Sequoia Non-QM

LTV/CLTV MATRIX

Sequoia Primary Residence

Loan Amount	Score	Purchase Only
$1,500,000	720	90%*

Greater than 85% LTV
Refinance not allowed
Florida Condos not allowed
Second Homes not allowed

Loan Amount	Score	P / R&T	C/O
$1,000,000	700	85%	80%
	680	80%	80%
	660	80%	75%
$1,500,000	700	85%	80%
	660	80%	75%
$2,000,000	720	85%	75%
	700	80%	75%
	660	75%	70%
$2,500,000	720	80%	70%
	700	75%	65%
	660	70%	65%
$3,000,000	740	75%	70%
	700	75%	65%
$3,500,000	700	70%	65%

Program Restrictions

Florida Condo: Max 85% LTV
CPA Gross Receipts: Max 80% LTV
CPA P&L Program: Max 80% LTV

Second Homes

Loan Amount: Max $3,000,000
LTV Max: 85% Purch / R&T 80% C/O
Otherwise follow Primary Residence

Sequoia Non-Owner

Loan Amount	Score	P / R&T	C/O
$1,000,000	720	80%	80%
	660	80%	75%
$2,000,000	700	80%	75%
	680	75%	70%
	660	70%	65%
$2,500,000	720	75%	70%
	700	75%	65%
	680	70%	65%
$3,000,000	740	75%	70%
	720	75%	65%
	700	70%	65%
$3,500,000	700	70%	N/A

DTI

50% unless otherwise noted
45% for > 85% LTV
45% for > $3,000,000
55% allowed w/restrictions, see guidelines

Reserves

3 months for ≤ $1.5mm
6 months for > $1.5mm
9 months for > $2.5mm

Cash Out Limits

Max Cash Out is $2,500,000
Any LTV

Sequoia Non-QM

TRANSACTION

Ability to Repay / Qualified Mortgage Rule

All loans subject to Regulation Z must meet the Ability-to-Repay (ATR) Rule, whether under the Non-QM ATR requirements (12 C.F.R. 1026.43(c)) or under QM Safe Harbor/Rebuttable Presumption (12 C.F.R. 1026.43(e)).

Creditors are required under the general ATR standard to make a reasonable, good-faith determination before or when consummating a mortgage loan that the consumer has a reasonable ability to repay the loan. A reasonable, good-faith ATR evaluation using reliable third-party records must include the following 8 ATR underwriting factors:

1. Income or assets used to repay loan
2. Employment status
3. Monthly mortgage payment on the subject loan (fully indexed, fully amortizing)
4. Monthly payments for any simultaneous loans secured by the subject property
5. Monthly payments for property taxes, hazard insurance, HOA fees or ground rents
6. Debts reported by a credit bureau or disclosed by the consumer, alimony, and child support obligations
7. Monthly DTI or residual income
8. Credit history

Available Products

Product	Qualifying Rate	Term	I.O. Term	Index	Caps
5/6 ARM	Higher of Fully indexed or Note Rate	360	N/A	30-day avg SOFR	2/1/5
5/6 ARM I.O.	Higher of Fully indexed or Note Rate	360	120	30-day avg SOFR	2/1/5
7/6 ARM	Higher of Fully indexed or Note Rate	360	N/A	30-day avg SOFR	5/1/5
7/6 ARM I.O.	Higher of Fully indexed or Note Rate	360	120	30-day avg SOFR	5/1/5
15-Year Fixed	Note Rate	180	N/A	N/A	N/A
30-Year Fixed	Note Rate	360	N/A	N/A	N/A
40-Year Fixed	Note Rate	480	N/A	N/A	N/A
30-Year Fixed I.O.	Note Rate	360	120	N/A	N/A
40-Year Fixed I.O.	Note Rate	480	120	N/A	N/A

Interest Only

Allowed at all LTV's and Credit Scores
I/O Qualifying: Fixed: 30-Year I/O, Note rate and loan amount amortized over 240 months
Fixed: 40-Year I/O, Note rate and loan amount amortized over 360 months
ARMs: Higher of fully indexed or note rate and loan amount amortized over 240 months

Additional ARM Criteria

Adjustment Reset Period	Lookback Period	Margin	Floor
6-month	45-days	See Rate Sheet	Margin

Assumability

Not assumable

Buydown Option	A 2/1 buydown option is available on owner occupied purchase transactions. The buydown is funded by interested party contributions (IPC) or Lender Credit. The buydown fund contributions can only come from the seller, builder, realtors, or from lender credit. Any combination of these sources is acceptable. The year 1 payment is based on a rate that is 2% below the locked rate, the year 2 payment is based on a rate that is 1% below the locked rate. The difference between the actual payment and the payment required by the note rate is paid every month by the loan servicer from the buydown premium collected at closing. At the beginning of year 3, and thereafter, the full amortizing payment is made by the borrower. If the loan pays off prior to the beginning of year 3, the remainder of the buydown fund is credited to the borrower in the payoff calculation. The following terms and restrictions apply: - The buydown is only available on Owner Occupied purchase transactions - For qualification purposes the actual locked rate and associated payment are used - The buydown only impacts the amount of the monthly payments over the first 2 years - For loans with impounds/escrows: the borrower makes the full monthly amount for any impounds - There is no negative amortization - Buydown amount cannot exceed IPC limits - Cannot be combined with Interest Only payment option - Appraisal must reflect that the IPC used to fund, or partially fund, a buydown has been included in the analysis - Purchase agreement must reflect IPC to be granted to the buyer/borrower - A Buydown agreement is signed at closing by the borrower and all parties providing credit to the buydown fund
Prepayment Penalty	Prepayment penalties allowed on Non-Owner occupied properties only. Prepayment penalty is equal to 6 months interest on 80% of unpaid principal balance. 1-, 2-, or 3-year terms available. PPP Not Allowed in the following states: - Alabama, Alaska, Arkansas, DC, Illinois, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, New Mexico, Ohio, Oklahoma, Rhode Island, South Carolina, Vermont, West Virginia PPP Allowed in the following states w/ restrictions: - Indiana and Maine: Allowed only if fixed rate - New Jersey: Allowed only if closing in an S Corp or C Corp. Not allowed when vesting in an LLC or LLP - North Carolina: Allowed for loan amounts > $150,000 - Pennsylvania: Allowed for 1 – 4 units for loan amounts > $329,411
Non-Owner Transactions with a Prepayment Penalty	- Borrower(s) must sign Business Purpose Affidavit at closing - If loan is cash out, cash out proceeds can only be used for the business purpose of owning rental properties: acquire, manage and improve real estate - Ineligible Tenants: Family member or related individual to borrower
Minimum Loan Amount	$100,000 $179,500 for loans in Missouri
LTV Restrictions	- Greater than 85% LTV allowed on purchase only - Florida condos ineligible for greater than 85% LTV - Second home ineligible for greater than 85% LTV Purchase/ R&T; 80% Cash out
Borrower Contribution	Owner Occupied and 2nd home - No borrower contribution at LTVs of 80% or lower - 5% borrower contribution at LTVs greater than 80% Non-Owner occupied - Minimum 10% borrower contribution

IPC (Interested Party Contributions)	Owner Occupied & 2nd Homes - 9% allowed for LTVs <=75% - 6% allowed for LTVs >75% Non-Owner Occupied - 6% allowed for all LTVs Note: A seller credit with a concurrent sales price increase is allowed, however, the seller credit amount will be deducted from the sales price for LTV purposes.
Rate & Term Transaction	- Pay off existing first mortgage and any subordinate loan used for the acquisition of the property - Pay off any subordinate loan that was not used for the acquisition of the property when: - Closed end loan with at least 12 months seasoning - HELOC with at least 12 months seasoning and total draws over the past 12 months are less than $5000 - For business purpose loans, any draw over the life of the loan may not have been for personal use, draw history is required as well as a borrower attestation - Buy out of a co-owner pursuant to an agreement - Pay off an installment land contract executed more than 12 months from the application date - Any energy efficient based liens, like PACE or HERO, when paid off with loan proceeds, the transaction is treated like a rate and term. These liens cannot be subordinated. Important Rate & Term Notes: - Cash back may not exceed the greater of 1% or $5,000 (max cash back allowed is $10,000) - LTV/CLTV based on current appraised value - See section on Recently Listed Properties
Cash-Out Transaction	Max Equity Withdrawal: $2,500,000 Cash out limitations do not apply on delayed financing transactions. The UPB of an unseasoned 2nd being retired is included in the Max Equity Withdrawal calculation. The following are not eligible for cash out: Land Contract/Contract for Deed
Cash Out Ownership Seasoning & Value Determination	Cash out seasoning is defined as the difference between the note date of the new loan and the property acquisition date. Properties owned 3 months, or more are eligible for cash out. - Properties owned >= 3 months - use the current appraised value - Cash out when property is owned < 3 months is only allowed under the following conditions: - Borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership - Delayed Financing - For properties currently vested in an entity, time in the entity counts towards seasoning provided the borrower(s) are at least 50% owners of the entity

Delayed Financing	Properties acquired inside the most recent 3 months with cash or with short-term financing are eligible for cashout via Delayed Financing. Short-term financing is defined as having a loan term of 24 months or less. The following requirements apply: 1. Proved final ALTA from acquisition showing cash purchase or short-term financing 2. Document the source of funds used for the purchase with bank statements, personal loan documents, HELOC on another property, gift, etc. 3. Max LTV/CLTV is based on the lower of the current appraised value or purchase price plus documented improvements
Recently Listed Properties	RATE & TERM OR CASH OUT Recently listed properties are allowed via exception under the terms listed below. Deviations to the terms listed below are not allowed. Properties listed in the 6 months prior to the application date are subject to the following: - Any active listing must be cancelled prior to docs. Documentation from the appropriate multiple listing service must be provided: emails, LOEs, online searches, etc., are not sufficient - A prepayment penalty (PPP) is required. PPP must be 2-year or max allowed per state law if 2-year is not allowed. In states where PPP is prohibited, the PPP is not required - Value determination for pricing and eligibility will be based on the lesser of the lowest 12 month listed price or the current appraised value - If the transaction is C/O, a 10% LTV reduction from max LTV is required - Vacant property is not allowed. If tenant occupancy is not overwhelmingly evident in the appraisal photos, then the transaction is ineligible. Follow up documentation to prove occupancy will not be reviewed. One vacant unit ok on 3–4-unit properties - Max pricing is par
Max Exposure to Newfi	The max exposure to Newfi for any 1 borrower is 10 loans or $5,000,000 UPB The max exposure rule is not automatic. The loans should not be secured to properties in the same micro-geographic area, for example, same block, subdivision, PUD project, or condo project. Each scenario is reviewed on its own merit and particular characteristics.
Non-Arm's Length (NAL)	An NAL occurs when the borrower has a direct relationship or business affiliation with the builder, developer, or seller. Landlord/Tenant transaction does not in itself create an NAL. If the seller of a property is a business-entity, then it may be necessary to confirm that the buyer is not an owner of the seller-entity. NAL Restrictions - Primary residence only - For-Sale-By-Owner (FSBO) must be arm's length, unless family transaction - Employer to employee sales are not allowed - Property trades between buyer and seller are not allowed - Extra diligence and transaction review must be performed. Underwriter has the discretion to pursue any perceived concerns
Interested Party Transaction (IPT)	An IPT occurs when the borrower has an affiliation or relationship with the mortgage broker, loan officer, real estate agent or any other interested party to the transaction, extra diligence is required when an ITP exists. The seller's real estate agent may not act as the loan officer for the subject property. Eligible NAL & IPT Transactions (Not Subject to Restrictions) - Borrower representing themselves as a real estate agent - Borrower is a mortgage broker or loan officer or works for submitting broker - Borrower is related to realtor and/or loan officer who is representing them only - Seller representing themselves in the real estate transaction - Purchase between family members is allowed, however, any indication of a family bailout will require further documentation to determine if transaction is acceptable
Escrow Holdbacks	Not allowed

LTV Determination	Rate & Term - use current appraised value Cash-Out owned >= 6 months - use current appraised value Cash-Out owned < 6 months (delayed financing) - use lesser of acquisition cost or appraised value (see delayed financing)
BORROWERS	
Eligible Borrowers	US Citizens Permanent Resident Alien Non-Permanent Resident Alien
Non-Permanent Resident Standard	- Visa types allowed E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, L-2, NATO, O-1, R-1, TN NAFTA - Visas must be current and have at least 6 months remaining from the close date, if less than 6 months provide evidence that extension has been requested
Non-Permanent Resident Non-Standard	Any residency status that meets FNMA guidelines is allowed provided the requirements listed below are met. - Visa or EAD must be current and have at least 6 months remaining from the close date, if less than 6 months provide evidence that extension has been requested - Expired Visa/EAD under auto-extension are acceptable with evidence an extension has been requested - Must have a minimum of 2 years residency, credit, and employment/income history in the US. 2-year history is measured by note date - The requirement for residency, Credit, employment may be reduced to 1 year with AUS Approve/Ineligible (Ineligible for loan amount, DTI and/or reserves) Note: For passive income types, the employment history of 1 or 2 years is not required Non-Permanent Resident Alien Not Providing Income The following Visa types, H4, K1, O2 and V1-3, are provided to the spouse of an income-earning Visa holder. Should income be needed for borrower with one of these Visas, an EAD will need to be provided.
Entity Vesting	Entity vesting is allowed on non-owner occupied only, the following are required - Entity type is LLC or Corporation - Borrower(s) must represent a minimum of 25% of the entity ownership - 4 borrower / 6 member maximum - U.S. domiciled entities only - Purpose of entity must be for real estate acquisition - ACH Required - Borrower(s) must sign a personal guarantee Documentation verifying the following must be provided. For LLC: - Verify entity membership with formation docs or other entity documentation - Provide federal licensing entity ID number (EIN) - Show the entity is in good standing For Corporations: - Filed Certificate/Articles of Incorporation and all amendments (or equivalent) - By-Laws and all amendments - Evidence of good standing - Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website) - EIN/Tax Identification Number - Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation - Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment

Non-Occupant Co-Borrowers	Purchase and Rate/Term only Cash-Out transactions are not allowed Blended Ratios are allowed using one of the three following options: Option 1: - Occupying borrower must have a DTI <= 60% AND - a minimum of 5% of the down payment must come from occupying borrower's own funds AND - occupant borrower is responsible for 50% of the reserve requirement Option 2: - Occupying borrower must have a DTI <= 75% with combined DTI <= 40% AND - a minimum of 5% of the down payment must come from occupying borrower's own funds AND - occupant borrower is responsible for 50% of the reserve requirement Option 3: - True blended ratios are allowed at <= 80% LTV/CLTV - No occupant contribution required for down payment or reserves
First Time Home Buyer	Defined as borrower who has not owned residential property in the US in the past 3 years, based on note date. All occupancy types allowed. If one borrower is FTHB and the other is not, then FTHB restrictions do not apply. Property owned outside of the US is not considered in FTHB determination FTHB restrictions - Subject rents on investment property transaction not allowed
Multiple Properties Owned	The maximum number of residential 1–4-unit properties owned (financed or free and clear) is 10. The maximum number of residential 1–4-unit properties owned (financed or free and clear) is 6 for loan amounts of $400,000 and lower.
Ineligible Borrowers	- Irrevocable trust / Land trust / Blind trust - Borrower with diplomatic immunity - Not for profit entity - Any material parties to the transaction on HUD's Limited Denial of Participation (LDP) or General Services Administration (GSA) or any other exclusionary list - Borrower who is also the Developer/Builder of subject property development for projects of 5 or more
CREDIT	
Credit Report	- A credit report is required for each borrower - The report should provide merged data from the three major bureaus, Experian, Equifax, and Transunion - A minimum of two credit scores are required - One frozen bureau is acceptable New credit reports are allowed, if debt is paid down to improve score, updated asset statements may be required.

Credit Score	BORROWER CREDIT SCORE - For borrowers with 3 scores, the middle score is used - For borrowers with 2 scores, the lower score is used TRANSACTION CREDIT SCORE The transaction credit score used for eligibility and pricing is determined as follows - The borrower credit score of the primary income producer is used - For transactions where 2 or more borrowers have the same income level, the lowest borrower credit score is used - For Asset Depletion and Asset Utilization the lowest borrower credit score is used Note: Independent of which score is used for the Transaction Credit Score, a minimum 620 Borrower Credit Score is required for all borrowers.
Age of Credit Docs	All credit doc expiration dates are measured to the Note Date, day 1 is the date of the document - Appraisal, Prelim/Title, Credit, Assets, and Income are valid for 120 days - For allowable age of tax returns see the self-employment section - P&L age limit is 120 days - Crypto based account documents valid for 60 days
Undisclosed Debt Monitoring (UDN)	UDN is set up as part of the underwriting process and pulled before the file heads to closing to discover if there are any new credit accounts acquired by the borrower or any new derogatory items. Should the UDN reveal new derogatory items, like late payments, that may effect the credit score, a new credit report capturing the impact of the derogatory item is required. Re-pricing may result
Fraud Check	Newfi Lending will pull a fraud report, DataVerify DRIVE Report, on all loans and it will include all parties to the transaction. Newfi is responsible for clearing findings on the fraud report.
Credit Review	Files where a borrower has recent and excessive mortgage lates which are outside of the most recent 12 months are evaluated case by case for acceptability
Inquiries	- Non-mortgage Inquiries within 90 days of the report date may require an explanation - If no new credit obtained, borrower to explain reason for inquiry and confirm that no new credit was obtained - If new credit obtained, document the current balance, monthly payment, and account number
Housing Payment History	0x30x12
Verifying Housing Obligations thru Month of Funding	ll housing obligations (rent or mortgage payments) need to be verified thru the month of funding. Here are a few documentation requirement examples where the mortgage is rated thru April on the credit report: - Funding any day in May: nothing required - Funding any day in June: verify payment due May 1 has been made in May - Funding any day in July: verify payment due May 1 has been made in May and verify payment due June 1 has been made in June This verification requirement can be waived with an AUS approve for borrowers documented as 0X30X36 on all housing obligations

Mortgage/Rental Verification	Institutional Lender/ Landlord Payment history may be documented as follows: - 12 months mortgage payment history on the credit report OR - 12 months canceled checks / bank statements OR - Verification of Mortgage (VOM)/ Verification of Rent (VOR) - Verifying housing payments, not reported on the credit report, can be eliminated if the following is present: - File receives an AUS approve (AUS should be provided by broker, must reasonably match transaction terms) Non-Institutional Lender/ Landlord - Payments must be verified with either canceled checks or bank statements AND - A copy of the note or lease is required to verify payment amount and due date - Verifying housing payments can be eliminated if the following is present: - File receives an AUS approve (AUS should be provided by broker, must reasonably match transaction terms)
Missed Balloon or Short Term Note Due Date	A refinance transaction where the existing mortgage is beyond its due date can be acceptable provided the following are all met: - Lender has continued to accept regular payments - Application date is within 90 days of existing mortgage due date - Funded date of our refinance is with 120 days of existing mortgage due date The missed mortgage due date will be treated like a 1X30 for pricing and eligibility
Departure Property	PENDING SALE If the current residence is pending sale but the transaction will not close prior to the subject transaction, the current PITI may be excluded with the following: 1. The executed sales contract for the current residence AND 2. Confirmation that all financing contingencies have been cleared. LEASED If the current residence will become a rental property, the net rental income for a new lease may be used to offset carrying costs or to add to qualifying income. 80% of the new lease will be used to determine the qualifying rental income. Net positive income may be used. The following 3 items are required: 1. Copy of current lease AND 2. Proof of receipt of deposit and 1st month's rent AND 3. Evidence rent is near market, either a 1007 or other underwriter/loan officer obtained confirmation of market rent is required UNLEASED If the departure prop is unleased, then the PITI can be offset with market rents. - Positive cash flow from departing residence without a lease in place may not be added to income. - Use 1007, or other acceptable third party report, and apply the 80% rule to determine cash flow. An additional 2 months of PITI on our subject property is required when using rents on an unleased property.

Consumer Credit Charge Offs & Collections	Individual collections and non-mortgage charge-offs, individual or aggregate, totaling $15,000 or more must be paid in full at closing except for: - Medical collections with a maximum aggregate balance of $50,000 - A second mortgage that has been charged off is subject to foreclosure seasoning periods for grade determination based on the charge-off date - Collections and charge-offs that have expired under the state statute of limitations, documentation is required - A balance on a charged-off mortgage does not need to be addressed unless attached to our subject property Collections and charge-offs not excluded by one of the above 3 exceptions must be paid or may remain open with the following: - Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). If a payment amount is not known, 5% of the balance may be used as the payment AND/OR - Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements *Note: A combination of reserves and debt service can be used to address open balances. For example: $10,000 collection balance can be addressed by $5,000 extra reserves and $5,000 debt serviced at $250 per month.
Judgements or Liens	All open judgments, garnishments and liens must be paid at or prior to closing.
Income Tax Liens	All state, federal, and local liens must be paid and removed from title at closing or sooner
Bankruptcy / Foreclosure / Short Sale / Deed in Lieu	Must be settled a minimum of 48 months and the length of time is measured from the discharge / dismissal date to the note date
Modification	Modifications or deferred balances that were a result of a COVID-19 forbearance plan are acceptable with no restrictions. Simple rate modifications performed by lender or servicer as a portfolio retention plan are acceptable with no restrictions. The borrower must have made 48 consecutive months of timely payments on the modified loan before the note date of the new loan
Forbearance	Forbearance allows for borrower experiencing financial hardship to pause making mortgage payments. A recent forbearance, due to COVID-19, may be eligible based upon the following: - Borrowers who entered forbearance but continued to make timely payments and remained employed without income disruption, are eligible without any other requirements. - Borrowers who participated in forbearance and missed payments have two options: 1. Pay loan current by making all missed payments from borrower verified funds OR 2. Make three monthly payments in lender modification plan after exiting forbearance. - Third payment must be made prior to note date. - Evidence the borrower has exited forbearance or entered the modification plan is required If either of the two options are met, there are no other restrictions. Payments must be documented by canceled checks or bank statements. Income must have been re-established at the time payments commenced and remained consistent since. This forbearance guidance applies to all open mortgage accounts.

Tradelines	If the primary wage earner has 3 credit scores, the minimum tradeline requirement is met. Note: if the credit scores are derived from thin credit, for example authorized user accounts or new accounts with minimal usage, the borrower will need to qualify with one of the four options below. If the primary wage earner has only 2 credit scores, one of the following 4 options must be met. Multiple borrowers with the same income need to meet either the 3-credit score threshold or meet 1 of the minimum tradeline requirements listed below. Primary wage earner ONLY must meet tradeline requirement. There are 4 options: 1. 3 of 12: At least 3 tradelines reporting for a minimum of 12 months, with all 3 having activity in the last 12 months, accounts can be open or closed. 2. 2 for 24: At least 2 tradelines reporting for a minimum of 24 months, with both having activity in the last 12 months, accounts can be open or closed. 3. 8 for 8: No fewer than 8 tradelines are reporting, one of which must be a mortgage or a rental history. - At least one tradeline has been open and reporting for a minimum of 12 months - The borrower has an established credit history for at least 8 years 4. AUS 4 for 4: AUS approval and no fewer than 4 tradelines are reporting, one of which must be a mortgage or a rental history. - At least one tradeline has been open and reporting for a minimum of 12 months - There is an established credit history of at least 4 years - Requirements can be met by primary borrower or 2 combined borrowers on same application Note: a satisfactorily documented housing history, not reported on the credit report, can be used to meet the tradeline minimums. If the AUS is used in lieu of documenting private housing payments, it cannot be considered as a tradeline for the purposes of meeting the minimum requirements. The following may not be considered as tradelines: - Self-reported tradelines or Authorized user accounts - Accounts in deferment - Accounts discharged through bankruptcy - Authorized user accounts - Charge-offs / Collections / Foreclosures / Deed in Lieu / Short Sale

LIABILITIES	
Subordinate Financing	If the subordinate financing is a simultaneous close, the following is required: - A copy of the loan approval and repayment terms - A copy of the note If the secondary financing is already in place the following is required: - A copy of the note, recorded security instrument, or signed subordination agreement must be provided to confirm the loan amount, terms, and lien status - The subordinate lien must have a minimum remaining term of no less than five (5) years unless the financing fully amortizes prior to that time - The secondary financing must not have a negative amortization feature - The terms of the note must provide for regular monthly payments of at least the interest due with no provisions for future lien amount advances - Employer-provided secondary financing follows agency guidance - Seller carry-back allowed, must meet all relevant terms listed above
Home Equity Line of Credit (HELOC)	For qualification purposes use the following: - For an existing subordinate lien, use the payment on the credit report or monthly statement - If the payment cannot be verified use 1% of the outstanding balance - If there is no balance, then no payment will need to be used - For a simultaneous close, use the amount to be disbursed at funding
PACE / HERO Loans	These liens must be retired and cannot be subordinated.
Installment Debt	- A monthly non-lease payment may be excluded from the DTI calculation provided there are 10 or fewer payments remaining - Paying down non-lease installment debt to 10 payments or less to qualify is allowed - Business debt in borrower's name may be excluded with documentation to verify that the business has made 6 months of timely payments and the debt is accounted for as an expense in the business tax returns. Only allowed with full documentation income - Student loans, whether deferred, in forbearance, or in repayment, 0.5% of the unpaid balance or the actual documented payment - To exclude contingent mortgage liabilities, document that the individual making the payment is also obligated on the mortgage and document most recent 12 months timely payments - Timeshares are considered installment debt, not a mortgage - Non-mortgage debt paid by others can be excluded if evidence of 12 months of timely payments are provided showing another party is paying
Revolving Debt	The minimum payment on the credit report or current statement is used in the DTI calculation: - Revolving debt may not be paid down to qualify - Revolving debt may be excluded if the account balance is paid off through closing, if paid prior to closing funds used to pay off account must be verified - If there is no minimum payment amount is listed on the credit report and no supplemental documentation to support a payment is provided, then use the greater of $10.00 or 5% of the outstanding balance - Business debt in borrower's name may be excluded with documentation to verify that the business has made 6 months of timely payments and the debt is accounted for as an expense in the business tax returns. Only allowed with full documentation income - Non-mortgage debt paid by others can be excluded if evidence of 12 months of timely payments are provided showing another party is paying

Open Accounts (Like AMEX)	For monthly paid charge accounts, also called OPEN accounts, a payment will not be included but outstanding balance amount will be netted out of available assets or cash-out proceeds. Borrower must have funds to cover account balance in addition to any other assets required. Alternatively, the balance can be debt serviced at 5% if adequate reserves are an issue.
Alimony / Child Support / Separate Masintenance Obligations	- Monthly child support obligations with 11 or more payments remaining must be included in the DTI - Alimony paid can be subtracted from income instead of adding to liabilities
Retirement / Saving Plan Loans	- Repayment for loans against a 401K, savings plan, brokerage accounts, or insurance policy may be excluded from the liabilities provided the borrower can repay the debt by liquidating the assets - The asset must be reduced by the amount of the debt when calculating total assets for closing and reserves
IRS Payment Plans	IRS payment plans are acceptable and can be included in the DTI. - A copy of the approved IRS installment agreement with the terms of repayment, that includes monthly payment amount and total amount due AND - The maximum payment required under the plan is included in the DTI calculation
ASSETS	
Requirements	- 2 months of asset statements required - On a purchase transaction, large deposits must be sourced, a large deposit is considered more than 100% of the borrower's monthly income - Joint account access letters from co-owners are not required provided our borrower is clearly an account owner - Trust Accounts: If the trust is not clearly our borrower's family trust, a trust cert must be provided
Funds to Close	If funds to close are in non-cash holdings (stocks, bonds, mutual funds), verification of liquidation is required, however, proof of liquidation is not required if holdings are equal to a minimum of 120% of funds to close.
Business Funds	Business funds are an acceptable source of funds and may be used for on all income types with the following requirements: - Business funds may be used up to the borrower's percentage of ownership - If account co-owner is also an owner or purchaser of the subject property, then assets can be used to the combined percentage of ownership - Newfi to perform a cash flow analysis to determine that the use of business funds will not have a negative impact on the business, if income from the business is being used to qualify - Analysis of large deposits is generally not required, however, any recent large deposits outside the trend that approximate the required funds to close should be addressed to ensure they are not borrowed funds
Commission Earned From Transaction	Commission earned by borrower acting as their own realtor is treated like seasoned funds, and may be used for down payment, closing costs or reserves
Crypto Currency	Crypto currency that has been converted to USD is an acceptable source of funds provided the crypto can be acceptably documented. Recently this asset type has gained more widespread popularity and documentation has improved. The documentation must show the acquisition date of the asset and it must show a sufficient history to meet 60-day seasoning requirements. Not all crypto currencies or crypto brokerages will provide adequate documentation. An abundance of care must be used in reviewing statements provided.
Foreign Assets	- Foreign assets may be used for down payment and closing costs with the following: - Assets must be verified in USD at current exchange rate http://www.xe.com AND - 2 months recent statements
Gift Funds	- A minimum of 5% borrower contribution is required on owner occupied and 2nd homes when LTV is > 80%. - A minimum of 10% borrower contribution is required for non-owner occupied. - Gift funds may not be used for reserves. - Gift donor must be a family member, domestic partner, fiancé - Gifts are not allowed on Asset Depletion or Asset Utilization programs unless gift amount is subtracted from amount being used for income qualification

Reserves	All reserve requirements are based on subject property PITI or ITI if applicable. - 3 months required <= $1.5MM - 6 months required > $1.5MM - 9 months required > $2.5MM An additional 2 months PITI on subject property when using rents with no lease

Transactions Where Documenting Reserves is Not Required	- Transaction proceeds may be used as all or part of the required reserves for loan amounts < $3.5MM
	- For Rate & Term refinance with the following characteristics, reserves are not required
	  - No mortgage lates in the past 60 months
	  - No consumer credit lates in the past 36 months
	  - Mortgage payment flat or decreasing
	  - Max loan amount of $2,000,000
	  - Max 70% LTV—OR-- minimum 720 credit score

Acceptable Sources of Reserves	- Funds in non-cash holdings (stocks, bonds, mutual funds) are not required to be discounted
	- Cash surrender value of life insurance, annuities, etc.
	- Retirement accounts used for reserves
	  - Employer sponsored savings plans, like 401k are allowed under the following terms:
	- Primary Residence 100% of value, no TOW
	- Second Home & Non-Owner 50% of value, no TOW
	- Second Home & Non-Owner 100% of value with TOW allowing hardship for specific occupancy
	  - IRA use at 100% of value
	- Cryptocurrency focused mutual or ETF funds offered by traditional currency based financial products providers like Fidelity, Schwab, etc. At 50% of current value.
	- Cryptocurrencies Bitcoin and Ethereum held in a Coinbase account. At 25% of current value.
	- Loan proceeds on a Cash-Out refinance or incidental cash back on a R&T refinance
	
	Cryptocurrencies and cryptocurrency funds are limited to a combined maximum of 50% of the reserve requirement. Statements for these accounts have a maximum age of 60 days.

Unacceptable sources for Reserves	- Funds in a 1031 exchange account - Gift funds - Spousal Accounts
INCOME	
Earning Trends	Year to year earnings must be considered in accordance with Appendix Q Part 1026 of regulation Z - Standards for determining Monthly Debt and Income

Stable or Increasing	Amounts should be averaged
Declining but Stable	If 24 month average shows a decline, but most recent 12 months has stabilized & there is no reason to believe that the income / employment will not change the most recent 12 month average may be used.
Declining	Income is ineligible

Debt to Income Ratios (DTI)	- Max DTI unless otherwise noted is 50% - Max DTI is 45% for LTV > 85% OR loan amount > $3,000,000 - Up to 55% DTI with all of the following: Full Doc ONLY - Min 680 credit score - Max 80% LTV - Owner occupied - 2 year Income - Payment shock may not exceed 0% - 3 months additional PITI reserves required Purchase, Rate & Term, and Cash-Out allowed as debt consolidation ONLY (cash back to borrower must meet rate & term guides)
Full Doc Requirements	When tax returns are required the most recent returns are required, if there is an extension, a copy of the extension and evidence that any tax amount due was paid, if applicable.
Wage / Salaried Borrowers	- The most recent paystub reflecting 30 days of YTD earnings AND - W2(s) AND - Verbal verification of employment (VVOE) for each employer providing qualifying income with an effective date no more than 10-business days prior to the note date. An email from the borrower's employer that identifies the name and title of the verifier may be used in lieu of a VVOE AND - Executed 4506T for each borrower as well as tax transcripts for each borrower (W2 or 1040 transcripts acceptable)
Wage / Salaried Borrowers w/ Incidental Self-Employment	The review and analysis of self-employed income activity is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income
1099 Income (Documented No Expenses)	This option is designed for borrowers who are engaged as contractors and provide labor only. This borrower can be treated like a wage earner, and 1040 are not required. There is no minimum or maximum amount of time the borrower is required to have been a contractor. Documentation must be provided that the borrower will not be responsible for any additional expenses, for example, a letter from the employer, a WVOE, or the employment contract. Other conclusive documentation may be acceptable. Document the income amount and the current receipt of income with pay vouchers, bank statements, WVOE, etc. Full amount of 1099 payouts can be used. Requirements: - YTD earnings validated by paystubs, pay vouchers, WVOE, etc. - Documentation from employer that borrower has no job-related expenses - If the borrower has an entity in place to accept payments, document the borrower is sole owner of the entity
Self-Employed Borrowers	The most recent 2-year or 1-year 1040's. Returns do not need to be signed - A signed and dated borrower prepared YTD P&L, up to and including the most recent month preceding the application date and 2 business checking account statements for the 2 recent months reflected on the P&L - If a gap exists between the tax return ending date and the start date of the P&L, a gap year P&L is required. The qualifying income is determined from the tax returns and the P&L is used to determine stability of the income. The bank statements for the most recent 2 months must reflect deposits that support the sales from the P&L and the income from the priors' years tax return - Executed 4506T for each borrower as well as 1040 transcripts - Verify the existence of the business within 30-calendar days of the note date and ensure that the business is active: - A letter from tax professional, regulatory agency, or licensing bureau certifying 2 years self-employment in the same business AND - A phone listing and/or a business address using internet search * Unless one of the following applies: > Not required when business income is positive and not being considered for qualification > Not required when business income is negative and used to discount other income

Alimony & Child Support	- Must document that support will continue for at least 3 years from application date - Copy of divorce decree, separation agreement or other type of legal agreement/court document - Document at least 6 months receipt of full, on-time and consistent payments - Child support is non-taxable and can be grossed up 125% - Alimony from a divorce finalized on or after January 1, 2019 is non-taxable and can be grossed up 125%
Auto Allowance	- Proof that the borrower has received allowance for at least 2 years - Add the allowance to monthly income and add the amount of the auto financing to DTI
Cannabis	- Income from borrowers who are wage earners in the industry are allowed - Borrowers whose self-employed income (active or passive) is derived from ownership in a company involved in cultivation, transportation, retailing, etc., are not allowed, regardless of the percentage of company ownership - Income from self-employed borrowers involved in ancillary support functions for the industry but which have more universal application, are typically allowed. For example, a borrower who owns a company that provides irrigation pipe to the industry
Capital Gains	- Document a 2-year history with Schedule D - Use a 2-year average if evidence of additional property or assets that can be sold to support the borrower and they will continue to receive capital gains for a minimum of 2 years - Current receipt is not required but asset ownership is required Capital losses do not have to be considered.
Disability Income	- Obtain a copy of the disability policy or benefits statement with amount and frequency of payments AND - Current proof of receipt AND - And if there is a contractually established termination or modification date Typically, long term disability (LTD) does not have an end date and should be expected to continue. Short term disability (STD) that will decrease within the next 3 years because of a conversion to LTD, must use the amount of the LTD payment. If borrower is receiving STD that will decrease or end when borrower returns to work, the following is required: 1. Signed letter from the borrower stating intent to return to work once disability no longer exists AND 2. Employer verification that borrower will be allowed to return to work once disability no longer exists.
Employed by Relative / Family	- 1-year federal tax return OR document ownership of business Further documentation may be required to show ownership structure as well as confirmation from tax professional
Employment Contracts or Offers	- Copy of the executed non-contingent job contract AND - First paystub or WVOE and confirmation that borrower has started the new job

Foreign Income	Income earned by a borrower employed by a foreign entity or government and paid in foreign currency is considered foreign income. Foreign income may be used to qualify with copies of US Federal income tax returns for the most recent two (2) years that show foreign income in addition to the standard documentation required based on the source and type of income.
Foster Income	- Foster care letters from the organizations providing the income AND - Document 2-year history for borrower of providing foster care - If the borrower has not been receiving this type of income for 2 full years, the income may still be counted as income if the borrower has at least a 12-month history of providing foster-care, but this income may not be more than 30% of total income
Housing / Parsonage Allowance	- Income may be used if it has been received for the most recent 12 months and it is likely to continue for the next 3 years - May not use the housing allowance to offset the subject PITI - WVOE is required
Interest / Dividend Interest	- Document a 2-year history of the income from the borrower's tax returns - Average the income received for the most recent 2 years
Non-taxable Income	Income earned which is non-taxed may be grossed-up by 25%. There are several forms of income which are non-taxed, here are 2 common examples: - Social Security Income and child support. Child support can be grossed-up 125%. With SSI, 15% of the award is not taxed and that 15% portion can always be grossed-up. To gross up more than the15%, we need to review the prior year 1040 to review the tax treatment of the SSI.
Notes Receivable Income	- Verify that the income is expected to continue for a minimum of 3 years from the of the application date of the subject mortgage - Provide a copy of the note to establish the amount and length of payment - Document regular receipt of income for the most recent 12 months using either cancelled checks, bank statements, or tax returns - Notes that are executed within the last 12 months are not acceptable regardless of the duration of the note
Pension	Document current receipt of the income, as verified by one or more of the following: - A statement from the organization providing the income - A copy of retirement award letter or benefit statement - A copy of financial or bank account statement - A copy of signed federal income tax return - An IRS W-2 form - An IRS 1099 form

IRA or Other Self-Directed Retirement Distributions	There are 3 methods of using these distributions: 1. Average of historical distributions found on 1099 or 1040 2. Evidence of current monthly automatic distribution 3. Imputed distribution for borrowers with or without current distribution history The following documentation is required: Method 1: - Account Statement(s) reflecting available total balance for withdrawals. - 2 prior years 1099-R or 1040 - Income will be averaged, based upon withdrawals over the past 24 months. Method 2: - Account Statement(s) reflecting the total available balance for withdrawals - Evidence of automatic withdrawal (the document must reflect a termination date of not less than 36 months from application date) - One-month proof of current receipt - Current distribution amount will be used for income Method 3: - Account Statements reflecting available total balance for withdrawals - Discount total balance by 10% if borrower is subject to early distribution penalty - Maximum qualifying income is net balance divided by 36 - Full or partial account balances can be used If income is from an IRA distribution, determine that the income is expected to continue for at least 3 years from the application date. Funds do not need to be discounted for market driven financial products. However, if an early withdrawal penalty applies it must be applied to the IRA balance. Please note that a 401k from a company where the borrower is no longer employed can be converted to an IRA at any time, for the income evaluation purposes discussed above, it can be treated like an IRA.
Rental Income: Long Term	- Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E - Leases are required for all properties where rental income is being used to qualify - For commercial properties on page 1 of Sch E, a copy of the lease or rent roll is required - Properties with expired leases that have converted to month to month per the terms of the lease will require documentation of rents received for the lesser of 2 months or the period after the lease expired - Proposed rental income from a 1007 may be used for qualifying on the purchase of a vacant investment property. A 20% vacancy factor must be applied to the gross rent used - If the borrower does not have a history of rental income or if the tax returns do not accurately reflect the ongoing income and expenses of the property, the underwriter may be justified in using 80% of a fully executed current lease, as seen in the examples below: - A refinance transaction in which the borrower purchased the rental property during or after the last tax return filing - A refinance of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income) Simple rent increases do not qualify as justification for using current lease income, historical rents must be used

Accessory Dwelling Unit (ADU) Rents	ADUs are becoming increasing popular in many locations across the US as housing gets more scarce and more expensive. Using rents from an ADU are acceptable with the following requirements: - Appraisal shows the ADU to be legal or zoning compliant - Appraiser to provide comparables with ADUs - Multi-family or multi-ADU acceptable provided total unit count is less than or equal to four REFINANCE - Appraiser to address ADU rents on a 1007 if rents are used to qualify PURCHASE - Follow guidance above Rental Income Calculation section, however, STR not allowed
Rental Income: Short Term	Qualifying Income can be used for property that is rented on a short-term basis though services like Airbnb and VRBO. The income is underwritten in the same manner as long-term rentals, as the rental activity will typically show up on Schedule-E or Schedule-C. Host reports showing the monthly income are used to show current rental activity. Bear in mind that many STR properties will have a seasonal component. For STR properties obtained after the borrower's most recent filed tax return, income can be derived from a third party STR facilitator's host report. Companies like Airbnb and VRBO provide summary reports which show the net payout to the owner for each property. Depending on the length of time the property has been in service, an AirDNA report can be pulled to help determine the usable rental income. The AirDNA will show any seasonal aspect of the property's cash flow. The Newfi UW will obtain the AirDNA report if needed. The AirDNA report is used to support the property's actual income, it is not used to determine future possible income. When using an STR host report for income, 80% of the payout to the owner will be used. The PITI is applied to determine the property's net income or net loss.
Rental Income: Departure Property	LEASED If the current residence will become a rental property, the net rental income for a new lease may be used to offset carrying costs or to add to qualifying income. 80% of the new lease will be used to determine the qualifying rental income. Net positive income may be used. The following 3 items are required: 1. Copy of current lease AND 2. Proof of receipt of deposit and 1st month's rent AND 3. Evidence rent is near market, either a 1007 or other underwriter/loan officer obtained confirmation of market rent is required UNLEASED If the departure prop is unleased, then the PITI can be offset with market rents from a 1007, or other acceptable online estimates, like Zillow for example. Positive cash flow from departing residence without a lease in place may not be added to income. Use 1007, or other acceptable third-party report, and apply the 80% rule to determine cash flow. An additional 2 months of PITI on our subject property is required when using rents on an unleased property

Restricted Stock Units (RSUs)	RSU income allowed with the following requirements listed below: - Company issuing the RSU must be publicly traded - RSU have been received for the prior 1 year - Must be likely to continue for the next 3 years, based on application date - Borrower must be employed at the same company that issued the RSU being used for income purposes Calculating RSU qualifying income: Multiply the 200-day moving average stock price, by the number of vested shares distributed to the borrower in the most recent 12 months, then divide by 12. Example: if 100 vested shares were distributed in the past 12 months and the 200-day moving average stock price is $125, multiply 100 x $125, then divide by 12 =$1,041.67 monthly income
Royalty Income	The following documents are required: - Contract, agreement, or statement confirming amount, frequency, and duration of the income - The borrower's most recent signed tax return including Schedule E - Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of 3 years after the application date
Social Security Income	- When borrower receives his/her own benefits, whether retirement or disability, the benefit is expected to continue, and proof of a 3-year continuance is not required - Benefits based upon another person's account for retirement, disability, or supplemental income require proof of 3-year continuance. Social Security Income can be documented with any of the 4 methods below: 1. Social Security Administration's (SSA) Award letter, 2. SSA-1099, 3. Most recent signed federal income tax returns (or tax transcripts), or 4. Proof of current receipt
Tip Income	Tip and gratuity income may be considered if it is typical for the borrower's occupation. Document that the income has been received for at least 2 years. Follow guidance for variable income
Trust Income	Obtain a copy of the trust agreement, or the trustee's statement, confirming the amount, frequency, and type of income being received. Note: A borrower who is also a trustee may not supply the trustee's statement. TRUST DISTRIBUTIONS WITH FIXED PAYMENTS Document current receipt of trust income with one month's bank statement or other equivalent documentation. Payments must have been received for 12 months or longer to be considered stable monthly income, unless the following requirements are met: - The trust documentation reflects fixed payments - The borrower is not the grantor AND - At least 1 payment is received prior to closing TRUST DISTRIBUTIONS WITH VARIABLE PAYMENTS 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 2 years AND - Current receipt of trust income with one month's bank statement or other equivalent documentation
Unemployment Benefits	Unemployment compensation may be used if it is seasonal in nature and there is a 2-year history of receipt.

VA Benefits	- Provide award letter or VA distribution form - Verify that the benefit will continue for at least 3 years from the note date - When using VA retirement or VA disability verification of 3-year continuance is not required - Education benefits are not acceptable as they are offset by educational expenses
Variable Income Overtime / Bonus/Commission	- Income may be used on 1 or 2 year documentation type - A Written Verification of Employment (WVOE), year-end paystubs or other conclusive documentation is required to show the breakdown of the income types - Variable income earned for less than one year may not be used - Variable income is averaged over the most recent 2 years + YTD or 1 year + YTD, however, if the most recent 12 months, or YTD, is lower, the income is averaged over the shorter period
Self-Employment Max # of Business Entities	No limit on the number for Schedule C. A transaction may have up to two 1065 and/or 1120 entities between all the borrowers. REO held inside an entity is generally not considered an entity for this purpose provided the entity's sole activity is to hold real estate. An entity with a percentage of ownership that does not require business returns is not considered in this calculation for max number of entities. Transactions that exceed the number of entities may be approved case by case via exception.
Length of Self-Employment (Full Doc)	A minimum of a 2-year history of self-employment is considered stable and effective. Self-employment activity under 2 years may be acceptable if a strong justification can be provided, for example: - The self-employment is only the result of a change in how the borrower is compensated by their employer, i.e., moving from W2 to 1099 - The borrower has specific education or training in the field for which they are now self-employed - The borrower has plentiful work experience in the field for which they are now self-employed - Self-employed income without a minimum of a full 12 months reported on either tax returns or on Personal/Business Bank Statements is not considered acceptable income
Decrease in Income	When the borrower has experienced a significant decrease in income, the income cannot be averaged using a previous higher amount. Any significant decrease in income must be documented to show the negative trend has reversed or stopped. Note: A significant increase or decrease is generally considered to be 25%. If the change in income is severe, it's use will be subject to underwriter discretion
Required Documentation for Underwriting Business Income	- Federal income tax returns (1040) for the most recent 2 years, including all schedules - Business tax returns for the most recent 2 years appropriate to entity type - Dated and signed year to date P&L - Gap year P&L is required when most recent tax year return has not been filed Example: July 14, 2021 – if borrower has extended 2020, then 2018 and 2019 returns required + 2020 P&L + 2021 YTD P&L
Non-Cash Expenses that may be added Back to the Income / Loss	- Deductible expenses are depreciation, depletion, amortization, and in some cases a Net Operating Loss (NOL) - Depreciation is a deduction for the decline in value of an asset such as real or personal property - Depletion is a deduction for the useful life of a natural resource - Amortization of an asset spreads the cost over the asset's useful life - A net operating loss (NOL) is a business loss that occurred prior to the current tax year and the full loss was not recognized in the year it occurred but is spread over future years. An NOL can be deducted if it can be shown to have been a one-time event - Section 179 expenses may not be added back to income

Types of Business Structures	SOLE PROPRIETORSHIP (SCHEDULE C) - A sole proprietorship is a business that is owned by an individual. Income is generally reported on the 1040, Schedule C PARTNERSHIP (1065) - If a borrower has a 25% or more ownership in the partnership, they are considered self-employed - A partnership is formed when two (2) or more individuals form a business and share profits, losses, and manage the business. The partnership does not pay the taxes. The income/loss is passed through to the partners based on the percentage of ownership and is reported to each partner on a K-1 - Partnership cash flow is determined by analyzing the 1065 tax return SINGLE OWNER LLC (SCHEDULE C OR 1065) - These entities are not required by the IRS to prepare 1065 tax returns. If a borrower owns REO inside a Single Owner LLC and elects to report the REO on page 1 of Schedule E instead of preparing the 1065 then we can treat the REO in one of two ways: 1. If property is residential, prepare the normal rental calculation and deduct current PITI from historic rents and obtain the lease to confirm current rents 2. If property is commercial then treat like commercial prop inside a 1065: calculate normal add backs to net income, do not confirm current rents or PITI CORPORATION (1120) - A corporation (also known as a C-Corp) is a legal entity that is separate from its owners. If a borrower has 25% or more ownership in a corporation, they are considered self-employed - Corporations file corporate tax returns (Form 1120). Officers who are principals of the corporation generally receive a paystub and a W-2. Use an average of the borrower's earnings for the past two (2) tax years. Current W2 wages do not enter the income calculation. Additionally, business tax returns must be analyzed to assess the likelihood of continued personal income - To calculate corporate income, total tax must be deducted from taxable income - Retained earnings in the business are not recognized as cash flow to the borrower or to the company - Income from the corporation is recognized as income to the borrower if he or she is the sole and full owner, and if the withdrawal of funds will have no effect on the corporation's continued growth S-CORPORATION (1120) - An S-corporation is similar to a standard corporation; the difference is that any profit or loss is reported by the owners on Schedule E of the 1040s. Income for an owner that comes from wages is reported on the individual's tax return (Form 1040). Current W2 wages not reported on a 1040 are not part of the income calculation - S-corporation K-1 income represents any guaranteed payments or salary and property distributions including cash - The borrower's share is based on his or her percentage of ownership as reported on K-1. Depreciation, depletion, and amortization or casualty loss may be added back to income. Other non-recurring income/loss should be subtracted/added back - Retained earnings in the business are not recognized as personal cash flow to the borrower or to the company
REO Held in Entities	Real Estate holdings vested in a business entity, where the entity's sole purpose is for holding real estate, are treated like REO and not subject to self-employed income documentation requirements. - No P&L or Balance sheets are required - No proof of current self-employment is required
Allowable Age of Federal Income Tax Returns	The most recent year's tax return is defined as the last return scheduled to have filed with the IRS: If today's date is: — The most recent year's tax return is: < April 14th, 2026 — 2024 >= April 15th, 2026 — 2025 or extension >= October 15th, 2026 — 2025

VVOE Requirements - All Income Types	FULL DOC (1 & 2 YEAR) - Wage earners require a VVOE to be completed with an effective date no earlier than 10 business days prior to the note date. VVOE must be completed on or prior to the note date - Self Employed require proof business is active no more than 30 calendar days prior to the note date. VVOE must be completed on or prior to the note date BANK STATEMENT - 12- & 24-months Business Bank statement and Co-Mingled Bank statement income do not require additional proof of current activity or proof of 2 years self-employment - 12- & 24-months Personal Bank statement does require proof of 2 years self-employment but does not require additional proof of current business activity 1099 PROGRAM - Treated like Business Bank statement ASSET DEPLETION / ASSET UTILIZATION - Nothing required ENTITIES THAT ONLY HOLD REAL ESTATE - Neither proof of 2 years self-employment nor proof of current business activity are required SELF-EMPLOYED LOSS OR DISREGARDED POSITIVE INCOME - Neither proof of 2 years self-employment nor proof of current business activity are required
12- and 24-month Bank Statement Programs	The Bank Statement programs are designed for self-employed borrowers with active income activity. Passive income, like capital gains, are not considered eligible as bank statement income. Qualifying income is determined by evaluating deposits into either personal or business bank statements. Types of Eligible Accounts - Personal Bank Statements (PBS): used when borrower pushes net profits from the business, via a business bank account, to the personal account - Business Bank Statements (BBS): used for business owners who do not regularly push profits to their personal bank account, deposits in the BBS are evaluated to determine the business gross sales - Co-Mingled Bank Accounts: used for borrowers who do not have a business bank account and use their personal account for customer-facing business activity. Co-Mingled is treated like a business bank account for underwriting purposes - Co-mingled accounts that are jointly held with a non-borrower are usually problematic but can sometimes be acceptable provided the income activity of our borrower can be clearly defined in the account statements. This can often be very difficult based on the nature of the deposits, therefore, underwriter discretion must be applied.
1099 In Lieu of Bank Statements Option	1099s may be obtained and used to replace 1 or 2 calendar years of business or personal bank statements. Some business owners will have one or more main customers with a 1099 relationship in place, those 1099(s) can be used to determine the gross receipts of the business in lieu of providing bank statements for the time period covered by the 1099. - Provide 1 or 2 years of 1099s - Evidence of year-to-date earnings must be verified via bank statements covering the YTD period

Business Vehicles with Personal Debt	Personal debt secured to business vehicles can be excluded from DTI on Alt Doc loans under the following circumstances, all must apply: 1. The vehicle is clearly used for business, here are some examples of professions that usually rely on vehicles: landscaper, realtor and electrician 2. The most recent 12 months of payments have been made through the business account and been made on time 3. The file's expense treatment is using 50% FER or a P&L where vehicle is an expense line item Note: Many small business owners routinely pay personal expenses through a business account, this does not mean they are business expenses. Please exercise caution when excluding vehicle debt
Methods for Determining Qualifying Income	Bank Statement income falls into 2 categories: 1. Personal Bank Statements (PBS). With PBS, the borrower's business pushes net income from the business to the borrower. Since this is net income, we use 100% to determine the qualifying income 2. Business Banks statements and Co-Mingled Bank Statements (BBS). With BBS, the deposits are evaluated to determine the business gross sales. An expense factor is applied to the gross sales to determine the business net income. There are 3 options used to apply an expense factor: i. 50% Fixed Expense Ratio ii. Business Expense Statement iii. Third Party P&L
12- and 24-month Bank Statement Requirements and Restrictions	- Refer to product matrices for max LTV/CLTV and DTI - The borrower's primary income activity must be self-employed - Passive income or wage income is allowed as contributory income - Tax returns, 4506 and/or tax returns are not required for these programs. If tax returns or tax transcripts are in the file, the loan is not eligible for a Bank Statement Program - Income documented through the Bank Statement program may be combined with other income sources that are documented as Full Doc but not associated with self-employment, such as a spouse employed as a wage earner - When wage income is combined with Bank Statement income, a tax return is not required for the full income documentation, as this would invalidate the bank statements. The 4506 form is still required; however, Box 8 should be checked to obtain a transcript of W-2 earnings. Please see transcripts section for full details including non-transcripts options
Long Term Rental Income with Alt Doc Loans	Long term rental income may be included as a secondary income type and the following are required: - A copy of the lease(s) for the rental property - 80% of the lease amount can be used to determine the net cash flow of the rental property - Verification of the receipt of rental income into a borrower owned account. Often it is difficult to pinpoint the exact rental amount being deposited, especially when the borrower has multiple REO. The UW has latitude but must exercise discretion to ensure that deposits reasonably support the rental amount. A minimum of 2 months bank statements is required, more can be provided, if needed, to support cash flow. - Rental income deposits into the account used for the business income analysis must be removed from the gross sales evaluation If the rental income deposits cannot be validated, the full PITI of the rental unit must be included in the DTI calculation. Note: the above guidance can be used on full doc income types in lieu of providing tax returns

Short Term Rental Income with Alt Doc Loans	Short term rental income may be included as a secondary income type by following the guidance in the section below.
	
	BANK STATEMENT RENTAL INCOME
	Borrowers with rental property as their primary source of income, whether Long-Term or Short-Term, can qualify using bank statements.
	- To determine the eligible rental income, we will use a lease or host report, discounted for repairs and other expenses, minus the PITI for the properties generating income
	- Net income for each property is used up to the borrower's ownership position in the property
	- If the property is held by 2 or more people with no percentages listed, the ownership position is divided by the number of owners
	- If properties are held in entities, ownership position is determined by viewing entity formation docs
	- Often it is difficult to pinpoint the exact lease amount being deposited, especially when the borrower has multiple REO. The underwriter has latitude here but must exercise discretion to ensure that deposits reasonably support the gross rental amount.
	
	The following documentation is required:
	- A copy of the lease(s) or host report for each property
	- 12 months of bank statements to confirm receipt of rents
	- Property profiles, or similar, that document the borrower's ownership position in each REO used to generate qualifying income
	- Entity formation docs for properties held in an entity
	
	Income Calculation
	- Determine the gross income amount (sum of all leases or host reports)
	- Total the 12 months of eligible deposits*, then divide by 12 to determine the monthly average eligible deposits
	- Determine the net rents:
	  - For LTR: 90% of the lesser of monthly average eligible deposits or gross lease amount
	  - For STR: 80% of the lesser of monthly average eligible deposits or gross income amount
	- Subtract the total PITI from the gross rents to determine net income
	
	*Determination of Eligible Deposits
	- Take total deposits from front page of each bank statement
	- Remove any other income being used in qualification, like SSN or wages, for example
	- Remove any obvious non-income, for example, refinance proceeds or other loans, tax refunds, transfers from another borrower account, etc.

Real Estate Flipper Program (Alt Doc)	The Real Estate Flipper Program is designed for self-employed borrowers only. - Income is derived from the capital gains associated with professionals who acquire, rehab, and then sell residential real estate. - The qualifying income is a percentage of the gross profit which is the difference between the acquisition cost and the net liquidation value. - The acquisition cost will be the purchase price plus transaction fees. The liquidation value will be the sales price minus transaction fees. - The gross profit is what's left over when we subtract the acquisition cost from the liquidation value. A percentage of this remainder is used for qualifying income as follows: - 50% of the remainder divided by the borrower's ownership position in the project up to an LTV/CLTV of 75% - 25% of the remainder divided by the borrower's ownership position in the project for an LTV/CLTV greater than 75% In order to qualify for the Real Estate Flipper Program, the borrower must document 2 or more transactions spanning a minimum of 12 months. Flipper income can be used on its own or in conjunction with other income sources. The following are required: - ALTA from the acquisition of each project being considered - ALTA from the sale of each project being considered - 12 or 24 months of bank statements - Borrower must be a minimum 25% owner of the project - Transcripts are not required
Length of Self-Employment (Alt Doc)	A minimum of a 2-year history of self-employment is considered stable and effective. Self-employment activity under 2 years may be acceptable if a strong justification can be provided, for example: - Self-employment is only the result of a change in how the borrower is compensated by their employer, i.e., moving from W2 to 1099 - The borrower has specific education or training in the field for which they are now self-employed - The borrower has plentiful work experience in the field for which they are now self-employed - Self-employed income without a minimum of a full 12 months reported on either tax returns or on Personal/Business Bank Statements is not considered acceptable income

Bank Statement Income Analysis	TYPES OF DEPOSITS There are many different methods for funds to be deposited into a bank account. - Counter deposits: these are in-branch deposits consisting of checks and/or cash - Transfers: these are funds transferred from a different account in the same bank - Wire deposits: typically for larger amounts and used because they clear instantly - Point of sale applications like Square, ShopKeep, or Shopify. These are customer-facing applications that accept funds in order to complete a retail transaction - Person to person money transfer applications like Venmo and PayPal - Retail bank transfer applications like Zelle Evaluation of the deposit methods must be considered in order to determine if the deposits represent gross receipts for a business or some other non-business activity, for example, with a retail shop you'd expect counter deposits, for those customers paying by cash & check, merchant services deposits (for credit cards), or point of sale (POS) vendors like Square. In this example a wire deposit would not be regular activity and would need to be supported or excluded. CONSISTENCY OF DEPOSITS Some businesses will have regular, similar sized deposits, some business will have groupings of larger and smaller deposits, representing large and small customers, the goal is to have a consistent identifiable mix. Not all deposits need to fit into a standard size matrix. The deposits for 2 different businesses can looks completely different and each still be consistent. 1. Ideally the number of deposits reflect a repeated monthly pattern. 2. Ideally the size of deposits reflects a repeated monthly pattern. LARGE DEPOSITS - Any deposit exceeding 50% of the average monthly sales of the business is considered a large deposit - Isolated large deposits are deposits that occur very infrequently. These deposits need to be sourced and confirmed as business income or they should be excluded - 6, or more, large deposits in a 12-month period can be considered as consistent and do not necessarily need to be sourced or excluded CHANGES IN DEPOSIT PATTERN Changes in deposit pattern can occur for many reasons, here are few examples: seasonality of the business, changes in the method of receiving funds, or a shift in business strategy, concentrating on fewer but larger customers, for example. Changes in deposit pattern must be reviewed carefully to determine if the business viability is in question. Further support or explanation from the borrower may be required. INELIGIBLE DEPOSITS Ineligible deposits need to be excluded: diligence should be applied to uncover non-income deposits, like loan proceeds, income tax refunds, personal gifts, sales refunds, or sale of personal assets like an automobile. Deposits of this type, but not limited to those named in the previous sentence, need to be removed from the income analysis. TRANSFERS Transfers should be reviewed carefully to ensure they are not coming from another borrower-owned or controlled account. If the origin of the transfer is unclear it will need to be documented as income or excluded. OTHER INCOME Income documented separately, but co-mingled, like W2 income, or rent payments for borrower owned rental properties, must be backed out of deposits.

Requirement to Prove Percentage of Business Owned on Bank Statement Program	Proof of the percentage ownership of the business providing the qualifying income is required for all bank statement program options: Personal, Co-Mingled, and Business. Typically, the borrower will provide formation docs or a letter from the borrower's tax preparer, however, if the borrower self-prepares or his/her business structure is not an entity, proving the ownership position can be difficult. Listed below are some alternatives when this issue arises: - For borrowers using Business Bank statements, a letter from the bank confirming the borrower is the only owner of the account will be acceptable to meet the percentage of ownership requirement - For borrowers using Personal or Co-Mingled bank statements, an LOE prepared by the borrower providing a very brief (one sentence) explanation of the work they do and an affirmation they self-file and are a sole proprietor can be accepted to meet the percentage of ownership requirement. The LOE must be signed and dated by borrower and reviewed during the underwriting process
Business Narrative	A business narrative is required to be completed by the borrower or loan officer, when using business bank statement or co-mingled bank statement income. The business narrative must be in the file at submission.
Tax Preparer Letter Requirememnts	In many cases our Alt Doc guidance requires the tax preparer letter to indicate the individual prepared the borrower's tax returns, this requirement is general but not absolute, below please find the requirement for each specific situation. The most common qualification levels for "CPA Letter" preparers are Certified Public Accountant (CPA), Enrolled Agent (EA), Attorney, and Licensed Tax Preparer (PTIN). Please note that a PTIN is the lowest level of qualification allowed to legally prepare tax returns, requires no professional training, specific education, work experience or certification. Here are the specific qualification requirements by product type. - Bank Statement Programs - PTIN: required to have prepared the tax returns - CPA, EA or Attorney: not required to have prepared the tax returns - CPA Gross Receipts Program - PTIN, CPA, EA or Attorney: required to have prepared the tax returns - CPA P&L Program - PTIN, CPA, EA or Attorney: required to have prepared the tax returns **Please note that tax preparer letters must not contain any exculpatory or qualifying language: the assumption is the person writing the letter will have either prepared or reviewed the borrower's tax returns, per the requirements above.

Non-Sufficient Funds (NSF) and Overdraft (OD) Protection	The review of NSF/OD is required for Alt Doc active income types where bank statements are used to either document or support qualifying income. NSFs in business bank accounts may be a sign of business weakness and need to be evaluated. We review NSF activity and calculate the number of occurrences per month for the most recent 12 months. An occurrence is one or more NSFs in any day. For example, 2 or more NSFs in the same day is considered 1 occurrence. Often business owners will have a line of credit, or another account linked to the business bank account as a means of protection against overdraft fees and returned items. This can be an acceptable cash management tool and excluded from our NSF evaluation provided the following: OVERDRAFT PROTECTION FROM A DEPOSITORY ACCOUNT 1. Exclude occurrences if statements for the linked account confirm that: a. The linked account's balance at the time of the transfer exceeded the amount of the overdraft transfer AND b. The linked account's balance did not report as zero or negative at any time during the statement period of the transfer AND c. The linked account did not itself receive overdraft protection proceeds during the statement period of the transfer. 2. Overdraft protection from a line of credit Exclude occurrences if statements for the linked account confirm that: a. The line's credit limit was not exceeded during the statement period of the transfer AND b. A payment amount that equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date. Acceptable NSF tolerances - The most recent 12 months are reviewed. - 1 / 3 / 3: If there are 1 or more occurrences in the most recent 3 months, then 3 occurrences are allowed - 0 / 3 / 5: If there are 0 occurrences in the most recent 3 months, then 5 occurrences are allowed - Exceptions may be considered and must include a. A letter of explanation from the borrower outlining the reasons for the occurrences and explanation how and when the issue leading to the occurrences was resolved, AND b. Additional compensating factors supporting the viability of income

Setting the Expense Method and Determining the Qualifying Income	**PERSONAL ACCOUNTS** - Most recent 12- or 24-months personal bank statements - Most recent 2 months business bank statements - Verify that within 60 days of note that the business has a minimum 2-year operating history - Verify that the borrower owns at least 20% of the business with one of the following: - Business Entity Operating agreement that reflects the borrower's ownership percentage - A letter from a tax professional who has prepared the borrower's tax returns **PERSONAL BANK STATEMENT REVIEW** - Income calculated using total deposits, subtract any inconsistent or large deposits The total eligible deposits from the 24 month or most recent 12 months of statements - The most recent bank statement must be consistent with the qualifying income - ATM deposits may be included if a consistent pattern is present - 2 months of business bank statements are required - Must evidence activity to support business operations AND - Must reflect transfers to personal account **BUSINESS ACCOUNTS OR CO-MINGLED ACCOUNTS** - Verify that the borrower owns at least 25% of the business with one of the following: - Business Entity Operating agreement that reflects the borrower's ownership percentage - A letter from a tax professional who has prepared the borrower's tax returns - Net income from the bank statement analysis must be multiplied by the borrower's ownership percentage - Expense analysis must be reasonable for the type of the business - Co-Mingled ONLY: Verify that the borrower is 100% owner of the business (borrower + spouse with combined 100% ownership is also eligible) - Apply 1 of the 4 expense ratio options **OPTION 1 - FIXED EXPENSE RATIO 50%** A 50% fixed expense ratio is applied to total allowed deposits to determine the net business income. - 12 months of business bank statements OR - 24 months of business bank statements Income Calculation Total deposits from bank statements, subtract inconsistent deposits, multiple by 50%, multiple by business ownership percentage, divided # of bank statements reviewed. *Underwriter may require additional documentation **OPTION 2 - BUSINESS EXPENSE STATEMENT LETTER** - 12 or 24 months of business bank statements covering the most recent time-period AND = An expense statement specifying business expenses (minimum expense ratio is 10%) as a percent of the gross annual sales/revenue, prepared and signed by either a CPA/accountant, IRS Enrolled Agent or tax preparer AND - Documentation showing evidence of the preparer's business - The individual providing the statement, or the individual's firm, must have prepared the borrower's most recent tax returns Income Calculation = Determine net income by total deposits, subtract inconsistent deposits, less total expenses - To calculate total expenses – Multiple the total deposits by the expense factor provided by the Tax Professional (subject to a minimum total expense percentage of 10%) - Divide by 12 or 24 months as applicable - Expenses must be reasonable for the type of the business *Underwriter may require additional documentation

Setting the Expense Method and Determining the Qualifying Income (cont)	OPTION 3 - THIRD PARTY PREPARED P&L STATEMENT - 12 and 24 months of business bank statements covering the most recent time-period and matching the time-period covered by the P&L AND - P&L covering 12 or 24 months, matching the number of bank statements, prepared, and signed by either a CPA/accountant, IRS Enrolled Agent or licensed tax preparer AND - Documentation showing evidence of the preparer's business Income Calculation - P&L sales/revenue must be supported by bank statements - Total deposits on bank statements, subtract inconsistent deposits, must be greater than or no more than 15% below the sales/revenue reflected on the P&L. Bank statements and P&L must cover same time Qualifying income is the lower of 1. The net income indicated on the P&L, divided by the # of statements OR 2. Total deposits reported on bank statements, subtract inconsistent deposits, divided by the # of statements. For the 24-month option, the average total deposits from the most recent 12-month time must be consistent with the average total deposits from months 13-24. If the deposit trend is declining, a business narrative and explanation is required to determine if the loan meets the stable income definition. OPTION 4 - DEPOSITS MINUS WITHDRAWALS In this option we use the difference between what comes into the business and what goes out to determine the borrower's net qualifying income. - We can add back withdrawals that are payouts to partners. - Any non-business income, like tax refunds, refinance proceeds, rents from rental property, etc., must be removed from gross income. - Any obvious and significant non-business withdrawals, like the borrower's primary residence housing payments, can be added back, however, please note that many borrowers pay personal expenses like credit cards, cell phones & utilities, food & entertainment, etc. through a business account, these items will be included as business expenses in determining the net income. - Personal liabilities on the credit report will be counted against the borrower's DTI as per normal. The only exception to this treatment will be for automobile loans: if we can show they are paid exclusively by the business over the 12 or 24 months used, then we will treat them as an expense and exclude them from the personal DTI. Please note that only business bank statements are allowed on this income option. Co-mingled statements are not allowed. Net business income is determined by subtracting gross withdrawals from gross deposits - 12 months of business bank statements OR - 24 months of business banks statements Income Calculation - Step 1: Take total qualifying deposits and subtract total withdrawals - Step 2: Add back payments to partners/owners - Step 3: Add back obvious major non-business expenses, like primary residence housing payments, income tax payments, etc. - Step 4: Divide net income by borrower's percentage of ownership - Step 5: Divide net income by number of months of BBS used, 12 or 24

1099 Program (Alt Doc)	The 1099 program is permitted for borrower's earning 100% commission or independent contractors. Not intended for business owners with employees. - 1 year or 2 years of 1099s permitted. Transcripts are not required - Use 1 of the following business expense methods: - 90% net margin / 10% expense factor OR - Third party (tax professional) prepared Business Expense Statement or P&L to a minimum 5% expense factor* - Qualifying income is the 12 or 24 monthly averages from all the 1099s, subtract the expense factor based on the method selected above - Current earnings must be documented to support the ongoing receipt of income reflected on the 1099s. Any of the following are some acceptable options: - Checks or a single check with YTD totals - Bank statements, minimum is the lessor of 4 months or YTD (min 1 required) - WVOE For all of the above, if due to our transaction being very early in the year, the most recent pay document from the previous year may be provided. A minimum of one month documented is required. *Note: The individual providing the statement, or the individual's firm, must have prepared the borrower's most recent tax returns The requirement is to support the 1099 amount we are using within a margin of 20%: the monthly average of 1099 deposits must support the qualifying income. - Some work may have a seasonal aspect, and recent activity will not support the yearly average. Documentation must be provided to support seasonality. - Some commission work may have irregular payouts. Proof of pending commissions may be acceptable to support continued income level. Alternatively, should YTD earnings not meet the 20% threshold, YTD income may be used provided it is stable and within 60% of previous year 1099.
CPA Gross Receipts Program (Alt Doc)	The CPA Gross Receipts program is designed for self-employed borrowers only. Gross receipts/income from the borrower's most recent tax year is based on data from a letter provided by the borrower's CPA. Net income is determined by using either the 50% FER or a CPA provided expense letter. The CPA Gross Receipts Letter must address: - Percentage of ownership in business (Minimum 50% is required) - Total gross receipts for the most recent tax year filed, the specific tax year must be stated - Confirm CPA / Licensed Tax Preparer has prepared and filed borrower's taxes Business Bank statements must be provided to support the YTD gross receipts. The average bank statement deposits must be no lower than 85% of the monthly average amount reflected by the CPA letter. The number of bank statements required is as follows: - The lesser of 2 months or YTD if the CPA letter is based of the most recent tax year - The most recent 6 months if the CPA letter is based on tax year data that exceeds 12 months from the application date The following are required: - CPA / Licensed Tax Preparer provided expense statement - Underwriter must validate CPA/ Licensed Tax Preparer credentials. - Borrower must be a minimum 50% owner of the business - Evidence of the borrower's business and ownership position must be verified - Business bank statements must be provided to support income, Co-mingled or personal accounts are not allowed - Transcripts are not required - 80% Max LTV/CLTV - CPA/ Licensed Tax Preparer must indicate they have prepared the borrower's returns

CPA P&L Program (Alt Doc)	The CPA P&L Program is designed for self-employed borrowers only. A P&L covering the most recent 12 months is provided by the borrower's CPA. Qualifying income is determined by taking the net income by CPA provided P&L and dividing by 12. The result is divided by the borrower's percentage of ownership in the business. 2 months of recent Business Bank statements must be provided to support the P&L gross income. The average bank statement deposits must be no lower than 85% of the monthly average of gross income reflected by the CPA P&L. The following are required: - P&L must be signed/dated by CPA and borrower - Underwriter must validate CPA/ Licensed Tax Preparer credentials. - Borrower must be a minimum 50% owner of the business - Evidence of the borrower's business and ownership position must be verified - Bank statements must be provided, co-mingled accounts must be solo or joint with non-borrowing co-owner of business generating our income - Transcripts are not required - 80% Max LTV/CLTV - CPA/ Licensed Tax Preparer must indicate they have prepared the borrower's returns

Asset Depletion (AD)	Asset depletion is allowed as qualifying income on its own or combined with other income sources.
	- If any AD is used on a full doc or Alt Doc loan, the file must be registered on an Asset Depletion program
	- AD follows 12-month Bank Statement program for eligibility and pricing
	- If AD is not the majority of the qualifying income, reserves are required
	
	QUALIFYING ASSETS
	Qualifying assets are the assets that remain after down payment and closing costs.
	Minimum required qualifying assets must meet one of the following:
	1. $1,000,000 for loan amounts greater than $1,500,000
	2. $200,000 if the AD income represents 25% or less of the total qualifying income
	
	Total liabilities
	- Monthly consumer debt
	- REO PITI or calculated negative cash flow
	- Subject PITI
	- Child support
	- Etc.
	INCOME CALCULATION
	Qualifying assets / 60
	
	Restrictions
	- Non occupant co-borrower not allowed.
	- Maximum 50% DTI
	- Min credit score of 660
	- Gift not allowed unless gift amount is subtracted from amount being used for income qualification
	- Cash out maximum equity withdrawal is $500,000. No limit on delayed financing
	
	Documentation Requirements
	- All individuals listed on the assets used for depletion must be owners or buyers of the property. Any non-borrower on the accounts must be a spouse or domestic partner of our borrower. A credit report is required for all non-borrowers, any debts not already included must be added for our DTI calculation. For simplicity purposes, a joint report can be provided. If non-borrower credit report is not provided, 50% of the asset may be used
	- Other individuals listed on an account not fitting the category above makes the asset ineligible
	- Asset Depletion funds must be seasoned at least 3 months
	- Asset verification requires 3 months account statements
	
	Eligible Assets
	- 100% of checking, savings, money market, savings bonds, and CDs
	- 80% of stocks, mutual funds, and bond funds
	- Retirement assets, which are subject to early withdrawal penalty, deduct 10% from categories listed above
	  - IRA
	  - 401k
	  - Self-employed retirement accounts
	- Cash surrender value of life insurance, annuities, etc.
	- Cryptocurrency focused mutual or ETF funds offered by traditional currency based financial products providers like Fidelity, Schwab, etc. At 50% of current value.
	- Cryptocurrencies Bitcoin and Ethereum held in a Coinbase account. At 25% of current value.
	Cryptocurrencies and cryptocurrency funds are limited to a combined maximum of 50% of the asset requirement. Statements for these accounts have a maximum age of 60 days

Asset Depletion (AD) cont.	. Ineligible assets -Business funds* - Non vested RSU - Real estate equity - Stock in non-publicly traded companies - Public Sector retirement income plans - Assets which produce income already included in the income calculation - Assets not held in a U.S. based financial instition *Note: personal funds inside an entity created solely for liability purposes are ineligible
Asset Utilization (AU)	For Asset Utilization the borrower must have enough seasoned assets to cover transaction requirements (down & closing), plus sufficient Remainder Funds that cover the loan amount and monthly debt for the next 5 years. No debt ratios are calculated and neither employment nor income are required to be disclosed on the 1003. If the borrower meets the minimum Remainder Funds threshold, the borrower is income qualified. Requirements - Asset Utilization funds must be seasoned for 6 months (6 months of statements are required) - Funds must be in a personal account or personal trust account - Joint accounts with a non-borrower allowed only if joint account holder is a spouse and a co-buyer or co-owner of the property. Joint account holder credit report required for use of 100% of the asset - Max LTV of 80% - Min credit score of 660 - Minimum post close liquidity is $350,000 - Gift funds not allowed unless gift amount is subtracted from amount being used for income qualification Remainder Funds Requirement Total Remainder Funds required are the sum of the following: - Loan amount - 60 months of borrower's total monthly debt load - Joint account holder, if applicable, liabilities from the credit report are added to this total - REO is calculated at net cash flow level - Contingent liabilities or debt otherwise excluded is not counted Eligible Assets = 100% of checking, savings, money market, savings bonds, and CDs - 80% of stocks, mutual funds, and bond funds - Retirement assets, which are subject to early withdrawal penalty, deduct 10% from categories listed above - IRA - 401k - Self-employed retirement accounts - Cash surrender value of life insurance, annuities, etc. - Cryptocurrency focused mutual or ETF funds offered by traditional currency based financial products providers like Fidelity, Schwab, etc. At 50% of current value - Cryptocurrencies Bitcoin and Ethereum held in a Coinbase account. At 25% of current value Cryptocurrencies and cryptocurrency funds are limited to a combined maximum of 50% of the asset requirement. Statements for these accounts have a maximum age of 60 days

Asset Utilization (AU) cont.	Ineligible assets - Business funds* - Non vested RSU - Real estate equity - Stock in non-publicly traded companies - Public Sector retirement income plans - Assets not held in a U.S. based financial institution *Note: personal funds inside an entity created solely for liability purposes are eligible
Transcripts	Transcripts are required for all income used to qualify, with the following exclusions: - transcripts are not required for asset depletion income OR - bank statement income OR - 1040 type income used in conjunction with the bank statement program, i.e., rental income For full doc income, the transcripts can match the income type. Business transcripts are not required provided all business income is reported on the 1040 and validated by 1040 transcripts, however, a signed 4506 for the business is required. TAX TRANSCRIPTS ON FULL DOC Required on all income used to qualify - Transcripts can match income type - Business transcripts not required if business income is reported on 1040 - Signed 1040's are not required - 3rd party WVOE can be used in lieu of W2 transcripts - 3 months bank statements showing proof of receipt and confirming income amount used for W2 borrowers - Transcripts not required for subject investment property rental income TAX TRANSCRIPTS FOR BANK STATEMENT AND OTHER ALT DOC - Transcripts not required for Bank Statement, 1099 Program, CPA Gross Receipts, and Asset Depletion - Transcripts are required for any non-1040 type full doc income used in conjunction with Alt Doc income types - i.e., W2 wages (see section on transcripts for alternatives) If the most recent year's tax transcript is not available, the income may be used provided: - Tax returns are officially stamped return by the IRS "as received" OR - Evidence that the return was electronically received, must reflect refund or amount owed to IRS AND - Evidence of a refund check or payment made AND - Non-validated income must be in-line with prior year's validated income. Non-validated income with significant increases may not be considered or averaged - The above only applies to situations where 2 years of income docs have been provided, for programs only requiring only 1 year of income docs, they must be validated with transcripts

APPRAISAL & PROPERTY INFORMATION	
Appraisal Requirements	Appraisers must meet all industry standards. - All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice and Fannie Mae guidelines. - All appraisals must conform to Universal Appraisal Dataset (UAD) requirements. - Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value. A full interior/exterior report with color photos is required. - The appraisal should be dated no more than 120 days prior to the note - Appraisal recerts are allowed and are good for 120 days, original report age cannot exceed 12 months - Properties with Condition Ratings of C4 or better required
Second Appraisal	A second appraisal is required when any of the following exist: - The loan amount is greater than $2,000,000 - The transaction is a flip (see Property Flipping section) When a second appraisal is required, the value is based on the lower of the 2 values. The second appraisal must be from a different company and appraiser than the first appraisal.
Transferred Appraisals	Transferred appraisals are allowed, if the transaction requires 2 reports, then only 1 can be transferred. Transferred appraisals are subject to internal quality control review, additional conditions or requirements may apply.
Appraisal Review	An appraisal review product is required on every loan unless a second appraisal is obtained, one of the three options below is acceptable: - CDA from Clear Capital OR - ValREVIEW from Valligent OR - Collateral Underwriter (CU Score) less than or equal to 2.5 OR - A field review or a second appraisal is also acceptable – These must be from a different company and appraiser than the first appraisal If the CDA/ValREVIEW reflects a value of 10% or less below the appraised value, the appraised value is accepted If the CDA/ValREVIEW reflects a value of more than 10% below the appraised value, a field review or a second appraisal is required
Minimum Square Footage Requirement	There are no minimum GLA requirements for any of the eligible property types, however, GLA of the subject property must be considered common, must be supported by comparables in the appraisal, and present no market resistance.
Acreage Limitation	Maximum of 20 acres
Declining Property Value	If the trend of property values is downward, a declining market exists and a 5% LTV reduction from the LTV product matrices for LTVs greater than 70%
Eligible Property Types	- Single family & PUD, detached or attached - 2-4 units - Fannie Mae warrantable condos in established projects - Non-warrantable condo in established projects case-by-case by exception only - Condos in New Projects are eligible only with FNMA CPM approval or professional 3rd party review
Property Zoning	Zoning designations are determined by the City or County based on the property location, each governing entity has their own unique zoning titles or descriptions. The property's specific zoning will describe, in general, what type of activity is allowed, and the density that is allowed. Regardless of what the zoning designation is for the subject property, the property must meet the 3 requirements listed below. 1. The current usage of the subject property is residential 2. Residential must be an allowed usage of the subject property zoning 3. Residential must be the highest and best use of the subject property, as defined by the appraiser As long as the property passes the 3-question test listed above, the zoning designation is acceptable.

Non-permitted Conversions, ADU, and Additions	Conversions Conversions into living area of non-GLA spaces like garages, sunrooms and porches, for example, are allowed provided the following criteria are met: - Square footage is not counted in GLA (unless appraiser can support using) - Conversions must have been done in a manner that is consistent with the subject property - Appraiser must comment that no health and safety issues are present and that the conversion was done in a workman like manner - Appraiser should provide cost to cure to return the conversion to previous use - Appraiser should comment the conversion is common and accepted by buyers in the subject's market ADU - Properties with an ADU which is described or designated by the appraiser as illegal, not allowed, or non-zoning compliant, are ineligible - ADU described as allowed, legal, or zoning compliant are acceptable - Appraiser must comment that no health and safety issues are present and that the ADU was done in a workman like manner - Appraiser must comment the ADU is common and accepted by buyers in the subject's market Additions Additions for which permits were not required, not available due to property location and age, whose permit status is unknown, or completed without permits, require the following: - Appraiser to confirm addition was done in a manner consistent with the original structure - Count as GLA at appraiser discretion - Appraiser must comment that no health and safety issues are present and that the addition was done in a workman like manner - Appraiser must comment the addition is common and accepted by buyers in the subject's market
Accessory Dwelling Units (ADU)	ADUs are becoming increasingly popular in many locations across the US as housing gets more scarce and more expensive. Using rents from an ADU are acceptable with the following requirements: - Appraisal shows the ADU to be legal, allowed, or zoning compliant - Appraiser to provide comparables with ADUs - Multi-family or multi-ADU acceptable provided total unit count is less than or equal to four Refinance - Appraiser to address ADU rents on a 1007 if ADU rents are being used Purchase - Follow guidance Rental Income Calculation section
Non-Residential Improvements	Any non-residential improvements, like shops, storage structures, barns or animal shelters must meet the criteria listed below: - Must be minor in scope - Common for the area - They must have no impact on the property being residential in nature - They must be given only nominal contributory value by the appraiser and not impact marketability

Horse Improvements	Must be minor in nature and consistent with owner usage only. In general, a 1 to 4 horse stable is acceptable. Small fenced off riding areas are usually acceptable. Any improvements that indicate usage for more than the owner, like grandstands, parking areas, guest quarters or excessive vehicles, will make the property ineligible. The horse improvements must meet the following test: - Must be minor in scope - Common for the area - They must have no impact on the property being residential in nature - They must be given only nominal contributory value by the appraiser and not impact marketability
Rural Properties	Allowed: subject to 75% LTV/CLTV max A property is considered rural if the appraiser indicates "rural" in the neighborhood section of the report OR any 2 of the following are present: - The property is located on a gravel road - 3 comps are more than 5 miles from the subject property - Less than 25% of the surrounding area is developed
Ineligible Properties	- New Condo Projects without CPM approval or 3rd party review - Mixed used properties - Properties not readily accessible by roads that meet local standards or not suitable for all-year use - Agricultural properties, including farms, ranches, or orchards - Manufactured or mobile homes - Condo-hotels, timeshares, or Cooperatives - Boarding houses / Bed & Breakfast - Properties with zoning violations - Unique Properties: Dome, Log, and Log Style are 3 examples - Group Homes, for example, assisted living and drug/alcohol rehab facilities - Hawaii properties in Lava Zones 1 and 2 - Properties used for marijuana cultivation activities - Leaseholds or Homes on Native American Land

Property Insurance	We follow industry standards unless specifically addressed below. **1-4 UNIT RESIDENTIAL** Building Coverage Property coverage must meet one of the three options listed below: - 100% of the dwelling replacement cost as determined by the insurer, typically evidenced by an RCE (replacement cost estimator) OR - 100% of the loan amount OR - Guaranteed replacement cost Roof Coverage - Roof coverage required, however, less than full replacement cost on roof coverage is acceptable Deductibles - Allow for greater than 5% deductible. Maximum of 10% **CONDO MASTER** Building Coverage Property coverage must meet one of the options listed below: - Guaranteed replacement cost coverage or its equivalent OR - Extended replacement cost coverage or its equivalent OR - A replacement cost value estimate provided by the insurer OR - Project's insurance risk appraisal Roof Coverage Roof coverage required, however, less than full replacement cost on roof coverage is acceptable Deductibles - Allow for greater than 5% deductible. Maximum of 10% - A maximum of $50,000 per unit when per unit deductibles are in place **INDIVIDUAL UNIT (HO-6)** When Required - Interior or improvements are not covered by the master - Master has per unit deductible Coverage - Amount sufficient to cover portions of the interior improvements not covered by the Master - Amount of per unit deductible, if the master has same - Perils: if the master has per unit deductible for specific perils, the unit owners policy must include coverage for that peril - Coverage must be on replacement cost

Warrantable Condos (Established Projects Only)	PROJECT REQUIREMENTS - Project has been created and exists in complete compliance with all applicable local, state and all other regulations and laws - Meets all Fannie Mae insurance requirements - Borrower is required to carry HO-6 if the master insurance does not cover walls-in with betterments and improvements - Project documents do not give a unit owner or any other party priority over the rights of the first mortgage - Annual budget allocation to reserves < 10% allowed with the following: - Appraisal shows no major repairs required AND - A lower annual allocation permitted if the following reserve balance thresholds are met: - 7% to 9.99% requires reserve fund balance of 50% of annual budget - 5% to 6.99% requires reserve fund balance of 75% of annual budget - 3% to 4.99% requires reserve fund balance of 100% of annual budget REVIEW TYPES Any of the following review methods may be used as applicable to the property and transaction STANDARD REVIEW - Limited or Full Project review determined as per Fannie Mae's specific transaction eligibility - Project Questionnaire Addendum is required - Florida condos allow for limited review to a maximum of 70% LTV / 75% LTV REVIEW WAIVER - Detached condo units do not require a project review - 2 -10-unit projects do not require a project review CPM WITH FNMA APPROVAL A Condo Project Manager reflecting the project was reviewed and evaluated by FNMA is allowed and will satisfy the review requirement. The CPM certificate must show an unexpired FNMA approval. - Broker to provide initial PDF of CPM approval. Newfi will not pull the initial CPM certification - Just prior to the closing process, Newfi will provide an updated PDF reflecting a date which is no more than 10 calendar days from loan funding date PROJECT QUESTIONNAIRE ADDENDUM - Both full and limited review require a Project Questionnaire Addendum. Newfi form is available, other lender forms can be used if they provide functionally the same content. The purpose of the addendum is to determine the physical condition of the project.
Non Warrantable Condos	Non-warrantable condos may be considered case-by-case, exception pricing will be applied. Below are some but not all of the possible areas for review: - Budget shortfalls - Commercial space greater than 25% - Single entity ownership > 20% - Minor litigation - Excess overdue monthly HOA fees *Note* : Non-owner properties no longer subject to investor concentration review.

New Projects	Newfi will not review new projects, however, new projects, as defined by FNMA, are acceptable with either of the following: FNMA approved CPM (broker to provide) Acceptable review by a professional condo review firm, for example Clayton, Rexera, or InterIsland, these are just examples, Newfi has no specific requirement, will bear none of the 3rd party expense or interact with the 3rd party to facilitate the review
Property Flips	A property is considered a flip if either of the following are true: - The purchase price exceeds the seller's acquisition cost by more than 10% if the property was acquired 90 or fewer days prior to the borrower's purchase contract date - The purchase price exceeds the seller's acquisition cost by more than 20% if the property was acquired 91 – 180 days prior to the borrower's purchase contract date If the property is a flip, the following requirements apply: - A second appraisal is required - If the loan is subject to Reg Z, a copy of the second appraisal must be provided to the borrowers in compliance with HPML rules - The second appraisal must be dated prior to the loan consummation date/ note date. - The seller must be the owner of record - Increases in value require commentary from the appraiser as well as recent comparable sales
TEXAS REFINANCES	
Texas 50(a)(6)	A Texas 50(a)(6) mortgage is a loan originated under the provisions or Article XVI, Section 50(a)(6), of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain circumstances. Any cash back is considered cash-out. Primary residence allowed only. All borrowers must be on title and occupy. - Max LTV / CLTV is 80% - No interest-only - No prepayment penalties - Only 1 Unit properties are allowed: SFR (attached or detached), PUD (attached or detached), Condominium - New subordinate financing is not permitted, HELOC subordinate financing is not permitted (existing HELOC must be closed), an existing Texas 50(a)(6) second mortgage may not be re-subordinated to a new Texas 50(a)(6). Must be paid off at closing - At least one new full appraisal is required - No Foreign Nationals - 1-year seasoning of prior Texas 50(a)(6) loan required - Loan cannot close until 12 calendar days after the "Notice Concerning Extensions of Credit" is signed - Borrower-paid fees cannot exceed 2% of loan amount
Texas 50(f)(2)	A Texas Section 50(f)(2) mortgage is a rate and term refinance of an existing Texas 50(a)(6). - Max LTV / CLTV is 80% - ZERO cash back allowed. Proceeds to pay off only existing Texas 50(a)(6) lien, other permitted liens on homestead (property taxes, owelty lien, mechanic's lien), actual costs and reserves required by lender to refinance - 1-year seasoning of prior Texas 50(a)(6) loan required - Loan cannot close until 12 calendar days after the "Notice Concerning Refinance of Existing Home Equity Loan to Non-Home Equity Loan" is signed