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Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in this chapter.

NOTE: THE WHOLESALE NON-AGENCY JUMBO PROGRAM IS AVAILABLE ONLY TO SELLERS APPROVED FOR THE PROGRAM.

This chapter was created to house any temporary changes implemented applicable to Wholesale Non-Agency policy as a result of COVID-19 impacts. The following policies remain in effect until further notice.

INCOME DOCUMENTATION REQUIREMENTS FOR NON-AGENCY TRANSACTIONS

Issued: 3-5-21

(22h)

Wage Income

In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, we are updating our age of documentation requirements. All income documentation for salaried borrowers must be dated no more than 60 days prior to the note date.

Effective with borrower application dates on/after May 4, 2020, electronic employment verifications obtained from third-party verification service providers are no longer permitted.

Note: Standard policy for calendar vs. business days has not changed.

Other Income

There are no changes to the age of documentation requirements for the following:

- Military income documented using a Leave and Earnings Statement
- Social Security Supplemental Security Income (SSI)
- Survivor and dependent benefit income
- Retirement income
- Long-term disability
- Mortgage credit certificates
- Public assistance
- Foster care
- Royalty payments
- Trust income (fixed)
- Homeownership Voucher Program payments

Continuity of Income for Wage and Other Income

As employees are being impacted by temporary shutdowns and reductions in income, underwriters must closely review all income documentation to determine that any disruption to the borrower's employment and/or income (salaried or self-employed) is not expected to negatively impact their ability to repay the loan.

If an employee is listed as employed, but is currently on furlough or the business is closed, a determination must be made if the borrower's income has been impacted. If the borrower is receiving reduced income, the reduced income must be used to qualify the borrower. If the borrower is not receiving any income due to furlough or business closure, their income cannot be used to qualify.

Effective April 28, 2020 for all new registrations and loans in the pipeline: Consumers who have been furloughed due to COVID related job actions are not subject to the Temporary Leave Income policy. If the borrower is furloughed, they must provide evidence that they have returned to work prior to close (i.e., a letter from the employer stating they are currently working, a verbal VOE, or a paystub).

Note: Temporary leave due to COVID related illness as well as other ECOA protected leave (e.g., medical, family, parent, and maternity) are subject to the Temporary leave Income policy. If the employer confirms a return date, then the underwriter should apply the Temporary Leave Income policy (Section 1508.5 – Employment & Income/Other Income.

Self-Employed Income

Effective with Borrower Application Dates on/after June 11, 2020.

Self-Employed Income must be documented as published in Section 1508.5-Employment and

	Income/Self-Employed ***along with the following for all types of self-employed income, including Schedule C:***

- **YTD Profit & Loss Statement, unaudited[2], signed by the borrower**: Covering the period from last tax return filed through the application date. This is required on all Schedule C borrowers as well as all other self-employed borrowers that have not provided a YTD P& L as addressed in footnote 1 below; and
- **Applications dated prior to December 14, 2020, Personal &/or business bank statements to support qualifying income:** Must cover the most recent 2 months, and must be no older than the latest two months represented on the YTD P&L. For example, if a borrower applies on 6/5, the YTD P&L and bank statements must cover the period up through May. If the borrower has not received the most recent bank statement, on-line statements or a bank print-out may be used.
- **Applications dated on or after December 14, 2020**: Personal &/or business bank statements to support qualifying income: Must cover the most recent 3 months, and must be no older than the latest three months represented on the YTD P&L. For example, if a borrower applies on 12/14, the YTD P&L and bank statements must cover the period up through November. If the borrower has not received the most recent bank statement, on-line statements or a bank print-out may be used.
- The **YTD Profit & Loss statement and bank statements** must be dated no more than 60 calendar days prior to note date. For Corporations, S-Corps and Partnerships that have already provided a P&L statement as indicated below in footnote 1 but it will be older than 60 days on the date of the Note, an updated P&L Statement must be obtained to be within the timeframes of this memo and may be unaudited and signed by the borrower.

[1] Existing policy requires a YTD unaudited P&L and balance sheet for a Corporation, S-Corp, or Partnership if the application is dated more than 90 days after the end of the business' fiscal or calendar year end and it must be either:

- Completed by the business's tax preparer; or
- Completed by the borrower with evidence provided that the document has been viewed by the business's tax preparer or an appropriate third party who is not affiliated with the loan transaction

Refer to Section 1508-5-Employment and Income/Self-Employed for all additional required documentation.

[2] If the last tax return filed is for 2018, then YTD P&L must cover 2019 and 2020 YTD.

Continuity of income: The underwriter must review the YTD profit and loss statement and bank account statements to determine the extent to which a business has been impacted by COVID-19, and establish the current level of stable monthly income, using the YTD P&L and business account statements.

If the income level has not changed or has increased, the underwriter must use standard qualifying guidelines per policy. The YTD P&L cannot be used to support using a higher level of income.

If the income level has declined, the underwriter must determine the income has stabilized. Additional documentation may be required to make this determination, such as additional months and/or more recent business account statements. If the income has stabilized, then use no more than the current level of stable monthly income.

If the income is declining and has not stabilized, then the income is not eligible for qualifying.

Business Assets: Loan proceeds from the SBA Payroll Protection Plan (PPP) and/or any other similar COVID-19 related programs are not considered business assets for the purposes of eligible funds to qualify for the Borrower for the Mortgage transaction, including but not limited to, funds for down payment, closing costs, and reserves.

Evidence to Confirm that the Borrower's Business is Open & Operating must be obtained.

Effective March 8, 2021, with new registrations, when a borrower is using self-employment income to qualify, it must be confirmed that the borrower's business is open and operating, within 20 business

	days of the note date by obtaining evidence such as: • Evidence of current work (e.g. signed invoices that indicate the business is operating and invoices must be dated within 20 days of the note date); or • Evidence of current business receipts that indicate the business is operating. The receipts must be dated within 20 days of the note date; or • Lender certification the business is open and operating (confirmed through a phone call or other means); or • Business website demonstrating activity supporting current business operations (timely appointments for estimates or a service can be scheduled); or • Other documentation that verifies receipt of income must be dated within the 10 day period. **Note:** Standard policy for calendar vs. business days has not changed. **Age of Asset Documentation** The age of asset documentation has been modified to 60 days prior to note date. If an asset account is reported on a quarterly basis, the most recently issued quarterly statement must be obtained. **Market-Based Assets** There are no changes to current policy.
LOANS IN FORBEARANCE/ DEFERMENT *(14b)*	Effective immediately (04/07/20), any loan in forbearance/deferment or for which forbearance/deferment has been requested is not eligible for purchase by KEYSTONE FUNDING INC. This policy aligns withGSE requirements. Effective May 20, 2020, (new registrations and existing pipeline) for any purchase or rate and term refinance transaction in which forbearance/ deferment is requested after KEYSTONE FUNDING INC has purchased the loan, but prior to first payment becoming due to KEYSTONE FUNDING INC, the loan will no longer be subject to repurchase on the sole basis of entering forbearance/deferment. The lender will also not be assessed the agency LLPAs of 5.000% (first time homebuyers) or 7.000% (all other loans). KEYSTONE FUNDING INC will maintain policy for cash-out refinance transactions, that is, if the borrower requests forbearance following the KEYSTONE FUNDING INC purchase date, butprior to the first payment becoming due to KEYSTONE FUNDING INC, the loan will be subject to repurchase. Effective with all new registrations on or after May 6th, 2020, including all loans in the pipeline, KEYSTONE FUNDING INC willnot purchase a loan in which a borrower is currently in forbearance/deferment for any of the below transactions: • Subject Property; or • On other Real Estate owned by the borrower where KEYSTONE FUNDING INC/Cenlar is the servicer of the loan.The above applies to both Delegated and Non-Delegated transactions.
TEMPORARY ADJUSTMENTS TO CASH-OUT REFINANCE ***(40)***	Effective with new Wholesale Non-Agency registrations taken on or after April 5th, 2021, thefollowing adjustments must be applied to primary residence cash-out refinance transactions. • Maximum LTV/CLTV/HCLTV has been reduced 5% • Minimum 24 months reserves • Maximum cash out of $250,000 **Note:** If the property is in a depreciating market, an additional 5% reduction must be made to the LTV/CLTV/ HCLTV. **WHOLESALE NON-AGENCY LTV, LOAN AMOUNT, DTI & RESERVEREQUIREMENTS**

	Lending parameters for 3-4 family primary residences, second homes and investment properties have not changed. Refer to the LTV, Loan Amount, FICO, DTI & Reserve requirements for Fixed & ARM Products in the Wholesale Non-Agency Manual for requirements.

Primary Residence: 1-2 Unit, including PUDS[3], Condos & Co-ops[2]							
Trans. Type	**Max Loan Amount**	**Market[1]**	**LTV / CLTV / HCLTV**	**FICO**	**Max Cash-Out**	**Max DTI**	**Reserves**
Cash-Out Refinance	$1,000,000	Stable	65% / 65% / 65%	740	$250,000	43%	24
	$1,500,000		60% / 60% /60%				

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	FIXED RATE
DESCRIPTION	Product provides for a fixed interest rate for the life of the loan. Loans may only be originated in first lien position.
AVAILABLE MARKETS	Contiguous States, DC, AK, and HI Refer to 1502.2-Wholesale Non-Agency LTV Matrix and 1504.1 – Standard Process for market restrictions.
PRODUCT	**Product** — **Term** 15-Year — 15 years 30-Year — 30 years All loans must be in 12-month increments; they may not have an odd number of months.
QUALIFYING RATE	**Occupancy** — **Qualifying Rate** Primary Residence — Note Rate Second Home — Note Rate Investment Property — Note Rate
ASSUMABLE	Not permitted.
CONVERTIBLE	Not permitted.
BUY DOWNS	Temporary buy downs not permitted.
PREPAYMENT FEATURE	Not Available.
MORTGAGE INSURANCE	Not Required.
ELIGIBLE LOAN PURPOSE/ TRANSACTION TYPES	• Purchase • Rate/Term Refinance • Cash-Out Refinance
PROPERTY TYPE	• 1-Unit, including condominiums, PUDs, & co-ops • 2-4 Unit Manufactured homes are not permitted.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.

	FIXED RATE
OCCUPANCY/ PROPERTY USAGE	• Primary Residence • Second Home • Investment Property
CREDIT SCORE	Refer to 1502.2- Wholesale Non-Agency LTV Matrix for details. Exceptions to credit score requirements are not permitted.
LOAN AMOUNT	• **Minimum:** Must be at least ***<u>$1 over</u>*** the conforming loan sizes listed below.

	$548,250	$822,375
	$702,000	$1,053,000
	$848,500	$1,272,750
	$1,054,500	$1,581,750

- **Maximum:** Refer to 1502.2- Wholesale Non-Agency LTV Matrix for details

Note: Loans eligible for the Agency Jumbo program are not eligible for this program.

LTV/CLTV/HCLTV	Refer to 1502.2- Wholesale Non-Agency LTV Matrix for details
LOAN REGISTRATION	Loan Plan: • 15 yr FRM Non-Agency • >15yr FRM Non-Agency Note: Ian Codes are combination of the individual product and program.

Primary Residence

<table>
<tr><th colspan="8">PRIMARY RESIDENCE: 1-2 UNIT, INCLUDING PUDs[3], CONDOS & CO-OPS[2]</th></tr>
<tr><th>Transaction Type</th><th>Max Loan Amt</th><th>Market[1]</th><th>LTV/CLTV/HCLTV</th><th>FICO</th><th>Max Cash-Out</th><th>Max DTI</th><th>Reserves</th></tr>
<tr><td rowspan="4">Purchase & Rate Term Refinance</td><td>$1,000,000</td><td rowspan="4">Stable</td><td>80% / 80% / 80%</td><td>720</td><td rowspan="4">N/A</td><td>43%</td><td>12</td></tr>
<tr><td>$2,000,000</td><td>75% / 75% / 75%</td><td>720</td><td>41%</td><td>18</td></tr>
<tr><td rowspan="2">$3,000,000</td><td>70% / 70% / 70%</td><td rowspan="2">760</td><td rowspan="2">41%</td><td>24</td></tr>
<tr><td>75% / 75% / 75%</td><td>36</td></tr>
<tr><td rowspan="2">Cash-Out Refinance</td><td>$1,000,000</td><td rowspan="2">Stable</td><td>70% / 70% / 70%</td><td rowspan="2">740</td><td rowspan="2">$350,000</td><td rowspan="2">43%</td><td rowspan="2">18</td></tr>
<tr><td>$1,500,000</td><td>65% / 65% / 65%</td></tr>
</table>

<table>
<tr><th colspan="8">PRIMARY RESIDENCE: 3-4 UNIT</th></tr>
<tr><th>Transaction Type</th><th>Max Loan Amt</th><th>Market[1]</th><th>LTV/CLTV/HCLTV</th><th>FICO</th><th>Max Cash-Out</th><th>Max DTI</th><th>Reserves</th></tr>
<tr><td rowspan="2">Purchase & Rate Term Refinance</td><td>$2,000,000</td><td rowspan="2">Stable</td><td>70% / 70% /70%</td><td>720</td><td rowspan="2">N/A</td><td>43%</td><td>18</td></tr>
<tr><td>$3,000,000</td><td>65% / 65% / 65%</td><td>760</td><td>41%</td><td>36</td></tr>
<tr><td>Cash-Out Refinance</td><td colspan="7">Not Permitted</td></tr>
</table>

[1] Depreciating Markets policy applies to any MSA depreciating 5.01% or more. The above maximum LTV/CLTV/HCLTV should be reduced by 5% if the subject property is located in a depreciating market. See Non-Agency Exhibit 1-Depreciating Markets.

[2] The co-op association may restrict the maximum LTV for a co-op.

[3] PUDs are only allowed on 1 unit properties.

- The minimum loan amount is $1 over the agency conforming loan size unless noted otherwise. Loans eligible for an Agency Jumbo program are not eligible for this program.
- Loans must meet Continuity of Obligation policy in Section 1508.1-Eligibility/Transaction Types.

Second Home

Second Home: 1-unit, including PUDs, Condos and Co-ops[2]							
Transaction Type	**Max Loan Amt**	**Market[1]**	**LTV/CLTV/HCLTV[2]**	**FICO**	**Max Cash-Out**	**Max DTI**	**Reserves**
Purchase & Rate/Term Refinance	$1,500,000	Stable	70% / 70% / 70%	740	N/A	43%	18
Cash-Out Refinance	Not Permitted						

[1] Depreciating Markets policy applies to any MSA depreciating 5.01% or more. The above maximum LTV/CLTV/HCLTV should be reduced by 5% if the subject property is located in a depreciating market. See Non-Agency Exhibit 1-Depreciating Markets.

[2] The co-op association may restrict the maximum LTV for a co-op.

- The minimum loan amount is $1 over the agency conforming loan size unless noted otherwise. Loans eligible for an Agency Jumbo program are not eligible for this program.
- Loans must meet the Continuity of Obligation policy in Section 1508.1-Eligibility/Transaction Types.

Second Home: 2-4 Units, including PUDs—Not Permitted

Investment Property

INVESTMENT PROPERTY: 1-UNIT, INCLUDING CONDOS[2] AND PUDS							
Transaction Type	**Max Loan Amt**	**Market[1]**	**LTV/CLTV/HCLTV**	**FICO**	**Max Cash-Out**	**Max DTI**	**Reserves**
Purchase & Rate Term Refinance	$ 1,500,000	Stable	65% / 65% / 65%	760	N/A	40%	36
Cash-Out Refinance	Not Permitted						

1 Depreciating Markets policy applies to any MSA depreciating 5.01% or more per the KEYSTONE FUNDING INC seriously declining market list. The above maximumLTV/CLTV/HCLTV should be reduced by 5% if the subject property is located in a depreciating market. See Non-Agency Exhibit 1-Depreciating Markets.

2 Florida and Georgia Condominiums secured as investment property are not permitted.

- The minimum loan amount is $1 over the agency conforming loan size unless noted otherwise. **Note:** Loans eligible for an Agency Jumbo program are not eligible for this program.
- Loans must meet the Continuity of Obligation policy in Section 1508.1-Eligibility/Transaction Types.

INVESTMENT PROPERTY: CO-OP AND 2-4 UNIT, INCLUDING PUDS – NOT PERMITTED

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
For information regarding loan registration and pricing policies and requirements not addressed in this fact sheet, please refer to Wholesale Manual Chapter 300 – Registration.	
EXTENSION REQUESTS	A rate lock extension may be completed on the Wholesale website by the Wholesale on or before the Lock Expiration Date. These requests must be received by 11:59 p.m. CentralTime (CT) on the Lock Expiration Date. Lock extensions may be requested in 1 day increments *. Refer to the current Rate Sheet for an Extension Fee Schedule. Extensions are not available if the rate lock has expired or if KEYSTONE FUNDING INC has received the closed loanpackage. A request for a one-time no-charge extension (not to exceed 10-days) may be made prior to the Lock Expiration Date if the current market price is greater than the original market price for Best Efforts locked loans only. A no-charge extension of 1 to 10 days is only available if requested within 5 business days immediately prior to the Lock Expiration Date and is only available for Best Efforts locks, and only available one time per loan. If a longer period is needed, normal extension fees apply. *** Note: Non-Agency Jumbo loans can be extended for a maximum of 30 days.**
RATE SHEET	Non-Agency Jumbo rate sheets are available only via email. Contact your Client Services Consultant to be added to the distribution list.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
DESCRIPTION	Standard documentation process for Non-Agency conventional products with delegated and non-delegated underwriting.
AVAILABLE MARKETS	Contiguous States, DC, AK, and HI
PRODUCTS	**Eligible** • Non-Agency Fixed Rate Mortgage **Ineligible** • All other products not listed above
BUYDOWN	**Permanent**: Permitted **Temporary:** Not Permitted
HIGHER PRICED MORTGAGE LOAN	Not permitted.
QUALIFIED MORTGAGE	All loans must be General QM with Safe Harbor.
LOAN PURPOSE/ TRANSACTION TYPE	• Purchase • Rate/Term Refinance • Cash-Out Refinance
OCCUPANCY/ PROPERTY USAGE	• Primary Residence • Second Home • Investment Property
PROPERTY TYPE	**Eligible** • 1-Unit, including condominiums, PUDs and co-ops • 2-4 Unit **Ineligible** • Manufactured Homes • Co-op as Investment Property
MAXIMUM LOAN AMOUNT	Refer to 1502.2-Wholesale Non-Agency LTV Matrix for details.
LTV/CLTV/HCLTV	Refer to 1502.2-Wholesale Non-Agency LTV Matrix for details.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
SUBORDINATE FINANCING	If the subject property has an existing subordinate lien, the existing lien may be subordinated to the new "refinance" transaction. However, new subordinate financing is *not permitted*. Refer to Section 1508.4- Assets/Borrowed Funds/Eligible Types of Subordinate Financing for additional information.
INELIGIBLE TRANSACTIONS & SCENARIOS	• All Deed Restricted Properties, including Age Only • Construction-to-Permanent transactions • Higher Priced Mortgage Loans • Industrial, Commercial or Agricultural Zoned Properties • Income sources listed in Section 1508.5-Employment and Income/Introduction/Ineligible Sources of Income topic • Loans to employees of KEYSTONE FUNDING INC N.A. and KEYSTONE FUNDING INC are not eligible for delivery through theWholesale Channel. • Mixed Use Properties • Non-Arm's Length Transactions • Non-occupant Co-borrowers • Non-resident Applicants • Partial Release • Properties with unpermitted additions • Technical Refinance • Texas Cash-Out • Texas Section 50(a)(6) • Texas Section 50(f)(2) • Work Completion Escrow
SEASONING REQUIREMENTS	Refer to Section 1508.1-Eligibility/Transaction Types/Refinance Restrictions.
PROPERTIES LISTED FOR SALE	Refer to Section 1508.1-Eligibility/Transaction Types/Properties Listed for Sale for restrictions.
LIMITED CASH OUT REFINANCE	Refer to Section 1508.1-Eligibility/Transaction Types/Rate-Term Refinances for restrictions.
CASH OUT REFINANCE	Refer to Section 1508.1-Eligibility/Transaction Types/Cash-Out Refinances for restrictions.
CONTINUITY OF OBLIGATION	Refer to Section 1508.1-Eligibility/Transaction Types/Continuity of Obligation for restrictions.
MORTGAGE INSURANCE	Not Required.
INHERITED PROPERTIES	Refer to Section 1508.1-Eligibility/Transaction Types/Cash-Out Refinances for restrictions.
KFI EXPOSURE	Refer to Section 1508.1-Eligible Property/Occupancy/Multiple Properties for requirements.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
UNDERWRITING	Loans are manually underwritten by Keystone Funding Inc. AUS decisions are not permitted.
AGE OF CREDIT DOCUMENTS	Refer to Section 1508.2-Credit/Analysis/Age of Credit Documents.
BORROWER ELIGIBILITY	• U.S. Citizens • Permanent resident borrowers: A copy of the Permanent Resident card (front and back) must be provided. **Non Resident Aliens and Non-Permanent Resident Applicants**: Not permitted Refer to Wholesale Manual Section 803-Borrower Information for additional information.
FIRST TIME HOME BUYER	Permitted on owner-occupied primary residence only.
NON BORROWING SPOUSE	When a married applicant applies for a mortgage in their name alone, without involving the applicant's spouse, the spouse is referred to as a non-borrower spouse. A non-borrower spouse may have rights in the property, either as a co-owner of the property or because state community property or marital rights laws. Keystone's lien must always be superior to that of the non-borrower spouse. • If the non-borrower spouse is to be listed on the title as a co-owner, Keystone requires the non-borrower spouse tosign the security instrument—in all states. Note: We cannot require a non-borrower spouse who is a co- owner of the property to sign a quitclaim deed. • If the non-borrower spouse is not listed on the title, KFI does not require the non-borrower spouse's signature on the Security Instrument, unless it is necessary under state law to obtain a valid security interest.
DEBT RATIO	Refer to 1502.2-Wholesale Non-Agency LTV Matrix.
CREDIT SCORE	Refer to 1508.2-Credit/Analysis/Evaluating the Credit Score and 1502.2-Non Agency LTV Matrix.
CREDIT EXPLANATION LETTER	Refer to 1508.2-Credit/Analysis/Borrower Explanations.
MORTGAGE /RENTAL HISTORY & VERIFICATION	Refer to 1508.2-Credit/Analysis/Payment of Past Mortgages/Rent.
CREDIT HISTORY/ MINIMUM TRADE LINES	Refer to 1508.2-Credit/Analysis/Credit History/Minimum Trade Lines.
BORROWER EXPLANATIONS	Refer to 1508.2-Credit/Analysis/Borrower Explanations.
COLLECTION/CHARGE-OFFS	Refer to 1508.2-Credit/Analysis/Unpaid Charge-offs & Collections.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
FORECLOSURE/DEED IN LIEU AND BANKRUPTCY	Refer to 1508.2-Credit/Analysis/Bankruptcy, Credit/Analysis/Foreclosure and 1508.2-Credit/Analysis /Deed-in-Lieu/Short Sale/Pre-foreclosure topics.
PUBLIC RECORDS, JUDGEMENT AND LIENS	Refer to 1508.2-Credit/Analysis /Judgements & Tax Liens/Public Records.
GARNISHMENT	Refer to 1508.2-Credit/Analysis/Garnishments.
CHILD SUPPORT PAST DUE	Refer to 1508.3-Liabilities/Recurring Debt/Child Support.
ASSET DOCUMENTATION	Most recent bank statement(s) covering a two month period for all accounts that are being used for down payment, closing costs, prepaids and reserves must be provided. Refer to 1508.4-Assets/Source of Funds/Asset Verification Requirements.
MINIMUM DOWN PAYMENT/BORROWER CONTRIBUTION	Refer to 1508.4-Assets/Source of Funds/Borrower Contribution Requirements – Minimum Down Payment.
LARGE DEPOSITS	Refer to 1508.4-Assets/Source of Funds/Asset Verification Requirements.
INTERESTED PARTY CONTRIBUTIONS	• Primary & Second Home: 6% • Investment: 2%. Refer to 1508.4-Assets/Source of Funds/Interested Party Contributions for eligibility requirements.
RESERVES	Refer to the 1502.2-Non-Agency LTV Matrix and 1508.4-Assets/Funds to Close/Reserves. In addition to reserves listed on the LTV Matrix for the subject property, the borrower must also have 2 months PITIA for each additional residential property owned.
GIFT FUNDS	Refer to 1508.4-Assets/Source of Funds/Gift Funds.
BUSINESS FUNDS	Refer to 1508.4-Assets/Source of Funds/Business Funds for requirements.
SPECIAL U/W REQUIREMENTS	Unless specified otherwise, credit should be evaluated following underwriting practices as defined in 1508.2-Credit/Analysis. **Refinance Terms:** Standard refinance guidelines must be met as defined in the 1508.1-Eligibility/Transaction Types.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
EMPLOYMENT HISTORY	Employment gaps exceeding 30 days require written explanation. All letters of explanation must be signed by the Borrower prior to close. Employment must be verified for the most recent 2 full years. Refer to 1508.2-Credit/Analysis/Borrower Explanations and 1508.2-Employment & Income/Wage Earner/Gaps in Employment for additional documentation requirements.
WAGE EARNER INCOME DOCUMENTATION	• Most recent YTD paystub or salary voucher documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained. • **W-2**: W-2s for the most recent 2 years regardless of how long the borrower has been on their current job. An IRS Wage and Income Transcript (W -2 transcripts) may be used in lieu of the actual W-2 forms. • **Tax Returns**: Personal tax returns for the most recent 2 years Refer to 1508.5-Employment & Income/Wage Earner Income for additional details on the sources of documentation used to verify income and the principal methods of validating its authenticity. **Note:** Income used to qualify must have a history of receipt and be expected to continue. A calculation worksheet must be documented in the loan file to show how the income being used to qualify was calculated. If either the borrower or co-borrower is self-employed, in addition to the required wage earner income documentation, complete tax returns for the most recent 2 years must be provided even if the income is not being used to qualify. The personal tax returns must be reviewed to determine if there is a "meaningful" business loss that may have an impact on the stable monthly income being used to qualify. Additional documentation may be needed to fully evaluate the impact of the business loss on the borrower's ability to repay.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	

SELF-EMPLOYED INCOME DOCUMENTATION	Refer to the 1508.5-Employment & Income/Self-Employed Income for additional details on the sources of documentation used to verify income and the principal methods of validating its authenticity.
	• **Individual:** Complete signed and dated tax returns for the most recent 2 years, including all W-2s and Schedules.
	• **Corp., S-Corp. & Partnerships:** The most recent 2 years' signed and dated business tax returns including all Schedules.
	• **Sole Proprietor, Corp, S-Corp & Partnership**: The YTD (year-to-date) P&L (profit and loss) and balance sheet are required when the application is dated more than 90 days after the end of the business' fiscal or calendar year end. YTD unaudited P&L statement and balance sheet for the business either:
	  ○ Completed by the business's tax preparer; or
	  ○ Completed by the borrower with evidence provided that the document has been viewed by the business's tax preparer or an appropriate third party who is not affiliated with the loan transaction.
	• Income Analysis Form; and
	• Verification that borrower's business remains open and in existence performed no more than 10 calendar days prior to the loan closing.
	Note: Corporate income may not be used unless the borrower owns 100% of the business. (W-2 and 1099 earnings are eligible)

OTHER INCOME	Refer to the appropriate section of 1508.5-Employment & Income/Other Income for details on the various types of income that may be used to qualify the borrower, the documentation used to verify the source of income, and the principal methods of validating its authenticity.
RENTAL INCOME: OTHER REAL ESTATE OWNED	Refer to 1508.5-Employment & Income/Rental Income/Calculating Rental Income on Non-Subject Property for calculation and documentation requirements.
RENTAL INCOME: SUBJECT PROPERTY	Refer to 1508.5-Employment & Income/Rental Income/Calculating Rental Income on Subject Property.
VERIFICATION OF EMPLOYMENT	**Wage Earner:** Documented telephone verification of employment with the employer no more than 10 business days prior to the loan closing. Refer to 1508.5-Employment & Income/Wage Earner Income/Verbal VOE – First Mortgage Transactions for additional guidance. **Self Employed:** Documented verification of the existence through directory assistance no more than 10 calendar days prior to the loan closing. Refer to 1508.5-Employment & Income/Self Employed/Verifying the Existence of Business for additional guidance.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
IRS FORM 4506-C	All borrowers whose income is used to qualify for the loan transaction must sign form 4506-C at closing, regardless of income type—salary, self-employed, social security, etc. An additional 4506-C must also be signed prior to or at closing for each business tax return that is in the loan file that was used to calculate qualifying income (resulting in either a gain or loss). Alternative forms such as the 8821, 4506 or 4506-T are not permitted. Refer to 1508.5-Employment & Income/Introduction/Processing and Analyzing the 4506-C for additional guidance.
THIRD PARTY VERIFICATION SERVICES PROVIDER	Third party vendors may be used as an alternative method for verifying income, employment and assets. The verification must provide the same level of documentation defined in this fact sheet. If it does not, additional supplements must be obtained to meet documentation requirements. Refer to the 1508.5-Employment & Income Introduction, Wage Earner Income, Self-Employed Income and Other Income sections for additional requirements that must be met for Third Party Verification Services.
APPRAISAL	A full interior/exterior appraisal is required. Refer to Section 1505.1 Non-Agency Appraisal. A recertification is required if the appraisal will be more than 120 days old as of the date of the Note/Mortgage. In addition, the recertification of value cannot be more than 90 days old at the time of closing. **Note:** No more than two recertifications of value may be obtained on a transaction when the appraisal is more than 120 days old as of the Note/Mortgage. High Value Zip Code Areas and Depreciating Market policies apply. Refer to Section 1505.1- Appraisal for additional requirements.
CONDO/ CO-OP PROJECT APPROVAL	• For Non-Delegated transactions: Condominium projects must be approved by KFI. • For Delegated transactions: ○ <u>Limited Review Condominium Projects</u>: The Wholesale must represent and warrant that the condominium project meets Fannie Mae's guidelines for limited review. ○ <u>Full Review Condominium Projects</u>: The Wholesale must represent and warrant that the condominium project meets Fannie Mae's guidelines for full review. The following documentation mustbe provided to KFI in the final loan package: ▪ Condominium Project Questionnaire ▪ Current Condominium Project Budget • Co-op projects must be approved by KFI. • Non-warrantable condo/co-ops are not permitted. • Site condos are only allowed as primary residence. Refer to the Wholesale Manual Chapter 600 for details on the various types of project reviews.
HAZARD INSURANCE	Refer to Wholesale Manual Section 909 - Hazard Insurance.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency – Chapter 1500.	
FLOOD INSURANCE	Refer to Wholesale Manual Section 910- Flood Insurance for details not addressed in this topic. For Condominiums and cooperatives, private flood insurance policies are permitted only if reviewed and approved by KFI. For single-family loans, any private insurance policy is subject to review. The flood insurance coverage must be at least as broad as a comparable standard NFIP flood policy and must meet the rating requirements for property insurers as defined in Section 909 – Hazard Insurance. Evaluation of the review of the private policy requirements below must be documented in the file. Deductible limits should not exceed the NFIP policy deductibles for comparable coverage amounts. Deductibles may be higher than NFIP deductibles when coverage amounts exceed NFIP coverages; however, the borrower must have two times that deductible in liquid reserves/assets. Pooled risk policies (covering multiple condominium associations) are not acceptable to primary investors or consistent with this policy.
CHAIN OF TITLE	All purchase and refinance transactions on existing properties will require a 12 month "chain of title" from the title insurer that does not evidence any previous flipping activity for the property (i.e., multiple property transfers).
DELEGATION TIER DEFINITION/AUTHORITY	• **Delegated Wholesale Non-Agency (0002**): Wholesales in this tier may approve first mortgagesup to the conforming and conforming agency jumbo loan limits that receive a finding of Approve/Eligible through Desktop Underwriter (with no purchase restrictions) and Accept through Loan Product Advisor. Wholesales may also approve all Standard Process Non-Agency jumbo loans that are manually underwritten. • **Non-Delegated AUS & Non-Agency Non-Delegated (0010**): Wholesales in this tier may approve first mortgages up to the conforming and conforming agency jumbo loan limits that receive a finding of Approve/Eligible through Desktop Underwriter (with no purchase restrictions) or Accept through Loan Product Advisor. All Standard Process Non-Agency jumbo loans must be underwritten by KFI.
LOAN REGISTRATION	**Process Type:** Standard • Loan Plan:30yr FRM Non-Agency • 15 yr FRM Non-Agency Note: Plan Codes are a combination of the individual product and program.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.

For information regarding appraisal requirements not addressed in this fact sheet, please refer to Wholesale Manual Chapter 500- Appraisal.

APPRAISAL REQUIREMENTS

A full appraisal is required. Recertification of value required after **90** days.

High Value Zip Codes[1]	Non-High Value Zip Codes
Loan Amount >$1.5 mil - 2 appraisals are required	Loan Amount >$1.0 mil - 2 appraisals are required

- Ordering both reports from the same company, vendor, or agent is expressly forbidden.
- If two appraisals are required the lesser of the two values should be used to underwrite the transaction and determine LTV/CLTV/HCLTV, unless KEYSTONE FUNDING INC reviews both and determines thehigher value is more accurate.

[1] See Non-Agency Jumbo Exhibit 2-High Property Value Zip Codes for the current list of high value zip codes.

DEPRECIATING MARKETS

If the subject property is located in an MSA on the current KEYSTONE FUNDING INC Depreciating Markets list (Non-Agency Exhibit 1), additional criteria applies as shown on 1502.2 – Non-Agency LTV Matrix.

See Wholesale Manual Section 501.2-Appraisal Evaluation/Depreciating Markets for additional information.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
INVESTMENT PROPERTY	An investment property is an income-producing property that the borrower or co-borrower does not occupy. The subject property may be a 1-4 unit, condominium, or PUD. Rental income may be used to qualify. **Rent Loss Insurance:** Refer to Section 805.3-Rental Income. **Occupying Tenant:** For Purchase transactions, if the subject property is currently being rented, the rental agreement/lease must be reviewed to ensure that it does not contain any provisions that could affect our position as mortgagee. In some jurisdictions, a lease that pre-dates the mortgage has a superior claim to the mortgage, even if it has not been recorded. However, the tenant's rights will usually remain intact under the pre-existing lease. If the lease is not subordinated to the mortgage, each lease must be reviewed to ensure that any “rights to purchase”—and any other rights that could adversely affect the mortgagee's interest—have been formally waived by the tenant. Refer to 1502.2-Non-Agency LTV Matrix for reserve requirements. **Additional Requirements for Subject Investment Properties:** • If rental income is not used to qualify, PITIA must be used in calculating the debt ratios. Refer to 1508.3-Liabilities/Debt Burden Ratios/Debt-to-Income Ratio topic. • When the subject property is an investment property and the borrower(s) own multiple investment properties, the borrower(s) must provide evidence of a minimum of 2 years’ experience managing multiple investment properties. • Co-op properties are not eligible as investment properties.
LEASEHOLD ESTATES	A leasehold arrangement is one in which there is separate ownership of the land and the improvements on the land. The landowner grants a lease to the owner of the improvements that gives the improvements owner the right to use the land in exchange for a rental payment. The ownership interest in the land is called the “fee interest” or “fee estate.” The ownership interest in the improvements coupled with the rights granted in the lease to use the land is called the “leasehold interest,” “leasehold estate,” or simply “leasehold.” The rental payment is called a “leasehold payment” or “ground rent,” and is usually paid annually. The lease is commonly for a term of 99 years or more, and is usually renewable. **Ineligible**: • Due to leasehold restrictions, Hawaiian Home Lands are not permitted. • Not permitted for Texas 50(a)(6) loans **Eligible:** To be eligible, a leasehold estate must meet the following requirements: • In all respects, the lease or sublease must be valid, in good standing, and in full force and effect. • Binding and enforceable against the lessor and sublessor. • The leasehold estate and improvements must constitute real property, be subject to a mortgage lien, and be insurable by an acceptable lender’s title insurance policy. • For condo, PUD or cooperative projects, the homeowners association or the cooperative association must be the lessee under the ground lease. The fee simple owner must not be the developer, an entity associated with the developer, or a hospitality entity. • The leasehold must be assignable/transferable. • All lease rents, other payments, or assessments must be current, and the borrower must not be in default under any other provision of the lease—nor may the lessor have claimed such a default. • **Term**: The term of the estate extends a minimum of 5 years beyond the maturity date of the mortgage. (This requirement does not apply if fee simple title will vest in the borrower, owners' association, or a cooperative corporation at an earlier date.)

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.

- **Recordation:** The lease and any sublease, including all amendments, or a memorandum of lease or sublease, must be recorded.
- The lease or sublease should provide for the following:
  - Priority of KEYSTONE FUNDING INC's (as the leasehold mortgagee) first mortgage lien over all other liens—especially those for assessments to support common amenities.
  - Contain a provision that interest can be transferred, mortgaged, and/or sublet an unlimited number of times by the lessee—either without restriction or with payment of a reasonable fee and delivery of reasonable documentation to the lessor (owner of the land). The lessor may not impose any credit qualifying criteria on an assignee, transferee, mortgagee or sub lessee.
  - Contain provisions to protect KEYSTONE FUNDING INC's interest in the event of bankruptcy of any party to the lease, foreclosure, the property's condemnation or destruction, such as the right to assumethe lease and any renewal options, or acquire the lease in its own name or in the name of anominee upon foreclosure or deed in lieu of foreclosure.
  - Contain a provision that the borrower will pay taxes, insurance, and owners' association dues related to the land—in addition to those they are paying on the improvements.
  - If the lessor's fee simple interest in the land is subject to any encumbrances or liens, or the lease requires the lessee to agree to the subordination of the lease to said liens or encumbrances, the fee simple lienholder has executed and recorded a Non-disturbance and Attornment Agreement that contains the provisions indicated below.
  - Provide for the leasehold mortgagee to approve any amendments to the lease that relate to the provisions described herein, the modification of the leasehold estate, or the termination or cancellation of the lease.
  - Contain a provision that the borrower retains voting rights in any owners' association.
  - Provide for the leasehold mortgagee to exercise any renewal options that may exist.
  - Guarantee KEYSTONE FUNDING INC the right to receive a minimum of 30 days' notice of any default by the borrower and to cure the default or take over the borrower's rights under the lease. In theevent of bankruptcy of the lessor or lessee, the lessee must notify KEYSTONE FUNDING INC in a timely manner.
- **The lease must not**:
  - Contain default provisions allowing forfeiture or termination of the lease except for nonpayment of the lease rents.
  - Contain provisions for termination of the lease in the event of damage to or destructions of the mortgaged premises as long as the leasehold mortgage exists.
  - Prohibit the leasehold mortgage from being insured under a hazard insurance policy or from receiving hazard insurance proceeds as either mortgagee or insurance trustee.
  - Prohibit the leasehold mortgagee from exercising renewal options.
- **Sublease**
  - The lessor may not require a credit review or impose any other qualifying criteria on transference, mortgage, or sublease.
  - The sublease must be signed by both the fee owner and the sublessor.
  - The sublease must contain a Non-disturbance and Attornment Agreement, by which the fee simple lienholder or the lessor agrees to accept the terms of the lease or sublease and not to interfere with the lessee's rights to use the leasehold estate.
  - The amount of the sublease payments is at least equal to the amount of the lease payments and is due no less frequently than the lease payments.
  - The leasehold estate and the mortgage must not be impaired by a title merger between the lessor and lessee, or by a sublessor's default.

Lease With Option to Purchase:
Not permitted.

Appraisal Requirements: The use of leasehold estates for residential properties must be an accepted practice in the area where the subject property is located and such properties must be readily marketable.

Qualifying the Borrower: Any potential increase in rent payments must be taken into consideration

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	when calculating the borrower's housing payments and debt ratios. **Title Requirements:** ALTA Form 13.1 or equivalent for all leasehold mortgages. The title insurance policy must include the value of the lessee's leasehold improvements as part of the insured estate. Refer to Wholesale Manual Section 902.1 – General Documentation Requirements for more information.
MULTIPLE PROPERTIES	**Subject is Primary Residence**: For loans secured by primary residences, borrowers may not own or be obligated on a combined total of more than 5 financed residential properties, including the subject property. (Refer to the table below to determine if "other properties owned" should be included in limitation.) **Subject is Second Home or Investment Property:** If the subject property is a second home or investment property, typically each borrower individually and all borrowers collectively may not own or be obligated on a combined total of more than 4 financed residential properties (including the subject property) at the time of application (applies to either a single lender or several different lenders, including KEYSTONE FUNDING INC). Refer to the table below to determine if "other properties owned" should be included in limitation.

Type of Property Ownership	Property Included in Limitation?
Joint ownership of residential real estate. (This is considered to be the same as total ownership of an individual property.)	Yes
Ownership of commercial real estate.	No
Ownership of multifamily property consisting of more than four dwelling units.	No
Joint or total ownership of a property that is held in the name of a corporation or S-corporation even if the borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation.	No
Joint or total ownership of a property that is held in the name of a corporation or S-corporation even if the borrower is the owner of the corporation; however, the financing is in the name of the borrower.	Yes
Ownership in a timeshare.	No
Obligation on a mortgage debt for a residential property (regardless of whether or not the borrower is an owner of the property on title).	Yes
Ownership of a vacant (residential) lot.	No
Joint or total ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of 25% or more, regardless of the entity (or borrower) that is the obligor on the mortgage.	Yes
Joint or total ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the LLC or partnership.	No
Joint or total ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25% and the financing is in the name of the borrower.	Yes
Ownership of a manufactured home and the land on which it is situated	Yes

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.

that is titled as real property.	
Ownership of a manufactured home on a leasehold estate not titled as real property.	No

Note: Properties owned or financed jointly by the borrower and co-borrower are only counted once.

In addition to the reserve requirements specified in 1502.2 - Non-Agency LTV Matrix, 2 months PITIA is required on *each* additional residential property with a lien (i.e., primary residence, second home, and investment property).

PRIMARY RESIDENCE

A primary residence is the borrower's main residence, where they live the majority of the year. It may be a 1-unit, condominium, co-op, PUD, or 2-4 unit property.

Characteristics that may indicate the property is the borrower's primary residence include:

- It is occupied by the primary wage-earner for the major portion of the year;
- It is in a location relatively convenient to the owner's principal place of employment;
- It is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar functions.

The borrower must occupy the property within 60 days of closing. At least one of the borrowers must occupy and take title to the property, and execute the note and mortgage. Exceptions (e.g., active military personnel) will be considered on a case-by-case basis.

KEYSTONE FUNDING INC recognizes the special needs of a borrower looking to finance a home for a disabled adult child oran elderly parent who is unable to work or who may not have sufficient income to qualify for a mortgage on their own.

Multiple Borrowers	Only one borrower needs to occupy and take title to the property, except as otherwise required for mortgages that have guarantors or co-signers.
Parents or legal guardian wanting to provide housing for their handicapped or disabled adult child	If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent or legal guardian is considered the owner/occupant.
Children wanting to provide housing for parents	If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant.

SECOND HOME

A second home is defined as 1-unit property (including condominiums, co-ops, and PUDs), unless otherwise indicated in a process or program fact sheet, that the borrower occupies for some portion of the year in addition to their principal residence. A borrower may have more than one second home.

While second homes are often located in a vacation/resort area although not always, the property must be suitable for year round occupancy. A second home should not be in the same market as the borrower's primary residence. However, there are exceptions, such as:

- Property located in a recreational area which is part of a metropolitan area (e.g., beach house), or
- Property used to minimize commuting problems (e.g., a Manhattan condominium owned by a

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	Connecticut resident working in New York City). There are no specific mileage requirements with regards to the distance between the primary and second home. Good judgment must prevail and all of the following criteria must be considered for second homes: • Rental income received from the second home may not be used to offset the expense of a second home and cannot be used as qualifying income. • 2-4 unit properties are not eligible as a second home. • The property must be occupied by the borrower for some portion of the year • The borrower must retain exclusive control over the property. • The sales contract or appraisal must not reflect that there are timeshare arrangements or any other rental agreements that requires the property to be rented. • If the borrower utilizes a management company to assist in renting the unit when the borrower is not using it, the borrower may not give the management company complete control over the occupancy of the property.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
BUYOUT OF SPOUSE, DOMESTIC PARTNER OR AFFIANCED INTEREST	A refinance that results from a divorce settlement in which one of the spouses is required to buy out the other's interest in a property is considered a rate/term refinance provided the borrower who acquires sole ownership of the property does not receive any cash back. We may also consider a buy out of the interests of a domestic partner, fiancée, or fiancé as a rate/term refinance transaction if all of the following conditions are satisfied: • Both parties owned the subject property jointly for at least 12 months preceding the date of the mortgage application. An individual who inherits an interest in the property does not have to satisfy this requirement. • Both parties are able to demonstrate that they occupied the property as their principal residence by providing an acceptable source of verification (e.g., driver's license, bank statement, credit card bill, utility bill, etc. that was mailed to the individual at the address of the mortgaged property). • Both parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. The borrower who acquires sole ownership of the property must not receive any cash back from the proceeds of the refinance. • The party who is buying out the other party's interest must be able to qualify for the mortgage under our standard underwriting guidelines. • **Texas Property:** The division of the homestead property pursuant to a court order or an award in a divorce proceeding is considered a Texas Non-Equity Loan that may be processed as a rate/term refinance. The borrower may not receive any cash back at closing. • **Transaction Type:** All transactions may be originated as rate/term refinances, regardless of process type.
KEYSTONE FUNDING INC REO PROPERTIES	A KEYSTONE FUNDING INC owned REO property may be financed by KEYSTONE FUNDING INCbank, N.A.
CONSTRUCTION-TO-PERMANENT FINANCING	Not available.

CONTINUITY OF OBLIGATION	When an existing Mortgage on the subject property will be satisfied as a result of a refinance transaction (rate/term and cash out), one of the following requirements must be met:
	• At least one Borrower on the refinance mortgage was a Borrower on the mortgage being refinanced; or
	• At least one Borrower on the refinance Mortgage held title to and resided in the mortgaged premises as a primary residence for the most recent 12-month period and the mortgage file contains documentation evidencing that the borrower, either:
	  o Has been making timely mortgage payment, including the payments for any secondary financing, for the most recent 12-month period; or
	  o Is a related person to a borrower on the mortgage being refinanced; or
	• At least one Borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises (for example), in the case of divorce, separation, or dissolution of a domestic partnership.
	Note: Continuiy of Obligation requirements do not apply when there is no existing mortgage on the subject property..
	Refer to the Rate/Term Refinance: Other Purpose topic below for additional requirements for adding or removing a borrower from a transaction, or the Buyout of Spouse, Domestic Partner or Affianced Interest topic for additional requirements.

CONTRACT OF	A land contract, also known as an installment land contract, contract for deed, contract sale,

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	

SALE / LAND CONTRACT	contract purchase, or in Hawaii, an Agreement of Sale, is a form of seller financing in which the seller retains title to the property while the buyer makes regular payments to the seller. Once the buyer pays the number of payments and/or amount specified in the contract, the seller conveys title to the buyer.
	An executed contract for deeds/land contracts must be seasoned for at least 12 months before the transaction is eligible for financing with KEYSTONE FUNDING INC.
	• A mortgage in which the proceeds are used to pay the outstanding balance of a land contract or contract for deed may be **Rate/Term Refinance Transaction only**. The land contract/ or contract for deed must be executed more than 12 months preceding the mortgage application date.
	  o Proceeds from the refinance transaction may include the sum of the outstanding balance of the installment sales contract and the costs incurred for rehabilitation, renovation, or energy improvements.
	  o The loan file must include third-party documentation evidencing payments were made in accordance with the terms of the land contract or contract for deed for the most recent 12 month period.
	  o A new appraisal is required and the LTV must be calculated using the appraised value of the new first mortgage transaction.
	• **Purchase Transactions:** If the land contract or contract for deed was executed within the 12 months preceding the mortgage application date, it is not permitted.
	• **Cash-Out Refinance Transaction:** Not Permitted.
	Note: The right to rescind will apply to a loan to rehabilitate or improve the borrower's principal dwelling.

LEASE-TO-OWN / RENT W/OPTION TO BUY	A transaction in which the borrower holds a lease with an option to purchase the subject property must be processed as a purchase transaction, with the LTV based on the lesser of the purchase price or appraised value. Loans must be treated as a purchase transaction. The property seller may give the purchaser credit toward the down payment for a portion of previous rent payments the purchaser made under a documented rental purchase agreement. Refer to Source of Funds for additional requirements.
LOAN SEASONING	To be eligible for purchase, loans may not be seasoned more than 90 days from the closing date as of the date we purchase the loans. **Note:** Appraisal updates and project approval date restrictions supersede this seasoning policy. Payment histories must reflect that all payments were made as agreed.
NON-ARM'S LENGTH TRANSACTION	**Non-arm's length transactions are not permitted.** A non-arm's length transaction is one in which there is a relationship or business affiliation between the seller and the buyer of the property (e.g., family sale, property in an estate, employee and employer, renter and landlord, or flip transactions). Common risks associated with this type of loan include: absence of equity or down payment; a purchase price that does not represent the actual property value; financial bailouts or attempts to hide poor credit; occupancy concerns; and financing of unsold builders inventory, especially in soft real estate markets.
PROPERTIES LISTED FOR SALE	If the subject property is currently listed for sale the loan is <u>not</u> eligible for a rate/term refinance or a cash-out refinance. Properties that were listed for sale and taken off the market within the past 180 days are eligible for a rate/term refinance only on a primary or second home. These loans are not eligible for a cash out

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	refinance. Documentation evidencing the listing was cancelled, along with a letter of explanation from the borrower detailing the rationale for cancelling the listing, must be provided. Every effort should be made to verify the property is no longer listed for sale and the underwriter should give additional scrutiny to these transactions to ensure that refinancing the loan provides a benefit to borrower. This policy does not apply to the refinance of a property that was recently purchased within the past 180 days.
PURCHASE	A purchase transaction allows proceeds to be used to: • Finance the purchase of a property. • Payoff an outstanding balance on an installment land contract, including any costs the borrower incurred for rehabilitation, renovation, or energy conservation improvements. If the financing exceeds the liens, the transaction must be considered a refinance. • Convert a lease option to purchase into permanent financing, as long as the borrower receives no cash back from the transaction. **Note:** The borrower may not be on title prior to the loan closing. The seller that is on title (the vested owner of record) must be the individual who executes the sales contract. Additionally, the seller must be on title prior to when the Closing Disclosure and closing docs are executed. **Exceptions:** • Corporate relocation transactions are excluded from this requirement. For a corporate relocation loan only, a third party relocation company may sign the sales contract and the Closing Disclosure as the seller. A copy of the fully executed Relocation Agreement is required. • If the transaction is a purchase transaction of a repossessed property where the seller is FNMA, FHLMC, bank, etc., it is acceptable for an individual representative of the "seller" to sign the sales contract and Closing Disclosure. For this type of transaction, we would rely on the title company to ensure that the individual is an authorized signer. **LTV Calculations:** • Calculate the LTV by dividing the loan amount by the lower of the sales price or the current appraised value. • Refer to Contract of Sale/Land Contract topic above for this type of purchase transaction. • **Purchase Transactions for Existing Properties:** The cost of a separate contract or bid for improvements to be made may not be added to the contract purchase price to calculate the LTV. **Cash Back to Borrower** The borrower may not receive any cash back on a purchase transaction, unless the amount represents: • Reimbursement for the borrower's overpayment of fees; • Reimbursement for costs paid by the borrower in advance (e.g., earnest money deposit, appraisal, credit report fees, etc.) • Legitimate pro-rated real-estate tax credit in locales where real estate taxes are paid in arrears. • Refunds that may be required in accordance with federal laws or regulations. The Closing Disclosure must clearly indicate the refund with a notation for the reason, and the loan file must include documentation to support the amount and reason for the refund. • If the borrower receives cash back for any of the above reasons, the underwriter must confirm that the minimum down payment or required borrower contribution has been met. Pro-rated real estate tax credits cannot be considered when determining if the borrower has enough funds for

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	the transaction. • Proof that the funds were actually paid (e.g., canceled check or other acceptable means) must also be documented. **<u>Tenant Rights</u>** In some jurisdictions, leases that predate the new mortgage hold superior claim to the existing mortgage, even if it has not been recorded. In these instances, the tenant has the right to remain in the property until the lease has expired—even if the subject property is subsequently sold. Therefore, if the purchase contract, appraisal, or title work indicates the subject property has an existing lease in place, the lease must be reviewed to make certain it does not contain a tenant rights provision as it could adversely affect our security interest.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
REFINANCE TRANSACTIONS	A refinance involves paying off an existing loan with the proceeds from a new loan, usually of the same size, and using the same property as collateral. Other reasons to refinance include taking equity out of the property, reducing the term of a longer mortgage, or switching between a fixed-rate and an adjustable-rate mortgage. If there are prepayment fees attached to the existing mortgage, refinancing becomes less favorable because of the increased cost to the borrower at the time of the refinancing. In order to decide whether a refinance is worthwhile, the savings in interest must be weighed against the fees associated with refinancing. For Rate/Term Refinances and Cash-Out Refinances, the LTV is calculated by dividing the loan amount by the current appraised value unless noted otherwise in the subsections within this section. However, there are situations where the LTV may need to be calculated by dividing the loan amount by the lesser of the appraised value or the sales price/acquisition costs. Refer to the Continuity of Obligation topic in this section for additional information.
REFINANCE: CASH-OUT	A cash-out refinance transaction enables a borrower to pay off his or her existing mortgage by obtaining a new first mortgage that is secured by the same property, or enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it. A transaction that does not meet all of the criteria listed for a Rate/Term Refinance section above must be treated as a cash-out refinance and must meet all the LTV/loan amount restrictions. Cash out transactions must meet the following requirements: • At least one borrower must have owned the subject property for a minimum of 6 months prior to the application date. (**Note:** There are no seasoning restrictions for doing two consecutive cash-out transactions.): o Borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership there are no other seasoning requirements. Refer to “Inherited Property” requirements below. o For properties in a leasehold estate, at least one borrower must have been a lessee on the ground lease or lease agreement of the subject leasehold estate for at least 6 months. o For co-ops, at least one borrower must have held Cooperative Shares corresponding to the Co-op unit that is the subject of the Cooperative share loan for at least 6 months • Continuity of Obligation must be met. Refer to the Continuity of Obligation topic in this section for complete information. Funds for a cash out refinance may be used to pay off the following: • Unpaid principal balance of the existing first mortgage loan; • Closing costs, prepaids and points; • The amount to satisfy any outstanding subordinate mortgage liens of any age; and • Additional cash that the borrower may use for any purpose. Refinance mortgage loans that involve the refinance of subordinate liens that were not used in whole to purchase the subject property are considered cash-out refinance. This includes home improvement loans, HELOC and second mortgage loans obtained for taking equity out of the property, even if a portion of the subordinate lien was used to purchase the property. However, if such subordinate lien has been outstanding for more than one (1) year and there has not been a draw on the subordinate lien in the past twelve (12) months greater than or equal to $2,000.00 then the new refinanced Mortgage Loan will not be considered a cash-out refinance. Cash-out is limited to the maximum amounts stated in 1502.2-Wholesale Non-Agency LTV Matrix.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	The existing loan being refinanced may not be a restructured mortgage as defined in 1508.2-Credit/ Analysis/Restructured Loans section. • Except as required by applicable law, a Power of Attorney may not be utilized to sign a security instrument or note if the transaction is cash-out refinance • Refer to the Properties Listed for Sale topic in this section for information if the subject property has been listed for sale in the six months preceding the application date. **Delinquent Real Estate Taxes** If real estate taxes are more than 60 days past due and are included in the new loan amount an escrow account must be established, unless prohibited by state law or regulation. In those instances only, when the particular state law prohibits the lender from requiring an escrow account, the loan is still eligible as a cash-out refinance without an escrow account. This includes the payoff of any second mortgage, that is not permitted as outlined in the Rate/Term Refinance section above, and transactions in which the loan proceeds exceed the maximum amount of funds that can be disbursed to the borrower per the rate/term refinance guidelines can be done as a cash out refinance. **Payoff of Home Improvement Loan** Payoff of a home improvement loan may be handled as a rate/term refinance, subject to certain conditions being met. Refer to the Rate/Term Refinance “Loan Amount” topic in this section for details. **Inherited Properties** If a mortgaged property was inherited within the last 6 months, the following restrictions apply: • The owner must have clear title; • Title cannot be held in probate; and • Percentage of ownership by heirs must be demonstrated. • A five percent (5%) LTV/CLTV reduction must be applied to LTV/CLTV /HCLTV as published in 1502.2-Wholesale Non-Agency LTV Matrix. • Documentation evidencing the inheritance must be obtained.
REFINANCE: OTHER PURPOSES	Proceeds from a rate/term refinance may also be used for the following purposes, as long as all other rate/term refinance guidelines and policies as defined in the referenced sections are met: • Payoff a land contract, or lease/rent with option to buy. Refer to the Lease/Rent with Option to Buy topic in this section. . **Existing HELOC/Fixed Rate Second Being Paid Off** Refer to the Rate/Term Refinance Loan Amount Calculation topic in this section for details. **Adding a Borrower to the New Transaction** All borrowers listed on the new loan must be the same as those listed on the original loan. A new borrower may be added and the transaction still will be eligible under the terms of a rate/term refinance provided at least one of the original borrowers remains on the loan. However, all credit parameters (e.g., minimum score) must be met for the product/program selected. **Removing a Borrower from the Transaction**

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	The loan may still be eligible for a rate/term refinance if the borrowers have been divorced for 6 months or more and the remaining borrower has demonstrated the ability to manage the payments without the "absent" borrower's income. Verification of timely payments for 6 months is required.
RATE/TERM REFINANCE	**Eligibility Criteria** The policies outlined in this section apply **only** to the following conventional rate/term refinance transactions. **Loan Amount Calculation** • The new loan amount is limited to: o Payoff the outstanding unpaid principal balance of the existing first lien, regardless of the loan originate date; and o Financing of related closing costs and prepaid items*; *__Prepaid Real Estate Taxes:__ The loan must be treated as a cash-out refinance and is subject to all cash-out policies, LTV's, etc. if: ✓ If the borrower finances the payment of real estate taxes for the subject property in the loan amount, but does not establish an escrow account; OR ✓ The borrower finances the payment of real estate taxes for the subject property in the loan amount and the real estate taxes are more than 60 days delinquent (with or without establishing an escrow account). However, if a particular state law prohibits a lender from requiring an escrow account, the loan is still eligible as a rate/term refinance without the escrow account. **Note:** Properties with transfer fees that are identified as exceptions on the title commitment may not be included. o Payoff of a subordinate loan that meets the following scenario: ✓ The subordinate lien was made more than 12 months ago: – The payoff may also include any prepayment penalty that may be associated with the subordinate lien; and – If the subordinate lien is a home equity line of credit, the total amount of draws against the line during the past 12 months does not exceed $2,000 (as documented by copies of home equity line statements); o Cash back to the borrower may not exceed 1% of the principal amount of the new mortgage or $1,000 whichever is less, as noted on the Closing Disclosure. Cash back on the Closing Disclosure may only exceed this amount by the amount that was paid outside of closing by the borrower, or due to refunds that may be required in accordance with federal laws or regulations as documented in the loan file. The Closing Disclosure must clearly indicate the refund with a notation for the reason, and the loan file must include documentation to support the amount and reason for the refund. **Note:** For Texas properties, a new refinance transaction that includes the payoff of an equity line of credit, the payoff of any loan that is a Texas Section 50(a)(6) loan, or provides any cash to the borrower at closing makes the new loan subject to Texas Section 50(a)(6) requirements and is not eligible. **Inherited Properties** If a mortgaged property was inherited within the last twelve (12) months, the following restrictions apply: • The owner must have clear title; • Title cannot be held in probate; and • Percentage of ownership by heirs must be demonstrated. • A five percent (5%) LTV/CLTV reduction must be applied to LTV/CLTV /HCLTV as published in 1502.2 – Wholesale Non-Agency LTV MatrixLTV Matrix for Non-Agency Loans: Wholesale Channel fact sheet.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	• Documented evidence of the inheritance must be obtained.
REFINANCE RESTRICTIONS	• **At-Close Principal Curtailments are not permitted**. If cash proceeds to the borrower exceed the maximum amount permitted for a rate/term refinance, the loan amount must be adjusted accordingly before the loan closes. The excess amount must not be handled as an at-close principal curtailment. **Exception:** Principal Curtailments are only allowed as a result of at closing excess premium rate credits. The amount must be identified on the Closing Disclosure and is limited to the amount of the excess premium rate credit. • **Seasoning Requirements:** Seasoning requirements apply to the following loans: o **Cash-out Transactions:** Must be owned for at least 12 months o **Rehabilitation Properties:** Must be owned at least 12 months.
REFINANCE: TECHNICAL REFINANCE	Technical Refinances are not permitted. If the mortgage proceeds are used to replenish the borrower's funds on a property that was purchased within the last 12 months the loan is considered a technical refinance. In most instances, the borrower did not have the time to obtain permanent financing due to the need to close quickly (for any number of reasons) and may have obtained short-term financing in order to do so.
TANGIBLE BENEFITS	For policy regarding Initiative and Threshold loans, refer to Section 2201-Legal/Compliance of the Wholesale Manual.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
ACCURACY OF CREDIT	For all mortgage loans, the lender is responsible for reviewing the credit report as well as all the credit information, to determine that the credit report meets KEYSTONE FUNDING INC requirements.
AGE OF CREDIT DOCUMENTS	Credit documents may not be more than 120 days old at time of loan closing. Credit documents include credit reports and employment, income, and asset documentation. The age of the documents is measured from the date of the document to the date the note is signed. **For properties located in an "escrow state" only,** the printed note date and actual closing/signing date may differ. In these instances, the Closing Disclosure should be used to determine the actual closing date for determining the age of credit documents.
BANKRUPTCY	To be considered for a mortgage loan, the borrower's bankruptcy must have been dismissed or discharged (as defined below) and s/he must have re-established a satisfactory credit history and demonstrated the ability to manage financial affairs prudently. ("Satisfactory" means that the most recent rating has a rating of "1".) The bankruptcy should be fully discharged or dismissed as specified below. The mortgage application may not be approved before the following time periods have elapsed from the date of the application: • 4 years from the date the Chapter 7 or 11 bankruptcy was discharged or dismissed; • 4 years from the date a Chapter 12 or 13 repayment plan was dismissed A letter of explanation for the bankruptcy is required. The Lender may consider 2 years an acceptable interval for having re-established a satisfactory credit record when: • The previous action was a discharged or dismissed Chapter 12 or 13 bankruptcy, regardless of the reasons that contributed to the previous bankruptcy. • The previous action related to a deed-in-lieu or Chapter 7 or 11 bankruptcies resulted from extenuating circumstances. (If the borrower cannot provide satisfactory documentation of the extenuating circumstances, 4 full years must have elapsed.) **Bankruptcy on the Same Mortgage** If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the appropriate documentation to verify that the mortgage obligation that was discharged in the bankruptcy is obtained. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied. **Multiple Bankruptcy Filings** • A 5-year time period must have elapsed from most recent dismissal or discharge date for borrowers with more than one bankruptcy filing within the past 7 years. A satisfactory credit record must be re-established. All bankruptcies must be either dismissed or discharged. **Note:** Two or more borrowers with individual bankruptcies should not be considered cumulative. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy, this is not considered a multiple bankruptcy. **Documentation Requirements** Borrowers who have had a bankruptcy closed within the past 7 years must provide the following: • Copies of the bankruptcy petition, schedule of debts, discharge or dismissal order and the document issued by the court showing the bankruptcy estate is closed. • Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid. • Any other evidence necessary to support the determination that the borrower has reestablished and maintained an acceptable credit reputation (see Re-establishing Credit).

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
BORROWER F EXPLANATIONS (LOX)	A written explanation from the borrower is required for the following: • All Significant Derogatory Information. The purpose for requiring a written explanation is to assist the underwriter in determining whether the Borrower's credit problems were due to extenuating circumstances (factors clearly beyond the control of the Borrower) or whether they reflect financial mismanagement (the Borrower's disregard for the payment of obligations when due). Refer to Credit/Analysis/Derogatory Credit for examples of significant derogatory credit. • Temporary Leave: The borrower must provide written confirmation of their intent to return to work and the agreed upon date of their return. • Gap in Employment: The borrower must provide a written explanation when there is a gap in employment of 30 days or more. The written explanation may be sent through the mail, email or fax. Confirmation that the written explanation came from the borrower may include the email address, a typed or signed name within the explanation document or an e-signature. The underwriter should determine if any other explanations are required. The following are all acceptable forms of documentation for the explanation: • Verbal conversation directly with the borrower (documented in the permanent loan file); or • Written explanation/letter sent via regular mail, email, or fax.

CONSUMER CREDIT COUNSELING AGENCIES (CCCA)/DEBT MANAGEMENT SERVICES (DMS)	Consumer Credit Counseling Agencies (CCCA) and Debt Management Services (DMS) assist borrowers who may have had difficulties in managing their debt; it is often demonstrated by a history of delinquent accounts. Debt management plans may be administered by a not-for-profit agency such as consumer credit counseling agency (CCCA) or a non-affiliated for-profit debt prorating service.
	Note: Homeownership Counseling, which is designed to help first time homebuyers prepare for the financial responsibilities associated with home ownership, should not be confused with Consumer Credit Counseling. This section addresses Consumer Credit Counseling Agencies (CCCA)/Debt Management Services (DMS) only.
	The following scenarios ARE NOT considered added risk and should not be held against the borrower when considering them for a mortgage loan.
	• The borrower is/has participated in Homeownership Counseling in preparation for purchasing a home.
	• The borrower is/has participated in consumer credit counseling or debt management program but continues to manage their own finances.
	• The borrower participated in consumer credit counseling or debt management program during which time the counseling agency made payments to creditors on the borrower's behalf. The following conditions must be met:
	  ○ A minimum of 12 months must have passed since the borrower participated in the program.
	  ○ The borrower has demonstrated the ability to manage credit since then.
	  ○ The borrower has a satisfactory pay history on all accounts.
	
	The following conditions ARE considered adverse risk factors and must be considered accordingly:
	• The borrower is currently participating in credit counseling and making monthly payments to the Consumer Credit Counseling Agency or other debt pro-rating service instead of paying creditors directly.
	• The borrower has recently completed credit counseling or other debt service counseling program (less than one year has passed) during which time the counseling agency made payments to creditors on the borrower's behalf.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
CREDIT HISTORY / MINIMUM TRADE LINES	The borrower must have an established credit history. **Traditional Credit** An established credit history is defined as a minimum of three (3) active traditional credit references that have been opened for at least twenty-four (24) months and have been active at some time during that period. A mortgage that has been refinanced in the past 24 months will count as one eligible trade line provided the combination of the loan that was paid off and the current mortgage loan documents a 24 month payment history. If there are less than three (3) active traditional credit references, or the trade lines do not meet the required payment history requirements or if there is no credit, there is insufficient data to determine credit behavior—even if the report includes a credit score. **Non Traditional Credit** Non-traditional credit history is not permitted.
CREDIT INQUIRIES	When reviewing borrower credit history, new accounts and inquiries should always be considered. There may be red flags for multiple liens or other fraud schemes, or an indication that the customer's repayment ability is being compromised by new debt. Inquiries on the credit report generally reflect the borrower's requests for new or additional credit. Inquiries made for other purposes, such as general solicitations not initiated by the borrower or monitoring inquiries by current creditors, typically are not shown on the credit report. The presence of many recent inquiries in combination with a significant number of recently opened accounts, high balance credit utilization, and/or delinquent accounts represent a high credit risk. If the credit report indicates that a creditor has made an inquiry within the previous 90-day period, then the Lender must determine whether additional credit was granted as a result of the borrower's request. A letter from the creditor OR a signed statement from the borrower OR a conversation with the borrower (which must be documented in the loan file) may be used to determine whether additional credit was obtained. **Note:** Letters of explanation that are e-mailed are not required to be signed, refer to the Borrowers Letters of Explanation topic in this section for additional requirements. Inquiries from a source that would not result in a debt included in the DTI calculation do not require written explanation from the borrower. Lender must verify the unpaid balance, the terms of repayment and the payment history (if applicable). The final loan application signed by the borrower(s) must include all debts that were verified, disclosed or identified during the loan application process. If new credit was obtained and there is a balance on the new account, the debt must be included in the list of debts and the calculation of DTI ratios, even if the account does not appear on the credit report. **Note:** If new credit is obtained after the loan has been approved, re-underwriting will be required.
CREDIT REPORT ALERTS	Pursuant to the provisions of the Fair and Accurate Credit Transactions Act (FACT Act), consumers have certain rights to protect themselves from the risk of identity theft. Consumers who are victims of identity theft, or who believe they may become victims, or who are on active duty in the military may request that a credit reporting agency pass a fraud or active duty flag to users who request their credit report. The underwriter is responsible for reviewing each credit bureau report carefully to ensure there are no alerts or "red flags" which would require special attention. **Fraud or Active Duty** A consumer has the right to place a fraud or active duty alert on their credit bureau by following a procedure established by the bureaus. An alert means that someone may have used the consumer's identity without his or her consent. KEYSTONE FUNDING INC prohibits loans to applicants who have a security alert in their credit file unless reasonable stepshave been taken to verify the applicant's identity. We must follow the instructions provided by the consumer located in the consumer's credit report before an application can receive further processing, or the borrower may contact the consumer reporting agency and provide the appropriate instructions and identifying information to the credit reporting agency allowing the

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	lender to re-pull a consumer report clear of fraud or active duty alerts. In some instances the consumer will need to be contacted by phone to verify identity. **Reminder:** The borrower may not be automatically declined due to the presence of such alerts. **Address Indicators** The credit reporting agencies indicate when the applicant's address provided by a creditor differs, or is a variation, from the address on the credit report. Often there is a simple and logical explanation. However, such discrepancies may be red flags for fraudulent activity. • **Address Discrepancy Alert** This alert occurs when the applicant's address is a variation of the address the credit bureau has on file or the credit bureau address history reflects other addresses reported during the same time period as the inquiry address. • **Address Mismatch Alert** This alert occurs when the applicant's address does not show up on the credit bureau report. This indicates the inquiry address is a new address for the applicant's credit profile, as the address does not match or has never been reported to the credit bureau before. All discrepancies/mismatch addresses must be reviewed and resolved. Frozen/Locked Credit must follow Consumer Credit Bureau Block policy.
CREDIT UTILIZATION	The lender must review the borrower's credit report to evaluate his/her use of revolving credit by comparing the current balance on each open account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. The higher the borrower's overall utilization of revolving credit the higher the amount of risk. (**Note:** The lack of adverse or derogatory credit information may not be used as an offset for high balance-to-limits or high overall utilization of revolving credit.)
CREDIT WORTHINESS	The underwriter must determine the credit worthiness of all borrowers. While credit score is a key factor used in determining credit worthiness, we recognizes there are situations in which either the score is not available, (e.g., an international borrower lacking a credit history in the U.S.), the credit history is old, or there are too few trade lines available to score a loan. In these cases a manual, further evaluation of credit may be necessary. This section addresses the data that should be examined and considered while performing a judgmental/subjective credit evaluation. Refer to Section 1508.2-Credit/Decision Options/ Comprehensive Risk Assessment topic for additional information. **Important:** The underwriter has the right to request additional information if deemed appropriate even if an explanation is not normally required.
DEED-IN-LIEU/SHORT SALE/ PRE-FORECLOSURE OR CHARGE-OFF OF A MORTGAGE ACCOUNT	The waiting period (i.e., the amount of time that must pass before the borrower is eligible for mortgage financing), which commences on the completion date of the above events, is a minimum of four years with the maximum LTV/CLTV/HCLTV permitted as defined by the product/program selected. Extenuating Circumstances: If the deed-in-lieu, short sale, pre-foreclosure or charge-off of a mortgage account was the result of documented extenuating circumstances, the waiting period is two years provided the borrower meets all requirements for re-establishing credit. The maximum LTV/CLTV/HCLTV is the maximum LTV permitted by policy • A deed-in-lieu is a transfer of title from a delinquent borrower to the lender in satisfaction of the mortgage debt to avoid foreclosure; also called a voluntary conveyance or typically identified on the credit report through Remarks Codes such as "Forfeit Deed-in-Lieu of Foreclosure." • A short sale, pre-foreclosure sale or charge-off of a mortgage account is a transaction where the mortgage lender agrees to accept a lower amount than is owed on the property. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance and "Foreclosure Initiated." The loan may or may not be delinquent. **Examples of how short sales/pre-foreclosures or charge-off of a mortgage account may be**

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.

	identified on the credit report: • Special Comment Code AU (Account Paid-in-Full for Less than Full Amount Due) • $0.00 Current Balance • Payment rating applicable to the contractual status of the loan at time short sale is processed (i.e. current, 30 days' delinquent, 60 days' delinquent, etc.). As a result of the "AU" reporting, credit bureaus display a corresponding comment on the consumer's credit report. The verbiage of that comment varies per bureau. The bureaus may display verbiage very similar to the actual AU definition, but may also display a comment, such as "settled". The actual "AU" code does not appear on the consumer's credit report. There is also not anything within the payment history section of the credit report that would refer to the short sale. **Note:** This section does not apply to deeded Timeshares.
DEROGATORY CREDIT	The presence of significant derogatory credit information dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, pre-foreclosure sales, short sales, and charge-offs of mortgage accounts. The lender must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established acceptable credit history. A written explanation for significant derogatory credit must be documented along with supporting exhibits as defined throughout this section. All letters of explanation must be signed by the Borrower prior to close. Refer to 1508.2-Credit/Analysis/Borrower Letters of Explanation for more information. The underwriter should determine if a letter of explanation is required for minor derogatory credit or an isolated incident that is not representative of the borrower's overall credit history/ profile. The underwriter should explain in their rationale if a letter is not being required. **Significant Derogatory Credit** The following scenarios are examples of what may be considered "Significant Derogatory Credit" and, therefore, require a written explanation from the borrower. • There are several accounts showing recent late payments; • There are multiple 60- or 90-day late payments; • There is more than one 30-day late housing payment in the last 12 months; • There are more than two 30-day or more than one 60-day late housing payments within the most recent two years; • The number and size of the delinquent accounts are large in relation to the overall credit; • There are multiple episodes of late payments extending over a period of time; • The credit history shows derogatory credit information within the two most recent years combined with multiple revolving accounts with high balances-to-limits; • The public record information reveals several occurrences of derogatory credit information, including judgments, tax liens and/or collection accounts; • There is a bankruptcy filing, foreclosure, pre-foreclosure sales, mortgage charge-offs, deed-inlieu of foreclosure, short sale within the last seven years, or accounts that have been turned over to a collection agency. **<u>Identification of Significant Derogatory Credit Events in the Credit Report</u>** The Underwriter must review the credit report and the Declarations section of the loan application to identify instances of significant derogatory credit events. The Underwriter must also review the public records section of the credit report and all trade lines, including mortgage accounts (first and second liens, home improvement loans, HELOC's and manufactured home loans) to identify previous foreclosures, deed-in-lieu, pre-foreclosure sales, charge-offs of mortgage accounts, and bankruptcies. Finally, the Underwriter must carefully review the current status of each trade line, manner of payment

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	codes, and remarks to identify these types of significant derogatory credit events. If significant derogatory credit events are not clearly identified in the credit report, the borrower must provide copies of appropriate documentation to establish the completion date of a previous foreclosure, deed-in-lieu or pre-foreclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.
DISCREPANCIES	When a credit report does not include a reference of a debt the borrower reported on the loan application, separate written verification for each unreported debt is required. Accounts listed on the credit report as "will rate by mail only" or "need written verification" also require separate verification. If debt shows up on the credit bureau that was not on the application, no explanation is required. However, it should be included on the application and included in the debt ratios. Written explanation may be required depending on the documentation process selected. All letters of explanation must be signed by the Borrower prior to close. Refer to Borrower Letters of Explanation topic in this section for more information. Refer to the appropriate Documentation Process fact sheet for specific requirements.
DISPUTED CREDIT OBLIGATIONS	Disputed trade lines or public records adverse to the credit profile require a written explanation from the borrower including evidence to support the dispute. If the account in question adds risk, such as stolen/fraudulent use of the account, the evidence must include documentation and verification of the account status (i.e. current balance, delinquency, etc.) from the creditor or credit bureau. All written letters of explanation must be signed by the borrower prior to close. Refer to the Borrower Letters of Explanation topic in this section for more information. **Note:** If the account or public record is medical, a letter of explanation and evidence is not required, as dictated in FCRA - Regulation V: Medical Information Privacy Act. **<u>Past Due Accounts</u>** An explanation by itself is generally not sufficient to allow a past due account to go unpaid. These are evaluated on a case-by-case basis. Refer to individual topics in this section for additional requirements. **<u>Incorrect Information</u>** If a borrower states the information on the credit report is incorrect or does not belong to the borrower and the information reflected is deemed to be of material significance (e.g., delinquent credit obligation, public records or trade lines that do not belong to the borrower), the borrower must provide documentation from the creditor or the credit bureau evidencing that a dispute has been initiated for the identified account(s). All written letters of explanation must be signed by the Borrower prior to close. Refer to the Borrower Letters of Explanation topic in this section for more information. A subjective review must be performed as part of the underwriter's risk analysis.
EVALUATING THE CREDIT SCORE	If using an external credit score, the underwriter should review the score in conjunction with the borrower's credit history requirements, keeping in mind that: • A high score does not mean the loan should automatically be approved. Rather, it means that the underwriter must determine that the mortgage satisfies our eligibility criteria and the borrower meets our overall underwriting standards. • A low score does not mean the loan will go into default (although statistically there is a higher likelihood of this occurring). However, the loan must have strengths to compensate for the low credit score. • A lack of a score due to little or no credit does not constitute a high credit risk. Rather, it means that the borrower has insufficient credit from the type of credit providers that generally report to credit bureaus. Refer to 807-Credit/Representative FICO Score topic for detailed policy with regards to selecting the representative score.
FORECLOSURE	After 7 years have elapsed, the borrower may obtain a purchase mortgage pursuant to the eligibility

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	requirements in effect at that time. A letter of explanation is required. When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the bankruptcy waiting period may be applied if the borrower provides appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied. **Note:** This topic does not apply to deeded Timeshares.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
GARNISHMENTS	A garnishment occurs when an employer or other asset holder is required to send/ apply borrower monies, wage, or property directly to a specific debt or creditor. This is often, but not always, brought about by the non-payment of a debt. The underwriter should find out the reason for the garnishment, document explanation (in writing or verified via telephone) and continue processing. If the borrower has a garnishment, the monthly debt should be included in the total debt ratio. **Note**: Garnishments do not need to be paid off prior to or at close.
JUDGEMENTS & TAX LIENS / PUBLIC RECORDS	• Borrower must pay off all delinquent credit—including delinquent taxes, judgments, charged-off accounts, tax liens and mechanics' or materialmen's liens—that have the potential to affect lien position or diminish the borrower's equity. • Borrowers with previous judgments must provide evidence of payment in full or evidence the judgment no longer represents a claim against the borrower. The borrower must provide satisfactory written explanation along with any supporting documentation, as needed. All letters of explanation must be signed by the Borrower prior to close. Refer to the Borrower Letters of Explanation topic in this section for more information. Loan proceeds may be used to pay off judgments or tax liens at closing by the title company; pay off must be documented on the Closing Disclosure.
LAWSUITS	The fact that there is a lawsuit pending does not mean that the borrower is guilty of the claim. Until the court has made a ruling on the case, there is no judgment or lien. However, the type and extent of the lawsuit and whether it could impact our first lien position, may increase the risk, therefore the loan should be evaluated carefully before rendering a decision. A written explanation and a copy of the filed complaint pertaining to the lawsuit are required. All letters of explanation must be signed by the Borrower prior to close. Refer to the Borrower Letters of Explanation topic in this section for more information. Additional documentation may be required depending on the type of lawsuit and the borrower's involvement.
PAYMENT OF PAST MORTGAGES / RENT	How the borrower has handled present and prior mortgage/ rent payments provides useful insight as to how the new mortgage will be managed. In addition to the new mortgage payment, the underwriter should also examine the payment history and the amount/ percentage the monthly payment will increase. **<u>Existing Mortgage Payment Requirements</u>** A verification of mortgage history is required on all transactions and must contain current balance, current status and payment amount verified via: • A third party or credit bureau; or • Verification of mortgage completed by the holder of the mortgage is acceptable • The credit report must contain the entire mortgage payment history. If the report covers activity for the previous 12 months or longer, we may rely on the credit report for the verification. If it does not, we must obtain the history directly from the mortgage servicer or get 12 months cancelled checks (front and back). • The Mortgage loan must be current at the time of closing. • On the date of the loan application, the mortgage history must reflect 0 x 30 in the previous twelve (12) months. "Rolling" Mortgage late pays are not permitted. • In case of a recent refinance or account transfer, a combination of payment performance from multiple lenders for the same collateral may be used to complete the twelve-month (12) history requirement. • For a recent purchase, a combination of payment performance from a prior property or rental payments may be used to complete the twelve-month (12) history. A gap in mortgage/rental payment history of up to six (6) months is allowed by obtaining the most recent eighteen-month

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	(18) history and providing written documentation explaining the reason for the gap. • For each mortgage liability where the borrower is currently an obligor on the note secured by real estate debt, a verification of mortgage must be obtained if the mortgage is not verified on the credit report. **Note:** If there is a new debt being incurred from a pending purchase transaction, the TIL, GFE, Loan Estimate or other alternative documentation from the lender should be obtained to verify the new monthly payment amount. **Rental History:** A verification of rental history is required on all transactions via: • Copies (front & back) of twelve (12) months consecutive (one (1) payment per month) rental payment cancelled checks; or • Bank statements or direct payment records showing one (1) payment per month; or. • Verification of rent; or • Residential mortgage credit report ("RMCR") or merged in-file report. Borrowers unable to provide a complete twelve-month (12) mortgage/rental history are limited to owner occupied primary residences only. If the landlord is related to the borrower, twelve months of cancelled checks must be provided. • The rental history must reflect 0 x 30 in the previous twelve (12) months. If the landlord is a management company, the management company must be listed in the local telephone directory and the file must contain a copy of the list. If the listing is not available, 12 months canceled checks must be provided.
PURCHASE OF A PRE-FORECLOSURE OR SHORT SALE PROPERTY	**Allowable Fees and Payments** Borrowers may pay additional fees or payments in connection with acquiring a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees or payments include, but are not limited to the following: • Short sale processing (also referred to as short sale negation fees, buyer discount fees, short buyer fees); **Note:** This fee does not represent a common and customer charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. • Payment to a subordinate lien holder; and • Payment of delinquent taxes or delinquent HOA fees. The following requirements apply: • The borrower (buyer) must be provided with written details of the additional fees or payments and the additional necessary funds to complete the transaction must be documented. • The servicer that is agreeing to the pre-foreclosure or short sale must be provided with written details of the fees or payments and has the option of renegotiating the payoff amount to release its lien. • All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees or payments. This can be accomplished by using the "Request for Approval of Short Sale" or "Alternative Request for the Approval of Short Sale" forms published by the U.S. Treasury *Supplemental* Directive 09-09 or any alternative form or addendum. The Closing Disclosure must include all fees and payments included in the transaction.
RE-ESTABLISHING CREDIT	Following are the requirements that the borrower must meet to re-establish credit after a significant derogatory event. **Note:** After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, pre-foreclosure sale or charge-

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	off of a mortgage account, the borrower's credit will be considered re-established if all the following are met. • The waiting period for the event along with related requirements have been met. • The borrower has met traditional credit as defined in Credit History/Minimum Trade Lines topic above and the Wholesale Manual Section 807-Credit/Traditional Credit topic. • Non-traditional credit or "thin files" are not permitted.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
RESTRUCTURED LOANS	See 1508.1-Eligibility/Transaction Types/Cash-Out Refinances. A restructured loan is a mortgage loan in which the terms of the original transaction have been changed resulting in either forgiveness of all or a portion of the debt **OR** a restructure of the debt through the modification of the original loan or origination of a new loan that results in: • Forgiveness of a portion of the principal and/or interest on either the first or second mortgage; • Application of a principal curtailment except as permitted by policy. • Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or • Conversion of any portion of the original mortgage debt from secured to unsecured. If the transaction involves the refinancing of a mortgage that has been previously restructured, or if the borrower(s) were obligated on a prior mortgage that was restructured, the borrower(s) are eligible for new financing as long as the following criteria are met: • At least 24 months have elapsed since the restructure occurred; and • Mortgage history must reflect 0x30 in the past 24 months.
SOCIAL SECURITY NUMBER	All U.S. KEYSTONE FUNDING INCzens, permanent resident global clients, and non-permanent global clients must have asocial security number in order to be eligible for a loan. KEYSTONE FUNDING INC does not permit ITIN numbers. **Incorrect, Duplicate, and Multiple Numbers:** Red flags concerning the social security number are typically revealed on the credit report. Examples of red flags include: • Incorrect Number – Information associated with the social security number entered is not available. • Duplicate Numbers – Information reveals more than one individual associated with the same social security number. • Multiple Numbers – Information reveals an individual has credit listed under another social security number. • Deceased Borrowers – The person to whom the number was issued has been reported as deceased. If the accuracy of the information is in question, and the underwriter is unable to ascertain the correct number, the loan should be sent to Fraud for research and resolution. All investigations must be complete prior to the loan decision. **Social Security Number (SSN) Validation Requirements** Borrowers must have a valid social security number. Numbers may need to be verified with the Social Security Administration as indicated below: Effective for applications dated on or after June 1, 2010, any SSN issues (including invalid format, number not issued, borrower age or issue date discrepancies, number associated with deceased individuals, etc.) that cannot be resolved internally, must be validated with the Social Security Administration (SSA) using Form SSA-89 (direct validation by a third party is acceptable). If verification is required and obtained it should be noted in the loan file. If verification is required but the SSN cannot be validated with the SSA, the loan is not eligible for purchase by KEYSTONE FUNDING INC.
TAXPAYER IDENTIFICATION THEFT	Taxpayer Identification Theft occurs when a taxpayer’s social security number has been stolen and then used to file a forged tax return in an attempt to claim a fraudulent refund. This type of theft is most commonly identified by tax transcripts that conflict with the information reported on the tax return, such as inconsistent income or the income on the transcript is significantly different than what is reported on the tax return. It may also be indicated when the IRS has rejected a tax transcript request due to reasons of “not able to process” or “limitation” or with another similar code and not a “no record found” or data mismatch response. The borrower may also provide KEYSTONE FUNDING INC with an IRS victim notification or an extended fraud alert may be reflected on the credit report.

	IRS Tax Transcript Rejects

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	If the IRS rejects a tax transcript request with reject code 10, IRS reject code 10 due to limitations, or IRS reject due to limitations, indicating the borrower may be a victim of taxpayer identification theft, the following steps must be taken: • The borrowers must contact the IRS at the number identified on the rejection letter. • The borrower must confirm they have no fraud or identity theft. • The underwriter must review the file to ensure there are no red flags present. • A LOX from the borrower OR documented rationale from the underwriter must be placed into the file confirming the borrower contacted the IRS and no ID theft. • Provided there are no red flags, and the file meets all of the above requirements, the file may move forward to approval/close. No further attempts at obtaining transcripts are required. **Confirmed Identification Theft** Once the determination has been made that a borrower is a victim of taxpayer identification theft, an exception to the transcript policy is not required if the following documentation is provided: • Proof identification theft was reported to and received by the IRS (form 14039), if available; **OR** • Copy of the notification from the IRS notifying the taxpayer of possible identity theft; **OR** • A copy of a police report or proof that the borrower filed a complaint regarding the identity theft with the Federal Trade Commission; **AND** • Bank statement or copy of check evidencing tax payment made or refund received for that year matches the 1040 amount (required unless the borrower is waiting on their refund due to the fraud issues); **AND** • Signed 4506-C (required) In addition to providing the above, underwriters should use discretion when assessing income credibility. This could include items such as the prior year tax transcripts or prior year tax return, police report, institutional written VOEs, bank statements supporting payroll deposits or any other documentation deemed supportive, based upon the specific situation. Any red flags raised by additional documentation should result in a referral to the Fraud Prevention and Investigation unit.
UNPAID CHARGE-OFFS & COLLECTIONS	The unpaid charge-off and/or collection is required to be satisfied as defined below. An explanation from the borrower is required. Refer to Borrower Explanations topic in this section for more information. Proceeds from a cash-out refinance transaction may be used to satisfy the unpaid charge-off and/or collection at closing. An account may be paid at closing, for a purchase or rate/term refinance transaction, if all of the following requirements are met: • The payoff should be documented on the Closing Disclosure and match documentation in the loan file; and • The loan must contain documentation as to why the account(s) could not be satisfied prior to the loan closing; and • Under no circumstances may the proceeds of the loan be used to pay the unpaid charge-off or collection account unless the transaction is a cash-out refinance. The total balance of all outstanding collections is □$2,000; or • If the total outstanding balance of all collections is □$2,000, then 5% of the balance of each outstanding collection account for all borrowers must be included in the calculation of the total debt ratio. • The charge off has not reached a judgment or lien status; and • The borrower has documented evidence of the dispute if it is a disputed account. If none of the above criteria are met, then the collection/charge-off must be paid prior to or at loan

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
	closing.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information not addressed in Non-Agency –Chapter 1500.	
EVALUATING BORROWER CREDIT WORTHINESS	Borrower creditworthiness consists of: • Borrower credit reputation, and • Borrower ability to repay the Mortgage (i.e., capacity) The underwriter must consider layering of risk in their evaluation of credit reputation. A stronger credit reputation may be required if either capacity or collateral is weak. **Credit Reputation** The underwriter must determine that each borrower individually and collectively have acceptable credit reputations. An acceptable credit reputation is established by a history that, when viewed as a whole, evidences the borrower's willingness to make ongoing payments and ability to manage obligations as agreed. When manually underwriting with FICO scores, the underwriter must not use the following factors as offsets for weaknesses in the borrower's credit reputation because they have already been considered in creating the FICO score: 1. The absence of, or age of, derogatory information 2. The number/proportion of accounts paid as agreed vs. delinquent 3. The types of accounts paid as agreed vs. the types of accounts that are delinquent 4. Recent pay-down or consolidation of account balances 5. The length of the Borrower's credit history 6. Any combination of the above factors The underwriter must weigh the following factors to determine if the borrower's credit reputation is acceptable: 1. The type and amount of credit outstanding 2. How the borrower uses available credit, including revolving balance-to-limits 3. Recent changes in the number of open accounts or overall amount of credit outstanding 4. The payment history and status of all accounts 5. Any recent inquiries shown on the credit report 6. Any public record or collection items **Adverse or derogatory credit information:** Although adverse credit in and of itself does not mean the borrower's credit reputation is unacceptable; generally, the more recent the adverse or derogatory credit information the more likely it is significant. The underwriter must consider all of the following: • The number, timing and extent of the adverse or derogatory credit information • The number, type and size of accounts with adverse or derogatory credit information • Public record information, such as judgments and collection accounts • Other characteristics listed in this section **Derogatory information is considered significant if any of the following exist:** • There are several accounts showing recent late payments • There are multiple 60- or 90-day late payments • There is more than one 30-day late housing payment in the last 12 months • There are more than two 30-day or more than one 60-day late housing payments within the most recent two years • The number and size of the delinquent accounts are large in relation to the overall credit • There are multiple episodes of late payments extending over a period time • The credit history shows derogatory credit information within the two most recent years combined with multiple revolving accounts with high balances-to-limits

	• The public record information reveals several occurrences of derogatory credit information, including judgments, tax liens and/or collection accounts • There is a bankruptcy, foreclosure, short payoff related to a delinquent mortgage obligation or deed-in-lieu of foreclosure within the last several years. If the underwriter determines the derogatory information is not significant, s/he must provide documentation support their conclusion in the Mortgage file. If the underwriter decides the derogatory information is significant, s/he must determine whether the problems were due to extenuating circumstances or to financial mismanagement. **Capacity** Another part of determining the borrower's creditworthiness is evaluating the borrower's capacity to repay the Mortgage and other monthly obligations. Based on the analysis, the underwriter must provide a well-reasoned conclusion that the borrower has the ability to meet current obligations, including the new mortgage. **Note:** Underwriters should not use information already considered by DE to determine the capacity is acceptable. The underwriter must determine capacity by analyzing the following factors: • Stable monthly income • Monthly housing expense-to-income and monthly debt payment-to-income ratios • Reserves and other liquid assets • Information about how the Borrower has paid past obligations Based on his/her analysis, the Underwriter must provide a written, well-reasoned conclusion that the borrower has the ability to meet current obligations, including the new Mortgage. The following characteristics specific to the Mortgage request may introduce an additional layer of risk that must be considered in evaluating capacity: • Payoff of a junior lien from the proceeds of a refinance Mortgage • Cash-out refinance mortgage • Borrower with low or no reserves When multiple risk factors are present, more conservative underwriting must be undertaken to assess whether the Mortgage is acceptable. The loan is not acceptable when all of the following conditions exist: • The transaction is a cash-out refinance; and • The DTI exceeds 42%; and • The FICO is less than 700; and • The CLTV/HCLTV is greater than 75% **Debt Ratios** In general, for manually underwritten mortgages, the underwriter must evaluate the borrower's ability to timely pay all of their monthly obligations. As a guideline, the monthly debt-to-income ratio should not exceed 36% of the borrower's stable monthly income. With compensating factors, the total debt ratio should not exceed 43%.
COMPENSATING FACTORS	KEYSTONE FUNDING INC is committed to ensuring that we make all of our credit decisions on a fair and equitable basisfor all borrowers. The underwriter's role is critical to ensuring that the following compensating factors are applied fairly and consistently. As a general rule, loan exceptions should not be made unless the underwriter identifies attributes or circumstances that proportionately mitigate the incremental risk. These mitigating attributes and circumstances are referred to as "compensating factors." Compensating factors are positive loan characteristics that add strength to a loan profile. Strong compensating factors may allow a borrower to receive mortgage approval for the requested loan amount, even though the loan does not meet KEYSTONE FUNDING INC policy and/or lending parameters. For compensating factors to be acceptable, they must be reasonably related to the exception, and

	their mitigating value must be proportionate to the incremental risk posed by the exception. Exceptions, by their nature, must be infrequent; approval of exceptions must always be preceded by careful evaluation to determine whether compensating factors are sufficient to mitigate the incremental risk that results from the exception. For manually underwritten loans, the following factors may be considered in justifying total debt ratios above 36%, but not greater than 43%: • The property is an energy-efficient mortgage. • Borrower has probability for increased earnings based on education, job training, or length of time in a profession. • Borrower has demonstrated ability to carry a higher total debt-load while maintaining a good credit history for at least 12 months. • There is other verified income that is not included within the definition of "stable monthly income", such as documented rent paid by a related person living in the house. • Future expenses will be lower, such as child-support payments to cease for child soon to reach age of majority. • Verified liquid assets are substantial enough to evidence ability to pay regardless of income.
COMPREHENSIVE RISK ASSESSMENT	Under the comprehensive risk assessment approach certain key elements—called Primary Risk and Contributory Risk factors—are evaluated to form the overall level of default risk that is present in each mortgage application. By identifying the level of risk for each of these elements and examining how the elements relate, lenders can determine the comprehensive risk associated with a mortgage application and make an informed decision about the overall risk level for the mortgage. When a loan is manually underwritten, underwriters are expected to thoroughly assess the default risk of the mortgage loan. ALL Non-Agency transactions must use the comprehensive risk assessment guidelines outlined in this section. Underwriters are responsible for: • Evaluating the default risk of each loan; • Reviewing the credit report, as well as all credit information, to determine that the credit report meets Agency requirements and that the data evaluated was accurate; • Assessing the adequacy of the property as collateral for the mortgage requested; and The following three steps address the levels of a comprehensive risk and instructions for each one. **<u>Step 1: Assess Primary Risk</u>:** Two characteristics form the primary risk of any mortgage application—the combined equity investment and the credit history for all of the borrowers who are applying for the mortgage. These two characteristics are the most significant factors in determining the default risk for any mortgage and establish the foundation of the comprehensive risk of a mortgage. • **Equity investment** in a mortgage is measured by the loan-to-value ratio (or combined loan-to-value ratio, if subordinate financing exists). The underwriter must confirm that the borrower satisfies the minimum cash down payment requirement for the type of mortgage being requested, by using his/her own financial assets (or, if appropriate, other acceptable sources). This is especially important when a borrower is requesting a mortgage that has a higher loan-to-value ratio. • **Credit history** can be defined in several ways. Generally, credit scores are used to assist with the assessment of credit risk in a mortgage application because a credit score objectively evaluates all of the characteristics in a borrower's credit file and enables the underwriter to process mortgage applications more accurately, quickly, and with a greater degree of confidence. However, there may be instances in which the underwriter may not to be able to rely on credit scores, and will need to perform a comprehensive review of each borrower's credit reports. The Underwriter must verify that the documentation in the mortgage file is consistent with the credit report. **Note:** If the credit history for all borrowers consists only of

	nontraditional credit sources, then the credit history must be defined as "high primary risk". When evaluating Primary Risk factors, the underwriter should assess the ***combined*** effect of the borrower's equity investment and credit history so that they can make a more accurate assessment of default risk than could be gained from a separate assessment of each of these factors. Default risk varies significantly among mortgages that have the same combined loan-to-value ratio, depending on the strength of the borrowers' credit profiles. **Step 2 – Assess Contributory Risk:** Contributory Risk factors are those risk factors that are not of sufficient weight by themselves to use as the basis for reaching an underwriting decision. However, when combined with primary risk factors or other contributory risk factors, they either increase or decrease the overall risk of the mortgage application. The contributory risk factors that have the greatest influence on mortgage loan performance, are: - Property Type - Occupancy - Transaction Type (Purpose) - Previous mortgage payment history - Prior bankruptcy or foreclosure, and - Mortgage term - Total debt-to-income ratio - Liquid financial reserves - Product Type - Presence of co-borrowers **Note:** Certain contributory risk factors may have a greater influence on the mortgage loan performance than others. However, contributory risk factors only become meaningful when they are considered with other factors. **Step 3 – Assess Comprehensive Risk of the Mortgage Loan as a Whole:** The underwriter should base their comprehensive risk assessment for a loan on the cumulative effect of the Primary Risk factors and the Contributory Risk factors. The underwriter's comprehensive risk assessment must be expressed in terms of a low, moderate, or high likelihood of a mortgage default. A mortgage that has a high comprehensive risk has a high probability of default. The cumulative effect of the layering of risk factors in a mortgage application − without sufficient offsets to lower the risks − will increase the risk of mortgage loan default. In addition to reviewing the acceptability of the documentation in the file, the underwriter must assess the comprehensive risk of the mortgage loan before deciding whether to originate. **Documenting the Comprehensive Risk Assessment** Upon conclusion of the assessment, the underwriter's must document that the loan has acceptable layering of risk. The loan file must at a minimum include: • Document the identified risk factors; and • Identify and document FICO score and credit related offsets for the risks indicated by the FICO reason codes; for example, if the reason codes indicate nonpayment of obligations, the underwriter may establish that the borrower was unable to meet credit obligations because s/he experienced financial difficulties attributable to the specified extenuating circumstance; and • Document the identified offsetting/compensating factors; and • Documentation of the offsetting/compensating factors; and • A written conclusion that the Mortgage does not exhibit excessive layering of risks
DETERMINING WHEN TO RE-UNDERWRITE	After a loan has been fully approved, if the lender becomes aware of any new undisclosed debt, a reduction in income, or a final rate that is higher than the rate the borrower was approved for, the loan must be re-underwritten. For new debts, the lender must verify the unpaid balance, the terms of repayment and the payment history (if applicable) by obtaining documentation from the borrower or the creditor. For a reduction in income, the lender must obtain updated income documentation. The lender must recalculate the debt ratio based on changes that have occurred since the loan was approved, and perform a comprehensive risk assessment. • A comprehensive risk and eligibility assessment must be performed. As a guideline for manually underwritten loans, monthly debt-to-income ratios that exceed 36% should have strong compensating factors. • The final loan application signed by the borrower(s) must include all income and debts that were verified, disclosed or identified prior to closing.

	Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.
DEBT PAYOFF / CONSOLIDATION	Pay off of any debts must always be at the initiation and direction of the borrower; the lender may not dictate when and what accounts must be paid off. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. As a rule of thumb: • Installment loans that are being paid off do not have to be included in the borrower's long-term debt. • Payoff of revolving debt to qualify is not permitted. The debt listed on the credit report must be used to calculate the DTI. If installment debt does not extend beyond 10 months, the Underwriter should review the borrower's debt to ensure that the size and/or number of remaining payments will not impact the borrower's ability to handle the new mortgage payment during the early period of the loan. A Borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher risk and the qualifying ratios should be within guidelines. If all or any portion of the proceeds of the Mortgage is used to pay off or pay down existing debts (installment) in order to qualify for the Mortgage, payoff must be documented in the Mortgage file. Canceled checks, paid receipts and/or a copy of the Closing Disclosure form or other closing statement may be used to document the repayment.
DEBT-TO-INCOME RATIOS	Monthly DTI (debt-to-income) ratio is the sum of the monthly Housing-to-Income (HTI) expense as defined above, plus all of the following, divided by the gross monthly income. **Note:** When a mortgage is secured by a second home or an investment property, the monthly principal, interest, taxes, and insurance installment for the mortgage is not considered part of the borrower's monthly housing expense; rather, it is considered one of the borrower's monthly debt obligations. • Payments on revolving debt. • Installment debt extending beyond ten months. • Monthly PITIA for second homes and other investment properties that are non-income producing real estate. • If rental income is not used to qualify the subject investment property PITIA plus operating expenses must be used in calculating the debt ratios. **Note:** Operating expenses may be determined by calculating 25% of the gross rental income amount reflected on the Comparable Rent Schedule. • Current real estate taxes and all monthly insurance premiums for real estate owned that is free of any lien. • Optional Credit Insurance, if applicable. • Child support, alimony or separate maintenance payments extending beyond ten months. • Other consistent, recurring expenses as detailed in the next section of this chapter. For each liability, the underwriter must determine the unpaid balance, terms and the borrower's payment history. Generally, residential mortgage credit reports provide this information. **Note:** If the subject property is a second home or investment property and the borrower's primary housing expense is zero, the lender must verify that the borrower does not have a primary housing payment/debt and document same in the file. Examples include written documentation verifying where the borrower resides indicating the borrower has no housing payment.
HOUSING-TO-INCOME RATIO	The monthly housing expense is the sum of the following monthly charges on the Borrower's Primary Residence: • Principal and interest for the mortgage that is secured by the occupant borrower's principal residence; • Monthly amounts for:

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	○ Any subordinate financing on the subject property (see calculation requirement below), ○ Hazard insurance (HO-6 if required for condominiums), ○ Real estate taxes, ○ Mortgage insurance premium; **And when applicable…** ○ Home owner association dues ○ Optional Credit Insurance ○ Any owners' association dues (excluding any utility charges that apply to the individual unit), ○ Any monthly cooperative corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit), ○ Leasehold payments (ground rent) ○ Special assessments ○ Monthly Flood Insurance Fee ○ Tax Abatements: The monthly real estate tax amount must be included if the abatement expires in 5 years or less (or 3 years or less for co-ops). For tax abatements less than 5 yrs (or 3 years or less for co-ops), the borrower must be qualified with the annual tax amount that will be required at the end of the expired tax abated year. (If the tax abatement is not recorded on title, evidence of the approved tax abatement must be documented in the loan file.) The above amounts must be included in the debt ratio and reserve calculation, regardless of whether the amounts must be deposited into an escrow account. For new construction properties, debt ratios should be calculated using the estimated real estate taxes based upon the completed property improvements, not the unimproved lot taxes. For existing properties, debt ratios should be calculated using the tax amount provided by the current tax bill, Title Commitment, DLS Screen Print or recent appraisal. In the state of California for Purchase transactions and refinance transactions including where the property was purchased within the last 12 months, and taxes have not yet been fully assessed, debt ratios should be calculated using 1.25% of the lesser of the purchase price or appraised value. However, if the underwriter determines that the actual tax rate is less than 1.25%, the actual tax rate may be used to calculate the debt ratios as long as documentation supporting the amount is in the loan file. Conversely, if the actual tax rate is higher than 1.25%, that amount must be used to calculate the debt ratio as well. **Payment calculation for subordinate financing:** • HELOC - Qualifying payment should be calculated using the fully amortizing principal and interest payment based on Prime + Margin (or 2% if margin is unavailable) + 2%, for the remaining term after the Interest Only period on the maximum line amount. • FRHEL- Qualifying payment is calculated using the principal and interest payment. Refer to Section 1508.4-Assets/Borrowed Funds/Subordinate Financing for general eligibility requirements.
QUALIFYING RATIO	**Ability to Pay & Credit Worthiness applies to first mortgage Initiative loans originated via KEYSTONE FUNDING INCWholesale loans reviewed prior to close.** We must have a reasonable belief that the borrower has the ability to repay the loan. We will not originate or purchase a loan based solely on the value of the real estate collateral. The analysis of a borrower's ability to repay will include appropriate review of income, debts, DTI ratios, disposable income, and credit worthiness.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
TYPES OF RECURRING DEBT	KEYSTONE FUNDING INC considers any debt the borrower owes to be a liability. Debt is defined as borrowed money, therepayment of which may be either secured or unsecured, with various possible repayment schedules. The following items are examples of recurring debt. It is important to note that the debt may or may not need to be included in the borrower's debt-to-income ratios. Refer to individual topics listed to determine if the debt should be included. ✓ Alimony / Maintenance ✓ Borrowed Funds Against Financial Asset ✓ Business Debt ✓ Child Support ✓ Contingent Liabilities (Co-Signed Debt) ✓ Court Ordered Assignment of Debt ✓ Deferred Loans ✓ Demand Loans ✓ Installment Loans ✓ Leased Obligations ✓ Mortgage Assumption ✓ Net Rental Loss ✓ Non-Reimbursed Business Expense ✓ Overdraft Protection Account ✓ Payroll Deductions ✓ Real Estate Obligations: Departure Property ✓ Real Estate Obligations: Verification of Mortgage Debt ✓ Revolving Debt ✓ Special Assessment ✓ Student Loans ✓ Subordinate Financing ✓ Unsecured Loans **Note:** The recurring debts above must be verified on all purchase and refinance transactions.
ALIMONY & MAINTENANCE	Monthly alimony obligation should be treated as a recurring debt. Acceptable sources of documentation include a copy of: • Applicable page(s) and signature page of the divorce decree, or • Property settlement, or • Separation agreement. If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient. Obligations that will end within the next 10 months do not need to be considered. However, the size and number of remaining payments should not impact the borrower's ability to handle the new mortgage payment during the early period of the loan.
BORROWED FUNDS AGAINST FINANCIAL ASSET	The borrower may take a loan against a liquid asset that is secured by stocks, bonds, or any other investment account, life insurance policies, 401(k) accounts, CDs, or other financial assets. Although information regarding the amount of the loan must be provided, the debt is not generally counted in the borrower's qualifying ratios if the loan instrument shows the asset as collateral for the loan, since the loan may be repaid by liquidating the asset. A financial institution must have made the loan. The borrower may only use assets in the account that exceed the loan balance to satisfy cash reserve requirements.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
BUSINESS DEBT	A business debt is a financial obligation of a business and can be the sole responsibility of the business or personally secured by the business owner, which makes that person also liable for the debt. If the debt is reflected on the borrower's personal credit report and the borrower is the primary obligor on the debt, the borrower is personally liable for the debt and it must be included in the debt-to-income ratios. However if the borrower is a co-signor, not the primary obligor, on the debt and it is being paid by the borrower's business, the debt does not have to be included in the debt-to-income ratios if : • The borrower provides 12 months canceled checks drawn against the business account; and • The account in question does not have a history of delinquency; and • Two year's personal, partnership, and/or corporate tax returns evidencing that business expenses associated with the debt support that the debt has been paid by the business must be obtained; and • The underwriter's cash flow analysis of the business took into consideration the payment of the obligation (included interest expenses, and taxes and insurance, if applicable, that one would reasonably expect to see based on the loan balance and age of the loan). **Note:** The debt must be included in the borrowers debt ratios, if the tax return analysis of the business does not reflect any business expense (including taxes and insurance, if applicable), equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan. If the debt is <u>not</u> included in the borrower's debt ratio, the loan must be reviewed to confirm income is independent of the borrower and the business can continue to cover the debt for the next three years. If the above requirements are not met, the payment needs to be included in the total debt ratio. In lieu of cancelled checks, a letter from a CPA providing specific account number(s) and verification that the business has paid the debt for the past 12 months is acceptable.
CHILD SUPPORT	Payments of child support are counted as recurring debts. Acceptable sources of documentation include a copy of: • Applicable page(s) and signature page of the divorce decree, or • Property settlement, or • Separation agreement. If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient. Obligations that will end within the next 10 months do not need to be counted in debt-to-income ratio. However, the size and number of remaining payments should not impact the borrower's ability to handle the new mortgage payment during the early period of the loan. Borrowers with current or previous past due child support must provide evidence that all past due payments are current unless the borrower is making the payments according to a court approved plan. In this case, the borrower must demonstrate that payments are current according to the plan.
CONTINGENT LIABILITIES: CO-SIGNED LOANS	Contingent liabilities generally exist when a borrower co-signs another person's loan. As a co-signer, the individual has equal responsibility in repaying the loan should the loan go into default. If a borrower is the primary obligor on a debt, the individual has responsibility for repaying the debt regardless if there is an additional signer and the debt must be included in the qualifying ratios. • The debt is not included in the debt-to-income ratio if the documentation in the file clearly substantiates that the borrower is a co-signer (not the primary obligor) and the primary obligor is paying the debt on a timely basis. The primary obligor should be making timely payments to cover at least the last 12-month period. If payments are not made on a timely basis, or if they cannot be sufficiently documented, the debt should be included as a recurring liability. Acceptable documentation includes: o Cancelled checks; or

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
	○ Other party's bank statements showing monthly amounts disbursed; or ○ Cancelled cashier's checks; or ○ Money order receipts; or ○ Divorce decree indicating the debt is the responsibility of another party. The borrower's payment history on the account prior to the assignment must be considered in the analysis. • If the loan file contains documentation to substantiate partial payment by the borrower, and the loan is being paid in a timely manner, only the borrower's portion of the debt will be considered when calculating ratios. **Note:** For second home and investment property transactions, the borrower's primary residence must be included in the borrower's ratios if they are on title and/or note, regardless of the co-signer providing the above acceptable documentation.
CONTINGENT LIABILITY: COURT ORDERED ASSIGNMENT OF DEBT / PROPERTY SETTLEMENT BUYOUT	If the borrower is no longer responsible for a payment of a debt as a result of a court order, or the borrower's interest in a property has been "bought-out" by another co-owner of the property (as often happens in a divorce settlement), and the borrower has not been released by the lender it creates a contingent liability for the borrower. The debt does not need to be included in the debt-to-income ratio as long as the following specifically assigns the payment to another party: • Applicable page(s) and signature page of the divorce decree; or • Property settlement; or • Separation agreement; and • Evidence of the transfer of title The underwriter should not ignore an unsatisfactory payment history that occurred prior to the assignment of debt. At the underwriter's discretion, additional information may be required to verify that the responsible party is paying as obligated. **Note:** The above policy for court ordered assignments of debt and property settlement buyouts should never apply to debt secured against the subject property. In these instances, debt must ALWAYS be counted in the debt ratio calculation.
DEFERRED LOANS	Installment debts with deferred payments include debts on furniture, household items, and automobiles for which the initial payment is delayed for a period of time as part of a merchant's promotional campaign. For student loans refer to the Student Loans topic later in this section. For deferred installment debts, the payment amount that will be required once the deferment or forbearance period has ended must always be included as part of the borrower's recurring monthly obligations. If the credit report does not indicate a monthly payment at the end of the deferment period, the following documentation should be requested: • A direct verification from the creditor; or • A copy of the installment loan agreement obtained from the borrower.
DEMAND LOANS	A demand loan has no monthly payment; it becomes due and is payable in full on a particular date. This type of debt may or may not be secured. • If the notice is due within the next 2-years and the borrower does not have adequate reserves available to repay the obligation in full, the transaction should be treated as an installment loan. A minimum payment of 5% of the unpaid balance must be included in the debt-to-income ratio. • If the borrower does have adequate reserves available to pay the obligation in full, the debt should not be included in the debt-to-income ratio.
INSTALLMENT DEBT	Installment debt is borrowed money that is repaid in several successive payments, usually at regular intervals, for a specific amount and for a specified term (e.g., an automobile or furniture loan).

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
	• Installment debts with monthly payments that extend beyond 10 months (and debts that are in a period of either deferment or forbearance for agency loans) must be included in the debt-to-income ratio for qualification purposes. • Even if the debt does not extend beyond 10 months, it must be noted whether the size and/or number of remaining payments will impact the borrower's ability to handle the new mortgage payment during the early period of the loan. • If debt is paid by the borrower's business, it does not need to be included as a liability if it meets the requirements in the Business Debt topic above.
LEASED OBLIGATIONS	A lease is a written document containing the conditions under which property (most often an automobile or land) is given to an individual for a specific period of time (term). • The monthly payment for the leased item should always be counted as a recurring debt regardless of the remaining term. • If lease is paid by the borrower's business, the debt does not need to be included as a liability if it meets the requirements in the Business Debt topic above. **Pre-Paid Leases** - If the borrower fully pre-paid the terms of their lease at the original time the Lease Agreement was executed, the monthly payment for the lease does not have to be included in his/her recurring debt obligations provided the borrower's assets are reviewed and no undisclosed obligations are reflected. The file should be documented with the terms of the lease and the Underwriters rationale for not including a monthly payment in the DTI.
MORTGAGE ASSUMPTIONS	For a contingent liability on a Mortgage Assumption, the liability must be included in the DTI when the borrower has sold a property as an assumption without a release of liability being obtained.
NET RENTAL LOSS / NEGATIVE RENT INCOME	If real estate is owned free and clear, only current real estate taxes, hazard insurance premiums, and homeowners' association fees must be included in the borrower's monthly expenses. The borrower must supply a copy of the homeowner's insurance policy declaration page or other documentation that clearly evidences the current property is free of encumbrance. If any documents in the file indicate that the property has a mortgage, it must be verified and the payment history supplied. The amount of the negative cash flow calculated from the tax return must be included in the borrower's debt-to-income ratio. Refer to Section 1508.5-Employment & Income/Rental Income for details with regards to rent income.
NON-REIMBURSED BUSINESS EXPENSES	When a borrower has non-reimbursed business expenses that are being analyzed, such as meals, gasoline, auto insurance and/or taxes, a recurring monthly debt obligation should be developed based on a 24-month average of the expenses (from Schedule A and IRS Form 2106 from the tax returns). Automobile depreciation may be netted out. Union dues shown as an expense on the 2106 do not need to be treated as a reduction to total income. The 24-month average should be deducted from the borrower's stable monthly income. If there is not a full 24-month history, or if there is only a 12 month history documented in the loan file due to AUS requirements, the underwriter should develop an annualized monthly average. Automobile loan payments and automobile lease payments that are included as non-reimbursed expenses on the tax returns <u>may not be deducted</u> from income. They must be included as recurring debts in the total debt ratio. • If the borrower claims a "standard mileage" deduction, multiply the business miles driven by the depreciation factor for the appropriate year as published by the IRS, and add that figure back to the calculation. • If the borrower claims an "actual depreciation expense" deduction, the amount the borrower claimed should be added back. Refer to www.IRS.gov for depreciation factors. For additional information regarding the treatment of Auto Allowance/Expense Account Reimbursement refer to Section 1508.5 -Employment & Income/Other Non-Employment Income/Auto Allowance/ Expense Account Reimbursement. Refer to Section 1508.5-Employment & Income/Wage Earner/Commission Income for additional

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
	information regarding treatment of Commission Income. **Note:** Non-reimbursed expenses should be deducted from the income that is being used to qualify and should not be considered in the 20% tolerance between the income documentation provided by the borrower and the income documented on the IRS Transcript as discussed in Section 1508.5-Employment & Income/Introduction/Processing and Analyzing the 4506-C.
OVERDRAFT PROTECTION ACCOUNT	Overdraft protection is considered a revolving line of credit (given without the benefit of security) that is attached to a checking account. If there is a balance, count a minimum payment in the debt-to-income ratios.
PAYROLL DEDUCTIONS	Any time a payroll deduction appears on the borrower's pay stub, the underwriter must determine if the deduction represents a debt that must be included in the debt ratio. Examples of such debts include, but are not limited to: Credit Union or employer loans, garnishments, child support, etc. The following information may assist in making the determination: • Monthly payment of the debt • Balance of the debt • Reason the debt is being deducted from payroll • All guidelines regarding the debt

REAL ESTATE OBLIGATIONS: DEPARTURE PROPERTY	The reserve requirements for the subject property from 1502.2-Wholesale Non-Agency LTV Matrix must be applied in addition to the Departure Property policies defined below:
	Current principal residence is pending sale or up for sale but the transaction will not be closed (with title transfer to a new owner) prior to the new transaction (evidence that property is up for sale or pending sale is required):
	The following reserve requirements must be met for all loans:
	• If the borrower can qualify with both properties in DTI, count both payments plus two months PITIA reserves for the departure property.
	The current principal residence is being converted to a second home:
	• The PITIA for the current and proposed mortgage payments must be used to qualify the borrower for the new mortgage loan; and
	• Minimum of 6 months of PITIA reserves are required for the departure property.
	The current principal residence is being converted to an Investment Property:
	• If 25% or more equity is in the departure property:
	  ○ Equity must be documented with a current appraisal (2055 or better), minus any liens. The appraisal may not be dated more than 180 days prior to the note date; or
	  ○ Determine equity by comparing the original sales price of the departure property to the current unpaid principal balance; and
	  ○ Twelve months of PITIA for the departure property is required to be in reserves;
	  ○ If the above is met, 75% of the rental income can be used to calculate rental income. Refer to Section 1508.5-Employment & Income/Rental Income / Calculating Rental Income: Non-Subject Property for complete information. The rental income must be documented with:
	    ✓ A copy of the fully executed lease agreement; or
	    ✓ If the file does not document a two-year history of managing investment property via the Borrowers federal tax returns, then signed leases may not be used for rental income or to offset the mortgage for the newly converted investment property.

REAL ESTATE OBLIGATIONS: VERIFICATION OF MORTGAGE DEBT	For each mortgage liability where the borrower is currently an obligor on the note secured by real estate debt, a verification of mortgage must be obtained *if the mortgage is not verified on the credit report*. **Note:** If there is a new debt being incurred from a pending purchase transaction, the TIL, GFE, Loan Estimate or other alternative documentation from the lender should be obtained to

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
	verify the new monthly payment amount. If there are any mortgage interest deductions or payments on the borrower's personal tax returns (if tax returns are in the file) it must be determined if the borrower is obligated on an undisclosed mortgage, and if so, the mortgage must be verified. **Real Estate obligations that do not meet the criteria for utilizing rental income as stated in the Rental Income section:** • The PITIA must be included in the debt ratio for qualifying.
REVOLVING DEBT	Revolving debt is an arrangement for credit in which the borrower is granted a credit limit and can use any amount up to the limit. Repayment is usually at regular intervals but not for a specified amount or term. Credit cards are an example of revolving debt. The following must be included in the debt-to-income ratio: • Minimum payment (from statement or credit report); or • The greater of 5% of the current balance, or $10, if no payment is stated on the credit report. If multiple account payments are not reported, and/or the borrower's ratios are at the maximum permitted for the process selected, the underwriter should obtain actual minimum payments from the borrower's account statements to qualify the borrower. • **Open 30-Day Charge Accounts:** On all 30-day accounts, also referred to as open accounts (e.g., Diners Club, American Express), the payment is not counted. However, the balance should be considered when calculating available assets for cash to close. If the borrower does not have sufficient assets to cover the unpaid balance, or will not be reimbursed by their employer for the charges, the account must be paid off at closing and the source of funds must be provided. • **"Authorized User of Credit" Accounts:** Payments on "Authorized User" accounts should *always* be included in the debt-to-income ratio unless written documentation (i.e. 12 months cancelled checks) is provided proving that the owner of the account is making the payments. • **Fees Paid Outside of Closing (POC):** The applicant may charge the total fees due on a credit card, regardless of the amount. When more than 1% is charged and the borrower does not have sufficient liquid funds to cover the charge, then the credit card payment must be re-calculated and the new payment included in the DTI. To recalculate the new POC debt one of the following is required: – Credit Card Receipt: Obtain credit card receipt and use 5% of the POC amount in addition to the payment on the credit report for any current balance; or – Credit Card Statement with the POC Charge: Obtain a copy of the credit card statement showing the amount charged, the outstanding balance and the terms of repayment. Fees POC include lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees. Borrowers are not required to pay off these credit card charges on or before closing. Under no circumstances may credit card financing be used for the down payment.
SPECIAL ASSESSMENTS	If the property is located in a special assessment district, the locality has the right to assess homeowners for the cost of developing utilities and various infrastructure facilities such as roads, sewers, etc. (e.g., "Mello Roos" school tax.) Any special assessment amounts indicated on the appraisal or in the title work must be included in the borrower's total debt ratio. If the underwriter learns that the special assessment district may be having financial difficulties, the underwriter should evaluate the borrower's ability to repay the mortgage in the event additional assessments are imposed. If special assessments are in arrears, documentation must be obtained to show they have been paid, or that sufficient deposits to cover such amounts are being collected. KEYSTONE FUNDING INC requires an escrow account for the payment of special assessments.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency–Chapter 1500.	
STUDENT LOANS	Repayment of all student loans must be included in the debt-to-income ratio, except: • 10 or fewer payments remain; or • Payments are deferred for at least 12 months from the date of closing. Verification of deferment is required. For deferred installment debt less than 12 months, the payment amount that will be required once the deferment or forbearance period has ended must be included as part of the borrower's recurring monthly obligations. If the credit report does not indicate a monthly payment at the end of the deferment period, the following documentation may be requested and the actual amount used: • A direct verification from the creditor, borrower's printout from student loan website; or • A copy of the installment loan agreement or financial institution's student loan certification obtained from the borrower; or • If payments are currently deferred, or in forbearance - the payment that will be required once the deferment or forbearance period has ended. If the above cannot be obtained, the borrower must document the reason why it could not be obtained. The monthly payment should be calculated as 1% of the balance due. **Note:** Customer provided documentation (i.e., most recent student loan statement) may be used to support a different monthly payment amount than what's reflected on the credit report. A credit report supplement may be used to resolve further discrepancies.
SUBORDINATE FINANCING	If the subject property has an existing subordinate lien, the existing lien may be subordinated to the new "refinance" transaction. **Note**: Subordinate financing may not contain negative amortization financing structure and may not have any special servicing requirements for KEYSTONE FUNDING INC. KEYSTONE FUNDING INC defines negative amortization as the accrual ofinterest during a period of deferment.
UNSECURED LOANS	Unsecured loans are personal loans that were given without benefit of security and have the same repayment terms as installment loans. Examples include signature loans, lines of credit on credit cards, and overdraft protection on checking accounts. Payments for unsecured loans must be included in the debt ratios. **Note:** Unsecured personal loans are not an acceptable source of funds for down payment, closing costs, or reserves.
VERIFICATION OF DEBTS	For each liability, the underwriter must determine the unpaid balance, terms of repayment andborrower's payment history. All disclosed debt must be verified on the credit report or via separate credit verification. If a current liability is not reflected on the credit report, it must be verified via separate credit verification. If a current liability appears on the credit report but is not on the application, the borrower should provide a reasonable explanation for the undisclosed debt Refer to Section 1508.2-Credit/Analysis/Borrower Explanations topic for more information. Documentation may be required to support the borrower's explanation. For inquiries on credit reports, refer to Section 1508.2 Credit/Analysis/Credit Inquiries topic. **Note**: Timeshare loans are treated as installment debt.

ASSETS: FUNDS TO CLOSE – 1508.4

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
EVALUATING FUNDS TO CLOSE	The underwriter must verify that the borrower has adequate cash to cover down payment, including the earnest money deposit, prepaid/escrow items, closing costs, financing costs if paid by the borrower, and reserves, if required, as per program guidelines. Cash is defined as an asset that is or can readily be converted into cash in a short time frame (a.k.a., a liquid asset). Proof of liquidation is required for non-liquid assets used to pay the above items. When someone other than the borrower is paying any of the items listed above, the file must contain documentation showing the amount being paid and who paid it. If the payments are being made by an interested party to the transaction or funds from premium pricing are used, the transaction must meet the requirements of Section 1508.4- Source of Funds/ Interested Party Contributions. This section addresses various closing costs that may be required in the originations of a first mortgage loan and general requirements associated with those costs. A list of acceptable assets that may be used to finance funds to close are listed in 1508.4-Assets/Source of Funds section.
AT-CLOSING PRINCIPAL CURTAILMENTS	At-closing principal curtailments may not be used to make additional down payments or to reduce the loan amount for conventional. In these situations, the borrower will have two options: (1) close the loan "as-is" and make any desired principal curtailments after closing as permitted by the terms of the mortgage documents and subject to any applicable prepayment penalties; or (2) obtain underwriting approval for a loan amount change and, if necessary, redraw the closing package. **Exception:** Principal Curtailments are only allowed as a result of at closing excess premium rate credits. The amount must be identified on the Closing Disclosure and is limited to the amount of the excess premium rate credit. If the borrower receives more cash back than is permitted for a rate/term refinance and it is due to excessive premium rate credits, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan
CLOSING COSTS	Closing costs are expenses that are incidental to the sale of real estate, such as loan fees, title fees, appraisal fees, etc. In most instances, closing costs that are paid by someone other than the borrower are considered contributions and subject to contribution limits. Also, any costs that are normally the responsibility of the buyer are considered concessions if the seller pays them or if the seller exceeds the maximum contribution limit. Refer to Section 1508.4-Assets/Source of Funds/Minimum Down Payment/Borrower Contribution Requirement topic for additional details. All other forms of payment or gifts related to the acquisition of the property, or to the payment of the financing terms are contributions and subject to our limitations (e.g., origination fees, discount points, commitment fees, appraisal costs, interest shortfall, transfer taxes, stamps, attorneys' fees, surveys, title insurance, fees for the use of a real estate tax service, and credits to the purchaser from any interested party). **<u>Refinance Transactions</u>** Closing costs may be included in the loan amount. **Note:** "Fee Stacking" above the LTV is not permitted regardless of the product, program or documentation process type selected. This is not to be confused with refinance transactions where closing costs can be rolled into the loan amount. In these instances, the maximum loan amount, including any closing costs, may not exceed the maximum LTV/CLTV/HCLTV permitted for the transaction.
DOWN PAYMENT	**<u>Deposit on Sales Contract</u>** Refer to Section 1508.4-Assets/Source of Funds/ Earnest Money topic for specific requirements. **<u>Saving Funds to Close</u>** It is acceptable for the borrower to save part of the closing costs between the times of the application and closing provided the amount and time to save before closing is considered

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

	reasonable. The borrower must provide a written explanation as to how the funds will be saved and over what period of time. All letters of explanation must be signed by the Borrower prior to close. Refer to Section 1508.2-Credit/Analysis/Borrower f Explanation for more information. A monthly savings plan worksheet demonstrating how the funds will be saved is required. The worksheet must be included when submitting the file to Underwriting. It is critical that the amount is reasonable with respect to the borrower's previous savings history, the proposed time frame, and current income and expense levels. The underwriter has the final decision with regards to its reasonability. The funds must be held by a disinterested third party, such as a depository institution, escrow company, etc. (this does not include the builder or Realtor). All funds must be saved in accordance with the approved savings plan. The loan must be approved with a condition to verify the funds prior to closing.
INTEREST RATE BUYDOWNS	An interest rate buy down is a payment to reduce the interest rate on a permanent or temporary basis. The seller, buyer, another third party, or some combination of these can provide funds. **Permanent Rate Buy Downs** Permanent interest rate buy downs are allowed on most transactions. Funds to finance the buy down may be supplied by the borrower, seller, or another third party. If someone other than the borrower the transaction provides the funds is subject to the contribution restrictions. Refer to Section 1508.4-Assets/Source of Funds/Interested Party Contributions for additional restrictions. **Note:** For all ARM products only the initial rate and the life cap are reduced, not the margin. **Exception:** Unplanned permanent buy down points that result from a shift in market interest rates during the period between the date of the sales contract and the date of the loan closing (when the sales contract "locks-in" specific financing terms related to the points that will be paid) are not subject to the contribution restrictions. **Temporary Buy Downs** Temporary interest rate buy downs are not permitted. **Determining the Qualifying Rate** Refer to Section 1502.1-Non-Agency Fixed and ARM Products/Qualifying Rate topic.
PREPAID ITEMS	Prepaid items such as taxes, insurance, ground rent, etc. are expenses that are paid in advance and usually prorated upon the sale. The following prepaid settlement costs must be paid by the borrower: • Interest charges covering any period after the settlement date The borrower can use funds received as a gift from a relative to pay the remainder of the closing costs and the prepaid items subject to contributions restrictions. For refinance transactions, the amount needed to renew or establish the new escrow account can be included in the loan amount in order to pay the expense on the due date. However, there are certain restrictions with regards to payment of taxes in the new loan amount. Refer to the applicable Refinance topics in Section 1508.1-Eligibility/Transaction Types section for details. **Note:** An escrow account is required for the payment of taxes, special assessments, hazard, flood, and/or mortgage insurance on most loan transactions, except as specified by policy or, in the case of a table funding, Wholesales, as prohibited by state law. Refer to Wholesale Manual Section 908-Escrow for specific policy requirements. **Higher-Priced Mortgage Loans:** Not Permitted
RESERVES	Reserves are considered to be the amount of post-close liquid assets a borrower has remaining after the down payment and closing costs have been deducted. One month's reserve is equal to the monthly PITIA payment as follows: • Principal and interest; • Hazard, flood, and mortgage insurance premiums (as applicable);

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

- Real estate taxes;
- Ground rent;
- Special assessments;
- Any owners' association dues (excluding any utility charges that apply to the individual unit);
- Any monthly cooperative corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit); and
- Any subordinate financing payments on mortgages secured by the subject property.

(**Note:** All of the above must be included in the calculation of reserves, even if borrower has waived escrows.)

Acceptable Sources of Reserves

Examples of liquid financial assets that can be used for reserves include:

- Checking or savings accounts,
- Investments in stocks, bonds, mutual funds, and Other Securities. Refer to Section 1508.4-Source of Funds/ Retirement Accounts for verification requirements.
- Certificates of deposit: 100% of value less any early withdrawal penalties that should be deducted;
- Money market funds and trust accounts;
- The amount vested in a retirement savings account,
- The cash value of a vested life insurance policy.
- Stocks

(Refer to Section 1508.4-Assets/Source of Funds for additional requirements)

Unacceptable Sources of Reserves

The following cannot be counted as part of the borrower's reserves:

- Funds that have not been vested,
- Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death,
- Stock held in an unlisted corporation,
- Non-vested stock options
- Notes or loans receivable from a privately-held company
- Unsecured borrowed funds, including unsecured Employer-Assisted Housing benefits
- Interested party contributions (IPCs)
- Cash out proceeds

Minimum Reserve Requirements

Refer to 1502.2- Non-Agency LTV Matrix and/or program fact sheets for reserve requirements.

Multiple Properties

If a borrower has multiple properties, the following reserve requirement must be satisfied for all of the borrower's Mortgage Loans:

- **In addition to the reserve requirements specified in the LTV Matrices and Program fact sheets for the subject property,** 2 months PITIA is required on each additional residential property with a lien (i.e., primary residence, second home, and investment property).
- Cash-out amount to be received at closing may not be used to satisfy reserve requirements.
- Reserves must be cash or marketable securities.
- Retirement assets can be used if it meets Fannie Mae guidelines.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
	• Business assets can be used for reserves only if the business is one hundred percent (100%) owned by the borrower.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

SOURCE OF FUNDS ELIGIBILITY

The accumulation of net worth, particularly in the form of assets, is a strong indication of creditworthiness. A borrower who accumulates net worth solely from earnings and savings demonstrates a strong ability to manage their financial affairs.

This section addresses the various types/sources of assets that may be used to pay the down payment, closing costs, prepaids, and reserves, if required. It also addresses the documentation required to verify the asset and the principal methods of validating its authenticity.

The following matrix identifies the various types of assets, the eligibility of the asset, and what the asset can be used for.

Asset Type	Funds to Close	Funds for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Annuities	X	X	X	X	
Borrowed Funds – Secured	X	X	X	X	
Borrowed Funds – Unsecured					X
Bridge Loan Proceeds	X	X	X	X	
Business Funds	X	X	X	X	
Cash on Hand					X
Cash Out Proceeds from a Refinance	X	X			
Checking, Savings, & CD Accounts	X	X	X	X	
Community Assistance Program / Down Payment Assistance*					X
Corporate Relocation Buyout	X				
Corporate Sponsored Loans					X
Cryptocurrency (Bitcoin)[1]					X
Custodial Accounts for Children or Others/ (UTMA)					X
Disaster Relief Grant or Loan	X				
Earnest Money Deposit	X				
Employer Assisted Housing*					X
Foreign Assets	X	X	X	X	
Gift	X	X	X		
Gift of Equity					X
Gift/Grant from Non-Profit (Secured & Unsecured)					X
Gift – Wedding					X
Government Bonds	X	X	X	X	
Individual Development Accounts (IDA)*					X
Inheritance	X	X	X	X	
Interested Party Contributions - Financing Concessions	X				
Land Equity	X				
Life Insurance Net Cash Value	X	X	X	X	
Lease to Own/Rent w/Option to Buy	X				
Lender Paid Assistance*					X
Loan Repayment Proceeds	X	X	X	X	
Margin Loan	X				
Non-Traditional Savings Plan					X
Asset Type	Funds to	Funds	Reserves	Compensating	Not

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

	close	for debt payoff	requirement	factor	eligible
Pledged Assets					X
Pooled Funds					X
Proceeds from Sale of Home	X	X	X	X	
Profit Sharing Plan				X	
Retirement Account	X	X	X	X	
Sale of Assets	X	X	X	X	
Seller Derived Assistance					X
Stocks/Securities – Exercisable	X	X	X	X	
Sweat (Work) Equity					X
Trade Equity					X
Trust Account	X	X	X	X	
1031 (Like Property/ Tax Deferred Exchange)*	X				

*May be permitted under certain limited conditions. Refer to the topic for more detail.
[1] In order to use funds, asset must be liquidate and meet "Sale of Assets" policy.

1031 LIKE PROPERTY EXCHANGE

1031 Exchange—Tax Deferred or Like Property Exchange—is an exchange of real property in which no taxable gain or loss is recognized at the time of sale. Section 1031 of the Internal Revenue Code allows investors to defer the payment of state and federal capital gains taxes by exchanging one investment property with another, rather than selling it.

A 1031 exchange is an investment property exchange therefore primary residences and second home transactions are not permitted. We will permit a 1031 tax deferred exchange to be used as the down payment for the purchase of an investment property with the following restrictions:

- The 1031 exchange is properly documented and is in compliance with Internal Revenue Code Section 1031.
- There is no subordinate financing.
- A qualified intermediary must handle the loan closing. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be an agent, attorney, accountant, investment banker or broker. This exchange agreement requires the qualified intermediary to acquire and transfer the relinquished property and to acquire and transfer the replacement property. The relinquished property is the property "sold" and the replacement property is the property "acquired".
- Copies of all closing documents—including the 1031 exchange agreement, settlement statement, and title transfer—and the purchase agreement on the relinquished property must be obtained.
- Both purchase agreements on the relinquished and replacement properties must contain appropriate language to identify the 1031 exchange.

Seller Accommodation

If the borrower is purchasing a seller's 1031 investment property to occupy as a primary residence, the borrower is accommodating the seller. Therefore the transaction is not considered a 1031 Tax Deferred Exchange and is eligible for normal financing. The borrower's down payment less the equity from the exchange can be used for all or part of the down payment.

ANNUITIES

An annuity is an investment vehicle that is typically managed by a life insurance company. Regular or lump sum deposits are put into an annuity and the asset grows tax-deferred until the owner starts taking withdrawals.

The amount available for liquidation depends on the owner's age at distribution and whether or not the annuity is in the accumulation phase or distribution phase. The company managing the annuity may also charge various penalties, fees, etc. for withdrawals as well as tax implications.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

	If the annuity is being used as income, it cannot be used for reserves, down payment, etc. The annuity asset may be used for closing costs, down payment and reserves as follows: • 70% of the current cash value, less any outstanding loans, should be used to calculate the amount of funds available; or • 100% of the current cash value can be used if it can be verified that the borrower is not subject to penalties, surrender charges, or taxes. If the asset is used for closing and/or down payment, proof of liquidation is required. Surrender Charges, penalties and fees imposed by the managing company as well as any outstanding loans should be deducted from the cash value prior to calculating the amount available for closing. If the asset is being used for reserves only, proof of liquidation does not need to be obtained; however, verification of the asset is still required. A computer generated statement must always be obtained to verify the following: • The name of the company managing the annuity; • The name of the annuity owner; • The period covered and the current cash value; • Outstanding loans; and • Penalties, surrender charges and or fees.

ASSET VERIFICATION REQUIREMENTS	Assets must be verified to ensure the borrower has sufficient funds to complete the mortgage transaction and if required, adequate reserves after closing. Assets must be liquid, calculated, and documented.
	The Underwriter should review the source of funds for all large deposits made into accounts that will be used to fund the down payment, closing costs, or to establish required reserves. Refer to the Large Deposit section below for additional information.
	When the borrower is required to make a down payment, the source of assets must be seasoned for at least sixty (60) days before the date of the loan application
	The two most recent consecutive months' bank statements and/or other documents are required to verify assets to close. Verifications must be no more than 45 days old at the time of application AND no more than 90 days old at closing for existing or new construction.
	The most recent statement date should be used to determine the documentation expiration date. (E.g. May and April statements required. The May statement would be used to determine the document expiration date.) Quarterly asset statements must be dated within 90 days of the initial loan application. The underwriter should also make certain that qualifying assets used from the quarterly statement are not counted twice (e.g., funds from the quarterly asset account transferred to a more recent/current verified account).
	Documentation Methods
	• **Written Verification of Deposit (VOD) Form:** A written VOD may be used to verify deposits. The VOD must be faxed or mailed to/from Lender directly to/from the borrower's deposit institution. It may not be hand delivered by the borrower or loan officer.
	• **Account Statements:** Copies of bank statements or investment portfolio statements that cover activity in the borrower's account(s) and, if applicable, copies of the most recent retirement account statement that is available, which may be obtained directly from the borrower. The statements must:
	    ○ Clearly identify the borrower as the account holder;
	    ○ Include at least the last four digits of the account number;
	    ○ Include the time period covered by the statement/printout;
	    ○ Include all deposits and withdrawals transactions (for depository accounts);
	    ○ Include all purchase and sale transactions (for financial portfolio accounts); and
	    ○ Include the ending account balance.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	
	• **Internet Downloads:** Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source of information…for example, by including that information in the Internet or fax banner at the top of the document. • **Letters:** A letter statement is usually generated when an attorney or trustee, insurance company, or employer manages the asset. The most frequent types of accounts that make use of letter statements include: trust funds for the benefit of the customer, cash value of life insurance, present value of an annuity or current value of a 401k. • **Printouts:** Printouts obtained from a depository institution are acceptable. However, if the printouts do not contain all the information that is found on account statements (e.g., bank name, logo, account number, etc.). The printouts are only acceptable if they are signed and dated by a representative of the deposit institution. This includes internal KEYSTONE FUNDING INC print outs that are not printed off of Eclipse. KEYSTONE FUNDING INC statements and transaction histories printed from Eclipse do not have to be signed and dated as noted above because the printouts contain all necessary identifying information. • **Faxed Documents:** If the lender has not viewed or copied the original documents directly, the source of the information should be verified via telephone with the borrower's financial institution. The documents must clearly identify the institution and the source of the information must be included in the "fax" banner that is at the top of the document. • **E-Mail:** If the lender has not viewed or copied the original documents directly, verify the source of the information via telephone. **<u>Large Deposits/New Accounts</u>** For both refinance and purchase transactions deposits into accounts may be an indication of recently opened liabilities resulting from borrowed funds or an indication that funds used to cover closing costs, pre-paids, the down payment for purchase transactions, or reserves may be from an unacceptable source. Any liabilities resulting from borrowed funds must be considered when qualifying the borrower. **Purchase & Refinance Transactions:** Explanations and/or documentation for large deposits is not required if cumulative deposits (other than regular pay deposits) are less than or equal to one month of the borrower's qualifying income; however, any liabilities resulting from all borrowed funds must be considered when qualifying the borrower. The Underwriter should review the source of funds for all large deposits made into accounts that will be used to fund the down payment, closing costs, or to establish required reserves. The purpose of this review is to determine if any deposits demonstrate the existence of debt that may not have been captured on the borrower's credit report or application or if the funds may have been acquired from an unacceptable source. If the large deposit is from another account belonging to the borrower, that account must also be verified to ensure that the funds into the account were properly sourced and in compliance with this Policy. If the large deposit is from another account being verified for the loan, that account must also be verified after the withdrawal to assure that the funds are not counted twice.
BORROWED FUNDS	Borrowed funds include subordinate financing, as well as any monies borrowed from other sources, obtained for the specific intention of paying the down payment and/or closing costs. Borrowed funds that are secured by an asset represent a return of equity. Therefore, they may be used for the transaction. Assets that may be used to secure funds include certificates of deposit, stocks, bonds, automobiles, real estate, and life insurance policies. The underwriter must verify the value and ownership of the secured asset, the terms of the loan and the fact that it is a secured loan. Monthly payments for the loan must be considered as debt when qualifying the borrower. When the loan does not require monthly payments, the lender should calculate an equivalent amount and consider it as debt. **Unacceptable Borrowed Funds:** • Signature loans

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

- Lines of credit on credit cards,
- Overdraft protection on checking accounts.
- Energy-efficient loan program, the cost of which is added to the property tax assessment, and secured by a lien on the property that takes precedence over the first mortgage. Such programs include Energy Loan Tax Assessment Programs (ELTAP) and Property Assessed Clean Energy (PACE), Home Energy Renovation Opportunity (HERO) programs.

Borrowed funds are subject to the following restrictions:

- Funds must not be borrowed from the broker, developer, real estate professional, or a lender who is otherwise connected with the subject transaction.
- Funds from a loan secured by real property owned by the borrower (other than the subject property) may be used as a source of the down payment. The debt must be included as a liability on the application.

  Note: Payments for loans secured by the borrower's personal financial assets (such as life insurance policies, 401(k) accounts, CDs, stocks, bonds, etc.), in which repayment may be accomplished by liquidating the asset, do not have to be included in the debt ratio calculations if the loan instrument shows the asset as collateral for the loan. The loan secured by the financial asset must have been made by a financial institution. The borrower may not use the same asset to satisfy cash reserve requirements. However, they may use the portion of the asset remaining after the value of the asset plus any related fees have been reduced by the amount of the secured loan.
- Unsecured loans are not permitted, except when available in conjunction with an Employer-Provided Subordinate Financing as outlined below.
- The above applies to primary residences, second homes and investment properties.

BORROWER CONTRIBUTION REQUIREMENTS / MINIMUM DOWN PAYMENT

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

LTV, CLTV or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
70% or less	Primary residence	The borrower must make a 5% minimum contribution from his or her own funds. See note below for additional clarification.
Greater than 70%	Primary residence	The borrower must make a 10% minimum contribution from his or her own funds. See note below for additional clarification.
All LTVs	Second home Investment properties	Borrower must make full down payment. Gift funds are not permitted.

Note: If the borrower has the 10% minimum contribution in a non-liquid asset account (stocks, bonds, etc.), but is also receiving a gift for the transaction, the borrower may use the gift funds for their 10% minimum contribution in lieu of liquidating the assets. The non-liquid asset account must be verified per policy as evidence that the borrower has the 10% minimum contribution available.

BRIDGE LOANS

A bridge (or swing) loan is a form of second trust that is collateralized by the borrower's present home, which is usually for sale. By using funds from a bridge loan, the borrower can close on a new house before selling his/her existing home. There is not a specific limitation on the terms of

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	
	the bridge loan. Generally, financing is acceptable if: • Borrower has the ability to carry the payment on the new home, the payment on other obligations, the payment on the current home and the payment on the bridge loan. If the repayment schedule for the bridge loan is not monthly, it must be converted to a monthly amount for qualifying purposes; and • Bridge loan may not be cross-collateralized against the new property. For additional information regarding how to treat the debt on the "departure property" refer to Real Estate Obligations: Departure Property.
BUSINESS FUNDS	If Business Funds are used for down payment, closing costs and/or reserves, all of the following conditions must be met: • Borrowers must own 100% of the business. • CPA letter must be included in the file confirming that the withdrawal will not harm the financial strength of the business. • Two years' personal, partnership and/or corporate tax returns must be obtained, and the underwriter must perform a cash flow analysis to determine that the withdrawal of funds will not have a detrimental effect on the business. • The file must contain the underwriter's written analysis and conclusions. **Note:** Forms 1084/91, which are used to calculate income, not assets, do not satisfy this requirement. • Verification of funds in the account is required. (**Note:** Large deposits that are not in line with business revenue/income stream should be explained and verified.) All letters of explanation must be signed by the Borrower prior to close. Refer to Section 1508.2-Credit/Analysis/Borrower Letters of Explanation for more information.
CHECKING, SAVINGS & CD ACCOUNTS	Money retained in bank (including credit unions, savings and loan associations, and savings banks) checking and savings accounts are the most common method of accumulating assets, but it may also be in the form of a Certificate of Deposit (CD). **<u>Verification</u>** Bank statements serve to present a snapshot of the borrower's account of deposits, withdrawals, transaction activity and bank services. Although bank statements are typically generated on a monthly cycle, they may also be generated on a quarterly, semi-annual, or annual basis. Statements must clearly identify the borrower as the account holder and include the name of the issuing institution, account number, the period covered by the statement, and all deposits and withdrawals made during the period covered. CD's typically contain a forfeiture provision whereby a portion of the accumulated interest and possibly an early withdrawal fee are applied if the CD is liquidated early. The forfeiture of interest and/or withdrawal fee should be considered when using the asset for closing and/or reserves.
CORPORATE RELOCATION BUYOUT & CLOSING COST ASSISTANCE	**Corporate Buyout:** If funds from a Corporate Relocation Buyout are being used for closing, a copy of an executed buyout agreement along with the equity advance statement should be obtained. **Closing Costs Assistance:** Most employers provide their transferring employees a benefit which covers normal and customary closing costs. This benefit is reflected on the HUD-1/Closing Disclosure. This reduces the out of pocket costs for the employee and eliminates the need to get reimbursed for an expense after closing. The specific benefit is determined by the relocation agreement/corporate relocation package which should be obtained to verify the terms, etc.
CRYPTOCURRENCY (E.G., BITCOIN)	Cryptocurrency (e.g., Bitcoin, Dash, Etherium, Litecoin, etc.) is a worldwide digital payment system. As a decentralized digital currency, the system works without a central bank or single administrator. Instead the network is peer-to-peer and transactions take place between users directly, without an intermediary.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

	Cryptocurrency in its original state may not be used to meet KEYSTONE FUNDING INC asset requirements (i.e., reservesor other investable assets).
EARNEST MONEY	If the deposit is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source. Admissible verification includes: • Copy of the cancelled check and bank statement showing that the check has cleared; or • Copy of the cancelled check and Verification of Deposit (VOD). The VOD must indicate that the average balance for past two months was large enough to cover the amount of the earnest money deposit. **Note:** If the borrower has sufficient verified assets to cover earnest money deposit, the above verification is not required. Receipt of funds on the Closing Disclosure is sufficient evidence that funds have been received. If it cannot be determined that the earnest money deposit was withdrawn from the borrowers account, additional documentation and evidence that the funds have actually changed hands should be provided. **Note:** Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.
FOREIGN ASSETS	Funds that are currently held or sourced from an account outside of a U.S. Banking Institution may be allowed under the following circumstances: • All assets must be verified prior to the transfer and the funds must be seasoned and sourced per Wholesale Manual Section 806.2-Assets/Source of Funds/ Verifying Assets topic. • All assets being used for down, payment, closing costs, pre-paids and reserves currently held in an account outside of a U.S. Banking Institution must be translated into English, transferred into an account in the United States and verified in U.S. dollars prior to closing of the mortgage transaction. • Donor gift funds, given at closing, that are currently held in an account outside of a U.S. Banking Institution must be transferred into an Escrow/Closing Agent account in the United States. The funds must be verified in U.S. dollars at the time the funds are transferred and received in the U.S. and meet all the requirements of the Gift Funds topic below. Documents of foreign origin must be translated to English. Refer to Wholesale Manual Section 803-Borrower Information/Proof of Residency Status Verification Requirements for additional information. • It is important to look for patterns of behavior particularly when gift funds are involved. Some of the scenarios may include multiple transfers for smaller amounts and from various individuals instead of one wire transfer for the entire gift amount. It is important to pay attention to the amounts, account owner, etc. If there are any concerns regarding the foreign assets, the file should be referred to KEYSTONE FUNDING INC FraudDepartment for review.
GIFT FUNDS	Gifts are permitted in connection with a purchase or refinance of a primary residence. Gift funds must not be used to satisfy the reserve requirements. Gift funds are not permitted on a second home or investment property transactions. **Down Payment** Refer to the Borrower Contribution Requirements/ Minimum Down Payment topic above for requirements unless specified otherwise in the program parameters. The gift can be provided by the following: • Relative, which is defined as a borrower's spouse, child, or other dependent, or an individual who is related by blood, legal proceedings, marriage or adoption; or • Fiancé, fiancée, or domestic partner If gift funds are coming from outside of the U.S., refer to the Foreign Assets topic above for additional information.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	

	Gift Letters
	The following information must be completed on a fully executed gift letter:
	• The dollar amount of the gift, the donor's name, address, telephone number, his/her relationship to the borrower.
	• Indicate that funds are a gift that does not have to be repaid.
	Verification of Funds
	The transfer of the gift funds to the borrower must be documented in one of the following ways:
	• Funds Received prior to closing: Transfer of funds from the donor's account in a financial institution to the borrower's account via either:
	  ○ copies of bank statements from both the donor and the borrower's accounts OR
	  ○ copy of a canceled gift check OR
	  ○ copy of the donor's withdrawal slip and the borrower's deposit receipt.
	• Funds Received at Closing: If the donor does not intend to provide gift funds until closing, donor must provide proof that they have sufficient funds to cover the gift via bank statement. The following documentation must be obtained at the closing table:
	  ○ Transfer of the funds from the donor's account in a financial institution to the settlement or closing agent via either
	    ▪ copy of acashier's check
	    ▪ wIre transfer confirmation
	Funds transferred using a third-party money transfer application or service are acceptable only when the documentation evidences that the funds were transferred using the application or service directly from the donor's bank account to the borrower's bank account or to the settlement or closing agent.

GIFT FUNDS: WEDDING	Cash received as wedding gifts is not an acceptable source of funds because it comes in small, varied sums and is difficult to document the source.
GOVERNMENT / U.S. SAVINGS BONDS	US Savings/Government Bonds must be verified by the following: • A statement from a financial institution or the loan originator confirming review of the actual bonds and listing the serial numbers, date of maturity, type, amount and verifying that the borrower is the owner; • Proof of value from the U.S. Treasury Table; • Evidence of liquidation if the assets are required for closing.

INELIGIBLE SOURCE OF FUNDS	The following sources of funds may not be used in the calculation of assets:
	• Borrowed Funds from the following sources:
	  ○ Signature Loans
	  ○ Lines of Credit on Credit Cards
	  ○ Overdraft Protection on Checking Accounts
	• Cash-on-Hand
	• Cash advances from a credit card or other revolving account.
	• Community Assistance or Down Payment Assistance Programs
	• Corporate Sponsored Loans
	• Cryptocurrency
	• Disaster Relief Grant or Loan
	• Employer Assisted Housing (Secured & Unsecured)
	• Funds from Individual Development Accounts (IDA)
	• Gift of equity & wedding gifts.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	

	• Gifts which must be repaid in full or partially.
	• Gift/Grant from Non-Profit
	• Individual Development Account (IDA) (Including funds from an IDA)
	• Lender Paid Assistance
	• Non-Traditional Savings Plan
	• Pledged Assets
	• Pooled Funds
	• Proceeds from unsecured loans or personal loans (except as permitted with an approed Employer-Assisted Housing program.)
	• Salary / bonus advances received against future earnings
	• Seller Carrybacks
	• Seller Derived Assistance Programs
	• Subordinate Financing which contains any of the following:
	  ○ Negative Amortization
	  ○ Contains special Servicing requirements for KEYSTONE FUNDING INCgroup
	  ○ Terms that restrict prepayments or provide for a prepayment penalty, except as indicated in Subordinate Financing
	  ○ Does not fully amortize under a level monthly payment plan when the maturity or balloon payment date is less than five years after the note date of the new first mortgage.
	• Sweat Equity (includes donated goods and/or materials): Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash is considered sweat equity. Sweat equity may not be deducted from the construction costs, nor may it be used to offset the borrower's minimum down payment.
	• Trade Equity

INHERITANCE	An inheritance, if appropriately documented, can serve as the borrower's down payment. The borrower must provide a copy of the will or a letter from the Trustee detailing the distribution of the estate. Borrower's receipt of funds must be verified prior to closing. Because the inheritance is considered the borrower's money, funds can be used for the borrower's minimum down payment. Gift letter policy does not apply.
INTERESTED PARTY CONTRIBUTIONS	Interested Party Contributions (IPCs) are funds provided by someone other than the borrower(s) to pay costs associated with obtaining a mortgage that are normally the responsibility of the property purchaser. They may be paid by the seller, lender, or by any other third party who has an interest in the property sale or purchase transaction. IPCs are defined as Financing Concessions or Sales Concessions, as discussed later in this section. **<u>Interested Parties</u>** An interested party is defined as anyone other than the borrower who has a financial interest in, or can influence the terms and sale or transfer of, the property including: the property seller, builder/ developer, real estate agent, or broker (or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest possible price). A relative, domestic partner, fiancé, fiancée, municipality, non-profit organization, or employer is not considered an interested party unless s/he is the property seller or is affiliated with the property seller. A lender is not considered an interested party unless it is the property seller, or is affiliated with the property seller or another interested party to the sales transaction. For example, KEYSTONE FUNDING INCMortgagewould be considered an interested party on a KEYSTONE FUNDING INCMortgage real-estate-owned (REO) property transaction. An affiliation exists if there is direct common ownership or control by the lender over

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

the interested party or vice versa or if there is direct common ownership or control by a third party over both the lender and the interested party. A relationship between a builder and a lender that serves as its financial institution is not an affiliation.

Appraisal Requirements

Appraisers must be provided with information relating to all interested party contributions for the subject property granted by anyone associated with the transaction, including both financing and sales concessions that have been, or will be, granted. The appraiser must also be provided with information associated with a permanent interest rate buy down funded through a standby commitment provided by the lender or the builder.

Positive adjustments for sales or financing concessions are not acceptable.

File Document Requirements

When there is an IPC in a transaction, all loan and sales contract documents, including the sales contract, Loan Estimate (LE), the loan application, appraisal report and Closing Disclosure must include or address all financing arrangements that have been negotiated between the buyers and sellers.

Items That Are Subject to IPC Limits

- **Financing Concessions** are IPCs that are payments or credits related to acquiring the property or paying for financing terms (including prepaids). Financing concessions are items that are subject to IPC limits.
    - Origination fees, Discount points, Commitment fees
    - Cost for Interest Rate Shortfalls
    - Appraisal Costs
    - Transfer taxes
    - Stamps
    - Attorney fees
    - Survey charges
    - Title insurance premiums or charges
    - Real estate tax service fees
    - Real estate taxes covering any period after the settlement date.
    - Funds to subsidize a permanent interest rate buy down. Permanent buy down points may be charged up to the lesser of the maximum permitted under state law or KEYSTONE FUNDING INC Initiatives, as applicable. If the buy down subsidy was included in a standby commitment taken out by the originating lender, the buy down subsidy and the discount points being charged for the bought down rate must be included in the IPC limit calculation.
    - Funds that flow from an interested party to a non-profit and then to the buyer for payment of closing costs. These plans may not be used for to fund down payment or reserves.
- Prepaid items:
    - Interim interest charges (limited to no more than 30 days of interest)
    - Escrow Fees (may not be paid by KEYSTONE FUNDING INC)
    - Real estate taxes covering any period after the settlement date (if the taxes are being escrowed by the servicer for future payments)
    - Hazard* insurance premiums (limited to no more than 14 months); and
    - Initial or renewal mortgage insurance premiums and any escrows required for renewal of borrower-purchased mortgage insurance coverage.
    - Homeowner association (HOA) dues covering any period after the closing date (limited to no more than 12 months);

*Includes flood insurance, where applicable.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.

- Lender Paid Assistance programs where the lender is the property seller or is affiliated with the property seller or another interested party to the sales transaction.
- Fees for standby commitments that a builder obtains for blanket coverage before it enters into a contract with a borrower are contributions, but they are not subject to limitations because they are not attributable to the specific mortgage transaction.
- Items paid by the property seller that are the responsibility of the seller—such as real estate sales commissions, charges for pest inspections, deed release fees, or costs that the property seller is required to pay under state or local law—are not contributions. This includes pro-rated real estate tax credits provided by the seller at closing in those jurisdictions in which property taxes are paid in arrears. This credit represents property tax amounts assessed but not yet due and payable, for the period when the seller still owned the property, and it is not considered to be a contribution.

Items Not Subject to IPC Limits

- Buyer-broker fees paid by the seller as part of the real estate sales commission, as long as the commission being paid is typical of the commission usually paid in that real estate market.
- Gift funds received from a donor that complies with gift policy.
- Gifts or grants from a non-profit that do not obtain funding from the seller or any other interested party to the transaction.
- Funds the lender provides for closing costs and borrower prepaid fees as long as the lender is not the property seller or affiliated with an interested party to the transaction. Refer to the Lender Paid Assistance topic below for further information.
- Sales Concessions

IPC Contribution Limits

IPC contribution limits are based on occupancy type. They are measured using the lesser of the sales price and appraised value. The contribution limits are as follows:

- **Loan Process & Products:**

Occupancy	Maximum Contribution
Primary Res. & Second Home	6%
Investment Property	2%

The total dollar amount of the Financing Concessions may not exceed the actual total dollar amount of the allowable closing costs.

Items Not Permitted as IPCs

- Contributions may not be used to meet the borrower’s down payment or minimum borrower contribution requirements, or to meet reserve requirements for the transaction.
- **Payment Abatements**. Monthly payment abatements to pay for or reimburse the borrower for payments of principal, interest, taxes, insurance, and more than 12 months of homeowner association fees for units in condominium, PUD or cooperative projects are not permitted, regardless of whether they are disclosed on the Closing Disclosure. This applies to transactions where the interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity, such as a non-profit down payment assistance program (DAP). **Note:** The payment of HOA fees is not considered abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.
- **Undisclosed IPCs**, including "Silent" second mortgages held by the property seller. Seller contributions that are not disclosed on the Closing Disclosure are often given to homebuyers outside of loan closing. These undisclosed contributions tend to reduce the effective sales price of a property, and may compromise the loan-to-value ratio for a mortgage.

Consequently, a mortgage with undisclosed seller contributions is not eligible for origination or purchase.

Sales Concessions

- IPCs that exceed allowable Financing Concession limits are considered Sales Concessions. In addition to contributions that exceed those limits, additional inducements may come in the form of cash or personal property such as furniture, automobiles, securities, and/or other "giveaways" granted by any interested party to the transaction. Often they are used as an incentive to the buyer and may or may not be disclosed on the Closing Disclosure. Other inducements to purchase that are not disclosed on the Closing Disclosure are not permitted. The cost of items that are in the form of personal property (i.e., furniture, decorator items, automobiles, or other “giveaways”) are also considered Sales Concessions.
- Sales Concessions are not subject to IPC contribution limits, but their value must always be deducted from the sales price of the property. For underwriting purposes, the sales price must be reduced to reflect the amount of all Sales Concessions. The LTV ratio should then be calculated based on the lesser of the reduced sales price or the appraised value.
- **Sales Concessions** include, but are not limited to:
  - Payment of various fees on the borrower's behalf that are not considered allowable Financing Concessions
  - Pre-foreclosure or short sale processing fees that are charged to the borrower (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees, etc) must be treated as a sales concession if any portion is reimbursed by the seller or an interested party to the transaction.
  - Financing Concessions that exceed allowable IPC Financing Concession limits, or that exceed the dollar amount of actual costs
  - Cash
  - Furniture
  - Automobiles
  - Decorator allowances
  - Repair allowances*
  - Moving expenses

    * Money received for repairs will not be considered contributions provided the property is new construction, repairs are complete prior to close, or if funds have been escrowed for work to be completed. **Note:** Escrows for repairs on existing properties are not permitted.

For underwriting purposes, the value of Sales Concessions must be deducted from the sales price. The LTV and CLTV ratios should then be calculated based on the lesser of the reduced sales price or the appraised value.

Lender Contributions

The lender may provide the borrower with a contribution to fund borrower paid closing costs and prepaid fees in the following cases:

- The lender credit is derived from premium pricing. Refer to Section 1508.4- Assets/Funds to Close/At-Closing Principal Curtailments for details.
- The funds are sourced directly from lender with no expectation for repayment or financial obligation apart from the subject mortgage. Funds passed to the lender from a third party for the purpose of providing a lender credit are not eligible as a lender contribution.

The amount of the lender contribution cannot exceed the amount of the borrower-paid closing costs and prepaid fees and may not be used to fund any portion of the down payment or reserve requirements.

Lender Incentives for Borrowers

Cash or Cash-like Incentives for all Transactions Types: The Lender may provide the borrower

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	
	with a cash or cash-like incentive (e.g., a gift card) that is not reflected on the Closing Disclosure provided that the amount of the incentive does not exceed $500, and no repayment is required. These types of lender incentives are not considered IPCs and, as a result, are not included in the IPC limit calculation. Furthermore, these incentives are not considered cash out to the borrower and do not have to be included in the cash back to borrower at closing calculation.
LAND EQUITY	If the property is new construction with end loan permanent financing, the equity in the land can be credited towards the borrower's minimum down payment requirements. (Borrower must own the lot/ land.) The loan-to-value ratio should be based on the lesser of documented acquisition cost or the appraised value of the property at the time the end-loan is closed. If the conversion is treated as a refinance transaction, the loan-to-value ratio will be based on the current appraised value of the property. To determine the amount of equity in the lot, use one of the following: • If the borrower acquired the lot more than 12 months before the date of the mortgage application—or if the borrower acquired the lot at any time as gift or inheritance—the value of the lot will be its current appraised value. • If the borrower acquired the lot 12 or fewer months before the date of the mortgage application, the value of the lot will be the lesser of its sales price or its current appraised value. A 2075 Inspection will not provide a land value so if the borrower needs land equity to meet down payment requirements a full appraisal is required.
LEASE-TO-OWN / RENT WITH OPTION TO BUY	If the borrower is currently renting the subject property under a lease option contract, the portion of the monthly rent payment that exceeds the market rent can be applied to the down payment if there is a valid rental/purchase agreement in effect. The borrowers minimum cash down payment does not have to come from the borrowers own funds in order to receive the credit. **Example:** If fair market rent is $500 per month and the borrower is paying $600 per month, $100 for each month the borrower has rented can be credited towards the down payment. • A copy of the rental/purchase agreement, verifying monthly rent and the specific terms of the lease is required; • The original term may not be less than 12 months and the total credit due to the borrower must not exceed the amount specified in the contract; • The appraiser must develop the market rent; and • Copies of canceled checks or money order receipts for the last 12 months are required to document rent payments.
LENDER PAID ASSISTANCE	Lender-Paid Assistance (LPA), which is financial assistance in the form of a non-repayable credit provided by a lender that is to be applied toward the borrower's closing costs only, may not be used to make any part of the borrower's down payment, meet financial reserve requirements or meet minimum borrower contributions. Additionally, Lender-Paid Assistance is not subject to the Interested Party Contributions (IPC) limitations as long as the lender is not the property seller or affiliated with an interested party to the transaction. **Lender-paid assistance may not be used as a source of funds.**
LIFE INSURANCE NET CASH VALUE	The amount available for liquidation should be calculated using 60% of the cash/surrender value, less any outstanding loans or fees. If asset is required for closing proof of liquidation is required, regardless of the Documentation Process. Proof must be verified by the following: • Computer generated statement identifying the life insurance company • Identify the policy owner. Policy owner must be a borrower. • Evidence the period covered and the current cash/surrender value

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	• Identify any outstanding loans and deduct them from the cash value/surrender value.
LOAN REPAYMENT PROCEEDS	In order to be considered eligible cash asset, funds received by the borrower from the repayment of a personal loan s/he extended requires the following: • A copy of the written agreement between the borrower and the recipient of the loan. • Verification that the borrower had the ability to lend the funds (cancelled check or bank statement showing withdrawal of funds). • Verification that repayment was made (evidence of funds withdrawn from the recipient's account) and proceeds deposited into the borrower's account prior to scheduling the close.
MARGIN LOAN	There are times when the borrower does not want to liquidate their stocks. Although it can be for a number of reasons, it is often because it's not financially advantageous at that particular time. The borrower may use funds received from a margin loan secured by their stock portfolio to pay down payment and closing costs. Margin loans typically do not have a monthly payment therefore it is generally not included in the debt ratios. Repayment of the loan does not have to be considered.
PLEDGED ASSETS	The Dual Collateral Down Payment Option (a.k.a., pledged assets) permits the borrower to pledge marketable securities in their brokerage account (or a combination of marketable securities and cash) in lieu of a traditional down payment. The loan is secured by a first mortgage on the subject property and a third party securities account pledged to KEYSTONE FUNDING INC. **Note: The Pledged Assets Program is not permitted.**
POOLED FUNDS	Pooled funds are not permitted.
PROCEEDS FROM SALE OF HOME	The proceeds from the sale of a currently owned home are a common and acceptable source for the down payment and closing costs on a new house. Funds escrowed at the time of contract/agreement and verified as paid may be considered as earnest money. If the contract calls for an additional deposit to be made within a certain period of time, an escrow letter verifying the date and payment of the additional funds is required. **Remaining Down Payment:** The Closing Disclosure or Seller's Closing Disclosure from the sale of the home showing sufficient net cash proceeds to consummate the purchase of the new home should be obtained before, or simultaneously with, the closing on the new home. (**Note:** The Closing Disclosure or Seller's Closing Disclosure does not need to be executed; however, it must reflect sufficient funds to complete the required funds needed to cover required costs.) Photocopies of sales contracts or listing agreements may not be used as an alternative form of verification. **<u>Calculating Proceeds</u>** If the borrower's current home is listed for sale—but has not yet been sold—s/he can be qualified on the basis of the anticipated equity. The following formula should be used to determine the amount of equity a borrower has in the house that is being sold: (Sales Price* x 90%) - all Mortgage Balances = Equity *If the sales price has not yet been established, the listing price should be used. Funds for down payment, closing costs, and reserves (if applicable) may come from an equity advance or buyout from the borrower's employer.
RETIREMENT ACCOUNTS	Funds from an individual retirement account (IRA/Keogh) and/or an employer sponsored tax-favored retirement savings account (401k), the vested balance less any outstanding loans secured by the account may be used for the down payment, closing costs, and reserves provided the borrower has access to the fund(s). The underwriter must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status. However, because there are severe penalties for early withdrawal (before retirement age), only the net value, after any withdrawal and/or tax penalties are deducted, may be

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	considered. Retirement Accounts must be verified by the following: • Most recent two months statements (For 401k accounts the statements must reflect the vested balance or percentage of vesting, any outstanding loans, the ending balance of the account and terms of withdrawals/loans. If the 401k account is used for reserves the terms of the retirement plan must show that the borrower is vested and that the plan will allow withdrawals regardless of the current employment status) • Any outstanding loans must be subtracted prior to determining the vested balance; • If the assets are required for closing, proof of liquidation is required.
SALE OF ASSETS	Proceeds received from the sale of the borrower's personal assets may be considered as long as the borrower can provide evidence that s/he: • Owned the asset, for all asset types that are titled assets, for example automobile title; • Has documentation to support the value of the asset, as determined by an independent source, if the proceeds represent more than 50% of the total monthly income used in qualifying. The lesser of the estimated value (as determined by the independent source) or actual sales price must be used when determining the amount of funds for the transaction. For example, a borrower plans to sell their vehicle. The value as determined by an independent source is $10,000; the sales price of the vehicle is $12,000. Only $10,000 can be added to the borrower’s available funds, even if the sale has already occurred. • Can prove the transfer of ownership (a copy of a bill of sale or a statement from the purchaser); and • Provides the receipt of the purchase proceeds (deposit slips or bank statement)
SELLER DERIVED ASSISTANCE PROGRAMS	Seller Derived Assistance is when the seller, or any other person or entity that is reimbursed directly or indirectly by the seller, or any other person or entity providing financing benefits from the transaction. **Funds from Seller Derived Assistance programs are not permitted.**
STOCKS & OTHER SECURITIES	The net value of the stock (which includes mutual fund or other publicly traded security, restricted stock and non-vested stock), should be calculated using 70% of the current market rate. Value is established using a current statement from the stockbroker, a photocopy of the stock certificate, accompanied by a dated newspaper, or Internet stock list. (Because value is difficult to establish we do not accept securities that are not publicly traded.) If assets are liquidated, the actual amount of documented liquidated assets may be used. **Note:** Stock options and non-vested restricted stock options are *not* eligible for use as reserves. Pledged stocks and/or bonds used as loan security or to offset a margin account are not considered liquid assets. The broker statement is an investor’s account of all transactions and asset values within a set period. They list dividends received, interest earned or due, assets purchased and sold, and the value of assets owned during the period. Stocks/Securities statements must identify the following: • The institution or administrator • The account owner • The account number • All transactions, the period covered, any outstanding loans and the ending balance • For securities accounts, identify the stocks/securities • If the assets are needed for closing, proof of liquidation is required If the borrower does not receive a statement, the following must be provided:

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	• Photocopy of the stock certificate that identifies the ownership of the stocks by the borrower, number of shares/units owned, and identification numbers of the stock certificate, type, and entity name • Current stock prices from a published source
SUBORDINATE FINANCING	**Eligibility** Subordinate financing is any type of financing which creates a subordinate lien on the same property for which we are originating a first mortgage. Funds from subordinate financing may be used for a variety of reasons, including: • Supplementing the down payment • Payment of closing costs • Setting up a Permanent Buy Down • Repairing/improving the subject property If the loan is secured by the subject property, subordinate financing and LTV parameters for the first mortgage must be enforced. Any lien against the subject property other than the first mortgage must be acceptable to KEYSTONE FUNDING INC, clearly subordinated to the first mortgage lien, and properlyrecorded. The monthly payment on the subordinate lien should be included with the PITIA on thesubject property, if applicable, when calculating the monthly housing ratio. **Note:** This also includes business loans, such as those provided by the Small Business Administration (SBA) unless the borrower can meet the Business Debt requirements. If funds are from a subordinate lien that is secured by another property, we need not be concerned with the type of financing or combined LTV parameters, but we must include the monthly payment in the back-end qualifying ratio. Underwriter must review the terms of the note and the security instrument for the subordinate financing to make sure the terms are acceptable. **The subordinate financing must provide for the following:** • Regular payments of principal and interest, OR regular payments of interest only so that negative amortization does not occur. • If the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. • Interest rate should be at market rate. • If the subordinate lien contains a maturity date or balloon or call provision within the five-year period after the note date of the first lien, it must be fully amortizing under a level monthly payment. (May be less than 5 years if the subordinate debt is minimal in comparison to the borrower's financial assets and/or credit profile. E.g., borrower's financial situation supports ability to pay off or refinance within the balloon period.) • Be recorded and subordinate to the first mortgage lien, unless the financing is an unsecured loan from the borrower's employer. **Subordinate financing may not have the following:** • Negative amortization • Have special Servicing requirements for KEYSTONE FUNDING INC • Terms that restrict prepayments or provide for a prepayment penalty, except as indicated above • Does not fully amortize under a level monthly payment plan when the maturity or balloon payment date is less than five years after the note date of the new first mortgage **Documentation Requirements**

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	
	• For purchase transactions, and refinance transactions where subordinate financing is originated concurrently with the first mortgage (either new subordinate financing or refinance of an existing subordinate lien), all the following subordinate financing documentation must be included in the loan file as applicable for each loan: o Note or other evidence of subordinate lien terms; and o Closing Disclosure or other closing statement; and o For HELOCs, the HELOC agreement indicating all fees and costs paid by the borrower at closing, and the maximum permitted credit advance. • For refinance transactions, if an existing subordinate lien is not paid off, it must be re-subordinated to the new first lien, and a copy of the recorded subordination agreement must be maintained in the loan file. The note or other evidence of subordinate lien terms must be included in the loan file, so terms can be appropriately disclosed as indicated below. **Disclosure Requirements** Lender must disclose the existence of subordinate financing and the terms of repayment (including note rate, repayment terms, and the institution or individual providing the financing) to the appraiser, the mortgage insurer and the investor. Lender may not indicate to the appraiser a value or loan-to-value needed to support the transaction. **Maximum Combined Loan Amount** There are no restrictions on the combined loan amount. The first mortgage transaction must meet LTV/CLTV/HCLTV and loan amount guidelines for the program selected. **Note:** This includes business loans, such as those provided by the Small Business Administration (SBA). **Calculations** • **CLTV:** Calculate the CLTV by adding the first mortgage loan amount plus the current balances of all subordinate financing, divided by the lower of the appraised value or purchase price. • **HCLTV**: Calculate the HCLTV by adding the first mortgage loan amount, plus the total amount of all subordinate financing, including the entire available home equity line amount, divided by the lower of appraised value or purchase price. If the HELOC has been modified, a copy of the modification agreement must be obtained in order for the lower, modified total line amount to be used in the HCLTV calculation. The amount on the modification agreement and the subordination agreement should also match. **Minimum Down Payment Requirements:** The minimum down payment requirement for a transaction is based on the CLTV, not the HCLTV, so if the CLTV is 80%, a 10% down payment would be required, regardless of what the HCLTV is. **Note:** Borrowers must use their own funds to meet the minimum borrower down payment or contribution requirement for the loan transaction. **Note:** Subordinate financing may be paid off or paid down by the title company at closing; the amount paid off/down must be shown on the HUD-1/Closing Disclosure. Additional evidence of payoff/pay down is not required.
TRADE EQUITY	Trade equity is equity that results from a property purchaser giving his/her existing real property as all or part of the down payment for the property that is being purchased. **Trade equity is not allowed.**
TRUST ACCOUNTS	Funds from a Trust may be used with a copy of the Trust Agreement or a letter from the Trustee confirming the following information: • Identify the trustee’s name, address, and telephone number. The trustee must be an independent third party that would typically handle trust accounts.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency – Chapter 1500.	
	• Identify the borrower as the beneficiary. • Verify that the borrower has access to all or a specific amount of the funds. • Verify that the funds are available for disbursement to the borrower. • Proof that funds have been received is required if assets from the trust are being used for closing.

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EVALUATING EMPLOYMENT AND INCOME	Employment and income are essential ingredients to successful home ownership. Qualifying income should be stable, predictable, and likely to continue. The borrower must demonstrate the financial wherewithal to repay the proposed real estate transaction as well as other obligations. Sources of income may vary. Some receive primary income from only one source while others receive income from several different sources. Income documents must NOT be more than 90 days old at the time of closing for existing and new construction. The actual calculation used to determine the qualifying income must be documented in every loan file. Acceptable sources of income include: • **Wage Earner Income:** All non-self-employed borrowers who receive a W-2 at year end to summarize total earnings– includes hourly, weekly, biweekly, part-time, seasonal, bonus, commission, and tips/gratuity. • **Self-Employed:** Sole Proprietorship, Partnership, Corporations, and S-Corporations. • **Non-Employed Income:** Alimony/ Maintenance/Child Support/Separate Maintenance, Foster Care, Unemployment/Welfare/ADC, Disability/Worker's Compensation, Retirement/Pension, Social Security, Annuity, IRA, Military/VA Benefits, Trust, Interest & Dividend, Inheritance/Guaranteed Income, Note Receivables, Mortgage Differential/ COLA, and Rental. Income from sources other than the ones addressed in this chapter may be considered provided the borrower has received the income for at least 2 years and documentation supports that it will continue for at least 3 years. Documentation requirements are addressed in this chapter and in the Documentation Process fact sheets. **Note:** The information in this section applies to all Documentation Processes and Program types <u>unless noted otherwise in the individual fact sheets</u>. If the fact sheet is silent, policies set forth in this section apply. **<u>Income Analysis</u>** All sources of income that are used to qualify the borrower must be verified. However, while there may be income streams that are not used to qualify the borrower (and therefore not verified), they must be considered in the overall evaluation of the borrower's credit worthiness.
4506-C REQUIREMENTS	**Filing the 4506-C** A 4506-Cis required for the two most recent tax years on all transactions. The timing of 4506-C varies depending on the application date, disbursement date of the mortgage loan and when the borrower filed his/her tax returns. The 4506-C is based on the "most recent year's" tax return defined as the last tax filing. **Processing the 4506-C** All Borrowers whose income is used to qualify for the loan transaction must sign form 4506-C at closing, regardless of income type – salary, self-employed, social security, etc. An additional 4506-C must also be signed prior to or at closing for each business tax return in the loan file that was used to calculate qualifying income (resulting in either a gain or loss); however it does not need to be processed and transcripts are not required for the business(s). If the underwriter identifies red flags when reviewing documentation in the loan file, a signed 4506-C should be obtained and processed prior to final approval. **Note**: If the 4506-C is processed and transcripts from the IRS are received as part of the underwriting process, a signed 4506-C is not required to be in the loan file. It is imperative that the 4506-C be completed accurately and legibly to avoid delays and errors. The top portion of the 4506-C must be completed exactly as the borrowers filed their last tax return. Any 4506-C that is submitted with incomplete, inaccurate or illegible taxpayer information will be rejected. Alternative forms such as the 8821, 4506, or 4506-T are not permitted. .

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	

	Evaluating the 4506-C:
	• When federal income tax information is used to document income for qualifying purposes, the transcripts of the applicable federal income tax documents may be obtained. For example, Tax Return Transcripts for Form 1040, 1040A or 1040EZ or Wage and Income Transcripts for W2s; however, in certain instances, copies of the actual returns, schedules, or forms are needed because the tax return transcripts will not provide the detail required to qualify the borrower. For example, copies of Schedules B through F, Schedule K-1, Form 2106, or business returns would have to be obtained. These schedules or forms are not required if:
	  ○ The income reflected on the applicable schedule transcripts is positive; and
	  ○ The income supported by that schedule or form is not being used for qualifying.
	• If the income documentation provided by the borrower is = 20% greater than the income documented on the IRS transcript, the Underwriter should perform an in-depth review to determine if the increase in income seems reasonable and if additional steps need to be taken. At a minimum a letter from the borrower explaining the difference must be obtained and retained in the loan file. All letters of explanation must be signed by the Borrower prior to close. Refer to Section 1508.2 -Credit/Analysis/Borrower Letters of Explanation for more information. Additional documentation to support the explanation/increase should also be requested if necessary. Information reported on the tax transcripts should match information reported on the tax returns provided by the borrower. Note: All other current guidelines for analysis must also be followed.
	
	Important: Underwriter rationale for any variance per the above guidelines should be thoroughly documented.
	
	Note:
	• For documentation requirements related to Taxpayer Identification Theft refer to Section 1508.2-Credit/Analysis/Taxpayer Identification Theft topic for more information.
	Taxpayer First Act
	The use of the 4506-C (Request for Transcript of Tax Return, effective 9/2020) conforms with the Taxpayer First Act which permits taxpayers to designate return information recipients and generally prohibits the recipients from using the tax return information for a purpose other than the purpose for which the consent was granted. Refer to Section 2201 – Legal/Compliance for additional information on this topic.

FUTURE INCOME	The borrower must be receiving income if it is to be included as qualifying income. However, the potential to increase income may be considered a strong compensating factor if the borrower has recently completed education and/or training to enhance job opportunities/income. If a borrower applies for a mortgage before actually starting employment because of the nature of the work, KEYSTONE FUNDING INC may consider the future income (i.e., projected income) if the scheduled start of employment is prior to closing and the borrower has an offer letter or contract for future employment. The borrower must provide a signed employment contract or offer letter that specifies the amount of the monthly income and when they will begin receiving it. A paystub must be obtained from the borrower that includes sufficient information to support the income used to qualify prior to closing the loan.
EMPLOYMENT STABILITY	A 2-year employment history must be reflected on the application. The purpose of reviewing employment history is to assure that the borrower has a history of receiving stable income from employment (and other sources) and that there is reasonable expectation that the income will continue to be received in the foreseeable future. If documentation indicates that the income will end within the next 3 years the income should not be used to qualify. **Frequent Job Changes** Frequent employment changes within the same line of work while continuing to advance in income or benefits is acceptable. Income stability takes precedence over job stability. However, there may be occasions that warrant a closer examination of employment and income. **Example:** Frequent changes in employment for reasons other than advancement (e.g., changing

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	careers) or extended periods of unemployment may be indicative of an unsteady work history and income. • Borrowers with questionable employment histories must have financial strengths in order to be considered for maximum financing. Negative comments received from an employer may or may not be reason to decline the application, but circumstances must be investigated thoroughly before doing so. • Borrowers who work in certain industries may experience frequent job changes due to the nature of the work (e.g., seasonal or unskilled labor). In these instances borrowers should not be penalized provided they have demonstrated the ability to maintain a steady income and the changes have not affected the borrower's ability to pay their obligations. **Note:** Often due to the nature of the work, LMI borrowers may change jobs frequently and still be able to demonstrate the ability to earn consistent and predictable income. In these instances, emphasize the continuous flow of income. Borrowers who have held the same position during their entire tenure should not be penalized. However, their potential for future increases may need to be taken into consideration in determining the type of mortgage that best meets their needs. **Re-entering the Workforce** A borrower's income may be considered effective and stable when recently returning to work after an extended absence if s/he: • Is employed in their current job for six months or longer; and • Can document a two-year work history prior to an absence from employment using: o Traditional employment verifications; and/or o W-2s or paystubs. **Note:** An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce. Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six months. **Newly Employed** Borrowers who are newly employed and have an employment and income history that covers less than the 2 most recent years may be eligible for a mortgage loan as long as the borrower was attending school, in a training program related to the new position, or in the military immediately prior to their current employment. Supporting evidence such as College transcripts or discharge papers are required to verify. **Note:** When the borrower has less than a two-year history of receiving income, the underwriter must also provide a written analysis to justify the determination that the income used to qualify the borrower is stable.
INCOME ADEQUACY AND CONTINUANCE	The borrower should have a history of generating steady income for at least 2 years and it must be likely to continue at the level used to qualify for at least the next 3 years. Stable monthly qualifying income must be: • Recurring; • Received regularly; • Received in cash (includes check, wire-transfer, etc.) and paid tax on the income as evidenced by a U.S. tax return; • Reasonable based on the source. **Note:** The determination of income stability and continuance for all sources is based on the required documentation as defined in this chapter, and any other documentation contained in the file. The underwriter should focus on the borrower's past employment/ self-employment history, the history of receipt of other income, and the probability of continued consistent receipt of the income used to qualify the borrower. For each income source used to qualify, the underwriter must determine that both the source and the amount of income are stable.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
	For all eligible income types, the underwriter may consider the income as long as s/he does not have any knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt for the next 3 years. While sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income. Other sources of income, such as certain types of disability benefits that do not have defined expiration dates may also be considered provided the documentation indicates the income type. If the income falls into that category and it does not have a defined expiration date, the underwriter may conclude that the income is stable, predictable, and likely to continue. In these instances, request for additional documentation from the borrower is not required. **Significant Increases or Decreases in Income Level** If the borrower has experienced a significant decrease in income, income should not be averaged using a previous higher level unless the decrease was due to a documented one-time occurrence that impacted the income level for a period of time, and the borrower's income level has returned to the amount they previously earned. If the borrower has experienced a significant increase in income, the underwriter must obtain sufficient documentation to determine that the increase was not due to a one-time occurrence, and that the income used to qualify is stable and likely to continue at the level to be used for qualifying. The focus of the underwriter's analysis should be on the qualifying income that is most likely to be received for the next 3 years. If the borrower has multiple sources of income, refer to each income type for documentation requirements.
UNACCEPTABLE SOURCES OF INCOME	Income derived from any of the following may not be used in calculating qualifying income. ✓ Any income derived from transactions in or related to the sale or production of marijuana, hemp or any cannabis products or derivatives, such as CBD products. ✓ Any income that cannot be documented and verified ✓ Capital withdrawals ✓ Draw Income ✓ Gifts, including Gift of Equity ✓ Illegal Income/Income not listed on Tax Returns ✓ Income from Foreign / Non-U.S. Sources ✓ Retirement assets used as qualifying income ✓ Room/boarder rent ✓ Trade Equity ✓ Trailing Co-Borrower

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	

EVALUATING NON-EMPLOYMENT INCOME	If the borrower intends to use income from other non-employed/non-self-employed sources to qualify, the income may be considered stable to the extent that it is consistent and it is likely to continue for the next 3 years based on the documentation received and the following:
	• There is no evidence from the employer that the income will no longer be received; **and**
	• It is determined that the income is likely to continue based on an established earnings trend.
	  ○ If the trend is stable or increasing, income can be averaged over the two year period.
	  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
	Factors that should be considered in determining the likelihood of consistent payments include, but are not limited to the following:
	• Whether the payments are received pursuant to a written agreement, court decree, or law;
	• The length of time the payments have been received;
	• Eligibility criteria governing the continued receipt of the income, such as age of dependents or accumulation of assets.
	The purpose of this section is to address the various types of other non-employed income that may be used to qualify the borrower, the documentation used to verify the source and the principle methods of validating its authenticity. The Documentation Process used to process the loan will determine if income must be verified and what income documentation is required.
	As always, additional documentation may be requested if deemed necessary by the underwriter.
	Note: The determination of income stability and its continuance for all sources is based on the required documentation as defined in this section. Unless there is evidence that the income will no longer be received, the underwriter should assume that it will continue. Other sources of income, such as certain types of disability benefits that do not have defined expiration dates may also be considered provided the documentation indicates the income type. If the income falls into that category and it does not have a defined expiration date, the underwriter may conclude that the income is stable, predictable, and likely to continue. In these instances, request for additional documentation from the borrower is not required.

ALIMONY/SEPARATE MAINTENANCE	In order for alimony or separate maintenance to be considered as stable income, the borrower must have received the income for at least 12 months and it must continue for at least 3 years as specified by the court order or an attorney's letter specifying the individuals and issues. If the income is received less than 12 months, it may only be used as a compensating factor. You must verify that the income has been received for the applicable number of consecutive months. Alimony can be taxable or non-taxable and reflected on page one of the borrower's personal tax return. Documentation for alimony, and/or separate maintenance income is not required if the borrower does not use the income to qualify, or it is not used as a compensating factor. When the income is verified to be non-taxable, the underwriter must develop an "adjusted gross income" for the borrower if the additional income is needed to qualify for the product, program or loan amount applied for. The previous year's tax rate must be used to calculate the grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation. If full or partial payments are made on an inconsistent basis, the income should not be used for qualifying or as a compensating factor. If a borrower does not have a court order that specifies support payments, the proposed or voluntary payments should not be used as income to qualify. Documentation Requirements:

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
	• 12 -months deposit slips and/or bank statements/cancelled checks, court records or tax returns evidencing regular deposit of the funds; and • Court order/agreement evidencing amount, frequency, and 3 years continuance.
ANNUITY	Annuity income is similar to pension and Social Security income except that it may not be payable for life. Documentation Requirements: • Copy of the most recent updated annuity renewal statement showing the effective date, amount, frequency, and 3 years continuance.
AUTO ALLOWANCE / EXPENSE ACCOUNT REIMBURSEMENT	Auto and expense account reimbursement are paid by the employer to cover expenses incurred related to conducting business. KEYSTONE FUNDING INC will consider using a portion of this income to qualify if the borrower has a 1-year history of receiving it and it can be reasonably expected to continue for 3-years. If the borrower reports automobile expenses on Form 2106 or personal tax returns, schedule C: • The amount of the auto allowance that exceeds the amount of monthly expenses is added to the monthly income; or • The amount of the expenses that exceeds the allowance should be included in the borrower's total monthly obligations. **Note:** If the borrower uses IRS Form 2106 with "actual expenses" instead of the "standard mileage rate," the lender must look at the "actual expenses" section to identify the borrower's actual lease payments, and then make the appropriate adjustments. If the borrower **does not** report the allowance on either Form 2106 or Schedule C: • The full amount of the allowance should be added to the borrower's monthly income; and • The full amount of the lease or monthly payment for the automobile must be added to the borrower's total monthly obligations and included in the total debt to income ratio. Typically, auto allowance and expense account reimbursements are included with the W-2 earnings; therefore it is very important to make certain the income is not included twice. Refer to Employee Business Expenses (2106) in 1508.5-Employment & Income/ Tax Returns for additional information. Documentation Requirements: • Most recent pay stubs covering past 30 days; and • 2 years most recent W-2s; or • 2 years most recent tax returns with all Schedules when auto allowances and/or expenses are reported on IRS Form 2106 or Schedule C.
BOARDER INCOME	Boarder income may not be used to qualify.
CAPITAL GAINS/LOSSES	If a capital gain/loss appears to be a one-time occurrence, it does not have to be considered when calculating available income. However, gains/losses that are recurring may be considered. For example, an asset sold during the year might be income producing and could result in a reduction of future income. If income from this source represents a substantial portion of the borrower's income, review the tax returns along with the Schedule D and average it over 2-years. If earnings are consistent, a 2-year average will suffice. However, if income fluctuates substantially, a 3-year average will be necessary. Capital gain income should only be considered if there is evidence of sufficient assets remaining after closing to support continuance of the income, at the level used for qualifying, for at least the next 3 years. **Exercising Stock Options**

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	

	Although not typically used as qualifying income, stock options may be considered as qualifying income on occasion if the loan warrants. Only profits received from exercised stock options may be considered. The borrower must have a verified history of receiving income from executed stock options for at least 2-years and the likelihood of its continuance must be verified.
	Documentation Requirements
	• 2 years most recent tax returns with Schedule D and W-2s or 1099's; and
	• Proof of ownership of the asset (e.g., statements) evidencing sufficient value to support the continuance of capital gains; and
	• It is determined that the income is likely to continue based on an established earnings trend.
	  ○ If the trend is stable or increasing, income can be averaged over the two year period.
	  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.

CHILD SUPPORT	In order for child support to be considered as stable income, the borrower must have received the income for at least 12 months and it must continue for at least 3 years as specified by the signed court document. Proof of the ages of the children for which the child support is received in order to prove a 3-year continuance must also be documented. Child support is non-taxable and can be grossed up. **Note:** When the income is verified to be non-taxable, and its tax exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower *if the additional income is needed to qualify* for the product, program or loan amount applied for. The previous year's tax rate must be used to calculate the grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation. If the income is received less than 12 months, it may only be used as a compensating factor. You must verify that the income has been received for the applicable number of consecutive months. If full or partial payments are made on an inconsistent basis, the income should not be used for qualifying or as a compensating factor. If a borrower does not have a court order that specifies support payments, the proposed or voluntary payments should not be used as income to qualify. Documentation Requirements: • 12 -months court records, deposit slips and/or bank statements/cancelled checks evidencing regular deposit of the funds; and • Proof of ages of the children for which child support is received; and • Court order/agreement evidencing amount, frequency, and 3 years continuance.
DISABILITY – WORKERS COMPENSATION	Disability and workers compensation varies and must be verified by obtaining a copy of the borrowers' disability policy or benefits statement. A statement from the insurance company or employer must confirm the borrowers' current eligibility for the disability benefit must also be obtained. If the benefits have an expiration date, the remaining term must continue at least 3 years from the date of the mortgage application. Generally, long term disability will not have a defined expiration date and it must be expected to continue. The requirement for re-evaluation is not considered an expiration date. If the borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long-term benefits amount must be used to qualify the borrower. Disability and/or workers compensation benefits must be stable and expected to continue for at least 3 years. Non-taxable benefits can be grossed up provided it is verified as non-taxable.

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
	Note: When the income is verified to be non-taxable, and its tax exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower *if the additional income is needed to qualify* for the product, program or loan amount applied for. The previous year's tax rate must be used to calculate grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation. Refer to the Tax-Exempt Income/ Non-Taxable Income topic in this section for documentation requirements that must be obtained to determine if a particular source of income is non-taxable. Documentation Requirements: • Copy of Disability policy or Benefits Statement • A statement from the benefits' payer (insurance company, employer, or other qualified and disinterested third party) confirming the borrower's current eligibility • 2-months deposit slips and/or bank statements/cancelled checks evidencing regular deposit.
FOSTER CARE	Foster care income is received from a state-or county-sponsored organization for the temporary care of one or more children. This income may be considered provided the borrower has a 2-year history of providing foster-care services under a recognized program, and is likely to continue for the next 3 years at a level that supports the amount of income needed for qualifying for the mortgage. Documentation Requirements: • Letters from the organization providing the income showing a 2 year payment history; and • 2 years most recent personal tax returns; or • 24-months deposit slips or bank statements/cancelled checks confirming regular deposit of the payments.
GAMBLING WINNINGS	Funds are usually considered as a lump sum distribution and therefore not considered income. However, if the borrower is a professional gambler and the earnings are from his/her self-employed business the income may be used for qualifying. The income must be documented and analyzed per the requirements outlined in 1508.5-Employment & Income/Self Employed Income section. Lottery winners will be considered on a case-by-case basis. Documentation Requirements: • 2 years most recent tax returns with all Schedules
GIFT INCOME	Not permitted.
INHERITANCE & OTHER GUARANTEED INCOME	Ongoing income received from inheritance or other guaranteed sources—such as prize earnings, or lottery winnings—may be used to qualify provided it can be verified that the income is regular and recurring. Typically, the borrower should have a documented history of receiving it for at least 2-years and verify that it will continue for at least 3 more years. A copy of the award letter confirming the amount, frequency, duration of payments, and evidence of receipt for the previous 2 years is required. Borrowers who do not have a 2-year history of receiving the income may still be considered contingent upon the terms of the payout. **Example:** The income is guaranteed to continue for the next 20 years but the borrower has only received one payment/installment. Documentation Requirements: • Copy of Award letter confirming amount, frequency, and duration of payments; and • 2 years most recent tax returns with all Schedules.
INTEREST & DIVIDENDS	Interest and dividend income are reported on personal tax returns, Schedule B. In order for interest or dividend income to be used as qualifying income the borrower must have a 2-year history of receiving the interest or dividend income and the income must be expected to

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	

	continue for the next 3 years. The assets from which the interest and dividend income was earned must also be verified via most recent bank statements. Any taxable interest or dividend income that is not recurring must not be used to qualify.
	Average interest and dividend income received for the last 2 years to calculate the qualifying income. If funds are used for the down payment and closing costs, the value of the assets should be reduced accordingly and the interest and dividends recalculated based on the reduced value.
	Documentation Requirements:
	• 2 years most recent tax returns with Schedule B; and
	• Account Statements showing sufficient assets available to continue generating dividends and interest after closing; **and**
	• Determine that the income is likely to continue based on an established earnings trend.
	  ○ If the trend is stable or increasing, income can be averaged over the two year period.
	  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.

K-1 INCOME W/ <25% OWNERSHIP	When a borrower receives K-1 income but has <25% ownership of a partnership, S corporation, or LLC, ordinary income, net rental real estate income and other net rental income reported on IRS Form 1065 or IRS Form 1120S, the income may be used to qualify the borrower provided: • The borrower can document ownership share (may use Schedule K-1); • The borrower can document access to the income; and • The business has adequate liquidity to support the withdrawal of the earnings. **K-1 Cash Distributions** If the Schedule K-1 reflects a stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, the Schedule K-1 income may be used to qualify, no additional documentation of access to the income or adequate liquidity is required. If the Schedule K-1 does not reflect a stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, additional review is required. In addition to the documentation requirements as listed below, the following must be documented and reviewed: • Evidence that the borrower has access to the income such as partnership agreement or corporate resolution confirming access to the income. • Evidence that the business has adequate liquidity to support the withdrawal of the earnings. The underwriter needs to determine what documentation is acceptable to determine that the business has the capacity to continue making cash distributions at the level of business income being used to qualify. **Schedule K-1 Guaranteed Payments to Partner** If the borrower has a 2 year history of receiving “guaranteed payments” from a partnership or an LLC, the payments can be used to qualify. **Note:** If the borrower has less than a 2 year history of receiving “guaranteed payments” it may only be used to qualify IF the borrower has recently acquired a minimal ownership in a professional services partnership (i.e., medical practice or law firm) after having an established employment history with the partnership. The borrower’s partnership agreement and evidence of year-to-date income must also be obtained. Documentation Requirements: • 2 years most recent tax returns with Schedule E; and

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
	• 2 years most recent Schedule K-1.
MILITARY BENEFITS	Military personnel may be entitled to different types of pay in addition to their base pay. The following may be considered stable income provided there is documentation verifying the income will continue for at least 3 years. ✓ Flight Pay ✓ Hazardous Duty Pay ✓ Rations ✓ Clothing Allowance (usually paid yearly) ✓ Housing Allowances **Education benefits may not be used to calculate qualifying income.** Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments, allowances, estimated time in service, and the amount of net and gross pay. Also, obtain and verify the following information from the borrower's latest Leave and Earnings Statement (LES): ✓ Military Rank ✓ Social Security Number ✓ Length of active service to date ✓ Estimated remaining time at present location The tax-free income from housing (BAQ), rations, uniforms, food, flight pay, etc., can be used as income to qualify for the loan as long the income will continue for at least 3 years. Grossing up of this income is subject to standard KEYSTONE FUNDING INC guidelines. <u>Documentation Requirements</u>: • YTD LES documenting at least 30 days of income • W-2's for the most recent two years • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing; or • *For military personnel only*, verification through the online Defense Manpower Data Center no more than 30 days prior to close is permitted in lieu of a verbal VOE or additional Leave and Earnings Statement (LES). **Military Reserve:** Income paid to military reservists may be used to qualify as long as the borrower has a 2-year history or receipt and the income is expected to continue for the next 3 years.
MINISTER / CLERGY INCOME	Ministers and other clergy members are typically paid a monthly base pay plus "other" income. The amount of "other" income may vary widely and may or may not be taxable income. Often, ministers are self-employed and/or have unreimbursed business expenses. Housing allowance is typical and may be considered with acceptable verification and documentation. • Review YTD paystubs and W-2s/1099s and personal tax returns to determine income. Review personal federal tax returns/IRS transcripts to determine unreimbursed business expenses which must be deducted from qualifying income if the tax returns reflect "other" income >25% of the borrowers annual employment income. • Documentation provided must show income has been received for most recent 12 months and likely to continue for the next 3 years. • If there is any indication that all or part of the income is not likely to continue, it should not be used to qualify the borrower.
MORTGAGE DIFFERENTIAL / COLA	A mortgage differential/cost of living adjustment (COLA) is a type of incentive paid to relocating borrowers. During a period of high mortgage interest rates, employers will often offer mortgage differential or COLA to subsidize the employee's mortgage payments by paying all or part of the difference between the employees present and proposed mortgage payments.

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
	A mortgage differential/COLA is an acceptable source of income provided the employer verifies the terms, amount, and duration of the payments in writing. The payments must continue for at least 3 years. If the terms of the mortgage differential/COLA pay indicate a decline from year to year, the lowest of the scheduled payments during the three years after the mortgage closing should be used to qualify. This income may not be used to offset the new mortgage payment. Documentation Requirements: • Copy of the Agreement from the employer stating the amount and 3 years continuance.
NOTES RECEIVABLE	Income from notes receivable may be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 1-year and can verify that the income will continue for at least 3 years. Documentation Requirements: • A copy of the Note confirming the amount, frequency, and 3 years continuance; and • Most recent 2 years' tax returns with Schedule B; or • 12-months deposit slips and/or bank statements/cancelled checks evidencing regular deposit of the fund Notes receivable income on newly executed notes, that do not have at least a 12 month history of receipt but has a minimum duration of 3 years, may not be used to qualify.
PUBLIC ASSISTANCE	Types of Public Assistance income include but are not limited to Social Security, Section 8 Housing Voucher, Food Stamps and SNAP. Public Assistance income may not be discounted or treated differently than wage income. It may be considered if the income is properly documented by letters or exhibits from the paying agency. The amount and frequency must be stated in the letters/exhibits and there is no statement that the income will not continue. Documentation Requirements: • 2 months deposit slips and/or bank statements/cancelled checks evidencing regular deposit of the fund; and • Receipt of Letters or Exhibits from paying agency showing amount, frequency, and 3 years continuance.
RETIREMENT ASSETS USED AS QUALIFYING INCOME	Not permitted.
RETIREMENT PENSION	Retirement/pension income may be considered as long as the amount makes sense based on the information provided and time limits of its receipt seem reasonable. Pension income is reported via a 1099. This income can be either taxable or non-taxable and must be expected to continue for the next 3 years. Non-taxable benefits can be grossed up provided it is verified as non-taxable. **Note:** When the income is verified to be non-taxable, and its tax exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower *if the additional income is needed to qualify* for the product, program or loan amount applied for. The previous year's tax rate must be used to calculate grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation. Refer to the documentation requirements under theta-Exempt Income/ Non-Taxable Income topic below for additional information. **Lump Sum Distributions** Borrowers who have recently retired and opted to take a lump sum distribution are eligible to use the income as qualifying provided the borrower has transferred funds to an annuity or similar account that allows for regular withdrawals and the account is set up for regular withdrawals. A letter from the borrower's financial advisor is required to verify the terms of the withdrawal.

<table>
<tr><th colspan="2">Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.</th></tr>
<tr><td></td><td>If funds are not set up in an account allowing for regular withdrawals, income may not be used to qualify.

<u>Documentation Requirements</u>
• Copies of most recent 1 years' 1099 or IRS W-2; or
• 2-months financial statements or bank statements evidencing regular deposit of the fund; or
• Statement from the organization providing the income; or
• Most recent 1 years' Signed Federal Tax Return

If retirement income is paid as a monthly distribution from a 401(k), IRA or Keogh retirement account, the income must continue for the next 3 years. The retirement accounts (IRAs, 401k or Keogh) may be combined to determine the 3 years continuance. In addition the following apply:
• Borrower must have unrestricted access without penalty to the accounts; and
• If the assets are in the form of stocks, bonds or mutual funds, 70% of the value must be used to determine the number of distributions remaining to account for the nature of the assets.
Note: Unrestricted access is obtained by borrower arranging under Internal Revenue Code Section 72(t) for distributions and if the distributions are in a series of substantially equal periodic payments (not less frequently than annually) there shall be no associated income tax increase.</td></tr>
<tr><td>ROYALTY PAYMENTS</td><td>Royalty payments may be used to qualify if they have been received on a regular basis for the most recent 12 months and are likely to continue for the next 3 years.
The income is verified by the most recent 2 years' personal tax returns, including Schedule E.
<u>Documentation Requirements</u>:
• 2 years' most recent tax returns with all Schedules, and
• Documentation that the income will continue for 3 years, and
• Obtain copies of the royalty contract, agreement or statement confirming amount, frequency & duration of the income.
• Determine that the income is likely to continue based on an established earnings trend.
  ○ If the trend is stable or increasing, income can be averaged over the two year period.
  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.</td></tr>
<tr><td>SOCIAL SECURITY</td><td>Social Security income, a type of public assistance, may not be discounted or treated differently than wage income. Social Security benefits or award statements are normally issued each year by the Social Security Administration to reflect cost of living adjustments. This income can be either taxable or non-taxable. The portion that is non-taxable can be grossed up provided it is verified as non-taxable income.

Note: When the income is verified to be non-taxable, and its tax exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower if the additional income is needed to qualify for the product, program or loan amount applied for. The previous year's tax rate must be used to calculate grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation. Refer to the documentation requirements under Tax-Exempt Income/ Non-Taxable topic for additional information.

Social Security income for retirement or long-term disability that the borrower is receiving from his/her own account/work record will not have a defined expiration date and must be treated as though income is "expected to continue".

If Social Security benefits are being paid as a benefit for a family member of the benefit owner</td></tr>
</table>

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.

and the income has a defined expiration date due to recipient's age, the income may be used in qualifying; however, you must obtain evidence that the income will continue for at least three years from the date of the mortgage application**.**

Documentation Requirements

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record	Borrower is drawing Social Security benefits from another person's account/ work record
Retirement **Disability**	• Most recent Social Security Administrator's (SSA) Award Letter	• Most recent SSA Award Letter; • Proof of current Receipt; AND • If Social Security income has a defined expiration date due to recipient's age, you must obtain evidence that income will continue for at least three years.
Survivor Benefits	N/A	
Supplement Security Income (SSI)	• Most recent SSA Award Letter; and • Proof of current receipt	N/A

Note: If the borrower is presently employed but is anticipating retirement within the next 12 months, anticipated retirement income should also be taken into consideration. For newly established SSI benefits, a recently issued Social Security award letter reflecting the finalized terms may be used to document the income if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by the award letter. Verification of receipt is not required.

TAX EXEMPT / NON-TAXABLE INCOME

A borrower with tax-exempt/non-taxable income should be evaluated in the same manner as a borrower who has a higher gross taxable income. Tax-exempt sources may include

- ✓ Child support payments,
- ✓ Social Security benefits,
- ✓ Disability retirement payments,
- ✓ Workers' compensation benefits,
- ✓ Supplemental Nutrition Assistance Program (SNAP)
- ✓ Public Assistance Payments
- ✓ Section 8 Housing Payments
- ✓ Tax Free Municipal Bonds

- Section 8 Income may be considered. The payments may not be used to offset the monthly housing payment. The public agency that provides the payment must provide documentation that shows the amount and terms of the monthly payment received and if the income is nontaxable. The documentation must show that the payments are made directly to the borrower. If the Section 8 income is determined to be nontaxable it may be grossed up as described below.
- Tax-exempt trust and inheritance income may be considered provided there is sufficient documentation to support the tax-exempt status.
- Verify that the particular source of income is tax-exempt and that both the income and its tax-

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
	exempt status are likely to continue. Acceptable forms of documentation include award letter, policy agreements, and account statements. • If the income is verified to be non-taxable, and its tax exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower *if the additional income is needed to qualify* for the product, program or loan amount applied for. The previous year's tax rate must be used to calculate grossed up percentage. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation. Refer to the specific income types in this section to determine if the income may be grossed up. **Documentation Requirements:** • 1 year's most recent tax returns with all Schedules; or • Other documents showing that the income, or a portion is nontaxable **Note:** If the borrower indicates in any way that s/he did not file a tax return and the 4506-C transcript confirms there is no filing, no additional documentation is required.
TEMPORARY LEAVE	Temporary leave from work is generally short in duration and may be for family, medical, maternity, short-term disability, or other temporary leave that is acceptable by law or the borrower's employer. During a temporary leave the borrower's income may or may not be reduced or the borrower may not be paid during their absence from work. Leave is no longer considered temporary when the borrower does not intend to return to their current employer or they do not have a commitment from their current employer to return to work. Income used to qualify is determined by when the borrower will be returning to work: • If the borrower will return to work prior to the first mortgage payment being due, the borrower's regular employment income that will be received upon their return to employment can be used to qualify. • If the borrower will not return to work prior to the first mortgage payment being due, the lesser of the borrower's temporary leave income (if any) or their regular employment income may be used to qualify. **Supplemental Income** If the borrower will not return to work prior to the first mortgage payment being due and the borrower's temporary income is less than their regular pay, liquid assets may be used to supplement the temporary leave income. However, the total qualifying income (temporary leave income plus supplemental income) may not exceed the borrower's gross monthly income that will be received upon their return to their current employer. Supplemental Income= Available liquid reserves* ÷ the number of months of supplemental income** *Available liquid reserves: Total liquid assets reduced by the amount of funds needed to complete the transaction (down payment, closing costs, prepaids, other debt payoff, required reserves, etc.). **Number of months of supplemental income: The number of months from the first mortgage payment date to the date the borrower will begin receiving his/her regular employment income, rounded up to the next whole number. **Qualifying Income** Total Qualifying Income = Temporary Leave Income + Supplemental Income **Note:** Total qualifying income may not exceed the borrower's regular employment income. Example: • Regular income amount: $6,000 per month • Temporary leave income: $2,000 per month • Total verified liquid assets: $30,000

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
	• Funds needed to complete the transaction: $18,000 • Available liquid reserves: $12,000 • First payment date: July 1 • Date borrower will begin receiving regular employment income: November 1 Supplemental income $12,000 ÷ 4= $3,000 Total qualifying income: $3,000 + $2,000 = $5,000 **Documentation Requirements:** • Borrower must provide written confirmation of his/her intent to return to work and the agreed upon date of their return as evidenced by documentation provided either from the borrower, directly from the employer, or a third party as designated by the employer. Refer to Borrower Explanations There must not be any evidence or information from the employer indicating that the borrower does not have the right to return to work after the leave period; and • Documentation from the current employer confirming the borrower's statutory right to return to work (or the employers commitment to permit the borrower to return to work), containing the date of return, and the borrowers post-leave employment and income; and • Documentation of the amount and duration of the borrowers temporary leave income, which may require multiple documents or sources depending on the type and duration of the leave period; and • Documentation of the amount of the regular employment income that the borrower received prior to the temporary leave. This should include all eligible sources of income that could be used to qualify under normal circumstances (i.e., base pay, commissions, bonus, overtime, etc); and • Verbal verification of employment. If the employer confirms the borrower is currently on temporary leave, the borrower must be considered employed; and • If supplemental income is being used to qualify, the liquid assets must be verified according to the documentation process type selected; and • Underwriter's rationale must include how qualifying income was calculated.
TRAILING CO-BORROWER INCOME	Trailing co-borrower income may not be used to qualify the borrower.
TRUST INCOME	Income from a trust may be used provided it is properly documented. The trust must have sufficient assets to maintain the same level of payments for the next 3 years. A copy of the trust agreement is generally required. Acceptable forms of verification include a copy of the trust agreement or the trustee's statement confirming the amount, frequency, duration of payments, and what portion if any is tax-free. Income must continue for at least 3 years. Lump-sum distributions made before the loan closing may be used for the down payment or closing costs if they are verified by a copy of the check or the trustee's letter showing the distribution amount. Refer to Wholesale Manual Section 803.1-Living Trust/Inter Vivos Revocable Trust for additional details regarding trusts. **Estates & Trusts:** Income from estates and trusts can be very complex in nature; therefore, there must be documented evidence of the amount, frequency of receipt, and continuance for the next 3 years. Losses from estates and trusts must be analyzed for disallowed losses. **Documentation Requirements**: • Copy of Trust Agreement or trustee's statement that verifies the amount, frequency, and 3 years continuance; and • 2 years most recent tax returns with all Schedules (if Agreement/statement does not include information about historical level of distributions from the trust)

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	
UNEMPLOYMENT BENEFITS	Unemployment compensation associated with seasonal employment may be considered qualifying income if the borrower has a two-year history of receipt and the unemployment compensation is likely to continue for the next three years. **Documentation Requirements**: • YTD paystub or salary voucher documenting at least 30 days of income and • 2 years most recent tax returns with all schedules evidencing proof of receipt of unemployment compensation for two years and • Verify that the income is likely to continue (no evidence from the employer that the income will no longer be received and it is determined that the income is likely to continue based on an established earnings trend.)
VA BENEFITS	Borrowers receiving VA benefits can use the income with proof the benefits will continue for at least three years from the date of loan application. Income must be documented with a letter or distribution from the VA. **Education benefits may not be used to calculate qualifying income.** **Documentation Requirements:** • Copy of VA Benefits Letter or distribution form from VA showing amount, frequency, and duration of benefits
VESTED RESTRICTED STOCK	Vested restricted stock plans provide an employee the right to purchase shares of company stock at fair market value or a discount, or employees may receive shares at no cost. However, the employee cannot take possession of the shares until vesting restrictions are met. Most commonly, the vesting restriction is met if the employee continues to work for the company for a certain number of years, often three to five. Time-based restrictions may lapse all at once or gradually. If the recipient does not meet the conditions the company set forth prior to the end of the vesting period, the shares are typically forfeited. **Note:** To avoid counting the income/asset twice, if restricted stock is used as income, it cannot be used as an asset, nor can dividend interest or capital gains income from the same restricted stock be used. **Restricted Stock is classified as follows:** Restricted Stock Award (RSA) is a grant of employer stock in which the employee rights in the stock are restricted until the shares vest. Once the RSA shares have vested, the employee owns the shares outright, and may hold, sell, or otherwise dispose of the shares without risk of forfeiture. Restricted Stock Unit (RSU) is a grant of company stock, but company stock is not issued at the time of the grant. The employer makes payment at a future date as specified in the company plan. After the employee satisfies the vesting requirement the employer distributes shares or the cash equivalent of the number of shares used to value the unit. Assuming the grant vests under the vesting rules that apply, the employee will receive shares of company stock or the cash equivalent (depending on your company's plan rules) when they reach the distribution date specified the plan and grant agreement. **Vested RSA's and RSU's** Although not typically used as qualifying income, vested RSA's and RSU's may be considered as qualifying income if the loan documentation supports. The borrower must have a verified history of receiving income from RSA's and/or RSU's for at least 2-years and the likelihood of its continuance must be verified. **Documentation Requirements** • 2 years most recent tax returns with all schedules if restricted stock income is reported on Schedule D. • 2 most recent year-end paystubs if the W-2's do not provide the breakdown of base pay and restricted stock. • Account Statements showing history of restricted stock grants as well as future grants available to continue generating income after closing; and

Refer to the appropriate Chapter/Section in the Wholesale Manual for informationnot addressed in Non-Agency –Chapter 1500.	

	• The restricted stock used to qualify must be fully vested; and
	• Determine that the income is likely to continue based on an established earnings trend.
	    ○ If the trend is stable or increasing, income can be averaged over the two year period.
	    ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	    ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

EVALUATING RENTAL INCOME

Rental income can be used as qualifying income provided the transaction meets all of the documentation requirements outlined in this section. Rental income may be generated from the following sources:

- Subject property being financed is an owner-occupied 2-4 unit primary residence;
- Subject property being financed is a single family investment property
- Other investment property that the borrower currently owns that is not part of loan transaction.

Rental income generated from a second home or single-family primary residence is not considered stable monthly income, may not be used to qualify the borrower, and may not be considered as a compensating factor to offset the total debt-to-income ratios.

If rental income is **not** used to qualify the subject investment property, the full PITIA must be included in the debt to income ratio.

Income Calculation for all categories:

- If the amount is **positive**, it is added to the qualifying income.
- If the amount is **negative**, it is added to the recurring debts.

The income from rental / investment properties is determined based on if the borrower has a history of renting the subject and/or another property. The rental income will be reported on the IRS for 1040, Schedule E of the borrower's personal tax returns, or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject or another property or if the tax returns do not accurately reflect the ongoing income and expenses of the property, fully executed current lease agreements may be used.

The rental income calculation should be documented in the loan file. Examples of forms that may be used, but are not required, include Fannie Mae Form 1037, 1038, 1038A, 1039 or Freddie Mac Form 92.

CALCULATING RENTAL INCOME ON NON-SUBJECT PROPERTY

If the borrower is qualified using the full housing expense (rental income is not considered), documentation of net rental income is not required.

Refer to the table below for all **Non-Subject Property** income verification requirements.

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

Signed leases may be used to determine the net rental income for an investment property not owned during the previous tax year. Refer to Partial or No Rental History on Tax Returns section for additional

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

eligibility options.

Schedule E - Supplemental Income and Loss

Net Rental Income/Loss should be calculated as follows:

Gross Rents and Royalties Received (from the schedule E)

(-) Total Expenses (from the schedule E)

(+) Amortization/Casualty Loss/Non-recurring Expenses

(+) Insurance

(+) Mortgage Interest

(+) Taxes

(+) HOA fees

(+) Depreciation

Total ÷ 12 to 24 (# of months based on the tax return review above) – monthly PITIA* payment **=** Net rental income/loss per month

*If there is a HELOC secured by the property, the payment per the credit report may be used to calculate the monthly net rental income/loss.

- If positive add to income, if a loss add to the liabilities.
  (Do not include the PITIA in the total obligations, as adding the loss is already taking it into consideration and we don't want to count it against the borrower twice)
- This calculation should be documented in the loan file.

If the current residence is being converted to a second home or investment property, refer to Liabilities: Real Estate Obligations: Departure Property for additional guidelines.

CALCULATING RENTAL INCOME ON SUBJECT PROPERTY

Rental/Investment Property Income/Loss – Subject Property

If the borrower is qualified usin the full housing expense (rental income is not considered), documentation of rental income is not required.

- Small Residential Income Property Appraisal Report (Fannie Mae form #1025 or Freddie form # 72)
- Single Family Comparable Rent Schedule (Fannie form #1007 or Freddie form #1000)

Note: Leases must be current and fully executed, with a minimum original term of one year.

Refer to the table below for all Subject Property income verification requirements.

Does the Borrower Have a History of Receiving Rental Income from the Subject Property? Yes/No	Transaction Type	Documentation Requirements
Yes	Refinance	Average the income/loss unless declining. Verify by use of form 1025/72 or 1007/1000 as applicable and either: • The two most recent federal tax returns with schedule E; or • Current lease agreements that reflect consistent gross rental income if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns below).

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

No	Purchase	Verify by use of form 1025/72 or 1007/1000 as applicable.
		• Copies of the current lease agreement(s), if property is currently rented.
		• To calculate the monthly rental income amount for qualifying:
		  ○ If a tenant is in place at the time of purchase, use 75% of the gross rental income reflected on the lease agreement or verified on form 1007, 1025.
		  ○ If there is not tenant in place at the time of purchase, no rental income may be used.

No	Refinance	Verify by use of form 1025/72 or 1007/1000 as applicable. • Copies of the current lease agreements(s), if property is currently rented. • To calculate the monthly rental income amount for qualifying, use 75% of the gross rental income reflected on the lease agreement or verified on form 1025/72 or 1007/1000.

Note: The income approach on the appraisal and copies of the present lease(s), if applicable, must support the rental income used to qualify the borrower.

If the borrower does not have a documented history of receiving rental income as noted above, refer to Partial or No Rental History section for additional eligibility options.

PARTIAL OR NO RENTAL HISTORY ON TAX RETURN

This policy may be applied to refinance of a subject rental property or to other rental properties owned by the borrower.

If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or for only a portion of the year, qualifying rental income may be determined by using the following:

- Schedule E Income and expenses, and annualizing the income (or loss) calculation; or
- Lease agreement(s) to 75% of the gross rental income to be used in the net rental income (or loss) calculation.

Note: Leases must be current and fully executed, with a minimum original term of one year.

If the property was acquired during or subsequent to the most recent tax filing year,	Then confirm the purchase date using the Closing Disclosure or other documentation • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property.
If the rental property was out of service for an extended period,	• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.

<table>
<tr><th colspan="3">Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.</th></tr>
<tr><td></td><td></td><td>• Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.</td></tr>
<tr><td></td><td>It is determined that some other situation warrants an exception to use a lease agreement,</td><td>The loan file must contain an explanation and justification to support using a lease agreement.</td></tr>
<tr><td>RENTAL INCOME REPORTED THROUGH A PARTNERSHIP OR S-CORPORATION</td><td colspan="2">If the borrower is personally obligated on a mortgage debt (as evidenced by the credit report) and gross rents and related expenses are reported through a Partnership or an S-Corp, Form 8825 maybe used to calculate net rental income or loss for the property.

The Partnership or S-Corp must be documented and analyzed according to the Employment & Income/Self-Employed Income/Partnership or Employment & Income/Self-Employed Income/S-Corp section.
• Obtain Partnership or S-Corp business tax returns, including IRS Form 8825.
• Analyze each property listed on Form 8825 as follows:

Form 8825- Rental Income and Expenses
Gross Rents
(-) Total Expenses
(+) Non-recurring Expenses
(+) Insurance
(+) Mortgage Interest
(+) Taxes
(+) HOA fees
(+) Depreciation
Total ÷ 12 or (# of months based on the tax return review) – monthly PITIA payment = Net cash flow
• If the net cash flow is positive, exclude the property PITIA from the borrower's monthly obligations.
• If the net cash flow is negative (not sufficient to offset the properties PITIA) the negative amount must be included in the DTI calculation.</td></tr>
</table>

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
EVALUATING SELF-EMPLOYED INCOME	A Self Employed Income Analysis Form must be completed on every transaction and retained in the permanent loan file. Examples of this form include Freddie Mac Form 91 or Fannie Mae Form 1084. An individual receiving income from any of the following sources must be qualified as self-employed: • Borrower has an ownership interest of 25% or more in a business. The business may be a sole proprietorship, a general partnership, limited partnership, corporation, or S-corporation. Loans must be coded as self-employed • Borrower relies on investments for income (e.g., interests, dividends, capital gains, or real estate). • Borrower is a member of the clergy and files taxes as self-employed. (Additional guidelines apply if a portion of their income is for housing, which may be tax exempt—federal and state. Refer to Section 1508.5-Employment and Income/Other Income/Minister-Clergy topic for details.) • Borrower is a contract worker (1099 income) • Borrower receives income from the subject property seller or broker A 2-year self-employment history, which includes verifying the borrower has ownership in the business, is required to ensure that the income is stable. Less than 2-years may be considered provided the borrower has a recent 2-year history of successful employment in the same occupation (or a related field) and they have been self-employed for at least 1 full tax year. The borrower's most recent 2 years signed federal income tax returns, including all schedules, must reflect the receipt of income at the same or greater level in a line of business that provides the same products or services as the current business or in an occupation in which s/he had similar responsibilities to those undertaken in connection with the current business. Individual tax returns and business tax returns (when applicable must be signed by the borrower. For individual tax returns, the underwriter may accept one of the following alternatives to the Borrower's signature on the tax returns: • Documentation confirming that the tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent); • A completed IRS form 4506-C (signed by the borrower) for the year in question; or • IRS transcripts that validate the information on the unsigned tax returns. **Notes:** There are some self-employed borrowers who, although classified as such, may not own their own business per se. E.g., 1099 contract workers, borrowers relying on investments for income, borrowers who receive commission income, etc. In these instances, verifying the borrower has ownership in the business is not necessary. A self-employed individual's income is calculated based on the tax returns. Business tax returns are analyzed to assess the likelihood of continued personal income to the borrower. The cash flow of the corporation and an analysis of the trends experienced by the business are used to determine its viability. The inclusion of projected gross or net business income, retained earnings, or capital withdrawal generally may <u>not</u> be used when calculating qualifying income. This restriction applies to all businesses, including closely held corporations. If any of the borrowers are self-employed, their personal tax returns must be reviewed to determine if there is a business loss that may have an impact on the total qualifying income <u>even if the income from the self-employed business is not being used to qualify</u>. **Note:** If personal or business tax returns are included in the loan file for a borrower or co-borrower(s), the underwriter must review and consider in their credit evaluation. The underwriter may not disregard data in tax returns just because they are not required.
BUSINESS RESTRUCTURING	It is not unusual for a business to change their structure to take advantage of various tax or business laws. Although the most common business conversion is from a sole proprietorship to something else, other conversions also occur. A conversion provides the business owner with

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

more protection and less liability. A change like this doesn't necessarily mean the borrower is starting a new business. For example, a business begins as a sole proprietorship and then switches to a partnership, corporation, or S-corporation.

The total length of the business' existence must be at least 2-years. Average income should be calculated using income from both business structures—the current as well as the previous—as long as it can be confirmed that the nature of the business remains the same. Additional adjustments may be required if the restructure occurred. Nevertheless, the result should be the same.

CALCULATING CASH FLOW: PARTNERSHIP & S-CORPORATIONS

Ordinary income, net rental income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided:

- The borrower can document ownership share (may use Schedule K-1);
- The borrower can document access to the income; and
- The business has adequate liquidity to support the withdrawal of earnings.

Note: Borrowers, who have less than 25% ownership, refer to1508.5-Employment and Income/ Other Income section for requirements.

If…	Then…
The Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify…	No further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.
The Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify…	Must confirm the following to include the income in the borrower's cash flow: • The borrower can document access to the income (such as a partnership agreement or corporate resolution)—unless the borrower(s) own 100% of the business, in which case confirmation of access to the income is not required; and • The business has adequate liquidity to support the withdrawal of earnings.
The borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC…	These payments can be added to the borrower's cash flow.
Business tax returns are required…	The type of business structure and analysis of the business returns as indicated in this section of Policy must be considered in accordance with requirements.

Business income may be used to qualify only if the following is documented and verified:

- The income was distributed to the borrower, or
- The business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

It is important to select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriated for businesses that rely heavily on inventory to generate income. This test excludes inventory from assets in calculating the proportion of current assets available to meet current liabilities.

  Quick Ratio = (current assets – inventory) / current liabilities
- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income).

  Current Ratio = current assets / current liabilities

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
	For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.
CONTRACT EMPLOYEES	Individuals who work on a contractual basis rather than as an employee, are treated as self-employed and must have a 2-year history in the same line of work. Because the individual may be released from employment at any time, or as specified in their contract, employment history is key in establishing income stability and the likelihood that it will continue. Required Documentation: • 2 years most recent personal tax returns with all W-2s or 1099's; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.
CORPORATION	One or a group of individuals establishes a corporation for various tax and liability purposes. Documentation with original signatures of the borrower must be prepared in accordance with standard accounting procedures. Cash flow is determined by taking taxable income minus total tax and adding back: depreciation, depletion, pension or net operating loss deductions listed on the return. The corporation must report income and losses on IRS Form 1120 and individual owners may be paid by W-2 or 1099. Complete signed and dated personal tax returns and corporate returns for the most recent two years must be included in the loan file. Required Documentation: • 2 years most recent personal and business tax returns signed and dated with all Schedules and W-2s or 1099s (tax returns must reflect at least 12 months of self-employed income); and • Year-to-date unaudited profit and loss (P&L) statement and balance sheet for the business either: 　○ Completed by the business's tax preparer; or 　○ Completed by the borrower with evidence provided that the document has been viewed by the business's tax preparer or an appropriate third party who is not affiliated with the loan transaction. 　The year-to-date P&L and balance sheet are required when the application is dated more than 90 days after the end of the business' fiscal or calendar year end; and • Income Analysis Form; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing. **Note:** Corporate income may not be used unless the borrower owns 100% of the business. (**Note:** W-2/1099 earnings are eligible.)
DOCUMENTING THE TRANSACTION	Generally speaking, if the borrower is self-employed, the business must have been in existence for at least 2-years (as stated on the application), although the underwriter may consider amounts less than 2 years—but not less than 12 months on most recent tax return—with documented extenuating circumstances. An explanation as to why self-employed income with a history of less than 2 years was used to qualify must also be documented in the loan. All letters of explanation must be signed by the Borrower prior to close. Refer to Section 1508.2-Credit/Analysis/Borrower Letters of Explanation for more information. **Note**: If the application date is after the April IRS cutoff date, tax returns for the prior year or a copy of an extension must be obtained. Refer to 1508.5-Employment and Income/Tax Returns/.Age of Federal Tax Returns for details. A Self Employed Income Analysis Form must be completed on every transaction and retained in the permanent loan file. Examples of this form include Freddie Mac Form 91 or Fannie Mae Form 1084. **Note:** If tax returns are included in the loan file for a borrower or co-borrower(s), the underwriter must review and consider in their credit evaluation any information. The underwriter may not disregard data in tax returns just because they are not required.

<table>
<tr><th colspan="2">Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.</th></tr>
<tr><td>FARM INCOME</td><td>Provided it can be verified that it is stable, consistent, and recurring, cash flow for depreciation, amortization, casualty loss, depletion, or business use of home may be added back.
<u>Required Documentation</u>:
• 2 years most recent personal tax returns signed and dated with Schedule F; and
• Income Analysis Form; and
• Verification that borrower’s business remains open and in existence performed no more than 30 calendar days prior to the loan closing.
Note: Hobby farms that are not the primary source of income must be reviewed for a loss on the tax returns.</td></tr>
<tr><td>PARTNERSHIP</td><td>There are 2 types of partnerships—a general partner and a limited partner.
• A general partnership indicates that the individual has full ownership interest and is totally liable for the business.
• A limited partner’s liability is limited to the amount of their investment only.
The partnership must report its profit or loss on IRS Form 1065 and each partner’s share of the profit or loss is reported on Schedule K-1 of the 1065. Complete signed and dated personal tax returns and partnership returns for the most recent two years must be included in the loan file.
The cash flow of the partnership must be analyzed to assess the stability of the borrower’s personal cash flow. This provides a snapshot of the business’ ability to meet its short-term obligations. Analyzing the 1065 tax return and giving credit for ordinary income, depreciation, depletion and pension expenses determine cash flow. Discretionary losses should be excluded from the cash flow analysis if the business is a limited partnership and the borrower provides a copy of the partnership agreement stating that all subsequent contributions are voluntary. (Refer to the Calculating Cash Flow: Partnerships & S-Corporations topic in this section.)
<u>Required Documentation</u>:
• 2 years most recent personal & business tax returns signed and dated with all Schedules including Partnership return and K-1s (tax returns must reflect at least 12 months of self-employed income); and
• Year-to-date unaudited profit and loss (P&L) statement and balance sheet for the business either:
    ○ Completed by the business’s tax preparer; or
    ○ Completed by the borrower with evidence provided that the document has been viewed by the business’s tax preparer or an appropriate third party who is not affiliated with the loan transaction.
The year-to-date P&L and balance sheet are required when the application is dated more than 90 days after the end of the business’ fiscal or calendar year end; and
• Income Analysis Form; and
• Verification that borrower’s business remains open and in existence performed no more than 30 calendar days prior to the loan closing.</td></tr>
<tr><td>S-CORPORATION</td><td>An S-corporation has the same legal characteristics as a corporation except income and/or losses pass through to the owners/shareholders in the corporation. It may be either the borrower’s primary employment or an investment vehicle. Depreciation and depletion can be proportionately added back to the borrower’s income since they are considered non-cash expenses.
The S-Corporation must report income and losses on IRS Form 1120S and each partners share of the profit or loss is reported on Schedule K-1 of the 1120S. Complete signed and dated personal tax returns and corporate returns for the most recent two years must be included in the loan file.
<u>Required Documentation</u>:
• 2 years most recent personal and business tax returns signed and dated with all Schedules</td></tr>
</table>

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
	and K-1s (tax returns must reflect at least 12 months of self-employed income); and • Year-to-date unaudited profit and loss (P&L) statement and balance sheet for the business either: ○ Completed by the business's tax preparer; or ○ Completed by the borrower with evidence provided that the document has been viewed by the business's tax preparer or an appropriate third party who is not affiliated with the loan transaction. The year-to-date P&L and balance sheet are required when the application is dated more than 90 days after the end of the business' fiscal or calendar year end; and • Income Analysis Form; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing.
SELF-EMPLOYED ANALYSIS FORM	A Self Employed Income Analysis Form must be completed on every transaction and retained in the permanent loan file. Examples of this form include Freddie Mac Form 91 or Fannie Mae Form 1084. Refer to the Tax Return Analysis section of this chapter for more information regarding the review of tax returns.
SOLE PROPRIETOR	As an individual owner of a business, the sole proprietor has unlimited personal liability for the debts of the business. There is no distinction between the owner's personal assets and the assets used in the business. The success of this type of organization is solely dependent on the individual who owns it. The income, expenses and taxable profits are reported on the owner's personal tax returns, Schedule C. Complete signed and dated personal tax returns for the most recent two years must be included in the loan file. When there is evidence of a large increase in net profits from the prior year, and the income is needed to qualify, additional information may be required to substantiate the income. The borrower must provide a detailed letter from their CPA explaining the cause of the increase along with an audited year-to-date Profit and Loss Statement. **Required Documentation:** • 2 years most recent tax returns signed and dated with all Schedules (tax returns must reflect at least 12 months of self-employed income); and • Income Analysis Form; and • Verification that borrower's business remains open and in existence performed no more than 30 calendar days prior to the loan closing. **Note:** Third party vendors may be used as an alternative method for verifying self-employed Schedule C income. The verification must provide the same level of documentation defined in this fact sheet. If it does not, additional supplements must be obtained to meet documentation requirements. Refer to Section 1508.5-Employment and Income/ Wage Income section for additional requirements that must be met for Third Party Verification Services.
VERIFYING THE EXISTENCE OF THE BUSINESS	Confirmation that the borrower's business remains open and in existence must be verified within 30 calendar days prior to the loan closing when a borrower(s) has 25% or greater ownership in the business. Confirmation is not required if the business income is not used to qualify or if there is a business loss. Verification should include: • Documentation prepared/issued by from a third party, such as a CPA, regulatory agency, or applicable licensing bureau, if possible; OR • Obtaining a phone listing and address for the borrower's business using telephone book, the Internet or directory assistance. Internet sites such as 411.com, Chamber of Commerce sites and Manta.com where they allow the business owner to add their own information are not acceptable.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.	
	• If the above items are not obtainable, the following alternative methods may be used: o A current statement of bond insurance (the insurance policy must be a minimum of 2 yrs. old); or o Evidence of workers compensation/liability insurance. The underwriting rationale must clearly state why the alternative method was used and how the verification confirms the existence of the business. • For all of the methods of verification, the lender must document the source of the information obtained as follows: o Name and address of the business, and o The entity contacted (if applicable), and o The date the information is verified, and o The name and tile of the person who obtained the verification. **Note:** At the underwriter's discretion, on a case-by-case basis, other sources may be used to verify employment but must be thoroughly explained and documented.

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

AGE OF FEDERAL TAX RETURNS

For some types of income, KEYSTONE FUNDING INC requires borrowers to provide copies of federal income tax returns(personal returns and, if applicable, business returns). The "most recent year's" tax return is defined as the last return scheduled to have been filed with the IRS.

The timing of tax returns varies depending on the application date and disbursement date of the mortgage loan. The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage.

<table>
<tr><th>Application Date</th><th>Note Date</th><th>Documentation Required</th></tr>
<tr><td>October 15[1], (current year minus 1), to April 14[2], current year</td><td>October 15[1], (current year minus 1), to April 14[2], current year</td><td>The most recent year's tax return (as identified in the chart above) is required. The use of a Tax Extension is not permitted.</td></tr>
<tr><td>April 15[1] current</td><td>May 30</td><td rowspan="2">The following must be obtained:
• The most recent year's tax return, OR all of the following:
○ A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS. (Refer to the Processing & Analyzing The 4506-C section for requirements)
○ IRS form 4506-C transcripts confirming "No Transcripts Available" for the applicable tax year; and
○ Returns for the previous two years or as determined by AUS.</td></tr>
<tr><td>All Applications</td><td>May 31 – October 31</td></tr>
<tr><td>All Applications</td><td>November 1 to April 14 (current year plus 1)</td><td>The most recent year's tax return (as defined above). Tax Extensions are not permitted.</td></tr>
</table>

[1] Or the April/October filing date for the year in question as published by the IRS.

[2] Or the day prior to the April/October filing date for the year in question as published by the IRS.

Note: For business tax returns, if the borrower's business follows a fiscal year (a year ending on the last day of any month except December), the dates in the chart above may be adjusted to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

IRS EXTENSIONS

If the borrower has requested an extension to file their most recent tax returns, a copy of ALL applicable extension requests along with filed tax returns for the two prior years, or one year as required by the AUS, must be provided.

Form 4868 extends the filing date to October 15. The amount of tax liability disclosed on Form 4868 must be compared to the previous 2 years tax liability. Extension requests that reflect a lower tax liability than years' prior must be carefully reviewed and guidelines for declining income should be followed if applicable.

Extension requests that exceed the October 15th filing date require verification of approval from the IRS.

TAX FORMS

Form 1040: Individual Tax Returns

Personal federal income tax returns, if applicable, must be borrower-signed copies or duplicates of the original returns that were filed with the IRS. All supporting schedules must be included.

Note: Individual tax returns must be signed by the borrower unless one of the following alternatives is obtained:

- Documentation confirming that the tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent);

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

- A completed IRS form 4506-C (signed by the borrower) for the year in question; or
- IRS transcripts that validate the information on the unsigned tax returns.

Refer to the applicable income topic in this chapter for documentation and calculation of income.

Schedule A: Itemized Deductions

This form lists itemized deductions, including medical expenses, taxes, interest expenses, charitable contributions, casualty and theft losses, un-reimbursed job expenses and other miscellaneous deductions. For additional information regarding the treatment of Non-Reimbursed Business Expenses refer to 1508.3-Liabilities/Recurring Debts and 1508.4-Assets/Source of Funds sections.

Schedule B: Interest & Dividend Income

This form is used to determine the source and amounts of investment income, including tax exempt interest, non-taxable dividend distributions, and dividend income earned on stocks sold during the year. Refer to Section 1508.5-Employment & Income/Other Income/ Interest and Dividend Income for details.

Schedule C: Profit or Loss from Business

This form is used to determine the business income or loss of a sole proprietorship. Refer to Section 1508.5 -Employment & Income/Self Employed Income/Sole Proprietor section for details.

Schedule D: Capital Gains/ Losses

This form details gains or losses from investments such as stocks, bonds, etc. Refer to Section 1508.5-Employment & Income/Other Non-Employment Income/Capital Gains/Losses section for details.

Schedule E: Supplemental Income and Loss

This form details supplemental income from rental properties, Partnerships, S-Corporations, estate and real estate mortgage investment conduits. Refer to 1508.5-Employment & Income/Rental Income section for details. For all other sources of income refer to 1508.5-Employment & Income section for details.

Schedule F: Profit or Loss from Farming

This form is used to determine any business income from farming operations and is very similar to the Schedule C. Refer to Section 1508.5-Employment & Income/Self Employed Income/Farm Income for details.

Form 4562: Depreciation & Amortization

This form is used to claim a deduction for depreciation and amortization, make the election under section 179 to expense certain property, and provide information on the business/investment use of automobiles and other listed property.

Refer to the applicable income section of the underwriting manual where the depreciation & amortization deduction is being derived. (I.e., Property put into use that is part of the Schedule C is addressed in the Sole Proprietorship section.)

Form 2106: Employee Business Expenses

This form is used when the borrower is deducting expenses for their job. For additional information regarding the treatment of Non-Reimbursed Business Expenses and Auto Allowance/Expense Account Reimbursement refer to 1508.3-Liabilities/Recurring Debts and 1508.4-Assets/Source of Funds sections.

Schedules & Forms

Refer to the appropriate Chapter/Section in the Wholesale Manual forinformation not addressed in Non-Agency –Chapter 1500.

Although they may not be included in every instance, the following list of schedules and forms are often included in the review of the self-employed borrower's business.

Sole Proprietorship	Partnership	Corporation	S-Corporation
Signed 1040	Signed 1040	Signed 1040	Signed 1040
Schedule A	Schedule A	Schedule A	Schedule A
Schedule B	Schedule B	Schedule B	Schedule B
Schedule C	Schedule C (if commission income)	Schedule C (if commission income)	Schedule C (if commission income)
Form 4562	Form 4562	Form 4562	Form 4562
Schedule D (if Capital Gains)	Schedule D (if Capital Gains)	Schedule D (if Capital Gains)	Schedule D (if Capital Gains)
Schedule E (if Rental Income)	Schedule E	Schedule E (if Rental Income)	Schedule E
Schedule F (if farm)	Schedule F (if farm)	Schedule F (if farm)	Schedule F (if farm)
	Form 1065	Form 1120	Form 1120S
	Schedule K1		Schedule K1
	Form 8582 (passive losses)	Form 8582 (passive losses)	Form 8582(passive losses)

*Form 4562 may be required to support any depreciation not listed on Schedule E.

TAX RETURN ANALYSIS

It is important to establish an earnings trend for both the borrower and their business that earnings remain level or increase, and the borrower reflects stability and consistency. However, a consistent decline in the business' gross income over 2 or 3-years could be a reason for concern, even if the borrower's current income and debt ratios meet KEYSTONE FUNDING INC's guidelines. For example, the borrower's AGI as listed on the tax return may be increasing yearly because of items not related to the business (e.g., capital gains received from the sale of real estate), while the actual business income is declining yearly.

Only income consistent with the documentation provided may be considered for loan qualifying purposes. Dramatic increases and/or decreases in earnings must be reviewed carefully. It may be necessary to obtain additional years tax returns to establish a consistency of earnings since large fluctuations are typical of some businesses.

If the borrower needs to draw additional income from the business (and has the legal right), investigate whether the business is capable of producing additional income for the borrower's use. Withdrawal of cash may have a severe negative impact on the business and may lead to a negative cash flow. If this occurs, it may not be possible to confirm stable, ongoing income. Income retained in the business as cash flow to the borrower may not be considered unless there is evidence confirming the borrower has 100% ownership and that the withdrawal of funds will have no effect on the business' continued growth.

Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.

EVALUATING WAGE INCOME	Wage earner income is best defined as compensation for services paid by a person, business or organization at specified intervals and is commonly referred to as salary or wage earner income. The pay schedules of wage earners can be classified into 4 general categories. • **Full Time:** The borrower is a permanent employee of a company and works a standard workweek, usually totaling 35 to 40 hours a week. Hours and number of days may or may not vary. • **Part Time:** The borrower is a permanent employee of a company but the number of hours is not standardized, usually totaling less than 30 hours a week. • **Temporary:** The borrower is not a permanent employee of the company and therefore is not part of the company's permanent staff. Temporary employees usually work for a contracted, or "as needed" period of time only. • **Occasional/Seasonal:** The borrower works for a specified period of time on a specific job or project. Once completed, the borrower is on "standby" until they receive their next assignment. Examples of this type of worker include roofers, landscapers, union construction workers, and migrant farm workers. The type of pay schedule directly impacts how monthly qualifying income is calculated. Common types of stable wage earner income may include regular base earnings plus consistent and documented secondary income, such as overtime, commission and bonus, and additional part-time or seasonal employment.

BONUS INCOME	A bonus is money paid in addition to regular wages. Sometimes bonuses are paid on a regular basis throughout the year. Some employees also receive a guaranteed bonus—a promise or contract made by the employer as part of an incentive plan paid regardless of the company's profitability or the employee's performance. The nature of the bonus must be determined up front in order to include in qualifying income.
	The borrower must have a 2-year history of receipt to use as qualifying income and it must be likely to continue for the next three years. Earnings must be level or increasing; compensating factors must exist if decreases in the last year.
	Required Documentation:
	• Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and**
	• 2 years most recent W-2s and/or 1099s; **and**
	• Personal tax returns for the most recent 2 years; **and**
	• There is no evidence from the employer that the income will no longer be received; **and**
	• It is determined that the income is likely to continue based on an established earnings trend.
	  o If the trend is stable or increasing, income can be averaged over the two year period.
	  o If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  o If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
	  and
	• Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.

CALCULATING INCOME	**The actual calculation used to determine all qualifying income must be documented in every loan file. See below for examples.** Individuals either receive a fixed regular annual income (usually paid monthly, semi-monthly,

Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.

	biweekly, or weekly) or they may work and get paid by the hour, day, or week. All receive regular compensation in the form of a paycheck and year-end income is reported via a W-2. Each type of qualifying income is calculated differently. • **Hourly:** Hourly Rate x # of Hours x 52 weeks ÷ 12 = Monthly Base Income • **Weekly:** Weekly Base Salary x 52 weeks ÷ 12 = Monthly Base Income • **Biweekly:** Biweekly Base Salary x 26 weeks ÷ 12 = Monthly Base Income • **Semi-Monthly:** Semi-Monthly Base Pay x 24 weeks ÷ 12 = Monthly Base Income • **Monthly:** Monthly Base Pay as shown (without overtime, bonus or commissions) • **Annually:** Annual rate of pay (without overtime, bonus, commissions) ÷12 = Monthly Base Income • **Variable Income Sources:** This type of income should be calculated as follows: YTD earnings from the paycheck stub + Wages from the W-2 for the previous year ÷ Number of months = **Average Monthly Income** - Monthly Base Income = **Average Earnings**. It is important to establish an earnings trend. Annual earnings that are level or increasing from one year to the next reflect income stability. However, if the earnings show a decline compared to the current year, there must be strong compensating factors to support using the income. If the borrower's employer is unable to predict whether the income will continue, it may be considered provided the employer does not specifically state that income is not likely to continue. If either the borrower or co-borrower is self-employed, in addition to the required wage earner income documentation, personal tax returns must be provided <u>even if the income is not being used to qualify</u>. The personal tax returns must be reviewed to determine if there is a "meaningful" business loss that may have an impact on the stable monthly income being used to qualify. Additional documentation may be needed to fully evaluate the impact of the business loss on the borrower's ability to repay. **Note:** Income may be excluded if the borrower can qualify without it.
COMMISSION INCOME	Commission income is a fee or percentage paid to the employee for performing a service or is based on the dollar amount of the goods and/or the number of units a person sells. Some borrowers are paid a salary plus commission while others receive only commission pay. The borrower must have a two year consecutive history of receiving commission income and the commission income must be likely to continue for the next three years in order to use the income to qualify. Income may be subject to fluctuations from year-to-year. If there are large fluctuations, the borrower must provide a written explanation to support the increase or decrease in income and the appropriate adjustments made to average income used to qualify. All letters of explanation must be signed by the Borrower prior to close. Refer to 1508.-Credit/Analysis/Borrower Explanations for more information. **<u>Required Documentation</u>** **If commission income represents less than 25% of the borrowers total annual employment income:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and** • 2 years most recent W-2s; **and** • Verbal Verification of Employment performed no more than 10 business days prior to the loan

Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.	
	closing. **Note**: If the file contains tax returns or tax transcripts they cannot be ignored. **If commission income represents 25% or more of the borrowers total annual employment income:** • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and** • 2 years most recent W-2s and/or 1099s; **and** • 2 years most recent tax returns with all Schedules reflecting at least 6 months of commission income (tax transcripts can be used in lieu of tax returns); **and** • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing. Refer to Section 1508.3-Liabilities/Recurring Debt/Non-Reimbursed Business Expenses for additional requirements regarding deductions to the 2106.
DOCUMENTING THETRANSACTIONS	This section addresses sources of documentation used to verify salary/wage earner income and the principle methods of validating its authenticity. **<u>Pay Stubs</u>** Pay stubs (or payroll statements) determine the qualifying income to be used in calculating the borrower's debt ratio. The pay stub must include the following information in order for it to be considered an acceptable form of verification: • Be computer generated (may not be handwritten) • Contain the company's name or employer tax I.D. that matches the W-2 • Contain the name and/or social security number of the employee • Show the pay period covered • Be dated no earlier than 30 days prior to the application date • Show the year-to-date gross earnings • List all deductions If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained. I.e., a written VOE (see next section) or 2-years tax returns must be obtained. Refer to the applicable Documentation Process and product/program fact sheets for specific requirements. Statements must be reviewed to determine if there are deductions that should be included in the list of debt obligations. Some of the most common types of deductions are: • Credit union loans (if deduction is for repayment of a loan, payment should be included in list of debts). • 401k loan repayments: Debt is not included in the total debt ratios. • Alimony/child support payments (a mandatory requirement in some states, therefore a statutory deduction). • Wage Assignments/ Garnishments (due to tax liens, judgments for non-payment of debt, or loss of a court case). Not all of the above deductions are necessarily obligations. The statement must be reviewed carefully to determine the nature of the deduction and if it should be included in the borrower's list of debt obligations. **<u>W-2s</u>** A W-2 form is a summary of earnings statement that the employer prepares and sends to its employees at the end of the year. A photocopy of all W-2(s) is required to verify annual income and employment. The IRS requires W-2's to be sent to employees by January 31 of the following

Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.	
	year. If borrower has not received their W-2 prior to January 31, a YTD paystub(s) or military Leave and Earnings Statement may be used in lieu of the W-2 form(s) provided the documentation reflects the complete income earned in the previous calendar year. The W-2(s) must cover the most recent two-year period, and must clearly identify the borrower as the employee. “Most recent” W-2(s) is defined as the W-2(s) from all employers for the calendar year prior to the current calendar year/application date. For example, if the application is dated 2019, a 2018 & 2017 (if applicable) W-2s from all employers would be required. **Note:** The final year-to-date paystub, provided it contains complete year-to-date information, or an IRS Wage and Income Transcript (W-2 Transcript), or a written VOE may be used in lieu of the actual W-2 form. **Schedules & Forms** Although they may not be included in every instance, the following list of schedules and forms may also be required when other additional income is used to qualify. • **Commission/ Bonus:** Signed 1040s, Schedule A, Form 2106/2106-EZ • **Rental Income:** Signed 1040s, Schedule E, Form 4562 • **Interest/Dividend Income:** Signed 1040s, Schedule B • **Farm Income:** Signed 1040s, Schedule F, Form 4562 **Note:** Individual tax returns must be signed by the borrower unless one of the following alternatives is obtained: • Documentation confirming that the tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent); • A completed IRS form 4506-C (signed by the borrower) for the year in question; or • IRS transcripts that validate the information on the unsigned tax returns. **Note:** If tax returns are included in the loan file, the underwriter must review and consider in their credit evaluation. The underwriter may not disregard data in tax returns just because they are not required.
EMPLOYEES OF A SCHOOL DISTRICT	Employees of a school district may be paid on a 9-month, 10-month, or 12-month basis. As such, a current year-to-date pay stub dated within 30 days of application may not be available. Income structure must be determined before calculating qualifying income. Although every effort should be made to obtain a copy of the borrower’s most recent pay stub, if the borrower is on a pay schedule of less than 12 months, a copy of their employment contract with the school district may be used in lieu of a current pay stub or it may be verbally verified directly with the school district HR department (conversation must be documented in the file). Contract must be valid and non-expired. **Note:** Requirements to verify income remain as noted below. Required Documentation: • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained, or a copy of the Employment contract with the School District; and • 2 years most recent W-2s; and • Personal tax returns for the most recent 2 years; and • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.
GAPS IN EMPLOYMENT	Interruptions/gaps in employment of 30 days or more must be explained in writing. Refer to Section 1508.2-Credit/Analysis/Borrower Letters of Explanation.

<table>
<tr><th colspan="2">Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.</th></tr>
<tr><td>INDIVIDUAL EMPLOYED BY AN INTERESTED PARTY IN THE TRANSACTION</td><td>Tax returns must be obtained even if the borrower does not meet the definition of self-employed. However, they do not have to be treated or registered as a self-employed borrower.
Carefully examine loans with borrowers who are employed by interested parties to the property sale, purchase or financing of the transaction.
Borrowers who are employed by an interested party in the transaction must also provide 2-years tax returns, regardless of the percentage of ownership or type of income.
<u>Required Documentation</u>:
Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and
2 years most recent personal tax returns with all W-2s; and
Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.</td></tr>
<tr><td>INDIVIDUAL EMPLOYED IN A FAMILY OWNED BUSINESS</td><td>Tax returns must be obtained even if the borrower does not meet the definition of self-employed. However, they do not have to be treated or registered as a self-employed borrower unless they have 25% or more ownership in the business.
Carefully examine loans with borrowers who are employed in a family owned business, or whose employer is an interested party to the sale of the property.
Ownership in a family business must be established and verified, regardless of the percentage of ownership; therefore the most recent 2-years tax returns are required.
<u>Required Documentation</u>:
Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and
2 years most recent personal tax returns and all W-2s; and
Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.</td></tr>
<tr><td>INTERNET & EMAIL VERIFICATIONS</td><td>Downloads from the Internet are acceptable provided they meet all general guidelines outlined in this section. The existence of the web site from which the documents were derived must be verified. Documents that are downloaded from the Internet by the borrower must clearly identify the employer (as evidenced by corporate letterhead or logo), and the source of the information must be included on the Internet banner that is at the top of the document. Printed web pages must show the uniform resource locator (URL) address and the date and time printed.
Note: E-mail photographs or screen shot pictures via a phone of documents are permitted provided they are complete, legible and meet all requirements for electronic records.</td></tr>
<tr><td>OVERTIME</td><td>Overtime is money paid to individuals who earn additional wages for time worked above and beyond the normal workday or workweek.
The borrower must have a 2-year history of receipt to use as qualifying income and it must be likely to continue for the next three years. Earnings must be level or increasing; compensating factors must exist if decreases in the last year.
<u>Required Documentation</u>:
Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and
2 years most recent W-2s and/or 1099s; and</td></tr>
</table>

Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.	

	• Personal tax returns for the most recent 2 years; **and**
	• There is no evidence from the employer that the income will no longer be received; **and**
	• It is determined that the income is likely to continue based on an established earnings trend.
	  ○ If the trend is stable or increasing, income can be averaged over the two year period.
	  ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used.
	  ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline.
	and
	• Verbal Verification of Employment performed no more than 10 business days prior to the loan closing.

PART TIME, SEASONAL & SECONDARY INCOME	Part-time, seasonal or second-job income may be used to qualify if it can be verified as having been received for the previous 2-years and if it has a strong likelihood of continuation. This income is considered uninterrupted if the borrower has held the same position for at least 2-years and employment is expected to continue for the next 3 years. (For example, someone who works at a department store only during the Christmas season, or who works summers in an amusement park demonstrate a consistency that is likely to continue.) Income is averaged over 2 years. For secondary income, it is acceptable for a borrower to have a history that includes different employers as long as the income has been consistently received. Occasionally, with extraordinary circumstances less than a 2-year history may be considered—but no less than 12-months—provided there is a strong likelihood income will continue. When the income used to qualify has less than a 2-year history the file must contain a written explanation and justification from the underwriter as to why the income was used to qualify. <u>Required Documentation</u>: • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; and • 2 years most recent W-2s; and • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing; and • For first mortgage transactions, using seasonal income, either verbal or written confirmation with borrower's employer that there is a reasonable expectation that the borrower will be rehired next season. (Written VOE may be required. If confirmation cannot be obtained, the income may not be used to qualify.) **Unemployment Benefit Income:** Refer to Section 1508.5-Employment and Income/Other Income/ Unemployment Benefits.
THIRD PARTY VENDOR VERIFICATION SERVICES	Third party vendors may be used as an alternative method for obtaining a borrower's income verification for the eligible income source that require pay stubs and W-2's listed below. The verification must provide the level of documentation required by the documentation process selected. For example, if the loan requires a 2-year income history, the verification documents must contain a full 2-year income history. If it does not (e.g., there are gaps within the report), additional documentation must be obtained from the borrower to complete the 2-year requirement e.g., W-2s). Refer to the applicable process fact sheet for complete requirements. The data from the third party vendor comes directly from the employer's payroll systems and contains year-to-date earnings as well as prior year's earnings just as it would be shown on a written VOE. These verifications are acceptable provided:

Refer to the appropriate Chapter/Section in the Wholesale Manual for information notaddressed in Non-Agency –Chapter 1500.	
	• The borrower(s) provide consent to verify income and employment; and • The date of the completed verification is in compliance with the Age of Credit Documents and Federal Income Tax Returns (refer to 1508.2-Credit/Analysis/Age of Credit Documents); and • Discrepancies or conflicting information provided by the borrower or in the loan file versus what is reflected on the vendor report must be investigated and appropriately considered when calculating the borrower's income to qualify. **Note:** Third party vendor verifications do not disclose deductions and garnishments, therefore, if the borrower discloses on the application they have payroll deductions (i.e. child support, alimony, 401k loan, etc.) then supporting documentation must be obtained from the borrower (e.g., court documents, legal filings, etc.). This does not replace the need to obtain a verbal employment verification ≤10 business days prior to close. However, it can be the resource for obtaining the verification within the required timeframe. The validated income document must be retained in the loan file and may not pre-date the application date. (The application date applies to the "initial application" taken face-to-face, mail, phone, or via internet.) Verification Services for Income *may* be used for the following income types: • Base pay • Bonus • Overtime • Commission (<25% & ≥25% of the borrower's total income) Verification Services for the 4506-C may be used for the following income types: • Commission (≥25%) of the borrower's total income • Social Security, Retirement (Pension, Annuity), and • Self- Employed Income (Sole Proprietor, Schedule C) **Notes:** • Military income is not eligible for Third Party Verification. • Verification Services may not be used if the Borrower is employed by someone who has an interest in the subject property. Additionally, the "Date Last Updated" field on the Income Verification report must comply with policy as it relates to the age of income documents. For example, if policy requires pay stubs covering the most recent 30-day period, the "Date Last Updated" must be dated within the past 30 days. • Only Social Security Retirement income may be verified via the Third Party Verification service. Social Security Disability Income (SSDI) Supplemental Security Income (SSI) and survivor benefits are not eligible for Third Party verification.
TIPS & GRATUITIES	Tips or gratuity income is compensation received in addition to the employee's straight salary or hourly wage. The borrower must have a 2-year history of receipt to use as qualifying income and it must be likely to continue for the next three years. Gratuities and tips can only be included in qualifying income if they are included in **two years of** taxable income. This income source is usually found on **W-2s** or **1040s**. The income should be reported to the IRS. The employer must also indicate that the tip income will in all probability continue. <u>Required Documentation</u>: • Most recent YTD pay stub documenting at least 30 days of income. Paystub must be dated no earlier than 30 days prior to the application date, and must include all year-to-date income. If the paystub does not include sufficient information to appropriately calculate income, additional documentation must be obtained; **and** • 2 years most recent tax returns with all W-2s; **and**

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	Note: The borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on unreported tip income, when filing his/her tax returns. This income may be used in qualifying if the most recent two years federal income tax returns with Form 4137 are obtained. • Determine that the income is likely to continue based on an established earnings trend. ○ If the trend is stable or increasing, income can be averaged over the two year period. ○ If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to receive the income at the current level, the current, but lower stabilized amount must be used. ○ If the trend is declining, the income may not be stable and additional analysis must be performed to determine if the income should be used. Income should not be averaged over the period of decline; **And** • Verbal Verification of Employment performed no more than 10 business days prior to the loan closing; and • For First Mortgage transactions, either verbal or written confirmation with borrower's employer that tip income is likely to continue. (Written VOE may be required. If confirmation cannot be obtained, the income may not be used to qualify.)
UNION WORKER	Union workers are members of a specific trade union and are often skilled tradesperson (e.g., electricians, plumbers, roofers, etc.). Workers can work for a single employer on a long-term basis or for more than one employer throughout the year. At the completion of a job, the Union will then refer the individual to a new employer. During the individuals' course of employment with the assigned employer, they are paid directly by the employer, not the Union. Their jobs may be seasonal and it is not uncommon for individuals to receive unemployment during down time. If the borrower is in a line of work that is deemed seasonal (e.g., roofing) and is not working at the time of loan application or closing, they may still be eligible for financing. Verify that the borrower is a member of the union and in good standing. It is not necessary to verify the union dues or count them as a liability. If the borrower is a member of a local trade union and obtains employment via these means, income can be verified by the following: **Required Documentation**: • 2 years tax returns; or • 2 years of W-2s and/or 1099s, or • A VOE from the Union for earnings from all employers during the current year and a W-2 from prior year. If the union work is paid with a 1099 and have expenses that may be deducted from the income used to qualify, s/he should be treated as a self-employed borrower, averaging the income over a 2-year period. **Note:** This policy does not apply to borrowers who are employed by a traditional employer (e.g., GM, Ford, etc.), but rather are members of a trade union such as a carpenters union. Borrowers who are employed by a traditional employer would be considered wage-earner employees.
VARIABLE INCOME	Certain types of income fluctuate and must be averaged in order to arrive at income that is used to qualify. Examples of variable income sources include hourly workers with fluctuating hours, or income that includes commission, bonus or overtime. Typically two years or more of receipt of the variable income is recommended; however, a shorter time period of 12 to 24 months may be considered as acceptable. Refer to the requirements for each individual source of income for additional details. It is also important to establish an earnings trend. The earnings trend must be evaluated and the amount that is most likely to continue for the next 3 years must be used to qualify. A borrower who has had different types of employment in the past may be considered to have stable income

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	if the amount has remained at a consistent level (at a minimum), and changes have not affected the borrower's ability to pay their obligations. The frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) must be determined in order to accurately calculate the monthly income to be used. The monthly year to date income calculation should be compared to prior year's earnings using the borrower's W-2's or signed federal income tax returns, as determined by the documentation required under the source of income. For an example of the calculation refer to the calculating income section of this chapter.
VERBAL VOE	The purpose of a verbal verification of employment (VOE) is to: 1) confirm the borrower's current employer; and 2) confirm that the borrower's employment status has not changed. VOE is not required for previous employers. A verbal VOE must be performed no more than 10 business days prior to the loan closing on all loans regardless of the initial income/employment verification type used. Neither a pay stub nor a written VOE (Verification of Employment) Form may replace the verbal VOE except as noted below. **Exception:** A verbal VOE does not have to be performed if a written VOE is received from the employer and meets the following requirements: • Is dated within 10 business days of the closing; **AND** • Provides all employment information required on a Verbal VOE. **Note:** If the employer will not verbally verify employment, a written verification or verification from a third party employment verification vendor may be obtained within the same time frame as indicated above for the verbal VOE. The phone number that the borrower provided as their employer's number must be independently confirmed by using the phone book, calling Directory Assistance, or through the internet via a resource such as "The Work Number". Contact with the employer must be documented in writing via the verbal VOE form and must contain the following information: • Borrower Name • Name of the borrower's employer • Name, title and department of the person who provided the confirmation (generally, this information should be provided by a Human Resource representative or the borrower's supervisor or manager) • Employer's telephone number and the source from which the number was obtained (e.g., directory assistance, phone book, etc.). • Statement that the borrower <u>is</u> or <u>is not</u> currently employed. • Other remarks that may be pertinent to the transaction. • Name and title of the individual who contacted the employer and the date the information was obtained. **Note:** W*hen the verbal verification is generated electronically by the employer or a third party* the following information is not required to be reflected on the VVOE: • Name, title and department of the person who provided the confirmation; or • Name, title & phone number of the employer/employee requesting the information; or • Employer's telephone number and the source from which the number was obtained. As noted above, the verbal VOE must be performed within 10 business days prior to the loan closing. If any electronic data base is used to obtain the verbal VOE, it is important to note that the completed date on the verification document may not be older than 35 days old prior to the closing date. **Union Workers:** If the union facilitates the borrower's placement in each assignment and it is determined that the Borrower's employment and income history is stable, the verbal VOE may be

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	obtained directly from the individuals union. This is applicable to both individuals who are employed at the time of closing, as well as those who are in between employers at the time of closing.
WRITTEN VERIFICATION OF EMPLOYMENT (VOE) FORM	A written VOE (Verification of Employment) may be used to verify income and employment. If a written VOE is used to verify income it must contain the following information: • Year-to-date earnings; and • Prior year's earnings. The VOE must be faxed or mailed to/from the lender directly to/from the borrower's employer. It may not be hand delivered, faxed, emailed, etc. by the borrower. The VOE must be completed, signed, and dated by the owner, partner or a Human Resource representative, along with the date and phone number. We will not accept forms that are completed by the borrower. If someone signs the VOE with the same last name as the borrower, their relationship to the borrower must be determined. (If a relative employs the borrower, refer to "Employed in a Family Owned Business" section of this chapter.) Pay cycles, types of income (base, bonus, commission, overtime, etc.) for VOEs are the same as regular pay stubs and W-2s.

EARLY PAYMENT DEFAULT (EPD)	A Non-Agency Jumbo EPD Mortgage loan is defined as a mortgage loan with respect to which one of the first three scheduled Monthly Payments due after the related Origination Date (Closing Date) of such Mortgage Loan is not received within the calendar month such scheduled Monthly Payment is due. KEYSTONE FUNDING INC may require the lender to repurchase a loan in the event the above EPD provision is triggered.

DEPRECIATING MARKETS IMPACTING NON-AGENCY JUMBO LOANS

The table below reflects Metropolitan Statistical Areas (MSAs) determined to be declining more than 5%. Non-agency Jumbo loans originated in a listed MSA must follow additional criteria specific to depreciating market areas, including but not limited to reduced LTV/CLTV limits as indicated on 1502.2 -Non-Agency LTV Matrix.

Depreciating Markets as of 3-21-21**.** Updates are generally issued on a quarterly basis.

The following MSAs are depreciating more than 5% (displayed in alphabetical order by state). Loans with subject properties located in these MSAs must follow requirements outlined in 1502.2-Non Agency LTV Matrix and 1505.1-Appraisal.

	State	MSA	MSA/Micropolitan Area Name	County Name	State & County Code
1	OH	41780	Sandusky OH Micropolitan Statistical Area	Erie County (OH)	39043
2	TX	20580	Eagle Pass TX Micropolitan Statistical Area	Maverick County (TX)	48323
3	TX	34860	Nacogdoches TX Micropolitan Statistical Area	Nacogdoches County (TX)	48347

KEYSTONE FUNDING INC determines the number of appraisals required and the type of appraisal reviews required based on loansize and the median property values for the specific market as defined by zip code. The tables below detailappraisal requirements.

Appraisal Requirements

High Value Zip Codes	Non-High Value Zip Codes
Loan Amount > $1.5 mil; 2 appraisals are required	Loan Amount >$1.0 mil; 2 appraisals are required

High Value Zip Codes as of 3-21-2021 (sorted by zip code)

ZIP Code	State	Metro	County	City
01773	MA	Boston-Cambridge-Newton	Middlesex County	Lincoln
01890	MA	Boston-Cambridge-Newton	Middlesex County	Winchester
02030	MA	Boston-Cambridge-Newton	Norfolk County	Dover
02108	MA	Boston-Cambridge-Newton	Suffolk County	Boston
02110	MA	Boston-Cambridge-Newton	Suffolk County	Boston
02112	MA	Boston-Cambridge-Newton	Suffolk County	Boston
02116	MA	Boston-Cambridge-Newton	Suffolk County	Boston
02138	MA	Boston-Cambridge-Newton	Middlesex County	Cambridge
02142	MA	Boston-Cambridge-Newton	Middlesex County	Cambridge
02199	MA	Boston-Cambridge-Newton	Suffolk County	Boston
02210	MA	Boston-Cambridge-Newton	Suffolk County	Boston
02420	MA	Boston-Cambridge-Newton	Middlesex County	Lexington
02421	MA	Boston-Cambridge-Newton	Middlesex County	Lexington
02445	MA	Boston-Cambridge-Newton	Norfolk County	Brookline
02458	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02459	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02460	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02461	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02465	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02466	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02467	MA	Boston-Cambridge-Newton	Norfolk County	Brookline
02468	MA	Boston-Cambridge-Newton	Middlesex County	Newton
02478	MA	Boston-Cambridge-Newton	Middlesex County	Belmont
02481	MA	Boston-Cambridge-Newton	Norfolk County	Wellesley
02482	MA	Boston-Cambridge-Newton	Norfolk County	Wellesley
02492	MA	Boston-Cambridge-Newton	Norfolk County	Needham
02493	MA	Boston-Cambridge-Newton	Middlesex County	Weston
02494	MA	Boston-Cambridge-Newton	Norfolk County	Needham
02535	MA	Vineyard Haven	Dukes County	Chilmark
02539	MA	Vineyard Haven	Dukes County	Edgartown

02554	MA		Nantucket County	Nantucket
02564	MA		Nantucket County	Nantucket
02650	MA	Barnstable Town	Barnstable County	Chatham
02807	RI	Providence-Warwick	Washington County	New Shoreham
03854	NH	Boston-Cambridge-Newton	Rockingham County	New Castle
03871	NH	Boston-Cambridge-Newton	Rockingham County	Rye
04006	ME	Portland-South Portland	York County	Biddeford
06390	NY	New York-Newark-Jersey City	Suffolk County	Fishers Island
06807	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Greenwich
06820	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Darien
06830	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Greenwich
06831	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Greenwich
06840	CT	Bridgeport-Stamford-Norwalk	Fairfield County	New Canaan
06853	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Norwalk
06870	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Greenwich
06878	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Greenwich
06880	CT	Bridgeport-Stamford-Norwalk	Fairfield County	Westport
07078	NJ	New York-Newark-Jersey City	Essex County	Short Hills
7417	NJ	New York-Newark-Jersey City	Bergen County	Franklin Lakes
7620	NJ	New York-Newark-Jersey City	Bergen County	Alpine
7632	NJ	New York-Newark-Jersey City	Bergen County	Englewood Cliffs
7711	NJ	New York-Newark-Jersey City	Monmouth County	Ocean Township
7717	NJ	New York-Newark-Jersey City	Monmouth County	Avon by the Sea
7723	NJ	New York-Newark-Jersey City	Monmouth County	Deal
7760	NJ	New York-Newark-Jersey City	Monmouth County	Rumson
7976	NJ	New York-Newark-Jersey City	Morris County	Harding Township
8008	NJ	New York-Newark-Jersey City	Ocean County	Long Beach Township
8202	NJ	Ocean City	Cape May County	Avalon
8247	NJ	Ocean City	Cape May County	Stone Harbor
8403	NJ	Atlantic City-Hammonton	Atlantic County	Longport
8738	NJ	New York-Newark-Jersey City	Ocean County	Mantoloking
8750	NJ	New York-Newark-Jersey City	Monmouth County	Sea Girt
10001	NY	New York-Newark-Jersey City	New York County	New York
10002	NY	New York-Newark-Jersey City	New York County	New York
10003	NY	New York-Newark-Jersey City	New York County	New York
10004	NY	New York-Newark-Jersey City	New York County	New York
10005	NY	New York-Newark-Jersey City	New York County	New York
10006	NY	New York	New York	New York
10007	NY	New York-Newark-Jersey City	New York County	New York
10009	NY	New York-Newark-Jersey City	New York County	New York
10010	NY	New York	New York	New York

10011	NY	New York	New York	New York
10012	NY	New York	New York	New York
10013	NY	New York-Newark-Jersey City	New York County	New York
10014	NY	New York	New York	New York
10016	NY	New York-Newark-Jersey City	New York County	New York
10017	NY	New York	New York	New York
10018	NY	New York-Newark-Jersey City	New York County	New York
10019	NY	New York	New York	New York
10021	NY	New York	New York	New York
10022	NY	New York	New York	New York
10023	NY	New York	New York	New York
10024	NY	New York	New York	New York
10025	NY	New York-Newark-Jersey City	New York County	New York
10026	NY	New York	New York	New York
10027	NY	New York-Newark-Jersey City	New York County	New York
10028	NY	New York	New York	New York
10029	NY	New York	New York	New York
10035	NY	New York	New York	New York
10036	NY	New York-Newark-Jersey City	New York County	New York
10038	NY	New York-Newark-Jersey City	New York County	New York
10044	NY	New York-Newark-Jersey City	New York County	New York
10065	NY	New York	New York	New York
10069	NY	New York	New York	New York
10075	NY	New York	New York	New York
10117	OH		Pike County	Piketon
10118	NY	New York-Newark-Jersey City	New York County	New York
10128	NY	New York	New York	New York
10280	NY	New York	New York	New York
10282	NY	New York	New York	New York
10503	NY	New York-Newark-Jersey City	Westchester County	Irvington
10504	NY	New York-Newark-Jersey City	Westchester County	Town Of North Castle
10506	NY	New York-Newark-Jersey City	Westchester County	Town of Bedford
10528	NY	New York-Newark-Jersey City	Westchester County	Harrison
10533	NY	New York-Newark-Jersey City	Westchester County	Irvington
10538	NY	New York-Newark-Jersey City	Westchester County	Larchmont
10577	NY	New York-Newark-Jersey City	Westchester County	Purchase
10580	NY	New York-Newark-Jersey City	Westchester County	Rye
10583	NY	New York	Westchester	Scarsdale
11020	NY	New York-Newark-Jersey City	Nassau County	Great Neck
11021	NY	New York-Newark-Jersey City	Nassau County	Great Neck
11023	NY	New York-Newark-Jersey City	Nassau County	Great Neck

11024	NY	New York-Newark-Jersey City	Nassau County	Great Neck
11030	NY	New York-Newark-Jersey City	Nassau County	Manhasset
11211	NY	New York-Newark-Jersey City	Kings County	New York
11215	NY	New York-Newark-Jersey City	Kings County	New York
11216	NY	New York-Newark-Jersey City	Kings County	New York
11217	NY	New York-Newark-Jersey City	Kings County	New York
11221	NY	New York-Newark-Jersey City	Kings County	New York
11222	NY	New York-Newark-Jersey City	Kings County	New York
11231	NY	New York-Newark-Jersey City	Kings County	New York
11243	NY	New York-Newark-Jersey City	Kings County	New York
11249	NY	New York-Newark-Jersey City	Kings County	New York
11509	NY	New York-Newark-Jersey City	Nassau County	Atlantic Beach
11545	NY	New York-Newark-Jersey City	Nassau County	Glen Head
11559	NY	New York-Newark-Jersey City	Nassau County	Lawrence
11568	NY	New York-Newark-Jersey City	Nassau County	Old Westbury
11576	NY	New York-Newark-Jersey City	Nassau County	East Hills
11724	NY	New York-Newark-Jersey City	Suffolk County	Cold Spring Harbor
11765	NY	New York-Newark-Jersey City	Nassau County	Mill Neck
11797	NY	New York-Newark-Jersey City	Nassau County	Woodbury
11930	NY	New York-Newark-Jersey City	Suffolk County	Amagansett
11932	NY	New York-Newark-Jersey City	Suffolk County	Bridgehampton
11937	NY	New York-Newark-Jersey City	Suffolk County	East Hampton
11954	NY	New York-Newark-Jersey City	Suffolk County	Montauk
11957	NY	New York-Newark-Jersey City	Suffolk County	Orient
11959	NY	New York-Newark-Jersey City	Suffolk County	Quogue
11960	NY	New York-Newark-Jersey City	Suffolk County	Remsenburg
11962	NY	New York-Newark-Jersey City	Suffolk County	Sagaponack
11963	NY	New York-Newark-Jersey City	Suffolk County	Sag Harbor
11964	NY	New York-Newark-Jersey City	Suffolk County	Town of Shelter Island
11965	NY	New York-Newark-Jersey City	Suffolk County	Town of Shelter Island
11968	NY	New York-Newark-Jersey City	Suffolk County	Southampton
11975	NY	New York-Newark-Jersey City	Suffolk County	Wainscott
11976	NY	New York-Newark-Jersey City	Suffolk County	Water Mill
11977	NY	New York-Newark-Jersey City	Suffolk County	Westhampton
11978	NY	New York-Newark-Jersey City	Suffolk County	Westhampton Beach
12820	NY	Glens Falls	Warren County	Town Of Queensbury
12844	NY	Glens Falls	Washington County	Town of Fort Ann
19035	PA	Philadelphia-Camden-Wilmington	Montgomery County	Lower Merion Township
19085	PA	Philadelphia-Camden-Wilmington	Delaware County	Radnor Township
19944	DE	Salisbury	Sussex County	Fenwick Island

20007	DC	Washington-Arlington-Alexandria	District of Columbia	Washington
20008	DC	Washington-Arlington-Alexandria	District of Columbia	Washington
20015	DC	Washington-Arlington-Alexandria	District of Columbia	Washington
20016	DC	Washington-Arlington-Alexandria	District of Columbia	Washington
20052	DC	Washington-Arlington-Alexandria	District of Columbia	Washington
20812	MD	Washington-Arlington-Alexandria	Montgomery County	Glen Echo
20815	MD	Washington-Arlington-Alexandria	Montgomery County	Chevy Chase
20816	MD	Washington-Arlington-Alexandria	Montgomery County	Bethesda
20817	MD	Washington-Arlington-Alexandria	Montgomery County	Bethesda
20818	MD	Washington-Arlington-Alexandria	Montgomery County	Cabin John
21056	MD	Baltimore-Columbia-Towson	Anne Arundel County	Gibson Island
22027	VA	Washington-Arlington-Alexandria	Fairfax County	Dunn Loring
22066	VA	Washington-Arlington-Alexandria	Fairfax County	Great Falls
22101	VA	Washington-Arlington-Alexandria	Fairfax County	McLean
22207	VA	Washington-Arlington-Alexandria	Arlington County	Arlington
22213	VA	Washington-Arlington-Alexandria	Arlington County	Arlington
28207	NC	Charlotte-Concord-Gastonia	Mecklenburg County	Charlotte
28480	NC	Wilmington	New Hanover County	Wrightsville Beach
29482	SC	Charleston-North Charleston	Charleston County	Sullivans Island
29941	SC	Hilton Head Island-Bluffton-Beaufort	Beaufort County	Sheldon
30327	GA	Atlanta-Sandy Springs-Roswell	Fulton County	Atlanta
31561	GA	Brunswick	Glynn County	Sea Island
33109	FL	Miami-Fort Lauderdale-West Palm Beach	Miami-Dade County	Fisher Island
33122	FL	Miami-Fort Lauderdale-West Palm Beach	Miami-Dade County	Doral
33149	FL	Miami-Fort Lauderdale-West Palm Beach	Miami-Dade County	Key Biscayne
33921	FL	Cape Coral-Fort Myers	Lee County	Boca Grande
34216	FL	North Port-Sarasota-Bradenton	Manatee County	Anna Maria
38723	MS	Greenville	Washington County	Hollandale
38744	MS	Greenville	Washington County	Glen Allan
38772	MS	Cleveland	Bolivar County	Scott
40025	KY	Louisville/Jefferson County	Jefferson County	Louisville
60022	IL	Chicago-Naperville-Elgin	Cook County	Glencoe
60043	IL	Chicago-Naperville-Elgin	Cook County	Kenilworth
60093	IL	Chicago-Naperville-Elgin	Cook County	Winnetka
75205	TX	Dallas-Fort Worth-Arlington	Dallas County	University Park
75225	TX	Dallas-Fort Worth-Arlington	Dallas County	Dallas
77005	TX	Houston-The Woodlands-Sugar Land	Harris County	Houston
78703	TX	Austin-Round Rock	Travis County	Austin

78746	TX	Austin-Round Rock	Travis County	Austin
80304	CO	Boulder	Boulder County	Boulder
81435	CO		San Miguel County	Mountain Village
81611	CO	Glenwood Springs	Pitkin County	Aspen
81615	CO	Glenwood Springs	Pitkin County	Snowmass Village
81649	CO	Edwards	Eagle County	Red Cliff
81654	CO	Glenwood Springs	Pitkin County	Aspen
81655	CO	Edwards	Eagle County	Wolcott
81656	CO	Glenwood Springs	Pitkin County	Aspen
81657	CO	Edwards	Eagle County	Vail
83014	WY	Jackson	Teton County	Wilson
83025	WY	Jackson	Teton County	Teton Village
84060	UT	Summit Park	Summit County	Park City
85253	AZ	Phoenix-Mesa-Scottsdale	Maricopa County	Paradise Valley
85262	AZ	Phoenix-Mesa-Scottsdale	Maricopa County	Scottsdale
89402	NV	Reno	Washoe County	Incline Village
89413	NV	Gardnerville Ranchos	Douglas County	Glenbrook
89451	NV	Reno	Washoe County	Incline Village
90004	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90008	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90019	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90024	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90025	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90026	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90027	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90029	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90034	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90035	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90036	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90038	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90039	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90041	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90045	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90046	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90048	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90049	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90056	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Ladera Heights
90064	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90066	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90067	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90068	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles

90069	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	West Hollywood
90077	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90094	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90210	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Beverly Hills
90211	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Beverly Hills
90212	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Beverly Hills
90230	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Culver City
90232	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Culver City
90245	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	El Segundo
90254	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Hermosa Beach
90265	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Malibu
90266	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Manhattan Beach
90272	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90274	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Palos Verdes Estates
90275	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Rancho Palos Verdes
90277	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Redondo Beach
90278	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Redondo Beach
90290	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Topanga
90291	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90292	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
90401	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Santa Monica
90402	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Santa Monica
90403	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Santa Monica
90404	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Santa Monica
90405	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Santa Monica
90505	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Torrance
90720	CA	Los Angeles-Long Beach-Anaheim	Orange County	Los Alamitos
90742	CA	Los Angeles-Long Beach-Anaheim	Orange County	Huntington Beach
90743	CA	Los Angeles-Long Beach-Anaheim	Orange County	Seal Beach
90803	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Long Beach
91001	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Altadena
91006	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Arcadia
91007	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Arcadia
91008	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Bradbury
91011	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	La Canada Flintridge
91024	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Sierra Madre
91030	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	South Pasadena
91105	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Pasadena
91107	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Pasadena
91108	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	San Marino
91207	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Glendale

91208	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Glendale
91302	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Calabasas
91356	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
91361	CA	Oxnard-Thousand Oaks-Ventura	Ventura County	Westlake Village
91364	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
91403	CA	Los Angeles-Long Beach-Anaheim	Los Angeles	Los Angeles
91423	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
91436	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
91602	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
91604	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
91607	CA	Los Angeles-Long Beach-Anaheim	Los Angeles County	Los Angeles
92007	CA	San Diego-Carlsbad	San Diego County	Encinitas
92008	CA	San Diego-Carlsbad	San Diego County	Carlsbad
92009	CA	San Diego-Carlsbad	San Diego County	Carlsbad
92011	CA	San Diego-Carlsbad	San Diego County	Carlsbad
92014	CA	San Diego-Carlsbad	San Diego County	Del Mar
92024	CA	San Diego-Carlsbad	San Diego County	Encinitas
92037	CA	San Diego-Carlsbad	San Diego County	San Diego
92067	CA	San Diego-Carlsbad	San Diego County	Rancho Santa Fe
92075	CA	San Diego-Carlsbad	San Diego County	Solana Beach
92091	CA	San Diego-Carlsbad	San Diego County	Rancho Santa Fe
92106	CA	San Diego-Carlsbad	San Diego County	San Diego
92107	CA	San Diego-Carlsbad	San Diego County	San Diego
92109	CA	San Diego-Carlsbad	San Diego County	San Diego
92118	CA	San Diego-Carlsbad	San Diego County	Coronado
92127	CA	San Diego-Carlsbad	San Diego County	San Diego
92130	CA	San Diego-Carlsbad	San Diego County	San Diego
92590	CA	Riverside-San Bernardino-Ontario	Riverside County	Temecula
92602	CA	Los Angeles-Long Beach-Anaheim	Orange County	Irvine
92603	CA	Los Angeles-Long Beach-Anaheim	Orange County	Irvine
92617	CA	Los Angeles-Long Beach-Anaheim	Orange County	Irvine
92620	CA	Los Angeles-Long Beach-Anaheim	Orange County	Irvine
92624	CA	Los Angeles-Long Beach-Anaheim	Orange County	Dana Point
92625	CA	Los Angeles-Long Beach-Anaheim	Orange County	Newport Beach
92629	CA	Los Angeles-Long Beach-Anaheim	Orange County	Dana Point
92648	CA	Los Angeles-Long Beach-Anaheim	Orange County	Huntington Beach
92651	CA	Los Angeles-Long Beach-Anaheim	Orange County	Laguna Beach
92657	CA	Los Angeles	Orange	Newport Coast
92660	CA	Los Angeles-Long Beach-Anaheim	Orange County	Newport Beach
92661	CA	Los Angeles-Long Beach-Anaheim	Orange County	Newport Beach
92662	CA	Los Angeles-Long Beach-Anaheim	Orange County	Newport Beach

92663	CA	Los Angeles-Long Beach-Anaheim	Orange County	Newport Beach
92672	CA	Los Angeles-Long Beach-Anaheim	Orange County	San Clemente
92673	CA	Los Angeles-Long Beach-Anaheim	Orange County	San Clemente
92679	CA	Los Angeles-Long Beach-Anaheim	Orange County	Coto de Caza
92705	CA	Los Angeles-Long Beach-Anaheim	Orange County	North Tustin
92861	CA	Los Angeles-Long Beach-Anaheim	Orange County	Villa Park
92887	CA	Los Angeles-Long Beach-Anaheim	Orange County	Yorba Linda
93066	CA	Oxnard-Thousand Oaks-Ventura	Ventura County	Somis
93067	CA	Santa Maria-Santa Barbara	Santa Barbara County	Summerland
93101	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Barbara
93103	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Barbara
93105	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Barbara
93108	CA	Santa Maria-Santa Barbara	Santa Barbara County	Montecito
93109	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Barbara
93110	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Barbara
93111	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Barbara
93424	CA	San Luis Obispo-Paso Robles-Arroyo Grand	San Luis Obispo County	Avila Beach
93435	CA	San Luis Obispo-Paso Robles-Arroyo Grand	San Luis Obispo County	Harmony
93441	CA	Santa Maria-Santa Barbara	Santa Barbara County	Los Olivos
93460	CA	Santa Maria-Santa Barbara	Santa Barbara County	Santa Ynez
93920	CA	Salinas	Monterey County	Big Sur
93921	CA	Salinas	Monterey County	Carmel-by-the-Sea
93923	CA	Salinas	Monterey County	Carmel-by-the-Sea
93924	CA	Salinas	Monterey County	Carmel Valley
93950	CA	Salinas	Monterey County	Pacific Grove
93953	CA	Salinas	Monterey County	Del Monte Forest
94002	CA	San Francisco-Oakland-Hayward	San Mateo County	Belmont
94005	CA	San Francisco-Oakland-Hayward	San Mateo County	Brisbane
94010	CA	San Francisco-Oakland-Hayward	San Mateo County	Burlingame
94014	CA	San Francisco-Oakland-Hayward	San Mateo County	Daly City
94015	CA	San Francisco-Oakland-Hayward	San Mateo County	Daly City
94018	CA	San Francisco-Oakland-Hayward	San Mateo County	Half Moon Bay
94019	CA	San Francisco-Oakland-Hayward	San Mateo County	Half Moon Bay
94021	CA	San Francisco-Oakland-Hayward	San Mateo County	Pescadero
94022	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Los Altos
94024	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Los Altos
94025	CA	San Francisco-Oakland-Hayward	San Mateo County	Menlo Park
94027	CA	San Francisco-Oakland-Hayward	San Mateo County	Atherton
94028	CA	San Francisco-Oakland-Hayward	San Mateo County	Portola Valley

94030	CA	San Francisco-Oakland-Hayward	San Mateo County	Millbrae
94037	CA	San Francisco-Oakland-Hayward	San Mateo County	Montara
94038	CA	San Francisco-Oakland-Hayward	San Mateo County	Moss Beach
94040	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Mountain View
94041	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Mountain View
94043	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Mountain View
94044	CA	San Francisco-Oakland-Hayward	San Mateo County	Pacifica
94060	CA	San Francisco-Oakland-Hayward	San Mateo County	Pescadero
94061	CA	San Francisco-Oakland-Hayward	San Mateo County	Redwood City
94062	CA	San Francisco-Oakland-Hayward	San Mateo County	Redwood City
94063	CA	San Francisco-Oakland-Hayward	San Mateo County	Redwood City
94065	CA	San Francisco-Oakland-Hayward	San Mateo County	Redwood City
94066	CA	San Francisco-Oakland-Hayward	San Mateo County	San Bruno
94070	CA	San Francisco-Oakland-Hayward	San Mateo County	San Carlos
94074	CA	San Francisco-Oakland-Hayward	San Mateo County	San Gregorio
94080	CA	San Francisco-Oakland-Hayward	San Mateo County	South San Francisco
94085	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Sunnyvale
94086	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Sunnyvale
94087	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Sunnyvale
94089	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Sunnyvale
94103	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94104	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94105	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94107	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94108	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94109	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94110	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94111	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94112	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94114	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94115	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94116	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94117	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94118	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94121	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94122	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94123	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94127	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94131	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94132	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94133	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco

94134	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94158	CA	San Francisco-Oakland-Hayward	San Francisco County	San Francisco
94301	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Palo Alto
94303	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Palo Alto
94304	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Palo Alto
94305	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Stanford
94306	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Palo Alto
94401	CA	San Francisco-Oakland-Hayward	San Mateo County	San Mateo
94402	CA	San Francisco-Oakland-Hayward	San Mateo County	San Mateo
94403	CA	San Francisco-Oakland-Hayward	San Mateo County	San Mateo
94404	CA	San Francisco-Oakland-Hayward	San Mateo County	Foster City
94501	CA	San Francisco-Oakland-Hayward	Alameda County	Alameda
94502	CA	San Francisco-Oakland-Hayward	Alameda County	Alameda
94506	CA	San Francisco-Oakland-Hayward	Contra Costa County	Danville
94507	CA	San Francisco-Oakland-Hayward	Contra Costa County	Alamo
94515	CA	Napa	Napa County	Calistoga
94517	CA	San Francisco-Oakland-Hayward	Contra Costa County	Clayton
94526	CA	San Francisco-Oakland-Hayward	Contra Costa County	Danville
94528	CA	San Francisco-Oakland-Hayward	Contra Costa County	Diablo
94530	CA	San Francisco-Oakland-Hayward	Contra Costa County	El Cerrito
94536	CA	San Francisco-Oakland-Hayward	Alameda County	Fremont
94538	CA	San Francisco-Oakland-Hayward	Alameda County	Fremont
94539	CA	San Francisco-Oakland-Hayward	Alameda County	Fremont
94542	CA	San Francisco-Oakland-Hayward	Alameda County	Hayward
94549	CA	San Francisco-Oakland-Hayward	Contra Costa County	Lafayette
94552	CA	San Francisco-Oakland-Hayward	Alameda County	Castro Valley
94555	CA	San Francisco-Oakland-Hayward	Alameda County	Fremont
94556	CA	San Francisco-Oakland-Hayward	Contra Costa County	Moraga
94563	CA	San Francisco-Oakland-Hayward	Contra Costa County	Orinda
94566	CA	San Francisco-Oakland-Hayward	Alameda County	Pleasanton
94568	CA	San Francisco-Oakland-Hayward	Alameda County	Dublin
94574	CA	Napa	Napa County	Saint Helena
94576	CA	Napa	Napa County	Deer Park
94582	CA	San Francisco-Oakland-Hayward	Contra Costa County	San Ramon
94583	CA	San Francisco-Oakland-Hayward	Contra Costa County	San Ramon
94586	CA	San Francisco-Oakland-Hayward	Alameda County	Sunol
94588	CA	San Francisco-Oakland-Hayward	Alameda County	Pleasanton
94595	CA	San Francisco-Oakland-Hayward	Contra Costa County	Walnut Creek
94599	CA	Napa	Napa County	Yountville
94602	CA	San Francisco-Oakland-Hayward	Alameda County	Oakland
94609	CA	San Francisco-Oakland-Hayward	Alameda County	Oakland

94610	CA	San Francisco-Oakland-Hayward	Alameda County	Oakland
94611	CA	San Francisco-Oakland-Hayward	Alameda County	Oakland
94618	CA	San Francisco-Oakland-Hayward	Alameda County	Oakland
94702	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94703	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94704	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94705	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94706	CA	San Francisco-Oakland-Hayward	Alameda County	Albany
94707	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94708	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94709	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94710	CA	San Francisco-Oakland-Hayward	Alameda County	Berkeley
94901	CA	San Francisco-Oakland-Hayward	Marin County	San Rafael
94903	CA	San Francisco-Oakland-Hayward	Marin County	San Rafael
94904	CA	San Francisco-Oakland-Hayward	Marin County	Kentfield
94920	CA	San Francisco-Oakland-Hayward	Marin County	Tiburon
94922	CA	Santa Rosa	Sonoma County	Occidental
94923	CA	Santa Rosa	Sonoma County	Bodega Bay
94925	CA	San Francisco-Oakland-Hayward	Marin County	Corte Madera
94929	CA	San Francisco-Oakland-Hayward	Marin County	Dillon Beach
94930	CA	San Francisco-Oakland-Hayward	Marin County	Fairfax
94937	CA	San Francisco-Oakland-Hayward	Marin County	Inverness
94938	CA	San Francisco-Oakland-Hayward	Marin County	Lagunitas
94939	CA	San Francisco-Oakland-Hayward	Marin County	Larkspur
94941	CA	San Francisco-Oakland-Hayward	Marin County	Mill Valley
94946	CA	San Francisco-Oakland-Hayward	Marin County	Nicasio
94949	CA	San Francisco-Oakland-Hayward	Marin County	Novato
94950	CA	San Francisco-Oakland-Hayward	Marin County	Point Reyes Station
94951	CA	Santa Rosa	Sonoma County	Penngrove
94956	CA	San Francisco-Oakland-Hayward	Marin County	Point Reyes Station
94957	CA	San Francisco-Oakland-Hayward	Marin County	Ross
94960	CA	San Francisco-Oakland-Hayward	Marin County	San Anselmo
94963	CA	San Francisco-Oakland-Hayward	Marin County	San Geronimo
94964	CA	San Francisco-Oakland-Hayward	Marin County	San Quentin
94965	CA	San Francisco-Oakland-Hayward	Marin County	Sausalito
94970	CA	San Francisco-Oakland-Hayward	Marin County	Stinson Beach
94972	CA	Santa Rosa	Sonoma County	Sebastopol
95002	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95003	CA	Santa Cruz-Watsonville	Santa Cruz County	Aptos
95008	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Campbell
95014	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Cupertino

95030	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Los Gatos
95032	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Los Gatos
95033	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Lexington Hills
95035	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Milpitas
95037	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Morgan Hill
95046	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Martin
95050	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Santa Clara
95051	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Santa Clara
95054	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Santa Clara
95060	CA	Santa Cruz-Watsonville	Santa Cruz County	Santa Cruz
95062	CA	Santa Cruz-Watsonville	Santa Cruz County	Santa Cruz
95065	CA	Santa Cruz-Watsonville	Santa Cruz County	Santa Cruz
95066	CA	Santa Cruz-Watsonville	Santa Cruz County	Scotts Valley
95070	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	Saratoga
95073	CA	Santa Cruz-Watsonville	Santa Cruz County	Soquel
95075	CA	San Jose-Sunnyvale-Santa Clara	San Benito County	Hollister
95117	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95118	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95119	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95120	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95123	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95124	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95125	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95126	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95128	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95129	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95130	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95131	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95132	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95134	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95135	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95136	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95138	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95139	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95140	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	East Foothills
95141	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95148	CA	San Jose-Sunnyvale-Santa Clara	Santa Clara County	San Jose
95442	CA	Santa Rosa	Sonoma County	Glen Ellen
95452	CA	Santa Rosa	Sonoma County	Kenwood
95465	CA	Santa Rosa	Sonoma County	Occidental
95497	CA	Santa Rosa	Sonoma County	The Sea Ranch

96712	HI	Urban Honolulu	Honolulu County	Haleiwa
96714	HI	Kapaa	Kauai County	Kilauea
96734	HI	Urban Honolulu	Honolulu County	Kailua
96754	HI	Kapaa	Kauai County	Kilauea
96762	HI	Urban Honolulu	Honolulu County	Laie
96816	HI	Urban Honolulu	Honolulu County	Honolulu
96821	HI	Urban Honolulu	Honolulu County	Honolulu
96825	HI	Urban Honolulu	Honolulu County	Honolulu
98004	WA	Seattle-Tacoma-Bellevue	King County	Bellevue
98005	WA	Seattle-Tacoma-Bellevue	King County	Bellevue
98006	WA	Seattle-Tacoma-Bellevue	King County	Bellevue
98033	WA	Seattle-Tacoma-Bellevue	King County	Kirkland
98039	WA	Seattle-Tacoma-Bellevue	King County	Medina
98040	WA	Seattle-Tacoma-Bellevue	King County	Mercer Island
98050	WA	Seattle-Tacoma-Bellevue	King County	Issaquah
98053	WA	Seattle-Tacoma-Bellevue	King County	Redmond
98074	WA	Seattle-Tacoma-Bellevue	King County	Sammamish
98075	WA	Seattle-Tacoma-Bellevue	King County	Sammamish
98077	WA	Seattle-Tacoma-Bellevue	King County	Woodinville
98105	WA	Seattle-Tacoma-Bellevue	King County	Seattle
98112	WA	Seattle-Tacoma-Bellevue	King County	Seattle
98119	WA	Seattle-Tacoma-Bellevue	King County	Seattle
98199	WA	Seattle-Tacoma-Bellevue	King County	Seattle

KEYSTONE FUNDING INC Wholesale Lending NON-AGENCYNA Exhibit 4 UNDERWRITING FILE SUBMISSION CHECKLIST

This checklist must accompany every file submitted to KEYSTONE FUNDING INC for an underwriting decision.

CREDIT PACKAGE SUBMISSION

Upload credit packages to the registered loan via the Wholesale Lending Portal .

CONTACT INFORMATION

Wholesale Name:____**Corr ISN#** ____________

Who should we contact with decision / questions?

Name / Title____**Phone**____________________

Email address: ____________________________________

NOTE: Wholesale review is required on all loans sent to KEYSTONE FUNDING INC for underwriting. **Special instructions (attach cover letter if desired):**

____

LOAN INFORMATION

Borrower Last Name:______________________________**KEYSTONE FUNDING INC Loan #:** __________

Mortgage Type: Conventional **Product:**____________________ **Loan Amount:** ___________________

Documentation Type: Standard **Program:** Non-Agency Jumbo

DOCUMENTATION

Please stack applicable documents in the following order. **<u>All documents must be legible.</u>**

- ☐ Cover letter with special instructions, if applicable.
- ☐ Copy of Loan Registration Confirmation
- ☐ Completed Transmittal Summary (Fannie Mae 1008)
- ☐ Copy of loan approval issued by Wholesale, if applicable
- ☐ Initial and final signed and dated Residential Loan Application and addenda (Fannie Mae 1003). *Note: the Demographic Information Addendum must accompany the 1003.*
- ☐ Credit Report(s), Credit Supplements and Credit Explanation from borrower, if applicable.
- ☐ Loan payment histories on present and past mortgages (or rental payment histories, if applicable).
- ☐ Other applicable Letters of Explanation for income, employment, assets, etc.
- ☐ Employment/Income documentation for all sources of income.
- ☐ Signed personal and/or business federal income tax returns and corresponding IRS Tax Transcripts for both personal and business.
- ☐ Verification of Deposit and /or Bank Statements.
- ☐ Evidence of Earnest Money and/or Gift letter/Documentation, if applicable
- ☐ Title commitment
- ☐ Appraisal Report(s) and exhibits*
- ☐ Completed KEYSTONE FUNDING INC Condo/PUD Project Data Form (Exhibit 22) or equivalent, if applicable
- ☐ Copies of Initial Loan Estimate, Closing Disclosure, ARM Disclosure
- ☐ Other documents deemed applicable (e.g. co-op documents, divorce decree, bankruptcy documents, etc)

**Appraisal documents are required at the time of initial credit package submission for refinances only. For purchase transactions, these documents are still required and should be provided to KEYSTONE FUNDING INC as soon as they're obtained.*