum stated in the Conforming Product Matrix for ARM loans).

Non-U.S. Citizens	» FNMA purchases and securitizes mortgages made to non–U.S. citizens who are lawful permanent or non-permanent residents of the United States under the same terms that are available to U.S. Citizens. » FNMA does not specify the precise documentation REMN must obtain to verify that a non–U.S. Citizen borrower is legally present in the United States. ▪ If borrower is a non-permanent resident alien, REMN will determine visa eligibility for the borrower based on the Visa Eligibility for Non-Citizens (Conventional Conforming Loans) chart. » REMN must make a determination of the non–U.S. citizen's status based on the circumstances of the individual case, using documentation we deem appropriate. By delivering the mortgage to FNMA, REMN represents and warrants that the non–U.S. citizen borrower is legally present in this country. » If borrower(s) has a Deferred Action for Childhood Arrivals (DACA) status, the loan is eligible for financing with REMN WS as long as the following requirements are met: – The borrower must have a valid Social Security Number or Individual Taxpayer Identification Number AND; – The borrower must have a CURRENT and VERIFIED employment authorization document (EAD) or other current documentation showing legal status. » Fannie Mae requires all borrowers to have a valid Social Security number or Individual Taxpayer Identification Number (ITIN) (in addition to meeting existing legal residency and documentation requirements).
Prior Mortgage Fraud	» REMN WS will not lend to any borrower(s) who has been previously convicted of mortgage fraud. » For all other interested parties in the transaction, if any one of the parties has been previously convicted of mortgage fraud, REMN WS will not provide financing for the transaction. » There are NO exceptions the aforementioned criteria.
Life Estates	» The borrower may close in a life estate and remain as a life tenant. All remaindermen are required to sign the security instrument. » This is a form of joint ownership where both parties have an interest in the property. » The holder of the life estate has the right of current possession of the property, while the remaindermen have the right of future possession of the property upon death of the holder of the estate. » At least one holder/remaindermen must be the borrower on the mortgage note. » All remaindermen are required to sign the security instrument

<table>
<tr><th colspan="2">CREDIT & UNDERWRITING</th></tr>
<tr><td>Age of Credit Documents</td><td>» Credit documents include credit report, employment, income and assets. All loans (existing and new construction), documents must be no more than four (4) months old on the date the Note is signed.
» Appraisal – See Appraisal Updates for additional information.</td></tr>
<tr><td>Credit Scores</td><td>» Tri-merge report required on all Borrowers.
» Representative credit score used on each Borrower is; middle of 3, lower of 2 or 1 score (per AUS).
– If 2 of the 3 scores are the same, choose the middle of the 3 scores
▪ For example: 700, 680, 680 = 680 or 700, 700, 680 = 700
» DU performs its own analysis of the credit report data, but in no case will credit scores be <620.
» If there is only one (1) borrower, the single applicable score used to underwrite that borrower is the representative credit score for the mortgage.
» If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative credit score.
» If there is a borrower on the loan who does not have a credit score, determine the representative credit score for the mortgage based on the credit scores of the other borrowers on the mortgage.
» If the transaction does not meet the above requirements, refer to the Non-Traditional Credit for DU Casefiles section for underwriting and eligibility requirements for DU loans in which one or more borrowers do not have a credit score.
» Loans where borrowers have a credit score made up of only medical accounts is not eligible.
» If the borrower’s credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is still acceptable as long as:
– credit data is available from two repositories,
– a credit score is obtained from at least one of those two repositories, AND
– a three in-file merged report was requested.
NOTE: Loans for borrowers with credit data frozen at two or more of the credit repositories will not be eligible.</td></tr>
<tr><td>Determining Representative Credit Score</td><td>
<table>
<tr><th colspan="2">Determining the Individual Borrower Representative Score when duplicate scores exist from three (3) repositories</th></tr>
<tr><td>Scores Received:</td><td>Fannie Mae Representative Score:
(use the duplicate score)</td></tr>
<tr><td>700, 700, 680</td><td>700</td></tr>
<tr><td>700, 640, 640</td><td>640</td></tr>
</table>
</td></tr>
<tr><td>Multiple SS Numbers</td><td>The social security number (SSN) on all loan file documents must match. In addition, associates must review the additional social security number(s) section located on the borrower’s credit report.
If there is any variance of SSN within the loan file or if there are any additional SSNs appearing on the credit report, underwriters should refer to the internal REMN WS policy & procedure for Multiple Social Security Numbers Review to determine if the loan can proceed.</td></tr>
<tr><td>Borrower Debt Certification</td><td>» Borrowers will be required to sign an affidavit at closing attesting that no new debt has been taken out since the initial 1003 and that the final 1003 is accurate.</td></tr>
</table>

CREDIT & UNDERWRITING	
Non-Traditional Credit for DU Casefiles	» If one or more borrowers do not have a credit score due to insufficient credit, REMN WS must establish an acceptable nontraditional credit profile. REMN WS must first check all three (3) major credit repositories to verify the borrower's credit history and confirm that the borrower does not have a credit score. » The credit report will indicate if a credit score could not be produced due to insufficient credit. REMN WS must ensure that the credit report accurately reflects the borrower's information, such as the name, Social Security number, and current residence of the borrower to confirm the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report. **Note**: For certain loan transactions, one or more borrower(s) are required to have traditional credit as evidenced by a credit score. See below for additional information
	Unacceptable Uses » The establishment of a non-traditional credit history is not acceptable for the following scenarios: • REMN WS is able to obtain a credit score for the borrower despite the borrower's limited use of credit. • The borrower has sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required. • The borrower's traditional credit history indicates significant derogatory references, such as a prior bankruptcy or foreclosure. In these cases, the borrower must have the re-established credit in accordance with B3-5.3-07, Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit, including the establishment of traditional credit and a credit score. » Manually underwritten loans with nontraditional credit history – **REMN WS Overlay**
	DU Loan Casefiles: No Borrower Has a Credit Score » REMN WS may submit loan casefiles to DU when no borrower has a credit score. DU will apply the following requirements: • The property must be a 1-4 unit principal residence, and all borrowers must occupy the property (manufactured homes are not eligible) • The transaction must be a purchase or limited cash-out refinance. • The loan amount must meet the general conforming loan limits FNMA Loan Limits – high balance mortgage loans are not eligible. • The loan must be a Fixed Rate mortgage. • Reserves may be required as determined by DU. • Nontraditional credit references may be required as follows: o No verification of nontraditional credit references is required for any borrower when DU conducts a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements o Otherwise, a nontraditional credit history must be documented for each borrower without a credit score. See B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History for additional information. • If all borrowers on the loan are relying on nontraditional credit to qualify, at least one (1) borrower must complete pre-purchase homeownership education prior to loan closing. » For pricing purposes, if neither borrower has a credit score, the worst pricing bucket would be used (620) & input into REMN's LOS. » If a loan casefile does not receive an Approve/Eligible recommendation from DU, the loan is not eligible to be financed by REMN WS.

	DU Loan Casefiles: At Least One Borrower Has No Credit Score and Another Borrower Has a Credit Score » If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, then DU will apply the following requirements: • The property must be a one-unit, principal residence, and all borrowers must occupy the property. • The transaction must be a purchase or limited cash-out refinance. • The loan amount must meet the general conforming loan limits – high balance mortgage loans are not eligible. • Reserves may be required as determined by DU. • If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, REMN WS is not required to document a nontraditional credit history for the borrower(s) without a credit score. • If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, REMN WS must document a nontraditional credit history (at least two sources) for each borrower without a credit score. See B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History for additional information. » If a loan casefile does not receive an Approve/Eligible recommendation from DU, the loan is not eligible to be financed by REMN

Eligible Types of Nontraditional Credit for DU Casefiles	» The types of credit references that can be used to develop a nontraditional credit history are those that require the borrower to make period payments on a regular basis with intervals that are no longer than every three months. o **Note:** There is an exception to allow a longer interval for the payment of real estate taxes on the borrower's principal residence as described below » REMN should consider whether the borrower has any eligible housing expenses and then review other nontraditional credit references. REMN must conduct an informational interview with the borrower to identify all credit references covering the most recent consecutive 12 months. If REMN is requesting a nontraditional mortgage credit report from a consumer reporting agency, the agency will conduct the borrower interview and obtain the list of available nontraditional credit references. » In all cases the payment history for each credit reference must be documented for the most recent consecutive 12-month period. All credit references must be included, not just those that reflect acceptable performance. **Acceptable Housing Payments** » Loans underwritten through DU where a nontraditional credit history is required must include housing payments as one reference of nontraditional credit. » The following are examples of acceptable housing payments: o Rent: payments made to a landlord or property management company; o Privately held mortgage loan: housing payments not reported to the credit bureaus, such as contract for deed payments and other similar arrangements, provided the payments are related to the borrower's principal residence; and o Real estate taxes: payments made on the principal residence, regardless of payment frequency (for homes owned free and clear). o **Note:** borrowers living "rent free" or whose housing history cannot otherwise be properly documented are not eligible. **Other Nontraditional Credit References** In addition to a housing payment, the following other nontraditional credit references may be used to further develop additional nontraditional credit history for the borrower: » Utilities – electricity, gas, water, telephone service, television & internet service provider. Utilities cannot be used as a separate source of nontraditional credit if they are included in the rental payment. » Medical insurance coverage & life insurance policies (excluding payroll deductions) » Automobile insurance payments » Cell phone payments » Payments for household or renter's insurance » Payments to local stores, such as department stores, furniture stores, appliance stores » Rental payments for durable goods, such as automobiles » Payments of medical bills, school tuition, child care » A loan obtained from an individual, provided the repayment terms can be documented in a written agreement » Checking account, savings account, voluntary payments made to a payroll savings plan or contributions to a stock purchase plan, provided the records reflect an increasing balance as a result of periodic deposits over at least 12mos. Contributions must have been made no less than quarterly. » Wire remittance statements demonstrating a consistent amount of funds remitted over the most recent 12mo period.

Credit Inquiries	The borrower(s) must address **all** inquiries listed on their credit report within the past 90 days; » All inquiries listed on the credit report must be addressed by the borrower, specifically stating the creditor(s) and verifying no extension of credit. – **Acceptable response**: The inquiries by Chase, Wells & Bank of America have not resulted in any extension of credit. – **Unacceptable response**: We have not obtained any additional credit as a result of the inquiries listed on our credit report. (Does not name the creditors - Chase, Wells & Bank of America).
Soft Pull Credit Reports	» Please reference the REMN WS Undisclosed Liabilities policy for complete details on soft-pull credit report requirements.
Disputed Trade Lines	» When the credit report contains disputed by the borrower, DU will first assess the risk of the loan casefile using all trade lines, including those disputed. If DU issues an Approve/Eligible recommendation using the disputed trade lines, no further documentation or action is necessary. DU will issue a message specific to this scenario. » If DU does not issue an Approve/Eligible recommendation when including the disputed trade lines, DU will re-assess the risk without using the disputed trade lines. If DU is then able to issue an Approve/Eligible recommendation, REMN WS must investigate the trade lines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete. – If the borrower is not responsible for the disputed accounts, REMN WS must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed trade lines. – If the borrower is responsible for the disputed account, REMN WS must investigate the information, including determining the aspect of the trade line that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as cancelled checks), REMN WS may deliver the loan as a DU loan. – If the borrower is responsible for the disputed account and the account and trade line information is accurate and complete, the loan is not eligible for delivery as a DU loan. REMN WS does not allow manual underwriting on Conventional loan programs. » The monthly payments for the disputed trade lines must be included in the DTI ratio if the accounts belong to the borrower. – NOTE: Trade lines reported as medical debt are not shown in the disputed trade line message. Therefore, REMN is not required to investigate disputed medical trade lines. » **Examples**: The following scenarios are examples of when a loan receiving an Approve/Eligible recommendation with the disputed trade line(s) excluded from DU's risk assessment would be eligible for delivery as a DU loan: – A borrower's account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the trade line. The borrower requested that a dispute be placed on the trade line. The trade line information was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide that the account was paid in full. – A borrower and his son have the same name (Sr. and Jr.). The borrower's credit report contains a trade line that actually belongs to the son. The trade line is reported as disputed. The borrower can provide confirmation that he is not obligated on the account. – The servicer of a loan being disputed indicates a late payment in January of the previous year. The borrower can provide documentation (i.e.; canceled checks, bank statements) that indicates the payment was made on time. » The following scenario is an example of when a loan receiving an Approve/Eligible recommendation with the disputed trade line(s) excluded from DU's risk assessment would not be eligible for delivery as a DU loan: – The credit report indicates a disputed trade line on the borrower's mortgage being refinanced. The trade line indicates a 60-day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time.
Non-Purchasing Spouse	» Only the debts of those who will be on the Note are required to be included in the debt-to-income ratio. » In community property/marital rights states, the non-borrowing spouse does have an interest in the property and is required to execute the security instrument and all applicable documents as determined by state law. Community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

Debt to Income Ratios (DTI)	» DU will determine the maximum allowable debt-to-income ratio based on the overall risk assessments of the loan casefile. » Cash-out refinance transactions for borrowers with a debt-to-income ratio exceeding 45% must have at least six months of reserves. If there are not at least six months of reserves, the loan casefile will receive an Ineligible recommendation. » DU will apply a maximum debt-to-income (DTI) ratio is 50%. If the DTI ratio on a loan casefile exceeds 50%, the loan casefile will receive and Ineligible recommendation. • DU casefiles for Borrowers with Nontraditional Credit (No Credit Scores) – the maximum ratio is 39.99% (must be less than 40%).

Calculating Total Monthly Obligation	» The total monthly obligation is the sum of the following: – The housing payment for each borrower's principal residence • If the subject loan is the borrower's primary residence, use the PITIA and qualifying payment amount • If there is a non-occupant borrower, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments • If the subject loan is a second home or investment property, use the mortgage payment (including HOA and subordinate lien payments) or rental payments – The qualifying payment amount if the subject loan if the subject loan is for a second home or investment property – Monthly payments on installment debts and mortgage debts that extend beyond ten (10) months – Monthly payments on installment debts and other mortgage debts that extend ten (10) months or less if the payments significantly affect the borrower's ability to meet credit obligations – Monthly payments on revolving debts – Monthly payments on lease agreements, regardless of the expiration of the lease – Monthly alimony, child support, or maintenance payments that extend beyond ten (10) months (alimony, but not child support or maintenance) may instead be deducted from income – Monthly payments for other recurring monthly obligations; and – Any net loss from a rental property » **Note**: Fannie Mae acknowledges that REMN WSs may sometimes apply a more conservative approach when qualifying borrowers. This is acceptable as long as Fannie Mae's minimum requirements are met, and REMN WSs consistently apply the same approach to similar loans. For example, a REMN WS might calculate a higher minimum payment on a credit card account than what Fannie Mae requires, which is acceptable as long as REMN WS consistently applies this calculation to all mortgage applications with revolving debts.

CREDIT & UNDERWRITING	
Alimony, Child Support, Separate Maintenance Payments	» When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement or any other written legal agreement – and those payments must continue to be made for more than ten (10) months – the payments must be considered as part of the Borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration. A copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file. » For alimony obligations, REMN has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. – **NOTE**: For loan casefiles underwritten though DU, when using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, under *Income Type*, REMN WS must enter the amount of the alimony obligation as a negative amount. If the borrower also received alimony income, this amount should be combined with the amount of the alimony payment and entered as a net amount.
Child Support Delinquency	**REMN WS OVERLAY:** Delinquent child support must be paid current or in a payment plan; or Management approval is required.
Mortgage/Rental (Housing) History	» Per AUS findings; if any delinquencies allowed per determination, satisfactory explanation required subject to acceptance by the Underwriter. » Mortgage must be current and due for month of closing.
Installment Debt	» All installment debt that is not secured by a financial asset; including student loans, automobile loans, personal loans and timeshares must be considered part of the borrowers' recurring monthly debt obligation if there is more than ten (10) monthly payments remaining. – However, an installment debt with fewer than ten (10) months remaining should also be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his/her credit obligations. » DU should be run with all debts; allowing the AUS to determine which debts are to be excluded. » **NOTE**: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).
Revolving Debt	» Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long term debts and must be considered part of the borrower's recurring monthly debt. These trade lines include; credit cards, department store and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense. » If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, REMN must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation. » For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of $10 or 5% of the outstanding balance as recurring debt. » Payoff of revolving debt solely to qualify must be carefully evaluated.
Open 30-Day Charge Accounts	» Open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, REMN must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. **NOTE**: DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of the 30-day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash-out the borrower will receive through the transaction. » If the borrower paid off the account balance prior to closing, REMN may provide proof of payoff in lieu of verifying funds to cover the account balance.

Revolving Debt Pay Off	» Payoff of Revolving Debt at/or Prior to Closing: – When a borrower wants to pay off revolving debt in order to qualify, the file should be conditioned for the payoff of the debt at/or prior to closing. It is no longer a requirement for such accounts to be closed as a condition of excluding the payment from the DTI ratio. – DU will continue to issue a message on its findings indicating that the revolving debt accounts being paid off must be closed in order to exclude the payment from the DTI. Fannie will allow this message to be disregarded until it has been updated in a future DU release. – In order not to reoccur the monthly payment when qualifying the loan, we will require evidence that that account has been paid in full prior to or at closing. The payoff amount will be based upon the balance indicated on the current/unexpired credit report. – If the payoff amount indicated on the CD will exceed the amount of the credit report, the loan may need to be re-qualified to ensure the borrower has sufficient assets to pay the account in full. This will be dependent upon the amount of verified assets and/or the amount of cash back to the borrower.

CREDIT & UNDERWRITING	
Lease Payments	» Must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease.
HELOC	» When the mortgage that will be delivered to FNMA also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so REMN does not need to develop and equivalent payment amount.
Authorized User Trade Lines	» DU takes credit report trade lines designated as authorized user trade lines into consideration as part of the DU credit risk assessment. However, REMN must 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 UW believes the authorized user trade lines are not an accurate reflection of the borrower's credit history, the credit should be evaluated without the benefit of these trade lines and use prudent underwriting judgment when making the final decision. » 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 UW should establish; – The relationship of the borrower to the owner of the account, – If the borrower uses the account; 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 UW 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. » The UW is not required to review authorized user trade lines that belong to the borrower's spouse when the spouse is not on the mortgage transaction.
Deferred Installment Debt	» Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts *other than student loans*, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, REMN must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.
Garnishments	» All garnishments with more than ten (10) months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.
Student Loans	» If a monthly payment is provided on the credit report, REMN WS may use that amount as the monthly payment for qualifying purposes. If the credit report does not reflect the correct monthly payment, REMN WS may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. » If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the underwriter must determine the qualifying monthly payment using one of the options below: – If the borrower is on an income-driven payment plan, REMN WS may obtain student loan documentation to verify the actual monthly payment is $0. REMN WS may then qualify the borrower with a $0 payment. – For deferred loans or loans in forbearance, REMN WS may calculate: • A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully-amortized payment), or • A fully-amortizing payment using the documented loan repayment terms.

Rental Housing Payment	» The housing payment for each borrower's principal residence must be considered when underwriting the loan. For the following scenarios, the borrower's rental housing payment must be evaluated (if the borrower does not otherwise have a mortgage payment or no housing expense): – For non-occupant borrowers, and – For Second Homes or Investment Properties » The following list provides examples of acceptable documentation to verify the rental payment: – Six (6) months cancelled checks or equivalent payment source; – Six (6) months bank statements reflecting a clear and consistent payment to an organization or individual; – Direct verification of rent from a management company or individual landlord; or – A copy of a current, fully-executed lease agreement and two (2) months cancelled checks (or equivalent payment source) supporting the rental payment amount. » Note: See B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History for rental payment requirements when using non-traditional credit.

CREDIT & UNDERWRITING	
Court-Ordered Assignment of Debt	» When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from the liability, the borrower has a contingent liability. REMN is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations. » REMN is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. REMN cannot disregard the borrower's payment history for the debt before its assignment.
Debt Paid by Others	» Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio: – When a borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt REMN WS may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. – When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt REMN WS may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if: o The party making the payments is obligated on the mortgage debt; o There are no delinquencies in the most recent 12 months, AND o The borrower is not using rental income from the applicable property to qualify. » In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, REMN WS must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments. » When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties (if applicable, per Multiple Properties Financed section).
Business Debt in Borrower's Name	» When a self-employed borrower claims that a monthly obligation that appears on his/her personal credit report (such as s Small Business Administration loan) is being paid by the borrower's business, REMN WS must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business. » The payment does not need to be considered as part of the borrower's recurring DTI, if; – The account in question does not have a history of delinquency, – The business provides proof debt was paid from company funds (12 months canceled checks); and, – The cash flow analysis of the business took payment of the obligation into consideration » The payment does need to be considered as part of the borrower's recurring DTI if; – If the business does not provide sufficient evidence that the obligation was paid out of company funds. – The account in question has a history of delinquency. To ensure that the obligation is counted only once, adjust the net income of the business by the amount of interest, taxes or insurance expenses, if any, that relates to the account in question – The business provides evidence of its payment of the obligation; however, the cash flow analysis of the business does not reflect any business expenses related to the obligation (such as an interest expense – and taxes and insurance, if applicable – equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash-flow analysis.

Monthly Housing Expense	» Monthly housing expense is the sum of the following and is referred to as PITIA: – Principal & Interest (P&I), – Hazard, Flood and mortgage insurance premiums (as applicable), – Real Estate Taxes, – Ground rent, – Special assessments, – Owner's association dues (including utilities charges that are attributed to the common areas but excluding any utility shares that apply to the individual unit), – Any subordinate financing payments on mortgages secured by the subject property, » REMN must enter all components of the monthly housing expenses on the application including other financing P&I, hazard insurance, real estate taxes, mortgage insurance, homeowners' association dues and other proposed housing expenses. » If the subject property is secured by the borrower's primary residence, the monthly housing expense is based on the qualifying payment in accordance with the qualifying payment criteria (e.g. ARM's). This amount is the monthly housing expense used to calculate the debt-to-income (DTI) ratio. » If the subject mortgage is secured by a Second Home or Investment Property, the qualifying payment is considered one of the borrower's monthly debt obligations when calculating the DTI ratio.
Calculating Monthly Real Estate Tax Payment	» REMN must base its calculation of real estate taxes for borrower qualification (and escrow account purposes) on no less than the current assessed value. (The taxes are typically listed within the title commitment). However, REMN may (or must in some circumstances) project the real estate taxes if it can document one of the following: – The amount of taxes will be reduced based on federal, state or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved. – If the transaction is new construction, REMN must use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements. – There is tax abatement on the subject property for no less than 5 years from the note date. – For a municipality with a 10-year abatement, qualify the borrower with the reduced tax amount – For a municipality with a 10-year abatement and with annual real estate tax increases in years 1 - 10, REMN must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment due date.

CREDIT & UNDERWRITING	
Identification of Significant Derogatory Events	» The presence of significant derogatory credit events dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales, short sales and charge-offs on mortgage accounts. The terms "pre-foreclosure sale" and short sale" are used interchangeably by FNMA and have the same meaning. » REMN must determine the cause and significance of derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information and confirm that the borrower has re-established an acceptable credit history. REMN must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists. » The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the REMN new loan. See Extenuating Circumstances for Derogatory Credit for additional information. » REMN must review the credit report and Section VIII, Declarations, of the loan application to identify instances of significant derogatory credit events. REMN must review the public records section of the credit report and all trade lines, including mortgage accounts (first liens, second liens, home improvement loans, HELOC's and mobile home loans), to identify previous foreclosures, deeds-in-lieu or pre-foreclosure sales and bankruptcies. REMN must carefully review the current status of each trade line, manner of payment codes and remarks (descriptive text or codes, such as "foreclosure", "forfeit deed in lieu of foreclosure", "settled for less than full balance") to identify these types of significant derogatory credit events. » Significant derogatory credit events may not be accurately reported or consistently reported in the same manner by all creditors or credit reporting agencies. If not clearly identified in the credit report, REMN must obtain copies of appropriate documentation. Documentation must establish the completion date of a previous foreclosure, deed-in-lieu or pre-foreclosure sale; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.
Extenuating Circumstances	» Extenuating circumstances are considered isolated events that are beyond the borrower's control that result in a sudden, significant and prolonged reduction in income or a large increase in the borrower's obligations (e.g. death of a borrower, layoff, serious illness, divorce, etc.). – Acceptable documentation to support extenuating circumstances and that illustrate factors that contributed to the borrower's inability to resolve the problem is required (e.g. copy of divorce decree, layoff notice, death certificate, medical bills, tax returns, property listing agreements, etc.) – Additionally, a letter of explanation from the borrower explaining the relevance of the documentation is required. » NOTE: A DU Approve/Eligible finding is still required even in cases where extenuating circumstances are considered; manual underwriting is not allowed on Conventional loan transactions.
Past-Due, Collection and Charge-Off of Non-Mortgage Accounts	» Accounts that are reported as past due (not reported as collection accounts) must be brought current. Medical collection accounts are excluded from the limits below and are not required to be paid in full at or prior to closing. » For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge offs – regardless of the amount. **Note**: If REMN marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid » For two-four-unit, owner occupied and second home properties, collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing. » For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing. **REMN WS OVERLAY: At underwriter discretion based upon the type and amount of the collection; payoff may be required.**

CREDIT & UNDERWRITING	
IRS Payment Plans	» Monthly payment due under an IRS income tax installment agreement allowable and should be included in the DTI ratio (in lieu of payment in full), provided the following requirements are met: » There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located. » REMN WS must obtain the following documentation: – an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and – evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.
Charge-Off Mortgage Accounts	» Mortgage accounts, including 1st or 2nd liens, home improvement loans, HELOCs and manufactured home loans, will be identified as a charge-off if there is a MOP code of "9" (collection or charge-off) and there is no information indicating the account may also be subject to a foreclosure, a bankruptcy, a deed-in-lieu or a pre-foreclosure sale. » When DU identifies a charge-off on a mortgage trade line, REMN must confirm the accuracy of the information. REMN must also document the event was completed four (4) or more years from the disbursement date of the new loan, or two (2) or more years from the disbursement date of the new loan when loan meets applicable timeframes and eligibility for extenuating circumstances.
Modified Mortgage	» With a modified mortgage, there is no "refinance" involved. Modified mortgage guidelines only apply to the actual loan that has been modified. REMN Underwriters will NOT be involved in "modified mortgage" guidelines. » A modified mortgage is a loan that was legally modified after loan closing in a way that changed any of the loan terms or attributes reflected in the original note. In general, mortgage loans with material modifications, such as changes to the original loan amount, interest rate, final maturity or product structure, are not eligible for delivery to FNMA. » A mortgage that was modified to effect technical or typographical corrections is permitted for delivery, provided that all of the changes correct errors in executed documents, which reflect the term of the original transaction. None of the changes can be the result of a subsequent modification or amendment to the original loan amount, interest rate or other material loan terms. The correction may not result in a change to, or create any inconsistencies with, other legal documents.
Deed-In-Lieu of Foreclosure and Pre-foreclosure See Waiting Period	The following applies to all mortgage loans past and present the borrower is/was obligated on. » These transaction types are completed as alternatives to foreclosure. A deed-in-lieu of foreclosure is a transaction in which the deed to the property is transferred back to the servicer. A pre-foreclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was preapproved by REMN WS. » The terms "pre-foreclosure sale" and short sale" are used interchangeably by FNMA and have the same meaning. Do ***not*** treat as a Modified Mortgage or Restructured Mortgage.

CREDIT & UNDERWRITING	
Bankruptcy	**Chapter 7 or 11** » A four (4) year waiting period is required, measured from the discharge or dismissal date of the bankruptcy to the credit report date with REMN. » Exceptions for Extenuation Circumstances – Two (2) year waiting period is permitted if extenuating circumstances can be documented and is measured from the discharge/dismissal date of the bankruptcy to disbursement date with REMN. **Chapter 13** A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows: » Two (2) years from discharge date to disbursement date with REMN, or » Four (4) years from dismissal date to disbursement date with REMN » The shorter waiting period based on the discharge date recognizes that the borrowers have already met a portion of the waiting period within the time needed for successful completion of a Chapter 13 plan and subsequent discharge. » Exceptions for Extenuating Circumstances – A two (2) year waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. – There are <u>no</u> exceptions permitted to the 2-year waiting period after a Chapter 13 discharge. **Multiple Bankruptcy Filings** » For a borrower with more than one (1) bankruptcy filing within the past seven (7) years, a five (5) year waiting period is required, measured from the most recent dismissal/discharge date to disbursement date with REMN. **Note**: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two (2) or more borrowers with individual bankruptcies are not cumulative and do not constitute multiple bankruptcies. – Borrower has one (1) bankruptcy and the co-borrower has one (1) bankruptcy this is not considered multiple bankruptcies. **Waiting Period for Mortgage Debt Discharged through Bankruptcy** If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. REMN must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy.
CCCS	» Follow DU Approve/Eligible findings
Foreclosure	» A seven (7) year waiting period is required and is measured from the completion date of the foreclosure action as reported on the disbursement or other documents provided by the borrower. » Exceptions for Extenuating Circumstances – A three (3) year waiting period is permitted if extenuating circumstances can be documented and is measured from the completion date of the foreclosure action. – Additional requirements apply between three (3) and seven (7) years, which include: ▪ The maximum LTV/CLTV/HCLTV ratios of the lesser of 90% or the maximum LTV/CLTV/HCLTV ratios for the transaction per the Eligibility Matrix. ▪ The purchase of a principal residence is permitted. ▪ Limited cash-out refinanced are permitted for all occupancy types pursuant to eligibility requirements in effect at the time of application with REMN **Note**: The purchase of a second home or investment properties and cash-out refinances (any occupancy type) are not permitted until the seven (7) year waiting period has elapsed. » If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfactory of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. REMN must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy. ▪ If the mortgage was excluded from the bankruptcy – and then subsequently defaults – this guideline would not apply.

CREDIT & UNDERWRITING

Borrower with Prior Foreclosure with REMN WS – REMN WS Policy

- » In the event that a Borrower(s) on the loan application has a prior foreclosure with REMN WS, the following will apply:
  - – The loan must be elevated to the REMN WS Chief Credit Officer for consideration. A detailed memo explaining the reason(s) for the foreclosure will be required, including, but not limited to the following:
    - Factors that are considered the reasons for the foreclosure, as well as the monetary loss incurred by REMN WS,
    - Explanation should be for 'extraordinary" situations, such as prolonged serious medical condition and/or death of a household wage-earner.
- » The loan must otherwise meet all Agency/Investor guidelines that apply for foreclosure.

Requirements for Re-Established Credit

- » After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or pre-foreclosure (short sale) sale, the borrower's credit will be considered re-established if all of the following are met:
  - – The waiting period and the related additional requirements are met; and
  - – The loan receives an Approve/Eligible recommendation from DU; and
  - – The borrower has traditional credit; non-traditional or "thin credit" files are not acceptable
- » Approve/Eligible Findings required.

Waiting Period

The following summarizes the waiting period for **all** significant derogatory credit events.

Event	Waiting Period[1]	Waiting Period with Extenuation Circumstances
Chapter 7 or 11	4 Years	2 Years
Chapter 13	2 Years from discharge date OR 4 years from dismissal date	2 years from discharge dismissal date
Multiple BK	5 years if more than 1 filing in the past 7 years	3 years from most recent discharge or dismissal date
Foreclosure[3]	7 years	3 years Additional requirements after 3 years up to 7 years: 90% maximum LTV/CLTV/HCLTV Ratios[2] Purchase – Principal Residence Limited Cash-Out – All occupancy types
Deed-In-Lieu or Pre-foreclosure	4 years	2 years

[1] Waiting period = completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the credit report date for the new loan see DU Loan Casefiles Waiting Period.

[2] Maximum ratios permitted are the lesser of the LTV/CLTV/HCLTV ratios in table or the Eligibility Matrix.

[3] When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, REMN may apply the bankruptcy waiting period if REMN obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

NOTE: DU Approve/Eligible Findings required.

INCOME & EMPLOYMENT	
Verbal VOE	» A Verification of Employment must be obtained within 120 calendar days prior to the note date. » A Reverification of Employment must be obtained. – For salaried borrowers, the reverification must be within 10 business days prior to the note date. – For self-employed borrowers, the reverification must be within 20 business days prior to the note date. » Business License, CPA Letter or Federal Tax ID Certificate required for all Self-Employed Borrowers (3rd party verification required). » Minimum of two (2) years employment history must be verified. » Exceptions when verifying Hourly, Salary, and Commission Income (Non-Military) Income: – If the employer will not verbally verify employment, REMN WS can obtain a written verification (other than additional paystub) or an email exchange with the borrower's employer from the employer's work email address confirming the borrower's current employment status within the same time frame as the Verbal VOE requirements. The written documentation must include the name and title of the person who completed the verification for the employer. ▪ If using the email exchange method, REMN must conduct additional due diligence to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites. • The email exchange must include ○ borrower's name and employer's name; ○ name, title, and work email address of the individual contacted at the employer; ○ date of contact; and ○ borrower's current employment status. – – If the borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), and the union facilitates the borrower's placement in each assignment, REMN WS may obtain the verbal VOE from the union. – If the employer uses a third-party employment verification vendor, REMN WS must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the verbal VOE requirements. **NOTE:** Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date. » If the borrower is in the military, in lieu of a verbal or written VOE, REMN WS must obtain either – A military Leave and Earnings Statement (LES) dated within 120 calendar days prior to the note date, or – A verification of employment through the Defense Manpower Data Center » When employment is validated by DU, DU includes in its assessment the age of the information in the vendor's database. The DU message will include a date by which the loan must close. This may differ from the age of data and 10 business day requirements above. Compliance with the DU message satisfies the requirement for completing the verification of employment.
Stable and Predictable Income	» The stable and reliable flow of income is a key consideration in mortgage loan underwriting. Individuals who change jobs frequently but who are able to earn consistent and predictable income are also considered to have a reliable flow of income for qualifying purposes. – Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits; such as contract employees or tradesmen.

Variable Income	» All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment and trending of the amount of income being received. – Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses or overtime. **History of Receipt** » Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered acceptable income as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history. **Frequency of Payment** » REMN must determine the frequency of payment (weekly, biweekly, monthly, quarterly or annually) to arrive at an accurate calculation of the monthly income to be used in income trending (see below – If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. – If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. REMN must investigate the difference between current period overtime and year-to-date earnings and document the analysis using the income in the trending analysis. **Income Trending** » After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W2 or signed federal income tax returns. – If the trend in the amount of income is stable or increasing, the income should be averaged. – If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current lower amount of variable income must be used. – If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used. But in no instance should it be averaged over the period when the declining income occurred. **Continuity of Income** » Unless REMN has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), REMN may conclude the income is stable, predictable and likely to continue. REMN is not expected to request additional documentation from the borrower. » If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, REMN must document the likelihood of continued receipt of income for at least 3 years.

INCOME & EMPLOYMENT

Variable Income - Continued

- The following table contains examples of income types with and without defined expiration dates. This information is provided to assist Underwriters in determining whether additional income documentation may be necessary to support a three (3) year continuance.

Expiration Date NOT Defined	Defined Expiration Date*
» Automobile Allowance » Base Salary » Bonus, Overtime, Commission or Tip Income » Capital Gains Income » Corporate Retirement or Pension Income » Disability Income – Long Term » Interest & Dividend Income (unless other evidence that asset will be depleted) » Foster-Care Income » Military Income » Part-Time Job Income, Second Job or Seasonal Income » Rental Income » Self-Employed Income » Social Security, VA or other Government Retirement Annuity Income » Time-based Restricted Stock Units or Restricted Stock Income when awarded in multiple consecutive years	» Alimony or Child Support » Distributions from Retirement Account (IRA, 401k, SEP, Keogh) » Mortgage Differential Payments » Notes Receivable » Public Assistance » Royalty Payment Income » Social Security (not including retirement or long-term disability) » Time-based Restricted Stock Units or Restricted Stock Income when receipt was a one-time event » VA Benefits (not including retirement or long-term disability)

Note: Continuity of income for trust income must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined.

*Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or majority of qualifying income. REMN must consider the borrower's continued capacity to repay the loan when the income source expires, or the distribution will deplete the asset prior to maturation of the mortgage loan. Income sources not listed above will require Underwriter judgment to determine documentation of continuance.

Determining the Need for Federal Income Tax Returns

- REMN must obtain copies of the borrower's signed feral income tax returns filed with the IRS for the past two years for the following sources of income or employment, if the borrower:
  - Is employed by family members
  - Is employed by interested parties to the property sale or purchase
  - Receives rental income from an investment property (only one year of tax returns is required unless the borrower meets one or more of the other conditions in this list)
  - Receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits; such as contract employees or tradesmen.
  - Receives income from capital gains, royalties, real estate or other miscellaneous non-employment earnings reported on IRS Form 1099
  - Receives income that cannot otherwise be verified by an independent and knowledgeable source
  - Uses foreign income to qualify
  - Uses interest and dividend income to qualify
  - Receives income from Sole Proprietorships, LLC's, Partnerships, Corporations or other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. REMN must document and underwrite the loan application using the requirements for self-employed borrowers.

INCOME & EMPLOYMENT

Variable Income - Continued

Verification of Income for Non U.S. Citizen Borrowers

Employment Type	Employment & Income Verification
Salaried or commissioned borrowers employed by a U.S. company or individual	Same as for U.S. Citizen
Self-Employed	Same as for U.S. Citizen
Employed by a foreign corporation or a foreign government and paid in foreign currency (foreign income)	Copies of the borrower's signed federal tax returns filed with the IRS for the most recent 2-year period; and, Documentation to satisfy the standard income documentation requirements. **Note**: All income must be translated to U.S.

Using Nontaxable Income to Adjust Gross Income

- REMN must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes; awards letters, policy agreements, account statements or any other documents that address the nontaxable status of the income.
- If the income is verified to be nontaxable and the income and its tax-exempt status is likely to continue, REMN may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.
- If the actual amount of federal and state taxes that would be generally paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, REMN may use that amount to develop the adjusted gross income, which should be used in calculating the borrower's qualifying ratio.

Exceptions

REMN is not required to provide documentation to support that the income is nontaxable for the following:

- Child support income: REMN may treat the full amount of qualifying child support income as nontaxable and gross-up the income as described above.
- Social Security income: REMN may treat 15% of the income as nontaxable and gross-up the income as described above
- Example:
  - Benefit amount: $1,500
  - Nontaxable amount: $1,500 x 15% = $225
  - Gross-up amount: $225 x 25% = $56 (rounded to the nearest dollar)
  - Qualifying income: $1,556 (does not require additional documentation)
  - **Note**: If REMN opts to gross-up more than 15% of Social Security income, documentation to support that the additional income is nontaxable must be included in the loan file.

General Income Documentation Requirements	» REMN must verify employment income for all borrowers whose income is used to qualify for the mortgage loan. » For additional information refer to Age of Credit Documents and Tax Return Requirements. Paystubs and W-2s » The paystub must be dated no earlier than 30 days prior to the initial loan application with REMN and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. Paystubs must comply with Age of Credit Documents. » IRS W2 forms must cover the most recent one-year or two-year period, based on the documentation requirements for the particular income type. The W2 forms must clearly identify the borrower as the employee. • For loans where DU Approve/Eligible findings require W-2 statements, it is acceptable to use an IRS “Wage and Income Transcript” (W-2 transcript) in lieu of the actual W-2 forms. » "Most recent" W2 is defined as the W2 for the calendar year prior to the current calendar year. Alternative documentation, such as written Request for Verification of Employment or the final year-to-date paystub, may be used as long as adequate information is provided. » Documents must be computer-generated or typed by the borrower's employer(s) paystubs that the borrower downloads from the internet are also acceptable. Documents must clearly identify the employer's name and source of information. » The documents must clearly identify the borrower as the employee. » The information must be complete and legible. » The original source of the information must be a third party, such as borrower's human resources department, personnel office, payroll department, company's payroll vendor or supervisor. » Personal federal income tax returns, if applicable, must be borrower signed copies or duplicates of the original returns that were filed with the IRS. All supporting schedules must be included. **Note**: REMN will only accept a fully completed VOE as a supplement to further explain the type of income earned (example: breakdown of income; Base, OT, Bonus, Commission, etc.). » Income derived from a state-legalized marijuana business(es) can be used to qualify the loan: – W-2 income only; not acceptable for self-employed income ▪ The option to use the income is for a salaried/wage-earner only; if W-2 income is coming as the result of owning the corporation, it is still considered self-employed and cannot be used. – This option is only available for FNMA Agency loans. The loan must be locked by Capital Markets to a FNMA agency product and cannot be underwritten or locked to any other agency product (i.e. FHLMC, FHA, VA, etc.)

INCOME & EMPLOYMENT

FNMA Tax Return Requirements

- When required, personal federal income tax returns must be copies of the original returns that were filed with the IRS. All supporting schedules must be included.
- Each tax return must be signed by the borrower unless REMN has obtained one of the following signature alternatives;
  - Documentation confirming that the tax returns were filed electronically,
  - A completed IRS Form 4506C (signed by the borrower) for the year in question; or,
  - IRS transcripts that validate the tax return.
- For some types of sources of income, FNMA requires REMN to obtain copies of federal income tax returns (personal returns and, if applicable, business returns). The "most recent year's" tax return is defined as the last return scheduled to have been filed with the IRS.

If Today's Date is…	Then the Most Recent Year's Tax Returns would be…
January 15, 2024	2022
February 15, 2024*	2023*
April 16, 2024	2023
December 15, 2023	2022

- * For loans that are subject to the most recent tax returns and with a note date of 1/30/24 and later, the following will apply:
  - The borrower(s) must provide and be qualified considering their 2023 1040 Tax Return, **OR**
  - The borrower(s) must sign an Income Attestation form at closing, verifying they have not yet filed their 2023 1040 form.
- The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage.

Application Date	Disbursement Date	Documentation Required
October 15 (current year minus 1) to April 14, current year	October 15 (current year minus 1) to April 14, current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 15, current year to June 30, current year	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the loan file must include a completed and signed IRS Form 4506-C for transcripts of tax returns provided by the borrower to REMN.
	July 1, current year to October 14 current year	The most recent year's tax return is recommended;

<table>
<tr>
<td rowspan="3"></td>
<td rowspan="2">April 15, current year to October 14, current year (for April filing date for the year in question as published by the IRS)</td>
<td>April 15, current year to December 31, current year</td>
<td>however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the lender must perform all of the following:
» Obtain one of the following documents from the borrower:
– copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,
– proof of the e-filing of Form 4868, or
– confirmation of electronic payment(s), including the confirmation number, of all or part of the estimated income taxes.
» Review the total tax liability either reported on IRS Form 4868 or paid by the borrower and compare it with the borrower’s tax liability from the most recent year obtained as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the lender to require the current returns in order to proceed.
» Obtain IRS response from the filing of IRS Form 4506–C confirming that no transcripts are available for the applicable tax year. (Alternatively, REMN may, at their own discretion, rely on borrower provided evidence that no transcripts are available for applicable tax years when that evidence is obtained directly from the IRS website).
Note: Any documents provided by the borrower must clearly identify the source of information including identifying information in the Internet banner on the document.</td>
</tr>
<tr>
<td>January 1 (current year plus 1) to April 14, (current year plus 1)</td>
<td>The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.</td>
</tr>
<tr>
<td colspan="3">Note: For business tax returns, if the borrower’s business uses a fiscal year (a year ending on the last day of any month except December), REMN may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application/disbursement date of the mortgage loan.
Note: REMN will not observe IRS Filing Extensions beyond the standard extension (including FEMA extensions). There are no exceptions to this requirement.</td>
</tr>
</table>

INCOME & EMPLOYMENT	
Base Pay (Salary or Hourly) Bonus and Overtime Income	» Verification of base pay, bonus and overtime income – A minimum history of two (2) years employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrowers' employment profile demonstrates that there are positive factors to reasonably offset the shorter income history. – Borrowers' relying on overtime or bonus income for qualifying purposes must have a history of no less than twelve (12) months.
Commission Income	» A minimum history of two (2) years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered acceptable income, as long as there are positive factors to reasonably offset the shorter income history. » One of the following must be obtained to document commission income: – A completed Verification of Employment, or – The borrower's most recent paystub and IRS W2 forms covering the most recent two-year period. » A verbal VOE is required from each employer, based on Fannie Mae Verbal VOE requirements.
Secondary Income	» Secondary employment income is income that is derived from a second job or multiple jobs the borrower may have. REMN must verify the following; – Verification of a minimum history of two years of uninterrupted secondary employment is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history. – A borrower may have a history that includes different employers, which is acceptable as long as the income has been consistently received and there has been no gap greater than 30 days in the past 12 months (unless the income is seasonal).
Seasonal Income	REMN must verify the following for seasonal income: » Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two (2) years. » For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.
Military Income	» Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as REMN WS can establish that the particular source of income will continue to be received in the future. » To verify military base pay and entitlements, REMN WS must obtain the borrower's most recent Leave and Earnings Statement (LES). » Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.
Union Workers	» If the borrower is a union member and employed full-time through the employer on a W-2 basis, then no additional verification of employment is required outside of what is requested by the DU Approve/Eligible findings. » A union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment. » For union members who are employed through the union/union hall (i.e. contract employees, tradesmen) and/or receive variable sources of income from assigned union jobs, then additional verification may be required to evidence stability of employment/income (i.e. two years Federal Income Tax Returns). See Determining the Need for Federal Income Tax Returns topic in the Variable Income section of this Product Description for further reference.
Employed By Family Members	» Two (2) years tax returns (1040's) are required to support the borrower's income » Borrower's current income documentation (based DU Approve/Eligible findings) can be used to qualify the loan, so long as the two (2) years 1040's evidence the following: – Borrowers do not have any ownership interest in the business, and – Any significant increase (or decrease) noted in the borrower's tax returns is satisfactorily explained.

INCOME & EMPLOYMENT

Rental Income

Eligible Properties

» Rental income is an acceptable source of stable income for the following property types if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:
  - 2-4-unit principal residence property in which the borrower occupies one (1) of the units; or,
  - 1-4-unit investment property (1st Time Homebuyers – see 1st Time Homebuyer Investment Purchase section to reference allowable rental income)

Ineligible Properties

» Generally, rental income from the borrower's principal residence (1-unit principal residence or the unit the borrower occupies in a 2-4 unit property) or a second home cannot be used to qualify the borrower.

General Requirements for Documenting Rental Income

If a borrower has a history of renting the subject or another property, rental income will be reported on Schedule E of the borrower's personal tax returns. If the borrower does not have a history of renting the subject property, REMN may be justified in using a current lease agreement. Examples of scenarios that justify the use of a lease agreement are:

» Purchase transactions,
» Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing; or,
» Refinance transactions of a property that experienced significant rental interruptions such that income is not report on the tax return (i.e. major renovations to a property occurred in the prior year that affected rental income).
» transactions where rental income is being used to qualify for any property placed in service in the current calendar year, for example, when converting a principal residence to an investment property.

When the subject property will generate rental income one (1) of the following forms must be used to support the income-earning potential of the property;
  - 1-unit properties – Single-Family Comparable Rent Schedule (Form 1007) & Appraisal; or,
  - 2-4-unit properties – Small Residential Income Property Appraisal Report (Form 1025).

  Note: Form 1007 is only required when rental income is being used to qualify the borrower.

» See Reserves for MANDATORY MANUAL RESERVE CALCULATION REQUIREMENTS.

Documenting Rental Income from Subject Property

Does Borrower Have History of Receiving Rental Income from the Subject Property?	Transaction Type	Documentation Requirements
YES	Refinance	» Form 1007 or Form 1025, as applicable and either; – The borrower's most recent year of signed federal income tax returns, including Schedule E; or, – Copies of the current lease agreement(s) if the borrower can document a qualifying exception (Partial or No Rental History on Tax Returns)
No	Purchase	» Form 1007 or Form 1025, as applicable, and copies of current lease agreement(s) if transferred to the borrower. » If the property is not currently rented or if the existing lease is not being transferred to the borrower, then lease agreements are not required and Form 1007 or Form 1025 may be used. » If there is a lease on the property that is being transferred to the borrower, REMN is responsible for ensuring clear title and first lien enforceability in accordance with FNMA Life-of-Loan Representations and Warranties.
No	Refinance	» Form 1007 or Form 1025, as applicable; and, » Copies of the current lease agreement(s).

	» If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for REMN reporting purposes – Reporting of Gross Monthly Rent. **Documentation Rental Income from Other Property** » When the borrower owns property – other than the subject property – that is rented, REMN must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax returns that include Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception – Partial or No Rental History on Tax Returns.

INCOME & EMPLOYMENT

1st Time Homebuyer Investment Purchase

REMN WS Overlay – For First Time Homebuyers (FTHB) purchasing an investment property in the specific counties/MSA's listed below, the following table represents the rental income from the subject property that can be utilized (FTHB is defined as at least one borrower(s) responds "No" to the declaration M question: "Have you had an ownership interest in the last 3 years?"):

Property Type	Allowed Rental Income to be Utilized*
1 Unit	No rental income can be used
2 Unit	Rental income from one (1) unit can be used
3 Unit	Rental income from two (2) units can be used
4 Unit	Rental income from three (3) units can be used

*The unit(s) with the lesser rental income will be the unit(s) considered for qualifying purposes.

The specific counties/MSA's where this overlay applies are:

Five Boroughs of New York City, NY	Following California Counties:
Bronx	Alameda
Brooklyn	Contra Costa
Manhattan	Fresno
Queens	Los Angeles
Staten Island (Richmond County)	Riverside
	San Diego
	Santa Clara

Partial or No Rental History on Tax Returns

- In order for REMN WS to determine qualifying rental income, REMN WS must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. Some situations REMN WS's analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This policy may be applied to refinances of a subject rental or to other rental properties owned by the borrower.
- If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, REMN WS may determine qualifying rental income by using;
  - Schedule E income and expenses, and annualizing the income (or loss) calculation; or,
  - Lease agreement(s) to determine the gross rental income to be using in the net rental income (or loss) calculation.

If…	Then…
the property was acquired or placed into service during the most recent tax filing year	* REMN must confirm the purchase date using the settlement statement or other documentation, and * Fair Rental Days on Schedule E of the most recently filed tax return must confirm partial year rental income.
the property was acquired or placed into service subsequent to the most recent tax filing year,	* REMN must confirm the purchase date using the settlement statement or other documentation, if applicable, and * Schedule E or the most recently filed tax return must confirm no rental income or expenses for this property.

	the rental property was out of service for an extended period	* Repair expenses on Schedule E of the most recently filed tax return must reflect the costs for renovation or rehabilitation. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service. * Fair Rental Days on Schedule E of the most recently filed tax return must confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.

Calculating Monthly Qualifying Rental Income (or Loss)

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing or refinancing a 2-4 unit primary residence or 1-4 unit investment property, REMN WS must consider the following:

If the Borrower…	And rental income is from the...	Then for Qualifying Purposes…
• Currently owns a principal resident (or has a current housing expense), and • Has at least a 1-year history of receiving rental income or documented property management experience	Subject property or Non-Subject property	There is no restriction on the amount of rental income that can be used.
• Does not currently have a housing expense, and • Has at least 1-year of receiving rental income from the property	Non-Subject Property (in service for at least a year)	
• Currently owns a principal resident (or has a current housing expense), and • Has less than 1-year history of receiving rental income or documented property management experience	Subject Property	For a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income; or For an investment property, rental income can only be used to offset the PITIA of the subject property.
	Non-Subject Property (New or Newly Placed in Service Less Than a Year)	For a principal residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property. For an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow).
• Does not own a principal residence, and • Does not have a current housing expense	Subject Property	Rental income from the subject property cannot be used.
	Non-Subject Property (new or newly placed in service less than a year)	Rental income from the property cannot be used.

REMN WS must establish a history of property management experience by obtaining one of the following:

- The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income for any property and Fair Rental Days of 365;
- If the property has been owned for at least 1-year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
- A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

Federal Income Tax Returns / Schedule E

» When Schedule E is used to calculate qualifying rental income, REMN WS must add back any listed depreciation, interest, taxes or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.

» If the property was in service

	– For the entire year, the rental income must be averaged over 12 months, or; – For less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit. See Treatment of Rental Income (Or Loss) **Lease Agreements** » When current lease agreements are used, REMN WS must calculate the rental income by multiplying the gross rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses. » When using a lease agreement, the lease agreement amount must be supported by – Form 1007 or Form 1025, as applicable, or – evidence the terms of the lease have gone into effect. Evidence may include: ▪ two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or ▪ copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements » See Treatment of Rental Income (Or Loss)

<table>
<tr><th colspan="2">INCOME & EMPLOYMENT</th></tr>
<tr><td>Treatment of the Income (or Loss)</td><td>
» The treatment and amount of monthly qualifying rental income (described above in Calculating Monthly Qualifying Rental Income (or Loss)) used in the calculation of the borrower's total debt- to-income ratio - varies depending on whether the borrower occupies the rental property as his/ her principal residence.
» If the net rental income (or loss) relates to the borrower's principal residence:
– The monthly net rental income (as defined above) must be added to the borrower's total income. (This income is not netted against the PITIA of the property).
– The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
» If the net rental income (or loss) relates to a property other than the borrower's primary residence:
– If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income (subject to the limits in Calculating Monthly Qualifying Rental Income (or Loss)).
– If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
– The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
– The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.
NOTE: When a borrower owns multiple rental properties, the rental income for all non-subject properties is first calculated for each property, then aggregated. The aggregate total of the income (or loss) is then added to the borrower's total monthly income or included in their monthly obligations, as applicable.
</td></tr>
<tr><td>Offsetting Monthly Obligations for Rental Property Reported through a Partnership or S Corporation</td><td>
» If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported though a partnership or S corporation, the business tax returns may be used to offset the property’s PITIA. The steps described below should be followed:
1. Obtain the borrower’s business tax returns, including IRS Form 8825 for the most recent year.
2. Evaluate each property listed on Form 8825, as shown below:
▪ From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowner’s association dues (if applicable), depreciation and non-recurring property expenses (if documented accordingly).
▪ Divide by the number of months the property was in service
▪ Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.
3. If the resulting net cash flow is positive, REMN WS may exclude the property PITIA from the borrower’s monthly obligations when calculating the debt-to-income ratio.
4. If the resulting net cash flow is negative (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower’s monthly obligations when calculating the debt-to-income ratio.
» In order to include a positive rental income received through a partnership or an S corporation in the borrower’s monthly qualifying income, REMN WS must evaluate it accordingly to Fannie Mae guidelines for income received from a partnership or S Corporation.
<u>Note</u>: For DU loan casefiles, the term “subject net cash flow” applies to net rental income from the subject property, and the term “net rental income” applies to rental income from properties other than the subject property.
</td></tr>
</table>

Reporting of Gross Monthly Rent	» Eligible rents on the subject property (gross monthly rent) must be reported to Fannie Mae in the loan delivery data for all two- to four-unit principal residence properties and investment properties, regardless of whether the borrower is using rental income to qualify for the loan. If the borrower is using rental income from the subject property to qualify for the loan, all of the applicable requirements above must be followed to document and calculate the income. » If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for REMN reporting purposes. The borrower may provide one of the following sources (listed in order of preference): – The appraisal report for a 1 unit or 2-4-unit investment property or Single-Family Comparable Rent Schedule (Form 1007), provided neither the appraisal nor Form 1007 are dated > 12 months prior to the Note date. – If the property is not currently rented, REMN may use the opinion of market rents provided by the appraiser; or – If an appraisal or Form 1007 is not required for the transaction, REMN may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross rent being charged for the property. The monthly rental amounts must be stated separately monthly for each unit in a 2-4-unit property. The disclosure from the borrower must be in the form of one of the following: ▪ A written statement from the borrower; or ▪ An addition to the URLA (Form 1003). » REMN must retain in the loan file the documentation that was relied upon to determine the amount of eligible rent reported.

INCOME & EMPLOYMENT	
Parties in Possession	» Properties that currently have a tenant- regardless of whether or not income is used to qualify, – 1 Unit (including condo, PUD) investment occupancy – 2 - 4 Family - all occupancies » The file must contain one of the following documents prior to closing. – Verification from the appraiser that all units are currently vacant (can be part of appraisal) – Verification from the title company that they will not have a "tenants in possession" exception to the title policy. Specific verification from Title Company is required. The fact that this is "silent" on the title policy will not satisfy this condition. – Rights of lawful parties in possession, as long as such rights do not include the right of first refusal to purchase the property. (No rights of parties in possession, including the term of a tenant's lease, may have a duration of more than two years.) » The lease documentation, if currently rented, that specifically either; – Indicates that the lease is subordinate to any mortgage; OR – Ensure that any tenant's rights to purchase the property and any other rights that could adversely affect FNMA's mortgagee interest have been waived formally by the tenant or tenants.

Temporary Leave Income	» Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work. – **Note**: Mandatory leave initiated by an employer, such as furlough or layoffs, is not considered temporary leave regardless of an expected return to work date. » If REMN is made aware that a borrower will be on temporary leave at the time of the loan closing and the borrower's income is needed to qualify for the loan, REMN must determine allowable income and confirm employment as described below. – The borrower's employment and income history must meet standard eligibility requirements. – Borrower must provide written confirmation of his/her intent to return to work and the agreed upon date of return as evidenced by documentation provided by the employer. – REMN cannot receive evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period. – REMN must obtain a verbal VOE. If the employer confirms that the borrower is currently on temporary leave, REMN must consider the borrower employed. » REMN must verify the borrower's income in accordance with standard legibility requirements: – The amount and duration of the borrower's "temporary leave income" which may require multiple documents or sources depending on the type and duration of the leave period; and, – The amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (i.e. base pay, commissions and bonus). **Calculating Qualifying Income** » Requirements for Calculating Income Used to Qualify – If the borrower **will** return to work as of the first mortgage payment date, REMN can consider the borrower's regular employment income in qualifying. – If the borrower will **not** return to work as of the first mortgage payment date, REMN must use the lesser of the borrower's temporary income (if any) or regular employment income. – If the borrower's temporary leave income is less than his/her regular employment income, REMN may supplement the temporary leave income with available liquid financial reserves (*B3-4.1-01*) **Supplement income amount = available liquid reserves divided by the number of months of supplemental income** – Available liquid reserves: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows and minimum reserve requirements) from the total verified liquid asset amount. – Number of months of supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his/her regular employment income, rounded to the next whole number. » After determining the supplement income, REMN must calculate the qualifying income **Total qualifying income = supplement income plus the temporary leave income** » The total qualifying income results may not exceed the borrower's regular employment income. Regular Income amount: $6,000.00 per month Temporary Leave Income: $2,000.00 per month Total verified liquid assets: $30,000.00 Funds needed to complete the transaction: $18,000.00 Available liquid reserves: $12,000.00 First payment date: July 1 Date borrower will begin receiving regular employment income: November 1 Supplemental income: $12,000.00 ⁄ 4 = $3,000.00 Total qualifying income: $3,000.00 + $2,000.00 = $5,000.00

INCOME & EMPLOYMENT	
	Data Entry Requirements » DU requirements for data entry with Temporary Leave Income – Entry of the income into DU depends on what was derived as the "lesser of" amount. – When the borrower's temporary leave income is used, enter the amount in Other Income as "Temporary Leave" – When the borrower's regular employment income is used, enter the income amount using the applicable income type. – If the borrower's temporary leave income is less than the regular income and REMN is able to supplement the temporary income with available liquid reserves, the following must be applied: – REMN must enter the combined temporary leave income & supplemental income from reserves under Other Income as "Temporary Leave". The combination of these two incomes may not exceed the borrower's regular monthly employment income. – As DU is not able to determine supplemental income is being used, nor is it able to determine the amount of reserves used to supplement the temporary income, REMN must manually reduce the amount of the borrower's total liquid assets by the amount of reserves used to supplement the temporary income (in order to avoid the reserves being used for both income and assets).
Alimony & Child Support Documentation	» Document that the alimony or child support will continue for at least 3 years after the date of the application date with REMN, as verified by 1 of the following; – A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates payment of alimony or child support and states the amount of the award and the period of time over which it will be received. If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, REMN will not consider any proposed or voluntary payments as income. – Any other type of legal agreement or court order describing the payment terms for the alimony or child support. – Documentation that verified any applicable state law that mandates alimony, child support or separate maintenance payments, which must specify the conditions under which the payments must be made. » Check for limitations on the continuance of payments, such as the age of the children for whom the support is being paid or the duration over which the alimony is required to be paid. » Document the borrower's regular receipt of the full payment, as verified by – Deposit slips, – Court records, – Copies of signed federal income tax returns that were filed with the IRS, or – Copies of the borrower's bank statements showing the regular deposit of these funds. – A minimum of 6 months of documented receipt of income will be required for verification.
Schedule K-1 Income (Self-Employment < 25%)	» For borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided: – The borrower can document ownership share (may use Schedule K-1) – The borrower can document access to the income, **and** – The business has adequate liquidity to support the withdrawal of earnings. » The following table provided verification of income requirements for Schedule K-1 borrowers with < 25% ownership of a partnership, an S Corporation or an LLC.
	Verification of Schedule K-1 Income
	The borrower must provide the most recent two years of • Signed individual federal income tax returns, and • IRS Schedule K-1
	Income reported on Schedule K-1 can only be considered if REMN obtains documentation verifying that • The income was actually distributed to the borrower and is consistent with the level of business income being used to qualify, or • The business has adequate liquidity to support the withdrawal of earnings. REMN may use discretion in the method used to confirm the business has adequate liquidity.
	REMN is not required to analyze the viability of the business in accordance with self-employment requirements and may only use the borrower’s proportionate share of earning reflected on Schedule K-1 when calculating the borrower’s income

	If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow. • **Note**: An exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, REMN may rely on the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.

INCOME & EMPLOYMENT	
Automobile Allowance	» For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. REMN WS must add the full amount of the allowance to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.
Boarder Income	» Income from boarders in the borrower's principal residence or second home is not considered acceptable income with the exception of the following; – When a borrower with disabilities receives rental income from a live-in personal assistance, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which the rental payments made to the borrower. » Verification of Income from Boarders – Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 Forms) that shows the boarder's address as being the same as the borrower's address. – Obtain documentation of the boarder's rental payments for the most recent 12 months.
Capital Gains Income	» Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements. » Document a two-year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent 2 years, including IRS Form 1040, Schedule D. » Develop an average income from the last 2 years (according to Variable Income Guidelines) and use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that he/she owns additional property or assets that can be sold if extra income is needed to make future mortgage payments. **Note**: Capital losses identified on the IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring. » Due to the nature of this income, current receipt of income » is not required to comply with Age of Credit Documents policy. However, documentation of the asset ownership must be in compliance with the Age of Credit Documents policy & Tax Return Requirements.
Employment Offers or Contracts	If the borrower is scheduled to begin employment after the loan closes, REMN WS may deliver the loan in accordance with one of the options outlined below: **Option 1 – Loan Delivered After Borrower Starts Employment** » REMN must obtain an executed copy of the borrower's offer or contract for future employment and anticipated income. » **Note**: The borrower cannot be employed by a family member or by an interested party to the transaction. » Prior to delivering the loan, REMN must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract. The paystub must be retained in the mortgage loan file. **Option 2 – Loan Delivered Prior to Borrower Starting Employment** » This option is limited to loans that meet the following criteria: – Purchase transaction – Principal residence – 1-unit property – The borrower is not employed by a family member or by an interested party to the transaction, and – The borrower is qualified using only fixed based income.

	» REMN must obtain and review the borrower's offer or contract for future employment. The employment offer, or contract must – Clearly identify the employer and the borrower, be signed by the employer, and be accepted & signed by the borrower; – Clearly identify the terms of employment, including position, type and rate of pay, and start date; and – Be non-contingent. NOTE: If conditions of employment exist, REMN must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file. – Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offeror contract for future employment. (Continued on next page)

Employment Offers or Contracts (cont'd)	**Option 2 – Loan Delivered Prior to Borrower Starting Employment (cont'd)** » The borrower's start date must be no earlier than thirty (30) days prior to the Note Date or no later than 90 days after the Note Date. Prior to delivery, REMN WS must obtain the following documentation depending on the borrower's employment start date: **If the Borrower's start date is….** — **Documentation Required** The Note Date or no more than 30 days prior to the Note Date — • Employment offer or contract, and • Verbal verification of employment that confirms active employment status. No more than 90 days after the Note Date — Employment Offer or contract » REMN WS must document, in addition to the amount of reserves required by DU or for the transaction, one of the following: – Financial reserves sufficient to cover PITIA for the subject property for six (6) months; OR – Financial reserves or current income sufficient to cover the monthly liabilities included in the DTI ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as s full month. Financial resources may include: ▪ Financial reserves, and ▪ Current income. – Current income refers to income that is currently being received by the borrower/co-borrower, may or may not be used for qualifying, and may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. Current income may be used in lieu of or in addition to financial reserves. For this purpose, REMN WS may use the amount of income the borrower is expected to receive between the note date & the employment start date. If the current income is not being used for qualifying purposes, it can be documented by REMN WS using income documentation, such as a paystub, and no verification of employment is required. For calculation purposes, consider any portion of a month as a full month. » REMN WS must deliver the loan with Special Feature Code 707.
Employment-Related Assets as Qualifying Income	» Assets used for calculation of monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan. » Documentation of asset ownership must be in compliance with the Age of Credit Documents Policy and Tax Return Documentation » Assets must be liquid and available to the borrower must be sourced as one of the following: – A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) must be document with the distribution letter from the employer (form 1099-R) and deposited to a verified asset account. – For 401(k) or IRA, SEP, Keogh retirement accounts; the borrower must have unrestricted access without penalty to the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account must be document with the most recent monthly, quarterly or annual statement. » If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets. » A borrower must only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution). » "Net documented assets" are equal to the sum of eligible assets minus: a) The amount of the penalty that would apply if the account was completely distributed at the time of calculation; and b) The amount of funds used for down payment, closing costs, and required reserves. **Calculation of Net Documented Assets** Checking and savings accounts (for illustration purposes only – not an eligible employment-related asset) — $40,000 IRA (made up of stocks and mutual funds) — $500,000

Minus 10% of $500,000 ($500,000 x .10%) (Assumes a 10% Penalty applies for early distribution)	$50,000
Total eligible documented assets	$490,000
Funds required for closing (down payment, closing costs, reserves)	$100,000
Net Documented Assets	$390,000
Monthly income calculation ($390,000/360 months) Income Calculation/Payout Stream below	$1,083.33/month

- » Ineligible assets are non-employment-related assets (i.e. stock options, non-vested restricted stock, lawsuit, lottery winnings, sale of real estate, inheritance and divorce proceeds).
- » Checking and savings accounts are generally not eligible as employment-related assets; unless the source of the balance in checking or savings accounts was from an eligible employment-related asset (i.e. severance package or lump sum retirement distribution). Virtual Currency is not an eligible asset.
- » If eligible employment-related assets have been liquidated and placed into a trust within 12 months of the loan's application date, income must be calculated in accordance with the requirements in this table.
- » All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Parameter	**FNMA Requirement**
Maximum LTV/CLTV/HCLTV	70%
Maximum LTV/CLTV/HCLTV	80% if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be borrowers on the loan and the borrower whose employment-related asset is being used as income must be at least 62 years old at the time of closing
Minimum Credit Score	DU: 620 Standard: Higher of 620 or minimum credit score per the Eligibility Matrix
Loan Purpose	Purchase and Limited Cash-Out Refinance only
Occupancy	Principal residence and second home only
Number of units	As permitted by occupancy type
Income Calculation/Payout Stream	Divide “Net Documented Assets” by amortization term of the mortgage loan (in months)

Note: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines such as Interest & Dividend Income or Retirement, Government Annuity and Pension Income.

Foreign Income	» Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following conditions are met: – Copies of his/her signed federal income tax returns for the most recent two (2) year period that include the foreign income. – REMN must satisfy the standard documentation requirements based on the source and type of income. **Note**: All income must be translated to U.S. dollars. If the borrower is not a U.S. Citizen refer to Non-U.S. Citizen Borrower Eligibility Requirements. – All documents of a foreign original must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.
Foster Care Income	» Income received from a state or county sponsored organization for providing temporary care for one (1) or more children may be acceptable stable income if the following requirements are met: – Verify the foster-care income with letters of verification from the organizations providing the income. – Document that the borrower has a two (2) year history of providing foster-care services. If the borrower has not been receiving this type of income for two (2) full years, the income may still be counted as stable income if: ▪ The borrower has at least twelve (12) month history of providing foster-care services; and, ▪ The income does not represent more than thirty percent (30%) of the total gross income that is used to qualify for the loan.
Housing or Parsonage Income	» May be considered qualifying income if there is documentation that the income has been received for the most recent twelve (12) months and the allowance is likely to continue for the next three (3) years. The housing allowance may be added to income but may not be used to offset the monthly housing payment. **Note**: This requirement does not apply to military quarters' allowance.
Interest & Dividends Income	» Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with Age of Credit Documents and Tax Return Requirements. » Document a two (2) year history of income, as verified by: – Copies of the borrower's signed federal income tax returns; or, – Copies of account statements. » Develop an average of the income received for the most recent two (2) years. Refer to Variable Income. » Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.
Notes Receivable Income	» Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application. » Obtain a copy of the note to establish the amount and length of payment. » Document regular receipt of income for the most recent twelve (12) months. » Payments on a note executed within the past twelve (12) months, regardless of the duration, may NOT be used as stable income.
Public Assistance Income	» Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments. » Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
Section 8 Income	» Determine the monthly payment amount from the public agency that issues the voucher. » Because this income is nontaxable, REMN WS can develop an adjusted gross income for the borrower. » There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

Disability Income Long-Term	» Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer or other qualified disinterested party) to determine; – The borrower's current eligibility for the disability benefits, – The amount and frequency of the disability payments, and – If there is a contractually established termination or modification date. » Generally long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next 3 years because they are being converted to long-term benefits, the amount of long-term benefits must be used as income to qualify the borrower. » For additional information on short-term benefits;Temporary Leave Income.

INCOME & EMPLOYMENT	
Restricted Stock Units and Restricted Stock Employment Income	» Restricted stock units and restricted stock (referred to collectively as "restricted stock") are granted by an employer to its employees as a form of compensation based on either performance or time. They can be awarded as either stock or an equivalent cash value of the number of shares awarded and usually vest over a certain number of years. After they vest, the employee may sell the shares at the current price or hold the stock for future sale. » To be used as qualifying income, the restricted stock must have vested and been distributed to the borrower without restrictions. **For Performance-Based Awards** » A minimum history of 24 months restricted stock income from the current employer is recommended. Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income if there are positive factors to offset the shorter income history such as – future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or – restricted stock income received for the previous 5 years from any employer. **For Time-Based awards** » A minimum history of 24 months restricted stock income from the current employer is recommended. Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income if there are positive factors to offset the shorter income history such as – future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or – restricted stock income received for the previous 5 years from any employer. **Note:** Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered by the lender as qualifying income. » REMN must document all of the following: – evidence stock is publicly traded; – current vesting schedule reflecting past and future vesting; – brokerage or bank statement showing receipt of previous year(s) distribution of restricted stock and, at a minimum, the number of vested shares or cash equivalent; – a completed Request for Verification of Employment (Form 1005) that shows restricted stock distributions, or the borrowers recent paystub showing receipt of restricted stock income; and – the borrower's IRS W-2 forms covering the most recent two-year period. » The calculation method for restricted stock income will vary depending on whether payment is made is shares or cash. – For income paid in shares: (200-Day Moving Average of share price x total number of distributed vested shares (pre-tax) in most recent 24 months) / 24 months – For income paid in cash: Total cash distributed (pre-tax) equal to the total value of vested shares in the most recent 24 months / 24 months » **Note:** When the borrower has a history of income ranging from 12-24 months, REMN must use the actual number of months the borrower has received the income rather than 24 months.

<table>
<tr>
<td>Retirement, Government Annuity and Pension Income</td>
<td>
» Document regular and continued receipt of the income, as verified by:
– Letters from the organizations providing the income,
– Copies of retirement awards letters,
– Copies of signed federal income tax returns,
– Copies of financial or bank account statements,
– IRS W2 or 1099 Forms; or,
– Proof of current receipt.
» If income from a government annuity or pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement will specify the income type, amount and frequency of the payment, and include confirmation of the initial start date.
» If retirement income is paid in the form of a distribution from a 401k, IRA or Keogh Retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.
– The borrower must have unrestricted access without penalty to the accounts.
</td>
</tr>
<tr>
<td>Social Security Income</td>
<td>
» Social Security income for retirement or long-term disability that the borrower is drawing from his/her own account/work record will not have a defined expiration date and must be expected to continue.
» Social Security income based on another person's account/work record or from the borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided the lender documents a 3-year continuance.
» Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown below.
<table>
<tr><th>Type of Social Security Benefit</th><th>Borrower is drawing Social Security Benefits from own account/work record</th><th>Borrower is drawing Social Security Benefits from another person’s account/work record[1]</th></tr>
<tr><td>Retirement</td><td rowspan="2">» Social Security Administrator’s (SSA) Award Letter
» SSA-1099
» Most recent signed federal income tax returns (or tax transcripts) - OR -
Proof of current receipt</td><td rowspan="3">SSA Award Letter,
Proof of current receipt – AND – Three (3) year continuance (e.g. verification of beneficiary’s age)</td></tr>
<tr><td>Disability</td></tr>
<tr><td>Survivor Benefit</td><td>N/A</td></tr>
<tr><td>Supplemental Security Income (SSI)</td><td>SSA Award Letter – AND – Proof of current receipt</td><td>N/A</td></tr>
</table>
[1] Examples of how a borrower might draw Social Security benefits from another person’s account/work record and use the income for qualifying:
» A borrower may be eligible for benefits from spouse, ex-spouse or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or,
» A borrower may use Social Security income received by a depended (a minor or disabled dependent).
</td>
</tr>
</table>

INCOME & EMPLOYMENT	
Royalty Payment Income	» Obtain copies of; – Royalty contract, agreement or statement confirming amount, frequency and duration of the income; and, – Borrowers' most recent signed federal income tax returns, including the related IRS Form 1040 Schedule E. » Confirm that the borrower has received royalty payments for at least twelve (12) months and that the payments will continue for a minimum of three (3) years after the date of the mortgage application. » Refer to Variable Income for additional information.
Trust Income	**Verification of Trust Income** » Obtain one of more of the following trust verification documents to confirm the amount, frequency, type of income being received, and the date the trust was created: – a copy of the trust agreement, – the trustee's statement, – the trust's federal income tax returns, or – a letter from an accountant or attorney who reviewed the trust documents, when the above documents are not available or when the borrower is the trustee. – **Note**: A borrower who is also a trustee may not supply the trustee's statement. » Confirm the trust was established for 12 months or longer, unless all of the following requirements are met: – the trust verification documentation reflects fixed payments, – the borrower is not the grantor, and – at least one payment is received prior to closing. – **Note:** Trusts created in the previous 12 months using a borrower's eligible employment-related assets, as defined in Employment-Related Assets as Qualifying Income, may still be used as stable income but must meet the income calculation and all other requirements in Employment-Related Assets as Qualifying Income. » Confirm continuance of income per Continuity of Income. This confirmation must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined. » If any assets from the trust are being used for down payment, closing costs, or reserves, those assets must be subtracted from the total amount before determining if the trust income meets the Continuity of Income requirements. **Requirements for Trust with Fixed Payments** » Use the fixed payment amount from the trust agreement as the borrower's qualifying income, converting it to a monthly amount, as applicable. » Document current receipt of trust income with one month's bank statement or other equivalent documentation. **Requirements for Trust with Variable Payments** » Calculate the qualifying income amount per Variable Income section. » Document the following: – a minimum 24-month history of trust income by obtaining copies of the borrower's signed federal tax income tax returns for the most recent two years **or** copies of the trust's federal income tax returns for the most recent two years, and – current receipt of trust income with one month's bank statement or other equivalent documentation. – **Note:** Income received for 12 to 24 months may be considered as acceptable income when other positive factors are present that reasonably offset a shorter income history.

Unemployment Benefits – Seasonal Workers Only	» Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with **seasonal employment** that is reported on the borrower's signed federal income tax returns. – Seasonal employment is considered predictable, so unemployment compensation related to this employment, if properly verified and documented, is considered predictable as well. – Union jobs are NOT considered seasonal, so unemployment compensation related to these is not considered predictable and not eligible for qualification. » Verify that the seasonal income is likely to continue. » Document that the borrower has received the payments consistently for at least two (2) years by obtaining copies of signed federal income tax returns. » See Seasonal Income for additional information about verification of seasonal income.

Self-Employed Borrowers

Self-Employed Borrower Overview

» When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has actually been distributed to the borrower. The fundamental exercise, when conducting self-employment income cash-flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate sufficient income to enable these borrowers to meet their financial obligations.

Factors to Consider For a Self-Employment Borrower

» Any individual who has 25% or greater ownership interest in a business is considered to be self-employed. The following factors must be analyzed before approving a mortgage for a self-employed borrower:
  - The stability of the borrower's income
  - The location and nature of the borrower's business
  - The demand for the product or service offered by the business
  - The financial strength of the business
  - The ability of the business to continue generating sufficient income to enable the borrower to make the payments on the requested mortgage, and

Length of Self-Employment

- FNMA generally requires a 2-year history of the borrower's earnings as a means of demonstrating the likelihood that the income will continue to be received.
- However, the income of a person who has less than a two-year history of self-employment may be considered, as long as the borrower’s most recent signed personal and business federal income tax returns reflect a full year (12 months) of self-employment income from the current business. The loan file must also contain documentation to support the history of receipt of prior income at the same (or greater) level and
  - in a field that provides the same products or services as the current business, or
  - in an occupation in which they had similar responsibilities to those undertaken in connection with the current business.
- In such cases, REMN must give careful consideration to the nature of the borrower’s level of experience, and the amount of debt the business has acquired.

Verification of Income

- REMN will verify a self-employed borrower's income by obtaining from the borrower copies of his/her signed federal income tax returns (both individual and in some cases, business returns) that were filed with the IRS for the past two (2) years with all applicable schedules attached.
- Alternatively, REMN may use IRS-issued transcripts of the borrower’s individual and business federal income tax returns that were filed with the IRS for the most recent two years—as long as the information provided is complete and legible and the transcripts include the information from all of the applicable schedules.
- REMN may provide one year of personal and business tax returns if the following requirements are met:
  - the business from which the borrower is using self-employed income must have been in existence for five years as reflected on the Form 1003, and the borrower has had an ownership share of 25% or more for the past five years consecutively, and
    - for partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on the Form 1003. If the business was in existence prior to the borrower having 25% or ownership, then the leader must demonstrate the borrower has had 25% or more ownership for at least five years consecutively.
    - for sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on the Form 1003 for the number of years the business has been in

	existence. ▪ all businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self employment income sources. ▪ REMN must complete Fannie Mae's Cash Flow Analysis (Form 1084) or any other type of cash flow analysis form that applies the same principles. A copy of the written analysis must be included in the permanent loan file. – **NOTE**: Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns. Documentation must be obtained through a reliable source, such as an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, or partnership agreements. – When two years of signed individual tax returns are provided, REMN may waive the requirement for business tax returns if: ▪ the borrower is using personal funds to pay down payment and closing costs and satisfy applicable reserve requirements, ▪ the borrower has been self-employed in the same business for at least five years (requirements noted above), and ▪ the borrower's individual tax returns show an increase in self-employment income over the past two years from the respective business.

INCOME & EMPLOYMENT	
Analysis of Borrower's Personal Income	» REMN must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This is not required when a borrower is qualified using only salaried income (not derived from self-employment) and self-employment is a secondary/separate source of income (or loss). » FNMA Form 1084 or any other type of cash flow analysis that applies the same principles may be used. » Copy of the written analysis must be retained in the individual mortgage file.
Analysis of Borrower's Business Income	» When a borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit REMN to waive the business tax returns are not met, REMN must prepare a written evaluation of its analysis of the borrower's business income. REMN must evaluate the borrower's business through its knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long-term earnings. » The purpose of this analysis is to – Consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation, – Measure year-to-year trends for gross income, expenses and taxable income for the business, – Determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and, – Determine a trend for the business based on the change in these percentages over time. » FNMA Comparative Income Analysis (Form 1088), or any other method of trend analysis that enables business viability to be determined, may be used, as long as other method fairly presents the viability of the business and results in a degree of accuracy that is comparable with to that of Form 1088. » A copy of the written analysis and conclusions must be retained in the individual mortgage file.
Use of Business Assets	» When a borrower is using self-employment income to qualify for the loan and also intends to use assets from their business as funds for the down payment, closing costs, and/or financial reserves, REMN WS must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. To assess the impact, REMN WS may require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset statements in order to see cash flow needs and trends over time, or a current balance sheet). » This may be due to the amount of time that has elapsed since the most recent tax return filing, or REMN WS' need for information to perform its analysis. See Depository Accounts for requirements when self-employment income is not being used to qualify, but business assets are being used for the down payment, closing costs, and/or financial reserves.
Income Verification for Self-Employed Co-Borrowers	» When co-borrower income that is derived from self-employment is not being used for qualifying purposes, REMN WS is not required to document or evaluate the co-borrower's self-employment income (or loss). » Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income (DTI) ratio.

Self-Employed Income or Loss Reported on IRS Form 1040, Schedule C	» Income (or Loss) from a Sole Proprietorship – The income (or loss) from a borrower's sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040. – REMN WS may need to make certain adjustments to the net profit or loss shown on Schedule C to arrive at the borrower's cash flow. For example, Schedule C may include income that was not obtained from the profits of the borrower's business. If REMN WS determines that such income is not recurring, it should adjust the borrower's cash flow by deducting the nonrecurring income. » Recurring vs. Non-recurring Income and Expenses – REMN WS must determine whether the income is recurring or non-recurring. – Non-recurring income must be deducted in the cash-flow analysis, including any exclusion for meals and entertainment expenses reported by the borrower on Schedule C. – The following recurring items claimed by the borrower on Schedule C must be added back to the cash flow analysis: ▪ Depreciation ▪ Depletion ▪ Business use of a Home ▪ Amortization, and ▪ Casualty losses.

INCOME & EMPLOYMENT

Self-Employed Income or Loss Reported on IRS Form 1065, 1120s or K-1

» The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes;
- Partnership – Reported on IRS Form 1065, Schedule K-1,
- S corporation – Reported on IRS Form 1120S, Schedule K-1
- LLC – Reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.

» The underwriter must use caution when including income that the borrower draws from the borrower's partnership or S Corporation as qualifying income. Ordinary income, net real estate income and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow only provided the underwriter can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:
- If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, then these payments can be added to the borrower's cash flow.
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. But if the Schedule K-1 does not reflect a documented, stable history, then REMN WS must confirm adequate business liquidity, as discussed below.

» If business tax returns are required, then REMN WS must consider the type of business structure and analyze the business returns, according to the requirements described in Fannie Selling Guide B3-3.2-01, Underwriting Factors and Documentation for a Self-Employed Borrower.

» REMN WS may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, REMN WS may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

» It is important that the underwriter select a business liquidity formula based on how the business operates. For example:
- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
  - Quick Ratio = (Current Assets – Inventory) / Current Liabilities
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.
  - Current Ratio = Current Assets / Current Liabilities

» While a result of one or grater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings, REMN may support adequate liquidity using alternative methods with a documented rationale.

Documentation Requirements

The following table describes the documentation that the borrower must provide. The borrower must provide all of the below:

Documentation Requirements
• The most recent two (2) years of signed individual federal income tax returns – IRS Form 1040; or • The most recent one (1) year of signed individual federal income tax returns, if permitted by DU*.
• The most recent two (2) years of IRS Schedule K-1; or • The most recent one (1) year of IRS Schedule K-1, if permitted by DU*.
• The most recent two (2) years of business federal income tax returns (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met; or • The most recent one (1) year of business federal income tax returns, if permitted by DU*.

*In cases where DU Approve/Eligible findings require one (1) year tax return, REMN WS must still verify that the tax return reflects a full 12 months of self-employed income (cannot be less)
- ➢ 2014 1040: Accountant/CPA would need to reflect business started on or before 12/31/2013.
- ➢ 2015 1040: Accountant/CPA would need to reflect business started on or before 12/31/2014.

FNMA Cash Flow Analysis (Form 1084) or any other type of cash flow analysis that applies the same principles must be completed.

INCOME & EMPLOYMENT	
Analyzing Returns for a Partnership or LLC	**Evaluating the Business Income** » When the borrower has 25% or more ownership interest in the business and business tax returns are required, REMN must perform a business cash flow analysis and evaluate the overall financial position of the borrower's business to determine whether • Income is stable and consistent, and • Sales and earnings trends are positive. » If the business does not meet these standards, business income cannot be used to qualify the borrower. **Borrower's Proportionate Share of Income or Loss** » The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1. » REMN can only consider the borrower's proportionate share of business income or loss after making the adjustments to the business cash flow analysis discussed below. **Adjustments to Business Cash Flow** » Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring. » The following items should be subtracted from the business cash flow: • Meals and entertainment exclusion, • Other Reported income that is not consistent and recurring, and • The total amount of obligations on mortgages or notes that are payable in less than one (1) year. » These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them. **Income from Partnerships, LLC's, Estates and Trusts** » Income from partnerships, LLC's, estates or trusts can only be considered if REMN obtains documentation verifying that: – The income was actually distributed to the borrower, or – The business had adequate liquidity to support the withdrawal of earnings. If Schedule K-1 provides this confirmation, no further documentation of business liquidity is required. » REMN WS may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, REMN WS may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities. » It is important that the underwriter select a business liquidity formula based on how the business operates. For example: – The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities. • Quick Ratio = (Current Assets – Inventory) / Current Liabilities – The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income. • Current Ratio = Current Assets / Current Liabilities » While a result of one or grater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings, REMN may support adequate liquidity using alternative methods with a documented rationale.

REMN WHOLESALE FANNIE MAE PRODUCT DESCRIPTION

INCOME & EMPLOYMENT	
Analyzing Returns for an S Corporation	**Evaluating the Business Income** » When the borrower has 25% or more ownership interest in the business, REMN must perform a business cash flow analysis and evaluate the overall financial position of the business and confirm: • Income is stable and consistent, and • Sales and earnings trends are positive. » If the business does not meet these standards, business income cannot be used to qualify the borrower. **Borrower's Proportionate Share of Income or Loss** » The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if REMN obtains documentation verifying that: – The income was actually distributed to the borrower consistent with the level of business income reflected on the K-1, or – The business has adequate liquidity to support the withdrawal of earnings. » REMN WS may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, REMN WS may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities. » It is important that the underwriter select a business liquidity formula based on how the business operates. For example: – The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities. • Quick Ratio = (Current Assets – Inventory) / Current Liabilities – The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income. • Current Ratio = Current Assets / Current Liabilities » While a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings, REMN may support adequate liquidity using alternative methods with a documented rational. **Adjustments to Business Cash Flow** » Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring. » The following items should be subtracted from the business cash flow: • Meals and entertainment exclusion, • Other Reported income that is not consistent and recurring, and • The total amount of obligations on mortgages or notes that are payable in less than one (1) year. These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.
IRS 4506C Requirements	» For Fannie Mae loans, REMN's LOS has been programmed to randomly indicate if tax transcripts are required on a pre-closing basis (i.e. "Order Tax Transcripts" field will indicate "Yes" or "No" as to whether the transcripts must be ordered).

ASSETS	
Verification of Deposits and Assets	The following types of documentation can be used to verify that a borrower has sufficient funds for closing, down payment, and/or financial reserves: » Request for Verification of Deposit (Form 1006 or Form 1006(S)). The information must be requested directly from the depository institution, and the complete, signed, and dated document must be sent directly from the depository institution. » Copies of bank statements or investment portfolio statements. All statements must: o clearly identify the borrower as the account holder, o include at least the last four digits of the account number, o include the time period covered by the statement, o include all deposits and withdrawal transactions (for depository accounts), o include all purchase and sale transactions (for financial portfolio accounts), and o include the ending account balance. The borrower can obtain a transaction printout from their financial institution. However, sourcing of the document (URL) is required. The printout or alternative verification is acceptable as long as all required data (above) is supplied and documented. » Direct verification by a third-party asset verification vendor. These verifications are acceptable as long as: o the borrower provided proper authorizations for REMN WS to use the verification method, o the verified information provided must conform with the information that would be provided on Form 1006, Form 1006(S), or on bank statements, o the date of the completed verification is in compliance with Allowable Age of Credit Documents and Federal Income Tax Returns requirements. o REMN WS has determined that the vendor maintains reasonable practices that ensure reliable and authorized verifications of deposit and asset information (seeA4-1-01, Maintaining Seller/Servicer Eligibility (12/16/2020)), and o REMN WS understands it will be held accountable for the integrity of the information obtained from this source. » Copies of retirement account statements. They must be the most recent statements, and they must identify the borrower's vested amount and the terms. (See B3-4.3-03, Retirement Accounts (06/30/2015), for additional information.) The number of required bank or investment portfolio statements varies per transaction type as shown in the following table.

Documentation Requirements	
Purchase Transactions	The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).
Refinance and Cash-Out Transactions	The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).

If the latest bank statement is more than 45 days earlier than the date of the loan application, REMN WS should ask the borrower to provide a more recent, supplemental, bank-generated form that shows at least the last four digits of the account number, balance, and date. The statements may be computer-generated forms, including online account or portfolio statements downloaded by the borrower from the Internet.

Documents that are faxed to REMN WS or downloaded from the Internet must clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet or fax banner at the top of the document.

If necessary, REMN WS must supplement these verifications by obtaining any missing information from the borrower or the depository institution.
Note: Files submitted to DU will not require documentation of assets for refinance transactions when the total funds to be verified are $500 or less.

Depository Accounts	» Funds held in a checking, savings, money market, certificate of deposit or other depository account may be used for down payment, closing costs and financial reserves. – Must include at least the last four (4) digits of the account number » Unverified funds are not acceptable for down payment, closing costs or financial reserves. » REMN must investigate any indication of borrowed funds. **NOTE**: On an exception basis only, REMN WS Operations and/or UW Managers may approve the use of a completed Verification of Deposit (VOD) in lieu of bank statements as described below. This VOD is only allowed in cases where the bank statements have not yet been received. If bank statements have been received, the exception allowance for the VOD is NOT available. **Business Assets** » Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves. The borrower must be listed as an owner of the account and the account must be verified in accordance with Verification of Deposits and Assets. If the borrower is also using self-employment income from this business to qualify, see Self-Employment Income for additional information on the analysis of a self-employed borrower. **Bank Statements (Evaluating Large Deposits)** » When bank statements (covering the most recent full two-month period of account activity) are used, REMN must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Complete statements for each month must be provided. » REMN must obtain the borrower's written explanation and documentation of source of funds for large deposits, » Any bank account opened within 90 days of the application date with REMN or has a current balance significantly higher than the average balance must be investigated. **Refinance Transactions** » Documentation or explanation for large deposits is not required; however, REMN remains responsible for ensuring that any borrowed funds, including any related liability, are considered. **Purchase Transactions** » If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs or financial reserves), REMN must document that those funds are from an acceptable source. o Occasionally, a borrower may not have all of the documentation required to confirm the source of a large deposit. In those instances, REMN must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. o Examples of acceptable documentation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. REMN must place in the loan file written documentation of the rationale for using the funds. » Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and REMN must confirm that the remaining funds for the down payment, closing costs and financial reserves. » When REMN uses a reduced asset amount, net of the unsourced amount of a large deposit(s) that reduced amount must be used for underwriting purposes. **Note**: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. » Scenario 1: Borrower has monthly income of $4,000 and an account at ABC Bank with a balance of $20,000. A deposit of $3,000 is identified, but $2,500 of that deposit is document as coming from the borrower's federal income tax refund. o Only the unsourced $500 (the deposit of $3,000 minus the documented $2,500) must be considered in calculating whether it meets the large deposit definition. o The unsourced $500 is 12.5% of the borrower's $4,000 monthly income, falling short of the 50% definition of a large deposit. » Scenario 2: Using the same borrower example, a deposit of $3,000 is identified, but only $500 is documented coming from the borrower's federal income tax refund, leaving $2,500 unsourced. o In this instance, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit.

	o Therefore, the unsourced $2,500 must be subtracted from the account balance of $2,000 and only the remaining $17,500 may be used for underwriting purposes. » Scenario 3: Total qualifying income for a loan is $5,000 and bank statement contains 4 separate deposits of $1,000 each, for a monthly total of $4,000. Since each single deposit is less than $2,500 (50% of $5,000) it TECHNICALLY does not need to be explained. **Note**: Although the technical calculation would indicate that an explanation is not required, if the total monthly income for a loan is $5,000 and within a one-month period there were non- payroll deposits of $4,000 - REMN would require additional explanation and documentation of the non-payroll deposits. » If the source of a large deposit is readily identifiable on the account statement, such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund and the source of the deposit is printed on the statement, REMN does not need to obtain further explanation or documentation. » REMN will continue to require that all loans be fully underwritten for overall risk and "common sense" approach to lending.
Joint Access Letters	» When an individual, other than the borrower(s), are on a bank account(s), a joint access letter is NOT required.
Retirement Accounts	» Vested funds from individual retirement (IRA/SEP/Keogh accounts) and tax-favored retirement accounts (401k) are acceptable sources of funds for down payment, closing costs & reserves. » REMN must verify the ownership of these accounts and the borrower's actual receipt of the funds realized from the liquidation of the assets if needed to complete the transaction. » When funds from retirement accounts are used for reserves, FNMA does not require the funds to be withdrawn from the account(s). However, REMN must exercise caution when considering the retirement accounts as effective reserves because these accounts often; – Are in the form of stocks, bonds or mutual funds, – Feature significant penalties for early withdrawals, – Allow limited access; or, – Have vesting requirements. » If the retirement assets are in the form of stocks, bonds or mutual funds, the account(s) must meet the requirements listed in the Stocks, Bonds, Mutual Funds section for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When retirement account(s) are used for reserves, REMN does not require funds to be withdrawn from the account(s). » In order to be considered as effective reserves, retirement accounts must be vested and allow withdrawals regardless of current employment status.
Cash-Value of Life Insurance	» If funds are needed for the down payment or closing costs, REMN must document the borrower's receipt for the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. » If the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the borrower.

Credit Card Reward Points	» Credit card reward points are acceptable funds for use towards closing costs, down payment, and financial reserves, provided the reward points are converted to cash prior to the closing of the loan. » The following requirements apply: – If the credit card reward points are converted to cash and deposited into the borrower's depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit. In this event, REMN WS must follow the requirements in Evaluating Large Deposits in B3-4.2-02, Depository Accounts. – If the credit card reward points are converted to cash, but not deposited into a borrower's depository account, REMN WS must provide evidence the reward points were available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and converted to cash prior to the closing of the loan. » For DU loan casefiles, if the reward points are not already converted to cash and deposited into a depository account, lenders must enter the cash value of the reward points as an Asset with an Account Type of "Other" and a description of "Other Liquid". See B3-4.4-02, Requirements for Certain Assets in DU for more information.
Employer Assistance	» Forms of Employer Assistance (if secured second mortgage, see Subordinate Financing for additional details) – A grant – A direct, fully-repayable second mortgage or unsecured loan – A forgivable second mortgage or unsecured loan, or – A deferred-payment second mortgage or unsecured loan. » Primary residence only; not allowed for 2nd home or Investment property transactions » Funds must come directly from the employer, including through an employer-affiliated credit union » Minimum Borrower Contribution Requirements must be met. » Documentation requirements: – Program is an established company program, not just an accommodation for an individual employee. – The dollar amount of the employee assistance – Terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts) » That the borrower received the employer assistance funds directly from the employer (or through an employer-affiliated credit union).
Funds to Close	» Earnest money deposit funds from an acceptable source and the borrower has sufficient assets remaining to complete the mortgage transaction (down payment, closing costs and prepaids) and provide reserves (if required) must be verified. – Earnest money deposit must be sourced if it is considered by the DU findings and listed on the 1003. – If the earnest money deposit is not considered by DU and NOT listed on the 1003, it does not need to be sourced. » Bank statements must evidence that the average balance for the past two months was large enough to support the amount of deposit – If a copy of the canceled deposit 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 – If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent or the settlement attorney should be provided » Large earnest money deposits and/or deposits verified on the bank statements that exceed the amount customary for the borrower should be closely evaluated. » Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.
Down Payment	» Minimum down payment must come from an acceptable source and the borrower must have sufficient funds remaining to complete the mortgage transaction

<table>
<tr><td>Foreign Assets</td><td>» The lender must document all sources of funds used for down payments, closing costs and financial reserves. All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.
» When the source of those funds originates from assets located outside of the U.S. and its territories, those assets require documented evidence of the foreign assets exchanged into U.S. dollars and held in a U.S. or state regulated financial institution, and verification of the funds in U.S. dollars prior to the loan closing.</td></tr>
<tr><td>Cash on Hand</td><td>» REMN does not allow cash on hand as acceptable source of funds.</td></tr>
<tr><td>Seller / Interested Party Contributions (IPC)</td><td>» IPC's are either financing concessions or sales concessions. FMNA considered the following IPC's;
– Funds that are paid directly from the interested party to the borrower.
– Funds that flow from an interested party through a third (3rd) party; including non-profit to borrower.
– Funds that flow to the transaction on the borrower's behalf from an interested party; including a third (3rd) party organization or non-profit agency; and,
– Funds that are donated to a third (3rd) party, which provides the money to pay some or all of the closing costs for a specific transaction.
NOTE: A REMN WS credit derived from premium pricing is not considered an IPC even if REMN WS is an interested party to the transaction.
NOTE: A legitimate pro-rated real estate tax credit in places where real estate taxes are paid in arrear is not considered a financing concession and is not subject to FNMA IPC limits.
» FNMA does not permit the IPC's to be used to make the borrower's down payment, meet financial reserve requirements or meet minimum borrower contribution requirements.
» Sales concessions are IPC's that take the form on non-realty items. They include; cash, furniture, automobiles, decorator allowances, moving costs and other giveaways, as well as financing concessions that exceed FNMA limits. Consequently, the value of sales concessions must be deducted from the sales price when calculation the LTV/CLTV/HCLTV ratios.
<table>
<tr><th>Occupancy Type</th><th>LTV/CLTV/HCLTV</th><th>Maximum IPC</th></tr>
<tr><td rowspan="3">Principal Residence
OR
Second Home</td><td>≥90.01%</td><td>3%</td></tr>
<tr><td>75.01% - 90.00%</td><td>6%</td></tr>
<tr><td>75.00% or Less</td><td>9%</td></tr>
<tr><td>Investment Property</td><td>All LTV/CLTV/HCLTV</td><td>2%</td></tr>
</table></td></tr>
<tr><td>Use of Real Estate Commission for Subject Transaction</td><td>» If the borrower is a licensed realtor who will earn a commission on the subject property, the funds are considered acceptable to be used at the time of settlement for down payment and closing costs. REMN must document the following:
o The settlement statement must reflect the commission earned by the borrower, and
o The earned commission amount must be credited towards the mortgage loan.
» Note: For DU loan casefiles, earned real estate commission must be entered as a Credit Type of "Other" in Section 2b of the online loan application.</td></tr>
</table>

ASSETS	
Gift Letter	Gifts must be evidenced by a letter signed by the donor, called the gift letter. When the gift is sourced by a trust established by an acceptable donor or an estate of an acceptable donor, the gift letter must be signed by the donor and list the name of the trust of the estate account. The gift letter must: » Specify the dollar amount of the gift, » Specify date funds were transferred, » Include donor's statement that no repayment is implied or required; and, » Indicate donor name, address, phone number and relationship to borrower. When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included: » A certification from the donor stating that he/she has lived with the borrower for the past 12 months and will continue to do so in the new residence. » Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to; a copy of driver's license, a bill or bank statement.
Gift Funds Transfer	REMN must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings or investment account, or trust or estate account owned by the donor) or have been transferred to the borrower's account. Acceptable documentation includes the following; » Copy of donor's check and borrower's deposit slip, » Copy of donor's withdrawal slip and borrower's deposit slip, » Evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent, » Copy of donor's check to the closing agent; or, » Settlement statement showing receipt of the donor's check. **Note**: When funds are not transferred prior to settlement, the closing agent must document receipt of gift funds in the form or a certified check, cashier's check or other official check. – If the borrower receives a gift from an acceptable donor who has lived with the borrower for the last 12 months, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.
Gift Funds	» Gift funds may fund all or part of the down payment, closing costs or financial reserves subject to the minimum borrower contribution requirements below:

LTV/CLTV/HCLTV	Minimum Borrower Contribution Requirement from Own Funds	
≤80.00%	1-4 Unit Primary Second Home	A minimum borrower contribution from the borrower's own funds is <u>not</u> required. All funds can come from a gift.
≥80.01% **(MI Guidelines must be followed on LTV's ≥ 80.01%)**	1 Unit Primary	A minimum borrower contribution from the borrower's own funds is <u>not</u> required. All funds can come from a gift.
	2-4 Unit Primary Second Home	A minimum 5% borrower contribution from borrower's own funds required. After the minimum borrower contribution has been met, gifts can be used to supplement down payment, closing or reserves.

	» Gifts are not allowed on investment property. » An outright gift of cash investment is acceptable provided the donor is; – The borrower's relative; defined as the borrower's spouse, child or other dependent or by any other individual who is related to the borrower by blood, marriage or legal guardianship; or, – a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent. » Gifts must come from individuals related to the borrower, as per above. Trusts and estates do NOT meet the gift donor requirements. » The donor may not be or have any affiliation with the builder, developer, real estate agent or any other interested party to the transaction (e.g. borrower's parent, who is also the selling realtor giving a gift of cash or commission to the borrower for down payment). – Gifts from these sources are considered inducements and must be subtracted from the sales price. » When gift funds from an acceptable donor is being pooled with the borrower's funds to make up the required minimum down cash down payment, the following items must also be included; – A certification from the donor stating that he/she has lived with the borrower for the past twelve (12) months and will continue to do so in the new residence. – Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's (i.e. driver's license, bill, bank statements, etc.). » A contribution from an individual who is on the purchase agreement/title but is not obligated on the note is acceptable and is **not** deemed a gift to the borrower. – REMN WS must enter the funds from the title-only individual(s) as "other liquid assets". » A gift of Equity refers to a gift provided by the seller of a property to the borrower. The gift represents a portion of the seller's equity in the property and is transferred to a buyer as a credit in the transaction. A gift of equity is permitted for principal residence and second home purchase transactions. » The acceptable donor and minimum borrower contribution requirements for gifts apply to gift of equity.
Definition of Related Person	» Fannie Mae defines a person related to the borrower as follows: – Spouse, Child, or Dependent – Individuals related by Blood, Marriage, or Adoption – Guardian of the Borrower – A person for whom the Borrower is a Guardian – The Borrower's Fiancée or Fiancé – The Borrower's Domestic Partner – An Unrelated Individual with Close, Family-Like Ties to the Borrower » The following are **not** considered related persons. However, gift funds **may** be sourced from the following: – A trust established by a person related to the borrower – An estate of a person related to the borrower » **Note:** Gift funds from the seller who is also an acceptable donor and not affiliated with any other interested party to the transaction are allowed. The donor of a gift of equity is not considered an interested party to the transaction.

ASSETS	
Business Assets	» Business assets can be used for down payment, closing costs and reserves when a borrower is self-employed and the individual federal income tax returns have been evaluated by REMN WS, including, when applicable, the business federal income tax returns for that particular business (non-Schedule C). – When business assets are used, the borrower must be listed as an owner on the account and the account must be verified following verification of deposit/bank statement guidelines. Although the borrower is no longer required to be 100% owner of the business, the underwriter may ask for additional information where there is a huge difference between the percentage of ownership and percentage of funds being used. Example: A borrower owns 5% of the business but is using a substantial portion of the business assets for down payment, closing costs and/or reserves. NOTE: FNMA has confirmed that if the bank statement does not reflect the borrower's name, then REMN WS must obtain something from the bank to show that our borrower is an owner of the business. » A CPA letter is no longer required/available confirming that the withdrawal of business funds will not be detrimental to the business – virtually all CPA's will refuse to provide such a letter, based upon guidance from their professional trade organization, the requirement was modified. REMN WS is still required to perform a cash-flow analysis to confirm the withdrawal will not have a negative impact on the business. – Cash flow analysis will include an analysis of monthly expenses, and an examination of the types of monthly expenses when considering the impact of funds being withdrawn. Situations with mandatory monthly expenses will require more funds be left in the business account than a business that is a simple individual that works from their home and has no true monthly expenses that are paid from that business. – Cash-flow analysis is accomplished with three (3) months business statements. » Because FNMA did not give "absolute" criteria regarding impact to the business, the above guidance is provided. The final decision regarding what documentation will be required rests solely with the Underwriter and is heavily dependent on the characteristics of the subject loan. » Additional REMN WS guidance: Obtain three (3) months business bank statements supporting average running balance in account remaining the same or better. Underwriter to certify the amount of business funds used for closing will not deplete the balance in the business account. Balance should change by a minimum amount (less than half the balance) to be used in the loan transaction. Transaction should not deplete the majority of the business account.
Gift of Equity	» A gift of equity refers to a gift provided by the seller of a property to the borrower. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for principal residence and second home purchase transactions. The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. » The following must be retained in the loan file; – A signed gift letter; and, – The CD listing the gift of equity. » If the requirements listed in this topic are met, the gift of equity is not subject to FNMA's Interested Party Contribution requirements.

Stocks, Bonds, Mutual Funds	» 100% of the account value is permitted for post-closing reserves (including retirement accounts) » If stocks/bonds/mutual funds will be used for down payment &/or closing costs, please note: • If value of combined assets is at least 20% more than what borrower needs, liquidation is not required o EXAMPLE 1: ▪ Asset(s) from stocks/bonds/mutual funds are $100,000 ▪ Borrower needs at least $75,000 to close; $75,000 x 120% = $90,000 ▪ Since borrower has more than $90K in stocks/bonds/mutual funds, evidence of liquidation is not required o EXAMPLE 2: ▪ Asset(s) from stocks/bonds/mutual funds are $100,000 ▪ Borrower needs at least $85,000 to close; $85,00 x 120% = $102,000 ▪ Since borrower does not have more than $102K in stocks/bonds/mutual funds, evidence of liquidation is required. • Refer to FNMA Selling Guide (Section B3-4.3-01 Stocks, Stock Options, Bonds and Mutual Funds) in regards to determining the value of the asset. • As a reminder, non-vested assets are not eligible for down payment, closing costs and/or reserves.
Virtual Currency	» Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and financial reserves provided the following requirements are met: – there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and – the funds are verified in U.S. dollars prior to the loan closing. » A large deposit may be from virtual currency that was exchanged into U.S. dollars. The lender must obtain sufficient documentation to verify the funds originated from the borrower's virtual currency account. » Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.

ASSETS	
Reserve Requirements	**What are Liquid Financial Reserves?** » Liquid financial reserves are those liquid or near liquid assets, that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the borrower's: – Drafting or withdrawing funds from an account, selling an asset, redeeming vested funds; or, obtaining a loan secured by assets from a fund administrator or an insurance company. » 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/her financial assets. **Acceptable Sources of Reserves** » Checking or Savings Accounts, Investment in stocks, bonds, mutual funds, certificates of deposit, money market funds and trust accounts, the amount vested in retirement savings and cash value of a vested life insurance policy. Note: Certain assets must be discounted when used for reserves. **Unacceptable Sources of Reserves** » Funds that have not been vested, funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death, stocks held in an unlisted corporation, stock options and non-vested restricted stock, personal unsecured loans, interested party contributions, any amount of a REMN WS credit derived from premium pricing, and cash proceeds from a cash-out refinance transaction on the subject property. **DU Loan Casefiles** » With release of DU 10.3, cash-out refinance transactions for borrowers with DTI ratio exceeding 45% must have at least six (6) months reserves. If < 6mos, an Ineligible recommendation will be received. » DU will determine the reserve requirements based on the overall risk assessment of the loan and the minimum reserves requirement that may be required for the transaction, and whether the borrower has multiple financed properties. » If a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculation for the other financed properties on the number of financed properties determined by DU. See below table for details. **Principal Residence** » Per DU findings » No additional reserves required for borrowers converting their current principal residence to a second home or investment property, as per FNMA Selling Bulletin SEL-2015-07.
	Second Home or Investment Property » Per DU. » If the borrower owns other financed properties, the following additional reserves must be calculated and documented. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages & HELOCs on these other financed properties. The percentages are based on the number of financed properties: – 2% of the aggregate UPB if the borrower has 1-4 financed properties, – 4% of the aggregate UPB if the borrower has 5-6 financed propertied, or – 6% of the aggregate UPB if the borrower has 7-10 financed properties » The aggregate UPB calculation does not include mortgages and HELOCs that are on: – The subject property – The borrower’s primary residence, – Properties that are sold or pending sale, and – Accounts that will be paid by closing (or omitted in DU on the online application). – **NOTE**: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application. (Continued on following page)

ASSETS

Reserve Requirements (continued)

Examples of Reserves Calculations – Multiple Financed Properties Transactions

The following tables contain examples of reserves calculations for borrowers with multiple financed properties

Example 1: Three (3) Financed Properties

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Second Home	$78,750	$776	2 months PITIA	$1,552
Principal	$0	$179	N/A	$9
Investor	$87,550	$787	$230,050 x 2% =	$4,601
Investor	$142,500	$905		
TOTAL	**$230,050**		**TOTAL =**	**$6,153**

Example 2: Six (6) Financed Properties

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Investor	$78,750	$776	6 months PITIA	$4,656
Principal	$133,000	$946	N/A	$0
Investor	$87,550	$787	$345,030 x 4% =	$13,801
Investor	$142,500	$905		
Investor	$84,950	$722		
Investor	$30,030	$412		
TOTAL	**$345,030**		**TOTAL =**	**$18,457**

Example 3: Eight (8) Financed Properties

Occupancy	Outstanding UPB	Monthly PITIA	Reserves Calculations	
Subject: Investor	$78,750	$776	6 months PITIA	$4,656
Principal	$133,000	$946	N/A	$0
Investor	$87,550	$787	$629,530 x 6% =	$37,772
Investor	$142,500	$905		
Investor	$84,950	$722		
Investor	$30,030	$412		
Second Home	$124,500	$837		
Investor	$160,000	$1,283		
TOTAL	**$629,530**		**TOTAL =**	**$42,427**

Sale of Personal Assets

» Proceeds from the sale of personal assets 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**
» REMN WS must document the following:
» The borrower's ownership of the asset for all asset types that are titled assets, for example automobile title.
» The value of the asset, as determined by an independent and reputable source, if the proceeds represent more than 50% of the total monthly income used in qualifying. REMN WS must use the lesser of the estimated value (as determined by the independent source) or actual sales price when determining the amount of funds for the transaction. For example, a borrower plans to sell their vehicle. The value as determined by an independent source is $10,000; the sales price of the vehicle is $12,000. $10,000 can be added to the borrower's available funds even if the sale has already occurred.
» The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
» The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, copies of the purchaser's canceled check or an equivalent payment source.

OTHER REAL ESTATE OWNED	
Number of Properties Financed with REMN	» The preferred method for processing multiple mortgages for the same borrower, but on different properties is to process, underwrite and close them at the same time. Essentially once all of the mortgages are closed, they would "mirror" one another, with each property reflecting the new mortgages on the other properties. » However, we cannot always control when a borrower can close, and it might not be possible to close the loans simultaneously. In this instance, the file must be uniquely underwritten, as we must consider the "worst case" scenario. In other words, even though the final 1003 can only show what the borrower is legally obligated for on the day of closing, there must be a memo to the file showing what the anticipated ratios, etc., will be, once the other loan(s) close. » REMN realizes that the other loan(s) ultimately may not close; however, since the borrower has applied for another mortgage, the terms and conditions of that proposed mortgage must be considered. **REMN Overlay: More than 4 REMN Mortgages - Exception must be approved by Executive Management.** **Simultaneous loan submissions for a single borrower must receive REMN Executive Management approval.**
Properties Owned Free & Clear	If a borrower indicates a property they own is owned free and clear, the following is required. » IRS Transcript to verify no mortgage interest taken. – If the property was purchased with the current calendar year (so transcript not available), a copy of the HUD-1/CD showing it was purchased with no mortgage PLUS one (1) of the following additional documents: 1. Copy of hazard insurance declaration page showing no mortgagee listed AND 2. Copy of MERS report for property showing no mortgage listed; OR 3. Copy of Data Verify report showing no mortgage listed.
Current Principal Residence Pending Sale	» If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the REMN loan, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan. » REMN will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following additional documentation is provided; – The fully-executed sales contract for the current residence; and, – Confirmation from the borrower's attorney that all financing contingencies have been cleared. This verification must come from the borrower's attorney or escrow company, not the realtor.

REMN WHOLESALE FANNIE MAE PRODUCT DESCRIPTION

<table>
<tr><th colspan="2">APPRAISAL, PROPERTY, SALES CONTRACT</th></tr>
<tr><td>Appraisal Management Companies (AMC)</td><td>All appraisal orders must be placed through REMN Wholesale’s approved appraisal management companies:**
» Ascend Appraisal Solutions Group: CO
» Class Valuation: AK, AR, AZ, CA, DC, HI, IA, ID, KS, KY, LA, MN, MO, MS, MT, NE, NM, NV, OK, OR, SD, TX, UT, WA, WV, WY
» Halo Appraisal Management: NJ, NY, PA
» MaxVantage: CT, DE, IL, IN, MA, MD, MI, NH, OH, VA, VT, WI
» Nationwide Appraisal Network: AL, FL, GA, NC, SC, TN
» Property Val: ME, RI
Please refer to the Order an Appraisal page on the Broker Portal or www.remnwholesale.com for further instruction.
** For ALL STATES: Desktop Appraisals must be ordered through Class Valuation
Note: If a Desktop Appraisal later converts to a Full Appraisal, continue to work with Class Valuation to complete the order</td></tr>
<tr><td>Appraisal</td><td>» Appraisal must contain photos of front, back and street scene of the subject property as well as the front of each comparable sales used.
» Interior photographs, which must, at a minimum include;
– Kitchen,
– All bathrooms,
– Main living area,
– Examples of physical deterioration, if present; and,
– Examples of recent updates, such as restoration, remodeling and renovation, if present.
» An AVM is no longer required on all conventional loans.
» At the Underwriter’s discretion, an AVM might be requested to further support the value.
» AVM is not required when a Field Review is present; field review will serve as support of value.
» If an applicable law, regulation or REMN’s policy requires obtaining more than one (1) appraisal in connection with the mortgage loan, REMN must select and use the single most accurate appraisal for underwriting purposes and that appraisal must be delivered through the Uniform Collateral Data Portal.
» For eligible transactions, DU Approve/Eligible findings may provide an Appraisal Waiver, where Fannie Mae accepts the sales price or submitted value estimate as the market value for the subject property. Please see Appraisal Waiver for details.</td></tr>
<tr><td>Appraisal Review Process – FNMA Collateral Underwriter (CU)</td><td>Underwriters can reference the internal Collateral Underwriter & Loan Collateral Advisor information for complete details/criteria in regard to REMN’s Appraisal Review process for Fannie Mae/Freddie Mac loans.</td></tr>
</table>

Desktop Appraisals	A desktop appraisal reported on the Form 1004 is permitted for certain transactions submitted to DU **Eligible Transactions** To be eligible for a Desktop Appraisal, transactions must meet the following criteria: • One-unit property (including those with an ADU and units in a PUD), • Principal residence, Purchase transaction (including new construction), • LTV ratio less than or equal to 90%, and • DU loan casefile that receives an Approve/Eligible recommendation. **Ineligible Transactions** The following transactions are not eligible for a desktop appraisal • Two- to four-unit properties; • Condo units; • Manufactured homes; • Construction-to-permanent loans (single-close and two-close); • Second homes and investment properties; • All refinances; • HomeReady, HomeStyle Renovation, and HomeStyle Energy loans; • Community Seconds with a subsidized sales price; • Community land trusts, or other properties with resale price restrictions (loan casefiles using the Affordable LTV feature); o Resale restrictions related to borrower age or income are eligible • DU loan casefiles that receive an Ineligible recommendation; and Manually underwritten loans.

Hybrid Appraisals

A hybrid appraisal reported on the Uniform Residential Appraisal Report (Hybrid) (Form 1004 Hybrid) or Individual Condominium Unit Appraisal Report Hybrid (Form 1073 Hybrid) are permitted for certain transactions. The minimum scope of work for hybrid appraisals includes consideration by the appraiser of interior and exterior property data collection by a trained and vetted third party (such as a real estate agent, insurance inspector, appraiser, etc.). The appraiser relies on the data collected (and other sources if needed) to identify property characteristics including condition. The property data collection must comply with Fannie Mae's property data standard and be delivered to the Fannie Mae Property Data API.

Completing the Hybrid Appraisal

» Property data collection and the appraisal report are separate assignments and may be performed by different people. If the appraiser does not perform the data collection, the lender must share the property data collection with the appraiser at the time of engagement. The appraiser will use the data along with other third-party sources to develop the appraisal. The effective date of the hybrid appraisal is the date that the appraiser arrives at their opinion of value.
    - Note: If the appraiser is engaged as a property data collector and at a later date engaged as an appraiser, this is still considered a hybrid appraisal.

» REMN WS remains responsible for verifying the accuracy of the property description and the completeness of the data including the condition and quality ratings as determined by the appraiser. The lender is also responsible for ensuring the property meets the property eligibility requirements in this Selling Guide. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

» Exhibits: Form 1004 Hybrid and Form 1073 Hybrid require the same exhibits as traditional appraisals with the inclusion of a floor plan conforming to the ANSI standard. See B4-1.2-01, Appraisal Report Forms and Exhibits for additional information on exhibits and B4-1.3-05, Improvements Section of the Appraisal Report for additional information on the ANSI standard.

» Entry of Appraisal Assignment Type: The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table

Field Labels	Required Entry
Appraisal Assignment Type	“Hybrid”
Subject Property Data Collection Method	“Physical”
Subject Property Data Collection Data	“YYYY-MM-DD”
Subject Property Data Workforce	“Appraiser” “AppraiserTrainee” “RealEstateAgent” “HomeInspector” “InsInspector” (Insurance Inspection) “Other”

Note**:** For the Subject Property Data Collection Date, the appraiser must enter the date that the property data collection was performed. For the Subject Property Data Workforce, the appraiser must enter the Workforce indicated in the property data that is one of the six Required Entry enumerations listed above.

Eligible Transactions

A hybrid appraisal is only permitted when all of these preconditions are met in this sequence

» DU Determines the loan is eligible for value acceptance + property data.

» REMN obtains property data and submitted it to the API.

» The property data confirms that the property type is residential and not on the Ineligible Transactions list below.

» The loan loses eligibility in DU for value acceptance + property data due to a change in qualifying loan characteristics.

» REMN provides the property data collection to an appraiser to perform a hybrid appraisal assignment.

Ineligible Transactions

The following transactions are not eligible for a hybrid appraisal:

» Construction and Construction-to-Permanent loans;

» 2-4 unit properties

» HomeStyle Renovation mortgage loans

» Community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature (resale restrictions related to borrower age or income are eligible);

» Manufactured homes, and

» DU loan casefiles that receive an Ineligible recommendation.

<table>
<tr><td></td><td colspan="2">» Texas Section 50(a)(6) mortgages (a/k/a Texas Cash-Out Refinance)
» Loan casefiles for transactions where the purchase price or estimated value of the subject property provided to DU is $1,000,000 or greater
» Transactions using a Gift of Equity
» Manually Underwritten Loans</td></tr>
<tr><td>Representation and Warranties for Hybrid Appraisals</td><td colspan="2">When a hybrid appraisal is reported on Form 1004 Hybrid or Form 1073 Hybrid and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a hybrid appraisal receiving a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property (see Representations and Warranties for Value Acceptance for complete requirements and additional information).</td></tr>
<tr><td rowspan="10">Appraisal Updates</td><td colspan="2">Age of Appraisal or Age of Property Inspection
» When a traditional appraisal is obtained, the property must be appraised within the 12 months that precede the date of the note and mortgage.
» The age of the appraisal report is the effective date of the appraisal compared to the note date.</td></tr>
<tr><td>When…</td><td>Then…</td></tr>
<tr><td>Appraisal reports are more than 4 months old on the date of the note and mortgage – regardless of whether the property was appraised as proposed or existing construction.</td><td>Appraisers must perform and update which includes;
– Inspect the exterior of the property; and,
– Review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal and/or Completion Report (Form 1004D).</td></tr>
<tr><td>A property inspection report for a loan underwritten with DU is more than 4 months old on the date of the note and mortgage.</td><td>Appraisers must prepare a new Desktop Underwriter Property Inspection Report (Form 2075).</td></tr>
<tr><td colspan="2">Note: The inspection and the appraisal update (Form 1004D) <u>must</u> occur within the four (4) months that precede the date of the note and mortgage.</td></tr>
<tr><td colspan="2">Updating the Original Appraisal Report</td></tr>
<tr><td>If:</td><td>Then:</td></tr>
<tr><td>The appraiser indicates the property value has declined on Form 1004D.</td><td>REMN must obtain a new appraisal for the property.</td></tr>
<tr><td>The appraiser indicates the property value has <u>not</u> declined on Form 1004D.</td><td>REMN may proceed with the loan in process without requiring any additional fieldwork.</td></tr>
<tr><td colspan="2">Completing an Appraisal Update
» Front photograph of the subject property must be taken when completing the Appraisal Update and/or Completion (Form 1004D) to validate that the appraiser has inspected at least the exterior of the property when he/she performed the appraisal update.
» The original appraiser should complete the appraisal update; however, REMN may use substitute appraisers.
» When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal report and express an opinion about whether the original appraisers' opinion of market value was reasonable on the date of the original appraisal report.
» REMN must note in the file why the original appraiser was not used.</td></tr>
</table>

APPRAISAL, PROPERTY, SALES CONTRACT	
Value Acceptance (Appraisal Waiver)	» For certain lower risk transactions, DU offers value acceptance (appraisal waiver), in which case an appraisal is not required. For loan casefiles that are not eligible for value acceptance (appraisal waiver), DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised. » In order for value acceptance (appraisal waiver) to be considered, a prior appraisal must be found for the subject property in FNMA's Collateral Underwriter (CU) data. » DU will compare the address for the subject property to the property addresses found in CU. DU will use the information from the prior appraisal to determine if the loan casefile is eligible for an Appraisal Waiver. In some cases, the prior appraisal may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used, and an Appraisal Waiver will not be offered on the new loan casefile.
Value Acceptance (Appraisal Waiver) Eligibility	The following transactions are **ELIGIBLE** to potentially receive value acceptance (appraisal waiver) option: – One unit, including condos and PUD's – Principal residence, second home transactions; ▪ Purchases limited to principal residence and second home transactions with LTV/CLTV's up to 80% – Investment property refinance transactions; – Certain purchase, limited cash-out refinance and cash-out refinance transactions; and – DU loan casefiles that receive an Approve/Eligible recommendation. The following transactions are **NOT ELIGIBLE** for an Appraisal Waiver: – Construction and Construction-to-Permanent loans; – 2-4 unit properties – HomeStyle Renovation mortgage loans; – Leasehold properties – Community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature (resale restrictions related to borrower age or income are eligible); – Manufactured homes, and – DU loan casefiles that receive an Ineligible or Refer recommendation. – Texas Section 50(a)(6) mortgages (a/k/a Texas Cash-Out Refinance) – Loan casefiles for transactions where the purchase price or estimated value of the subject property provided to DU is $1,000,000 or greater – Transactions using a Gift of Equity – Manually Underwritten Loans **NOTE**: DU may offer value acceptance (appraisal waiver) on a recently constructed property (i.e. new construction) when there is an existing "as-is" prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different REMN or borrower, but that loan did not close. REMN may execute the value acceptance (appraisal waiver) offer when the loan meets all other eligibility criteria for the transaction. Furthermore, REMN may not exercise an Appraisal Waiver offer and must order an appraisal if one or more of the following applies – DU was unable to identify ineligible criteria in the list above (e.g. Texas Section 50 (a)(6) loans); – REMN is required by law to obtain an appraisal – REMN is using rental income from the subject property to qualify the borrower; or – REMN believes that an appraisal is warranted based on additional information REMN has about the property or subsequent events, such as a natural disaster. **NOTE**: REMN may not exercise a value acceptance (appraisal waiver) offer if an appraisal is obtained for the transactions Refer to FNMA High LTV Refinance Product Description for additional info about high LTV refinance value acceptance (appraisal waiver).

Representations and Warranties for Value Acceptance

- When a loan casefile is eligible for a value acceptance (appraisal waiver) or value acceptance + property data and is exercised by REMN, FNMA accepts the value estimate submitted by REMN as the value for the subject property. The property value REMN enters in DU may be based on:
  - The estimate of value, determined at the discretion of REMN, or
  - The borrower's estimate of value
- For all value acceptance offers that are exercised, REMN remains responsible for the accuracy and completeness of all data that pertains to the property and project (if applicable) that is submitted to DU (other than the property value) and must warrant that the property is adequately insured.
- The following table describes the representations and warranties REMN must make ("Yes") if they exercise a value acceptance (appraisal waiver) or value acceptance + property data offer. The table also identifies the representations and warranties REMN is not responsible for ("No").

	Representations and Warranties Related to…			
	Value and Marketability	**Physical Property Characteristics**	**Property Eligibility Including Condition**	**Condition with a recent disaster**
Value Acceptance (Appraisal Waiver)	No	No	No	Yes
Value Acceptance + Property Data	No	Yes	Yes*	Yes
Rural High-Needs Value Acceptance (Appraisal Wavier)	No	Yes	Yes*	Yes

*Includes warranty that the property is safe, sound, and structurally secure.

- FNMA does not warrant that the estimated value provided by REMN is the actual value of the subject property. REMN may not make any statements to any third party (including the borrower) that FNMA performed any kind of review, appraisal or valuation of the property.

APPRAISAL, PROPERTY, SALES CONTRACT	
Rural High-Needs Value Acceptance (Appraisal Waiver)	» In selected rural high-needs areas, Fannie Mae may a value acceptance (appraisal waiver) through DU for certain transactions. This value acceptance (appraisal waiver) may be combined with other loan products, such as HomeReady. » The rural high-needs value acceptance (appraisal waiver) offer will be considered for the following transactions only: – Loan casefiles that receive an Approve/Eligible recommendation from DU – Purchase transactions – One-unit principal residence properties (excluding manufactured homes) – Borrowers with income at or below 100% of the area median income (AMI); and – LTV ratios up to 97% and CLTV ratios up to 105% with a Community Seconds » The following are ineligible for the rural high-needs value acceptance (appraisal waiver): – Limited Cash-Out or Cash-Out refinance transactions – Second Homes and/or Investment Properties; and – All other transactions that are ineligible for an appraisal waiver » The following requirements, related to the home inspection, must be satisfied for REMN to exercise the rural high-needs appraisal waiver. REMN must: – Obtain a home inspection to determine the property condition. The inspection report must be retained in the loan file and made available to FNMA upon request – Review the inspection report to verify the property condition. The content of the inspection report must be sufficient for REMN to determine whether the property is safe, sound and structurally secure. Any issues that comprise safety, soundness, or structural integrity must be repaired before loan delivery. – Obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any REMN-required repairs. – Confirm that the purchase contract contains an inspection contingency that offers the borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property. – Confirm that the inspector has liability insurance – Use a professional inspector that meets the state license and education requirements for those states that regulate inspectors ▪ NOTE: In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of ethics and to standards of practice. » Represent and warrant that the property is safe, sound and structurally secure and that the property is not in C-6 condition.

Properties Affected by a Disaster	» For subject properties that may been damaged by a disaster, REMN must take prudent and reasonable actions to determine whether the conditions of the property may have materially changed. REMN is responsible for determining if an inspection and/or new appraisal is necessary to support this warranty. If a property is located in a condo project, both the condition of the unit and the condition of the building in which the unit is located must be assessed. » REMN must use the following criteria when determining if a loan can be delivered to FNMA: – If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, REMN may deliver the loan to FNMA. In these circumstances, REMN must obtain documentation of the professional estimates of the repair costs and must ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs. – If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the loan is delivered to FNMA. » These requirements apply through the end of the delivery process which is the whole loan purchase date. » For DU casefiles with an appraisal waiver offer, REMN may exercise the offer as long as the above requirements have been complied with regard to property condition and repairs. This applies in addition to the standard appraisal waiver requirements. **NOTE**: The above requirements do not apply to High LTV Refinance loans. » DU is updated periodically to incorporate zip codes included in FEMA-Declared Disaster Areas eligible for individual assistance. FNMA may also add areas impacted by other disasters or emergencies at its discretion. New loan casefiles for properties in those zip codes are excluded from consideration for a new appraisal waiver or value acceptance + property data offer. **Appraisal Waiver Offers Following a Disaster**: » After FNMA has received an acceptable appraisal that was performed following a disaster, that appraisal can serve as the basis for a future appraisal waiver or value acceptance + property data offer. REMNs may exercise these offers in accordance with the requirements in the Appraisal Waiver sections.
Exercising a Value Acceptance (Appraisal Waiver)	» A value acceptance (appraisal waiver) may only be exercised if: – The final submission of the loan casefile to DU resulted in an Appraisal Waiver offer – An appraisal is not obtained for the transaction, and – The value acceptance (appraisal waiver) offer is not more than four (4) months old on the date of the note and mortgage. » Loan casefiles where value acceptance (appraisal waiver) was exercised must include Special Feature Code (SFC) 801 at delivery to FNMA. » REMNs may not adversely select against FNMA in determining which value acceptance (appraisal waiver) offers to accept. FNMA may monitor REMN's exercise of value acceptance (appraisal waiver) offers and delivery of loans to FNMA and may take appropriate measures if adverse selection is identified.
Value Acceptance + Property Data – Overview	» For certain loan casefiles, DU offers value acceptance + property data - an option that requires interior and exterior property data collection to verify property eligibility prior to the note date. An appraisal is not required.

Value Acceptance + Property Data – Eligibility	**Eligible Transactions** » Loan case files for certain one-unit properties will be considered for value acceptance + property data. **Ineligible Transactions** The following transactions are not eligible for value acceptance + property data: » Construction and Construction-to-Permanent loans; » 2-4 unit properties » HomeStyle Renovation mortgage loans; » Investment properties when rental income is used to qualify the borrower » Leasehold properties » Community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature (resale restrictions related to borrower age or income are eligible); » Manufactured homes, and » DU loan casefiles that receive an Ineligible recommendation. » Texas Section 50(a)(6) mortgages (a/k/a Texas Cash-Out Refinance) » Loan casefiles for transactions where the purchase price or estimated value of the subject property provided to DU is $1,000,000 or greater » Transactions using a Gift of Equity » Manually Underwritten Loans Note: When a loan casefile is eligible for value acceptance + property data and exercised by the lender, FNMA » accepts the value estimate submitted by the lender as the value for the subject property. See Representations and Warranties on Value Acceptance for more information.
Property Data Collection	» The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to the Uniform Property Dataset (UDP). This dataset consists of all requirement, conditionally required, and optional data elements for property data collection of subject property data including photos and a floor plan conforming to the ANSI Standard. See Gross Living Area in B4-1.3-05, Improvements Section of Appraisal Report for ANSI standards, the Property Data Collection User Guide, and Uniform Property Dataset (UPD) Specification for more information. » After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data API. Lenders and their agents must enter into a Software Subscription Agreement to deliver data to the API.
Property Data Collector	» The property data collector is the individual who personally visits the subject property to perform the property data collection guided by an application on a hand held device developed in compliance with Fannie Mae's Property Data Standard. The property data collector must identify and communicate any safety, soundness, or structural integrity issues and significant items of incomplete construction or renovation. **REMN Vetting of Property Data Collectors** » The lender must verify and be able to demonstrate that the data collectors are o Selected in accordance with Fannie Mae requirements, including the Property Data Collector Independence Requirements o vetted through an annual background check, o professionally trained, and o they possess the essential knowledge to competently complete the property data collection. » REMN must ensure that the data collectors are trained to comply with their fair lending laws and deliver accurate results unaffected by personal biases. To avoid conflict of interest, the lender must ensure that the data collector has no interest in or ties to the underlying loan origination transaction, participants, or subject property. » REMN or REMN's agent must review the data collector's credentials and qualifications at least annually to ensure ongoing compliance. Evidence of the reviews must be available to Fannie Mae upon request. » REMN must monitor and assess the work performed by the data collector through the lender's quality control program including prefunding and post-closing reviews. The lender must continually evaluate the quality of its property data collectors and property data collection.

Exercising Value Acceptance + Property Data	» A lender may only exercise value acceptance + property data when o the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data, o property data collection is submitted to the Property Data API prior to the note date, o an appraisal is not obtained for the transaction, and o the offer is not more than four months old on the date of the note and mortgage. » When electing to exercise value acceptance + property data, REMN must include Special Feature Code 774 at loan delivery. The property data collection is only valid for 12 months from date of collection and must be performed prior to the note date. » If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases it may be possible for the lender to provide the property data collection to an appraiser to perform a hybrid appraisal assignment. See Hybrid Appraisals for specific requirements. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.
Property Data Collection with Needed Repairs or Completion Verification	» The lender must represent and warrant that the property o does not have safety, soundness, or structural integrity issues; o does not have significant items of incomplete construction or renovation; and o meets Fannie Mae's property eligibility requirements. » To make these representations and warranties in the absence of an appraisal, REMN must examine the descriptive information and photo exhibits from the property data collection to determine whether the property meets the above requirements. » When the property data collection evidences any items failing eligibility requirements, REMN may need to obtain a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). If repairs or alterations are necessary to bring the property into compliance with Fannie Mae's eligibility requirements, the lender must provide satisfactory evidence and documentation showing the condition has been corrected or completed prior to sale of the loan to Fannie Mae.

APPRAISAL, PROPERTY, SALES CONTRACT	
Use of Appraisal for Subsequent Transaction	» FNMA will allow the use of an original appraisal for a subsequent transaction if the following requirements are met: – The subsequent transaction may only be a Limited Cash-Out Refinance. – The appraisal report must not be more than 12 months on the date of the subsequent transaction. – If the appraisal report is greater than four (4) months old on the date of the note and mortgage, then an appraisal update is required. See above section for requirements for completing an appraisal update. – REMN must ensure that the property has not undergone any significant remodeling, renovation or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property. – REMN must be REMN WS on the original and subsequent transaction. Also, the original transaction must not have used a transferred appraisal from another REMN WS.
FNMA Analysis of Adjustments	As a result of an analysis of Uniform Appraisal Dataset data specific to comparable adjustments, FNMA has eliminated the 15% net and 25% gross adjustment guidelines and has provided the following clarification with respect to FNMA's expectations for the appraiser to analyze the market for competitive properties and provide appropriate market-based adjustments without regard to limits on the size of the adjustments. » FNMA does not have specific limitations or guidelines associated with the net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however, this is rarely the case as typically not two (2) properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market-based adjustments) to the difference in the properties. For example; it would be inappropriate for an appraiser to provide a $20 per square foot adjustment for the difference in gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be $100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market-based adjustments without regard to arbitrary limits on the size of the adjustment.
Field Review Requirements	» If REMN WS is unable to obtain a revised appraisal that adequately addresses its concerns, a desk or field review of the report may be obtained. – The review must be completed in accordance with the USPAP. Because the Scope of Work for either type of review allows for a change of the opinion of market value for something other than a mathematical error, the appraiser completing the appraisal review must ○ be licensed or certified in the state in which the property is located, ○ have access to the appropriate data sources, and ○ possess the knowledge and experience to appraise the subject property with respect to both the specific property type and geographical location.

Waiver of Project Review

Transactions Eligible for a Waiver of Project Review

» The following list describes project types that do not require a thorough project review

Project or Transactions Type	Requirements
Detached Condo Unit	A detached condo is defined as any condo unit that is completely detached from other condo units in the project. The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements (such as breezeways or garages) with any neighboring unit. A detached condo unit may be in a project consisting solely of detached units or in a development containing a mixture of attached and detached units. Site condos in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo. The waiver of project review applies for new and established projects.
Unit in a 2-4 Unit Condo Project	Project review is waived for new and establish condo projects that consist of no more than four units.
Unit in a PUD Project	See **Units in PUD Projects** for requirements
FNMA to FNMA Limited Cash-Out Refinance	Project review is waived for units in condo projects for Fannie Mae-owned loans that are refinanced as a limited cash-out refinance with a maximum loan-to-value ratio of 80% (CLTV or HCLTV ratios may be higher).

» Exception to the waiver policy**:** If the property is a manufactured home or the project contains any manufactured homes, such property or project is not eligible for a review waiver and must be reviewed based on the applicable manufactured home project review requirement.

Requirements that Apply When the Project Review is Waived

» The following requirements apply, in addition to those noted above, when a project review is waived:
- property eligibility requirements
- the project is not in Condo Project Manager (CPM) with a status of "Unavailable"
- the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project
- priority of common expense assessments
- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements
- insurance requirements, and
- there are no unaddressed critical repairs outstanding or projects with evacuation orders if the loan is a FNMA limited cash-out refinance.

Ineligible Projects

» Regardless of the loan type, the project must be checked against both Fannie Mae's and Freddie Mac's ineligible project lists. If the project is on either list, the loan is ineligible.

» Depending on the reason, it may be possible to accept a project for a specific agency. For example, if Fannie Mae has a project ineligible due to their high concentration in the project, it would be acceptable to switch to Freddie Mac, provided the project otherwise meets all guidelines. In this example the loan must be locked instead to Freddie Mac

» The Operations Manager has the authority to allow the exception provided the reason is logical (such as the above example). If there is any ambiguity, the project must be elevated to a Chief Credit Officer for approval.

Limited Review Condo Approval – Established Projects only

- To be eligible for a Limited Review, the unit securing the mortgage must be an attached unit in an established condo project.
- The following table describes the transactions that are eligible for a Limited Review.

Limited Review Eligible Transactions -Attached Units in Established Condo Projects (For Projects Outside of Florida)	
Occ Type Maximum LTV, CLTV, and HCLTV Ratios	**Occ Type Maximum LTV, CLTV, and HCLTV Ratios**
Principal residence 90%	Principal residence 90%
Second home 75%	Second home 75%
Investment property 75%	Investment property 75%

- In completing a Limited Review, REMN WS must ensure that the project and subject unit meet the eligibility requirements described below:
  - The project meets the Requirements Applicable to All Properties in a Condo or PUD Project.
  - The project is not an ineligible project.
  - The project does not consist of manufactured homes. Note: Manufactured housing projects require a Fannie Mae PERS review or a Full Review.
  - No more than 15% of the total number of units in the project are 60 days or more past due in the payment of each special assessment.

Florida Condos

Attached Established Condo Projects		
	REMN WS Full Review (with CPM)	Limited Review Max LTV/CLTV/HCLTV
Owner Occupied	97.00%	75.00%/90%/90%
Second Home	90.00%	70.00%/75%/75%
Investment	85.00%	70.00%/75%/75%
Attached New and Newly Converted Condo Projects		
	REMN WS Full Review (with or without CPM)	Limited Review Max LTV/CLTV/HCLTV
Owner Occupied	Not Eligible	
Second Home		
Investment		

Minimum Property Standards

- Free standing stoves/ovens and refrigerator are not required.
- Air conditioning is not required; however, if window unit is installed it must be functional or removed.
- A conventional heating source is required and must maintain a temperature of 50° in areas where there is plumbing.
- Floor covering is not required as long as the flooring does not cause a health or safety issue.
- Cracked glass is not required to be repaired; however, broken glass that is a health hazard must be removed and the opening closed to the weather.

Project In Need Of Critical Repairs	» Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s), or the financial viability or marketability of the project. Such projects are ineligible. Critical repairs include conditions such as: – material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year; – any mold, water intrusions or potentially damaging leaks to the project's building(s); – advanced physical deterioration; – any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability; or – any unfunded repairs costing more than $10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment). » Examples of some items to consider include, but are not limited to, sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures. » If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply. » Routine repairs are not considered to be critical and include work that is: – preventative in nature or part of normal capital replacements (for example, focused on keeping the project fully functioning and serviceable); and – accomplished within the project's normal operating budget or through special assessments that are within guidelines. » A project with an evacuation order due to an unsafe condition, either for a partial or total evacuation of the project's building(s), is ineligible until the unsafe condition has been remediated and the building(s) is deemed safe for occupancy. **Special Assessments** » Special assessments may be current or planned. REMN must obtain and review the following information for each special assessment to determine if it addresses a critical repair: – what is the purpose of the special assessment, – when was the special assessment approved and is it planned (approved by the unit owners, but not yet initiated by the board) or already being executed, – what was the original amount of the special assessment and the remaining amount to be collected, and – when is the expected date the special assessment will be paid in full. » If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible. **Inspection Reports** » If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, REMN must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required. » If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. REMN must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project. **Documentation** » REMN may need to review a combination of documents to determine if a project meets Fannie Mae's physical condition requirements. REMN is responsible for determining which documents are needed to ensure compliance with the requirements of this Guide. Some examples of this documentation include, but are not limited to: – HOA board meeting minutes, – engineer report(s), – structural and/or mechanical inspection reports, – reserve studies, – a list of necessary repairs provided by the HOA or the project's management company,

	– a list of special assessments provided by the HOA or the project's management company, and – other substantially similar documentation.
Comparable Selection (REMN POLICY)	The appraiser is responsible for determining which comparables are the best and most appropriate for the appraisal assignment. The source of the closed comparable sales utilized to establish value on an appraisal report must be from a Multiple Listing Service (MLS) entity. Click here to read the REMN WS Appraisal Review – Source of Comparable Sales policy.

APPRAISAL, PROPERTY, SALES CONTRACT	
Property Flips	» FNMA does not have any requirements pertaining to property flips; however, prudent underwriting policies of REMN must be maintained. » Appraisal must sufficiently support appraised value increases. » Underwriter has option to require two (2) full appraisals. » File must be carefully reviewed to ensure that there are no issues with straw borrowers, identity-of-interest, property valuation &/or relationship of all involved parties.
Property Requirements	» Must be residential in nature as defined by the characteristics of the property and surrounding market area, » Must be safe, sound and structurally secure, » Must be adequately insured per FNMA guidelines for hazard and flood insurance, » Must be the highest and best use of the property as improved (or as proposed per plans and specs), and the use of the property must be legal or legal non-conforming use, » Must be readily accessible by roads that meet local standards, » Must be served by utilities that meet community standards (FNMA does not require that the utilities that serve the property be turned on at the time of inspection); and, » Must be suitable for year-round use.
Declining Market	» When it is determined the property is located within a declining market, REMN must ensure that current market conditions are identified and analyzed in the valuation process and described in the appraisal report.
Termite / Well / Septic Inspections	» Termite inspection is only needed if required by contractor or by the appraiser due to evidence indicating infestation. » Well inspection is only needed if required by state or local regulations or if the well is thought to be contaminated. » Septic inspection is only needed if required by the appraiser due to evidence indicating the septic system may be failing.

Leasehold Estates	» The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease. » REMN must ensure compliance with the following requirements for leases associated with leasehold estate mortgage loans. – The term of the lease must run for at least five (5) years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower. – The lease must provide that the leasehold can be assigned, transferred, mortgaged and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee or sublease. – The lease must provide for the borrower to retain voting rights in any homeowners' association. – The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance and homeowners' association dues (if applicable), related to the land in addition to those he/she is paying on the improvements. – The lease must be valid, in good standing and in full force and effective in all respects. – The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents. – The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation. – The lease must be serviced by either REMN or the servicer it designates to service the mortgage. – The lease must provide REMN with ▪ The rights to receive a minimum of 30 days' notice of any default by the borrower; and, ▪ The option to either cure the default or take over the borrower's rights under the lease. » Additional eligibility requirements must be met before REMN can deliver leasehold estate mortgages to FNMA for purchase or securitization. – All lease rents, other payments or assessments that have become due must be paid. – The borrower must not be in default under any other provisions of the lease nor may such a default have been claimed by the lessor. – Ensure Fannie Mae's first-lien enforceability as part of the terms of the lease. Failure to comply with this requirement at any time is a breach of the life of loan representation and warranty.

Community Land Trusts

- Community land trusts are created to preserve long-term affordable housing by purchasing homes in their communities, then leasing the land using a long-term ground lease to low-income and moderate-income families at affordable monthly ground rents. Eligible community land trusts must be nonprofit organizations or public entities, such as state or local governments, counties, school districts, universities, or colleges. The ground lease includes provisions that require the continued use of the property for low-income and moderate-income families in the future.
- **Eligibility Requirements:**
- Borrower must satisfy eligibility criteria set up by the community land trust
- 1-2 Unit Primary Residences
  - All manufactured homes are eligible. However, if located in a condo or PUD project, PERS approval of the project is required.
  - Manufactured homes must comply with all applicable requirements in this guide with the following exceptions:
    - As of the loan application date,
      - The manufactured home must be affixed to a permanent foundation, and
      - Unless it has already been converted, the lessor must have initiated the conversion of the manufactured home to real property.
- Purchase, Rate/Term Refinance, and Cash-Out Refinance are all eligible, however the community land trust may limit the refinance.
- REMN WS must document that the community land trust has approved a refinance and that the amount complies with the ground lease.
- **Ground Lease Requirements:**
- The term of the estate created by the ground lease must extend at least five (5) years beyond the maturity date of the loan.
- The ground lease may include restrictions limiting future property purchasers to low- and moderate-income families and to limit the maximum sales price of the property.
- The resale restrictions must terminate automatically on foreclosure (or expiration of redemption period) or deed-in-lieu.
- Once any resale restrictions have been terminated, they may not be reinstated for subsequent purchasers of the property.
- REMN WS must confirm that all ground lease rents and other payments or assessments that have come due have been paid. In addition, borrower must not be in default under any other provisions of the ground lease, nor may the ground lessor have claimed a default.
- **LTV Ratio Calculation**:
- The LTV/CLTV is calculated by dividing the original loan amount by the value of the leasehold interest and improvements reported on the property appraisal.
- The sales price for the improvements situated on the land does not include the subsidy amount used to acquire the land, which means that a borrower will pay a lower purchase price for his or her home (often less than the leasehold interest in the property). Therefore, the community land trust sales price may not be a reliable indicator of market value for the leasehold estate.
- When using DU, REMN WS must enter "Affordable LTV" in the Product Description field in the online loan application, which will result in DU calculating the LTV, CLTV, and HCLTV ratios based solely on the appraised value for purchase transactions (and not the lesser of the sales price or appraised value).
- The following table provides an example of a community land trust purchase transaction where the borrower's LTV ratio at origination is calculated based on the appraised value.

Example of a Community Land Trust Affordable LTV Ratio Calculation	
Appraised Value of the Property	$200,000
Implicit Subsidy Amount	$50,000
Sales Price	$150,000
Maximum Loan Amount	$150,000
Original LTV Ratio	$75%
Minimum Borrower Contribution Required for Down Payment	$0.00

Additions without Permits	» If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

<table>
<tr><th colspan="3">APPRAISAL, PROPERTY, SALES CONTRACT</th></tr>
<tr><td rowspan="5">Properties with Outbuildings</td><td colspan="2">» REMN must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.</td></tr>
<tr><th>Type of Outbuilding</th><th>Acceptability</th></tr>
<tr><td>Minimum outbuildings, such as small barns or stables that are of relatively insignificant value in relation to the total appraised value of the subject property.</td><td>The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.</td></tr>
<tr><td>An atypical minimal outbuilding.</td><td>The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.</td></tr>
<tr><td>Significant outbuildings, such as silos, large barns, storage bars or facilities for farm-type animals.</td><td>The presence of the outbuildings may indicate that the property is agricultural in nature. REMN must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.</td></tr>
</table>

Accessory Dwelling Units

» An accessory dwelling unit (ADU) is typically an additional living area independent of the primary dwelling unit that may have been added to, created within or detached from a primary one-unit dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling.

» The following table describes the requirements for classifying an ADU:

Requirements
• Only one (1) ADU is permitted one the parcel of the primary one-unit dwelling. • ADU's are not permitted with a 2-4 unit dwelling

• The ADU must:
  ○ Be subordinate in size to the primary dwelling
  ○ Have the following separate features from the primary dwelling:
    ▪ Means of ingress/egress
    ▪ Kitchen
    ▪ Sleeping area
    ▪ Bathing area, and
    ▪ Bathroom facilities
• The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.

• The kitchen must, at a minimum, contain the following:
  ○ Cabinets
  ○ A countertop
  ○ A sink with running water, and
  ○ A stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes).
• An independent second kitchen by itself does not constitute an ADU.
• The removal of a stove does not change the ADU classification.

A borrower must qualify for the mortgage without considering any rental income from the ADU. Exceptions are considered for HomeReady mortgage loans.

Construction of an ADU

» The construction method of an ADU can be site-built or factory-built. If factory-built, all designs must be multi-width and the primary dwelling must be site-built. If the ADU is a manufactured home, REMN WS must verify the following:
  - The property was built in compliance with Federal Manufactured Home Construction and Safety Standards (established June 15, 1976, as amended and in force at the time the home was manufactured);
  - It is attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance;
  - The foundation system must be appropriate for the soil conditions for the site and meet local and state codes;
  - It is encumbered by the mortgage with the primary dwelling; and
  - Additional requirements that appear in HUD regulations in 24 C.F.R. Part 3280.

» Compliance with these standards will be evidenced by photos of either the HUD Data Plate or HUD Certification Label (or both) in the appraisal. If the original or alternative documentation cannot be obtained for either Data Plate/Compliance Certificate or HUD Certification Label, the loan is not eligible for delivery to Fannie Mae.

Examples of ADU's

» Examples of ADU's include, but are not limited to:
  - A living area over a garage,
  - A living area in a basement,
  - A small addition to the primary dwelling, or
  - A manufactured home (if it is a real property)

» Whether a property is defined as a 1-unit property with an accessory unit or a 2-4 unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal.

Zoning for an ADU

- Some ADU's predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code for the subject property.
- If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:
  - REMN WS confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
  - The appraisal requirements related to zoning for an ADU are met (see below).

ADU – Improvement Section of the Appraisal Report

- When reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as an ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.
- Whether the property is a one-unit property with an accessory unit or a two-to-four unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address and whether the unit can be legally rented.
- The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include a description of the ADU and analysis of any effect it has on the marketability of the subject property. The appraisal report must demonstrate that the improvements are acceptable for the market. An aged settled sale will qualify as a comparable, and an active listing or under contract sale will qualify as a supplemental exhibit to show marketability.
- If it is determined that the property contains an accessory dwelling that does not comply with zoning, the property is eligible under the following additional conditions:
  - REMN WS confirms that the existence will not jeopardize any future hazard insurance claim that might need to be filed for the property.
  - The illegal use conforms to the subject neighborhood and to the market.
  - The property is appraised based upon its current use.
  - The appraisal must report that the improvements represent a use that does not comply with zoning ("illegal" use)
  - The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three (3) comparable properties that have the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three (3) settled sales (See B4-1.3-04 Site Section of the Appraisal Report in Fannie Mae Selling Guide for subject property zoning information).

Multiple Parcels	» Each parcel must be conveyed in its entirety. » Parcels must be adjoined to the other, unless they comply with the following exception. – Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (i.e. waterfront properties where the parcel without the residence provides access to the water). – Evidence that the lot is non-buildable must be included in the loan file. » Each parcel must have the same basic zoning (i.e. residential, agricultural). » The entire property may contain only one (1) dwelling unit. Limited additional non-residential improvements, such as a garage are acceptable. – The adjoining parcel may not have an additional dwelling unit. » An improvement that has been built across the lot lines is acceptable (i.e. a home built across both parcels where the lot lines runs under the home is acceptable. » The mortgage must be a valid first lien that covers each parcel.

APPRAISAL, PROPERTY, SALES CONTRACT	
Escrow Holdbacks	» The maximum amount of the repairs is limited to $5,000. Amounts greater than $5,000 are considered on an exception basis (requires Chief Credit Officer Approval). » Escrow Holdbacks on bond loans are not permitted. » Repairs cannot impact the habitability or safety of the subject property. » An estimate from a licensed contractor (or other qualified professional) listing all repairs required. » REMN will hold 1.5 times the amount of the estimate in an escrow account. On an exception basis, the amount may be held by the Settlement Agent (requires Chief Credit Officer approval). The borrower must use their own funds (or approved gift) to establish the escrow account and complete the repairs. Consequently, they must verify assets of 2.5 times the amount of the estimate in addition to those assets needed for the down payment and closing costs. » The repairs are not paid for with the funds in the escrow account, the borrower must pay for the repairs directly. » The repairs must be completed within 14 calendar days of loan disbursement - and the final inspection within 72 hours of completion. » The underwriter must approve the escrow request, list it as a closing condition of loan approval & properly complete the repair escrow form. » If the request is made, the loan must be re-disclosed within 72 hours of the request as a "changed circumstances" and a final inspection fee added to the LE. » The underwriter is responsible for having the escrow agreement completed by an UW Team Lead and sent to the closing table to be executed. » Upon completion of the repairs, the borrower may contract reno@remn.com to schedule a final inspection and with questions regarding release of escrow funds.
Days off Market Properties Listed for Sale Past 12 Months	» Subject property must not be currently listed for sale. It must be taken off the market prior to disbursement date on the new loan **and** borrowers' must confirm their intent to occupy the subject property (for principal residence transactions). » For maximum allowable LTV/CLTV/HCLTV ratios and credit score requirements for cash-out refinance transactions refer to the Eligibility Matrix.

Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- Borrower-owned panels,
- Leasing agreements,
- Separately financed solar panels (where the panels serve as collateral for debt distinct from an existing mortgage); or
- Power purchase agreements

FNMA will purchase or securitize a mortgage loan on a property with solar panels. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), standard eligibility requirements apply (for example, appraisal, insurance and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible for delivery to FNMA if the PACE loan is not paid inf full prior to or at closing.

REMN WS is responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first-lien position of the mortgage. When financing is involved, this determination may be made by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. The title report must also be reviewed to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless a UCC "personal property" search is obtained that confirms the solar panels are not claimed as collateral by any non-mortgage REMN WS.

- **NOTE**: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

REMN WS is responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financial solar panels must comply with *Energy Efficient Improvements* criteria in Fannie Mae Selling Guide (B4-1.3-05, Improvements Section of the Appraisal Report).

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

If the solar panels are….	Then REMN WS must…
Financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records.	– Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan; – Include the debt obligation in the DTI calculation – Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and – Include the solar panels in other debt secured by the real estate in the CLTV calculation because a UCC fixture filing* is of record in the land records. **NOTE**: If a UCC fixture filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated.
Financed and collateralized – the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.	– Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or related security agreement); – Include the debt obligation in the DTI calculation

	– Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt; – Not include the panels in the LTV calculation; and – Not include the debt in the other debt secured by the real estate in the CLTV calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

Properties with Solar Panels (cont'd)	If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended): » Copies of the lease or power purchase agreement must be obtained and reviewed » The value of the solar panels cannot be included in the appraised value of the property. » The property must maintain access to an alternate source of electric power that meets community standards » The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation, unless the lease is structured to: – provide delivery of a specific amount of energy at a fixed payment during a given period, and – has a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period. – Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio. » The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority – **Note**: A "precautionary" UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic. » The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority. » The lease or a power purchase agreement must indicate that: – Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and – The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, REMN WS may verify that the owner of the solar panels is not named loss payee (or named insured) on the property owner's property insurance policy; and – In the event of foreclosure, REMN WS as REMN WS has the discretion to either: ▪ terminate the lease/agreement and require the third-party owner to remove the equipment; ▪ become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or ▪ enter into a new lease/agreement with the third party, under terms no less favorable then the prior owner. » Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with Fannie Mae requirements listed in Section B7-2-05, Title Exceptions and Impediments of the FNMA Selling Guide. » The title cannot reflect any liens related to the ownership or maintenance of the solar panels that will result in a lien superior to FNMA's first lien position. **Energy Efficient Improvements** Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement are to be considered personal property items and are not included in the appraisal value of the property.

Sales Contract - Electronic Signatures	» A Sales Contract delivered to REMN which has been signed by the buyer using an Electronic Signature (or other copy/representation of the buyer's signature) is acceptable provided that: – The Electronic Contract process is managed by a licensed real estate broker – The Electronic Contract otherwise complies with all of FNMA's requirements – The Electronic Contract is true, complete, accurate, and duly signed by the parties – Any affidavits or other notarized documents associated with such Electronic Contract must be original paper documents signed with pen and ink signatures and must be notarized and stamped with a traditional notary seal (if applicable).

PROPERTY INSURANCE

Insurance Coverage Requirements

- » Standard insurance requirements apply. Underwriters may reference the REMN WS Insurance Coverage Requirements job aid for complete details on insurance requirements.
- » In lieu of matching the mailing address with the subject address on an owner-occupied purchase, REMN will accept a letter from the Agent Stating:
  - – The company's internal policy does not permit the subject property address to be used prior to the effective date, and
  - – The mailing address will automatically change to the subject property on (or shortly after) the effective date.

Mortgagee Clauses

For Homeowners Insurance (including Hazard, Flood, Wind, Hail, etc.):
ServiceMac, LLC
ISAOA/ATIMA
P.O. Box 29411
Phoenix, AZ 85038-9411

For Title Insurance and Closing Protection Letter:
Homebridge Financial Services, Inc., DBA Real Estate Mortgage Network
its successors and/or assigns as their interest may appear
194 Wood Avenue South, 9th Floor
Iselin, NJ 08830

Flood Insurance General FNMA Requirements

- » REMN WS must ensure that the subject property is adequately protected by flood insurance when required. Flood insurance coverage is required when a loan is secured by a property located in:
  - – A Special Flood Hazard Area (SFHA), or
  - – A Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA)
- » REMN WS must determine whether the property is located in an SFHA, a CBRS, or an OPA by using the FEMA Standard Flood Hazard Determination form. All flood zones beginning with the letter "A" or "V" are considered SFHAs.
  - – **Note**: If the subject property is located within a CBRS or OPA, flood insurance is required regardless of whether the property is located in an SFHA
- » Flood insurance is not required on a principal or residential detached structure securing the loan if the lender or servicer obtains a letter from FEMA stating that its maps have been amended and the structure is no longer in an SFHA
- » The following table describes when flood insurance is required. For these requirements, the "principal structure" is the primary residential structure on the subject property.

IF…	Then flood insurance is…
Any part of the principal structure is located in an SFHA.	Required.
The principal structure is not located within an SFHA, but a residential detached structure affixed to the land that serves as part of the security for the loan is located within the SFHA	Required for the residential detached structure.
The principal structure is not located within an SFHA, but a non-residential detached structure affixed to the land that serves as part of the security for the loan is located within the SFHA	Not required on either structure.
The principal structure is not located within an SFHA, but a detached structure affixed to the land that does not serve as part of the security for the loan is located within the SFHA	Not required on either structure.
Any part of the principal structure is located in an SFHA.	Required.

	Community Eligibility » If REMN WS determines that a principal or residential detached structure is located in an SFHA, but the community does not participate in the National Flood Insurance Program (NFIP), the loan is not eligible for purchase by Fannie Mae. » If the property is in a non-participating community and a CBRS or an OPA, it is only eligible for purchase by Fannie Mae if it is not located in an SFHA. » Loans secured by properties in the Emergency Program of the NFIP are eligible for purchase by Fannie Mae with coverage equivalent to the NFIP maximum that is available. » The flood insurance policy must be one of the following: o A standard policy issued under the NFIP, or o A policy issued by a private insurer, provided: ▪ the terms and amount of coverage are at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer, and » the insurer meets Fannie Mae's property insurer rating requirements

<table>
<tr><th colspan="2">PROPERTY INSURANCE</th></tr>
<tr><td>Flood Insurance Coverage Requirements for 1-4 Unit Properties</td><td>» The minimum amount of flood insurance required for most first mortgages must be equal to the lesser of:
• 100% of the replacement cost of the insurable value of the improvements;
• The maximum insurance available from the NFIP, which is currently $250,000 per dwelling; or
• The unpaid principal balance of the mortgage
» Additional requirements for units in attached condo projects, and PUDs are detailed in Flood Insurance Requirements for Project Developments.</td></tr>
<tr><td>Flood Insurance Requirements for Project Developments</td><td>» When a loan is secured by a unit in an attached condo or PUD project and flood insurance is required as described in Flood Insurance General FNMA Requirements, REMN WS must verify that the HOA maintains a master flood insurance policy with premiums paid as a common expense, unless otherwise indicated in the table below. Any part of the improvements are in an SFHA, REMN WS must verify that the HOA corporation maintains a master or blanket policy of flood insurance and provides for premiums to be paid as a common expense.
» The following table provides additional requirements based on the project type:
<table>
<tr><th>Project Type</th><th>Coverage Requirements</th></tr>
<tr><td>Condo</td><td>REMN WS must verify that the HOA maintains a Residential Condominium Building Associated Policy (RCBAP) or equivalent private flood insurance coverage for a condo building consisting of attached units located within an SFHA. The only building that must be verified is the subject unit's building. Fannie Mae does not require evidence of a master flood insurance policy, provided the unit owner maintains an individual flood dwelling policy that meets the coverage requirements of this Guide for the following loans or project types:
– high LTV refinance loans,
– units in a two- to four-unit project, and
– detached condo properties.

The master flood insurance policy maintained by the HOA must cover the subject unit's:
– entire building; and
– all of the common elements and property, including machinery and equipment that are part of the building.

The coverage amount for the building must be at least equal to the lesser of:
– 80% of the replacement cost value; or
– The maximum coverage amount available from NFIP per unit.

If the master flood insurance policy meets the minimum coverage requirement of 80% of the replacement cost value, but the per unit coverage amount does not meet the requirement for loans secured by one- to four-unit properties, as described above, the unit owner must maintain a supplemental policy for the difference.

If the commercial space of an attached condo is over 25%, coverage provided by the General Property Form (or equivalent coverage) is insufficient. A private flood insurance policy, or a private flood insurance policy in conjunction with a General Property Form policy (or equivalent coverage) must be maintained by the HOA to equate to coverage requirements for projects eligible for an RCBAP.
The contents coverage must equal the lesser of:
– 100% of the replacement cost value; or
– The maximum coverage amount available from NFIP.</td></tr>
<tr><td>PUD</td><td>REMN WS must verify that each attached or detached individual PUD unit maintains a Dwelling Form policy or equivalent private flood insurance policy on the subject property. See Requirements for One- to Four-Unit Properties above for the required amount of coverage.</td></tr>
</table></td></tr>
</table>