



# Jumbo Select Underwriting Guidelines

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## Eligibility Requirements

Unless otherwise addressed in MiMutual's Conventional guidelines, the more restrictive of the FNMA Selling Guide or Appendix Q must be followed. **All loans must meet QM Safe Harbor requirements.**

### Available Products

- Fixed Rate: 30, 25, 20, 15, 10 year
  - Only 20, 25, and 30 year fixed rates available for LTVs > 85%
- ARM: 5/1 LIBOR, 7/1 LIBOR, 10/1 LIBOR (ARMs carry a 30 year term and are fully amortizing)

### Qualifying Rate

- Fixed Rates: Note rate
- 5/1 ARM: Greater of the fully indexed rate or Note Rate + 2%
- 7/1 ARM: Greater of the fully indexed rate or Note Rate
- 10/1 ARM: Greater of the fully indexed rate or Note Rate

### Eligible Property Types

- Single Family Residences (includes condos and PUDs)
- 2-4 Unit properties
  - Not eligible for loans with LTVs > 85%

### Occupancy

- Primary Residences for 1-2 units
- Second Homes
  - Must be located a reasonable distance from the borrower's principal residence
  - Must be occupied by the borrower for some portion of the year
  - Must be suitable for year-round use
  - Must not be subject to a rental agreement and borrower must have exclusive control over the property
  - Any rental income received on the property cannot be used as qualifying income
- Investment properties for 1-4 units
  - Gift funds and business funds are ineligible sources of funds for reserves, cash to close, or downpayment
  - Transactions must be arm's length

### Maximum DTI

- 43% for LTVs ≤ 80%
- 36% for LTVs 80.01% - 85%

#### **For LTVs 85.01 – 90.00%**

- 38% for First Time Homebuyers
- 43% for Non-First Time Homebuyers

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LTV/CLTV/HCLTV

Primary Residence   Purchase and Rate/Term Refinance				
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount <sup>1</sup>
Purchase or Rate/Term Refi	1	720 <sup>7</sup>	90% <sup>7</sup>	\$1,500,000 <sup>7</sup>
Purchase	1	760	85% <sup>3</sup>	\$1,000,000
		720	80%	\$1,500,000
		720	75%	\$2,000,000
		720	70%	\$2,500,000 <sup>2</sup>
		700	70%	\$1,000,000
	2	700	65%	\$1,000,000
		720	60%	\$1,500,000
Rate/Term Refinance	1	760	85% <sup>3</sup>	\$1,000,000
		720	80%	\$1,000,000
		720	75%	\$1,500,000
		720	70%	\$2,000,000
		700	70%	\$1,000,000
		720	60%	\$2,500,000 <sup>2</sup>
	2	700	65%	\$1,000,000
		720	60%	\$1,500,000

Primary Residence   Cash Out Refinance					
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	Maximum Cash Out
Cash Out Refinance	1	720	70%	\$1,000,000	\$250,000
		700	65%	\$1,000,000	\$250,000
		720	65%	\$1,500,000	\$500,000
		720	60%	\$2,000,000	\$500,000
		720	50%	\$2,500,000 <sup>2</sup>	\$750,000

Second Home   Purchase and Rate/Term Refinance				
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount <sup>1</sup>
Purchase	1	720	80% <sup>4</sup>	\$1,000,000
Purchase or Rate/Term Refinance	1	720	75%	\$1,000,000
			70%	\$1,500,000
			65%	\$2,000,000
			50%	\$2,500,000 <sup>2</sup>

Fixed Rate Only (20, 25, 30 year)					
Second Home   Cash Out Refinance <sup>5</sup>					
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	Maximum Cash Out
Cash Out Refinance	1	740	60%	\$1,000,000	\$250,000
			55%	\$1,500,000	\$500,000
			50%	\$2,000,000	\$750,000

Fixed Rate Only (20, 25, 30 year)					
Investment   Purchase and Rate/Term Refinance   Cash Out Refinance <sup>6</sup>					
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	
Purchase	1-4	740	70%	\$1,000,000	
Rate/Term Refi	1-4	740	70%	\$1,000,000	
Cash Out Refi	1-4	740	60%	\$1,000,000 (max cash out \$250,000)	

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<sup>1</sup>First-Time Homebuyers are subject to a maximum loan amount of \$1,000,000. Loan amounts up to \$1,500,000 allowed in CA and NJ, but carry a maximum 80% LTV/CLTV/HCLTV. See Eligible Borrower section for specific requirements for FTHBs.

<sup>2</sup>Loan amounts > \$2,000,000 are available on 20, 25, and 30 year fixed rates only

<sup>3</sup>The following requirements apply for transactions with LTVs greater than 80%

- MI not required
- Secondary financing not allowed
- Maximum DTI 36%
- Non-permanent resident aliens not allowed
- Gift funds not allowed
- Agency High Balance loan amounts are ineligible
- Escrow account required for loans > 80% LTV unless prohibited by applicable law

<sup>4</sup>Second Home purchases with LTV/CLTV/HCLTVs between 75.01% and 80% are limited to 20, 25, 30 year fixed rate

<sup>5</sup>The following requirements apply for Second Home Cash Out Refinance Transactions:

- 20, 25, 30 year fixed rate only

<sup>6</sup>The following requirements apply for investment property purchase, rate/term refis, and cash out refis:

- Florida condos limited to 50% LTV/CLTV/HCLTV
- Gift funds not allowed
- Transaction must be arm's length
- Appraiser to provide comparable rent schedule
- FTHBs not allowed
- 20, 25, 30 year fixed rate only
- If using rental income, an executed lease agreement must be provided. See [Rental Income](#) in the Income/Employment section for further details.

<sup>7</sup>The following requirements apply for primary residence purchase and rate/term refinances greater than 85% LTV:

- First time homebuyers are subject to a maximum loan amount of \$1,000,000. See Eligible Borrower section for FTHB-specific requirements
- MI not required
- Secondary financing not allowed
- Non-permanent resident aliens not allowed
- Minimum loan amount is \$1 over the current conforming/high balance limit set by FHFA (fhfa.gov). Agency high balance loan amounts are ineligible
- Escrow/impound accounts required unless prohibited by applicable laws
- 20, 25, 30 year fixed rate only

**NOTES:**

- Minimum loan amount \$424,101 (1 unit) or \$1 over conforming loan limit (2-4 units)
- Loan amounts between conforming loan limits and Agency High Balance are eligible except on loans with LTVs greater than 80%
- Exceptions may be granted on a case-by-case basis for loans with terms or characteristics that are outside of the Jumbo loan guidelines. Approval of the exception must be granted by the investor prior to closing.

## ARM Specifics

### Interest Rate Adjustment Caps

- Initial: 2% up/down
- Subsequent: 2% up/down
- Lifetime: 5% up

### Margin

2.25

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1-Year LIBOR (London InterBank Offer Rate)

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### **Interest Rate Floor**

Equal to the Margin

### **Change Dates**

- 5/1: The first change date is the 60<sup>th</sup> payment due date. Subsequent change dates are every 12 months thereafter
- 7/1: The first change date is the 84<sup>th</sup> payment due date. Subsequent change dates are every 12 months thereafter
- 10/1: The first change date is the 120<sup>th</sup> payment due date. Subsequent change dates are every 12 months thereafter

### *Conversion Option*

Not convertible

### *Assumption Feature*

Fixed rate mortgages are not assumable; ARMs are. However, MiMutual does not underwrite or close assumptions.

### *Documentation Requirements*

Full doc. Manual underwriting requirements apply, regardless of AUS documentation waivers. However, DU findings are required on all Jumbo loans. The recommendation may be Approve/Ineligible, with the only reason for ineligibility being the loan size.

If the 1003, title commitment, or credit documents indicate the borrower is a party to a lawsuit, additional documentation must be obtained to determine no negative impact exists on the borrower's ability to repay, assets, or collateral.

For LTVs greater than 85%, the residual income calculation must be provided and meet the residual income requirements indicated in the [Income/Employment](#) section of this guide

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## Borrowers

### **Eligible**

- US Citizens
- Permanent Resident Aliens with evidence of lawful residency
  - Must be employed in the United States for the past 24 months
- Non-Permanent Resident Aliens with evidence of lawful residency are eligible with the following restrictions:
  - Primary residence only
  - Maximum LTV/CLTV/HCLTV 75%
  - 20, 25, 30 year fixed rate only
  - No other financed properties in the US
  - Unexpired H1B, H2B, E1, L1, and G Series visas only. G Series visas must have no diplomatic immunity.
  - Credit tradeline requirements must be met, no exceptions.
  - Borrower must have a current 24 month employment history in the US
- First Time Homebuyers
  - Defined as a borrower who has not owned a home in the last 3 years. For loans with more than 1 borrower, where at least 1 borrower has owned a home in the last 3 years, first time homebuyer requirements do not apply
  - Maximum loan amount \$1,000,000
  - Minimum score 740 for LTVs in excess of 85%
  - Maximum DTI 38% for LTVs in excess of 85%
  - For transactions located in CA and NJ, a maximum loan amount of \$1,500,000 is allowed if the following requirements are met:
    - 720 minimum FICO score
    - No gift funds allowed
    - Primary residence only
    - Reserve requirements for FTHBs are met
    - Maximum 80% LTV/CLTV/HCLTV

### ***Documentation of Lawful Residency***

For a Permanent Resident Alien, one of the following is required:

- A valid and current Permanent Resident Alien card (form I-551), also known as a Green Card
- A passport stamped “processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until \_\_\_\_”. Employment authorized. This evidences the holder has been approved for, but not issued, a Permanent Resident Alien card.

For a Non-Permanent Resident Alien, verification of a valid and eligible visa that allows the Non-Permanent Resident Alien the right to work and live in the US issued by the USCIS is required.

### **Ineligible**

- Any borrower without a Social Security Number (ITINs are not eligible)
- Foreign Nationals
- Non-occupant coborrowers
- Non-permanent resident aliens (for LTVs > 85%)

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## *Multiple Properties Financed/Owned*

For LTVs less than or equal to 85%, the borrower(s) may own a total of four (4) financed, 1-4 unit residential properties, including the subject property, and regardless of occupancy of the subject property. All financed 1-4 unit residential properties require an additional six (6) months' PITIA reserves for each property, unless the exclusions below apply:

- 1-4 unit residential financed properties held in the name of an LLC or other corporation can be excluded from the number of financed properties only when the borrower is not personally obligated for the mortgage
- Ownership of commercial or multifamily (5 or more units) real estate is not included in this limitation.

For LTVs greater than 85%, the borrower may only own a total of two financed, 1-4 unit residential properties including the subject property.

For other properties owned, documentation to confirm the P&I, taxes, insurance, HOA dues, lease payments, or other property-related expenses must be provided.

**NOTE:** *Financed properties held in the name of an LLC or other corporation can be excluded from the calculation of number of properties financed only in cases where the borrower is not personally obligated for the mortgage.*

## *Rate/Term Refinance Restrictions*

- The new loan amount is limited to pay off the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaid items.
  - If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve (12) months and total draws do not exceed \$2,000 in the most recent twelve (12) months.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months.
  - A seasoned equity line is defined as not having draws totaling over \$2,000 in the most recent twelve (12) months. Withdrawal activity must be documented with a transaction history.
  - Max cash back at closing is limited to 1% of the new loan amount.
- Properties inherited less than twelve (12) months prior to application date can be considered for a Rate and Term refinance transaction if the following requirements are met:
  - Must have clear title or copy of probate evidencing borrower was awarded the property.
  - A copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries.
  - Borrower retains sole ownership of the property after the pay out of the other beneficiaries.
  - Cash back to borrower not to exceed 1% of loan amount.

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## Cash Out Refinance Restrictions

- Borrower must have owned the property for at least 6 months. If the property is owned free & clear and 6 months seasoning is not met, refer to Delayed Purchase Financing
- Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand
- Inherited properties may not be refinanced as a cash out refinance prior to 12 months ownership. See Rate/Term Refinances for requirements
- Cash out refinances where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan, or replenishing business funds used to purchase the property, the following guidelines apply:
  - Cash out limitation is waived if previous transaction was a purchase
  - Seasoning requirement for cash out is waived (borrower does not have to own for 6 months prior to subject transaction)
  - Funds used to purchase the subject must be documented and sourced
  - CD for subject transaction must reflect payoff or paydown of pledged asset / retirement account loan, secured loan, unsecured family loan or business asset account. If cash out proceeds exceed payoff of loans, excess cash must meet cash out limitations
  - The purchase must have been arm's length
  - Investment properties are ineligible

## Continuity of Obligation

When at least one (1) borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements have been met. If continuity of obligation is not met, the following permissible exceptions are allowed for the new refinance to be eligible:

- The borrower has been on title for at least twelve (12) months but is not obligated on the existing mortgage that is being refinanced and the borrower meets the following requirements:
  - Has been making the mortgage payments (including any secondary financing) for the most recent twelve (12) months, or
  - Is related to the borrower on the mortgage being refinanced.
- The borrower on the new refinance transaction was added to title twenty-four (24) months or more prior to the disbursement date of the new refinance transaction.
- The borrower on the refinance inherited or was legally awarded the property by a court in the case of divorce, separation or dissolution of a domestic partnership.
- The borrower on the new refinance transaction has been added to title through a transfer from a trust, LLC or partnership. The following requirements apply:
  - Borrower must have been a beneficiary/creator (trust) or 25% or more owner of the LLC or partnership prior to the transfer.
  - The transferring entity and/or borrower has had a consecutive ownership (on title) for at least the most recent six (6) months prior to the disbursement of the new loan.

**NOTE:** *Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.*

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## Delayed Purchase Refinances

Delayed Purchase Refinancing is allowed with the following requirements:

- Property was purchased by borrower for cash within six (6) months of the loan application.
- HUD-1/CD from purchase reflecting no financing obtained for the purchase of the property.
- Preliminary title reflects the borrower as the owner and no liens.
- Funds used to purchase the property are fully documented and sourced and must be the borrower's own funds (no gift funds or business funds).
- Funds drawn from a HELOC on another property owned by the borrower, funds borrowed against a margin account, or funds from a 401(k) loan are acceptable as long as the following requirements are met:
  - The borrowed funds are fully documented
  - The borrowed funds are reflected on the Closing Disclosure (CD) as a payoff on the new refinance transaction
- LTV/CLTV/HCLTV for Rate and Term refinances must be met. The loan is treated as a Rate and Term refinance.
- Investment properties are allowed as long as borrower is not a builder or in the construction industry and prior transaction was arm's length.

## LTV/CLTV/HCLTV Calculation

- If subject property is owned more than twelve (12) months, the LTV/CLTV/HCLTV is based on the current appraised value. The twelve (12) month time frame is defined as prior Note date to subject Note date.
- If subject property is owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the original purchase price plus documented improvements made after the purchase of the property, or the appraised value. Documented improvements must be supported with receipts. The twelve (12) month time frame is defined as prior Note date to subject Note date.

**NOTE:** Released subordinate liens must be paid off and closed to exclude them from CLTV/HCLTV calculation

## Delayed Purchase Refinance

The LTV/CLTV/HCLTV is calculated based on the lesser of the purchase price or appraised value of the subject property

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## *Construction to Permanent Refinance Restrictions*

The conversion of construction to permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction, and must be named as the borrower for the construction loan. The home must have been completed per plans and specs.

- LTV/CLTV/HCLTV is determined based on the length of time the borrower has owned the lot. The time frame is defined as the date the lot was purchased to the Note date of the subject transaction.
  - For lots owned twelve (12) months or more, the appraised value can be used to calculate the LTV/CLTV/HCLTV.
  - For lots owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs (documented construction costs plus documented purchase price of lot).
- A Certificate of Occupancy from the applicable government authority is required. If the applicable government authority does not require a C of O, then proof of the absence of this requirement must be provided.

## *Non-Arm's Length Transactions*

A non-arm's length transaction is one in which there is a relationship or business affiliation between the borrower(s) and/or any parties in the transaction. If a direct relationship exists between any of the parties to a transaction, including the borrower/buyer, seller (if applicable), employer, lender, broker, or appraiser, then the transaction will be considered non-arm's length.

Non-arm's length transactions are not eligible, with the exception of the following:

- Family sales or transfers
  - Must have independent, third party validation of income (with tax transcripts), assets, credit, and property value
  - Gift of Equity requires an acceptable gift letter and the equity gift credit is to be reflected from the seller to the borrower on the HUD-1/Closing Disclosure (as applicable)
  - Must provide a 12 month mortgage history on existing mortgage securing subject property confirming the family sale is not a foreclosure bailout
- Property sellers are representing themselves as agent in real estate transaction
  - For sale by owner transaction must meet arms-length eligibility criteria
- Relative of the property seller acting as the seller's real estate agent
- Buyers/borrowers are representing themselves as agent in real estate transaction
  - Commission earned by buyer/borrower cannot be used for downpayment, closing costs, or monthly PITIA reserves
- Relative of the borrower acting as the borrower's real estate agent
- The borrower is the employee of the originating lender and the lender has an established employee loan program
  - Must have independent, third party validation of income (with tax transcripts), assets, credit, and property value

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- Originator is related to the borrower
- Renter buying from landlord
  - 24 months cancelled checks will be required to document a satisfactory (0x30) pay history. Written Verification of Rent is not acceptable

**NOTE:** *Investment property transactions must be arm's length*

Gifts from relatives that are interested parties to the transaction are not allowed. Real estate agents may apply their commission towards closing costs and/or prepaids as long as the amounts are within the interested party contribution limits.

### *Secondary / Subordinate Financing*

For each mortgage loan subject to a subordinate lien, to accurately calculate the LTV/CLTV/HCLTV ratio for eligibility requirement purposes, MiMutual must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, MiMutual must diligently determine if any other subordinate financing liens exist and provide documentation from the borrower or creditor.

- Institutional Financing only. Seller subordinate financing not allowed.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio.
- Full disclosure must be made of the existence of subordinate financing and the subordinate financing repayment terms. The following are acceptable subordinate financing types:
  - Mortgage terms with interest at market rate.
  - Mortgage with regular payments that cover at least the interest due, resulting in no negative amortization.
- Employer subordinate financing is allowed with the following requirements:
  - Employer must have an Employee Financing Assistance Program in place.
  - Employer may require full repayment of the debt if the borrower's employment ceases before the maturity date.
  - Financing may be structured in any of the following ways:
    - Fully amortizing level monthly payments
    - Deferred payments for some period before changing to fully amortizing payments
    - Deferred payments over the entire term.
    - Forgiveness of debt over time
    - Balloon payment of no less than five (5) years, or the borrower must have sufficient liquidity to pay off the subordinate lien.
- LTV/CLTV/HCLTV guidelines must be met for loans with subordinate financing.
- Secondary financing not allowed on LTVs >80%.

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### *Interested Party Contributions*

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment or contributed to the borrower’s financial reserve requirements.

Maximum IPCs are as follows:

<b>LTV/CLTV/HCLTV Limit and Transaction Type</b>	<b>Percent Limit</b>
Primary residences with LTVs > 80%	3%
Primary residences and Second Homes with LTVs ≤ 80%	6%
Investment Properties (regardless of LTV)	2%

**NOTE:** Sales concessions include vacations, furniture, automobiles, securities, or other giveaway items

### *Escrow Accounts*

Escrow waivers are available, but will contain a loan-level pricing adjustment

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## Credit Requirements

### *Adverse Credit*

- Bankruptcy, Chapter 7, 11, 13 - Not Allowed.
- Foreclosure - Not Allowed.
- Short Sale/Deed-in-Lieu - Not Allowed.
- Mortgage accounts that were settled for less, negotiated or short payoffs - Not Allowed.
- Loan Modification - Not allowed unless the modification is unrelated to hardship and there is no debt forgiveness as evidenced by supporting documentation.
- Medical Collections – allowed to remain outstanding as long as the balance is less than \$10,000 in aggregate

### *Outstanding Judgments/ Tax Liens/Charge-Offs/Past-Due Accounts*

Tax liens, judgments charge-offs and past-due accounts must be satisfied or brought current prior to or at closing. Cash-out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs, or past-due accounts.

Payment plans on prior year tax liens/liabilities are not allowed, must be paid in full.

### *Housing Payment History*

Mortgage/Rent history requires 0x30 in the past 24 months - NO EXCEPTIONS. This applies to all borrowers on the loan. Borrowers who currently live rent-free (with family or other), or can only provide a VOR from a private individual are not eligible.

### *Inquiries*

If the credit report indicates recent inquiries within the most recent 120 days of the credit report, the seller must confirm the borrower did not obtain additional credit that is not reflected in the credit report or mortgage application. In these instances the borrower must explain the reason for the credit inquiry.

- If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.
- Confirmation of no new debt may be in the form of a new credit report, pre-close credit report or gap credit report.

### *Credit Report*

#### **Age of Credit Report**

The credit report may not be more than 90 days old at the time the Note is signed.

#### **“Frozen” Credit Reports**

Credit reports with bureaus identified as “frozen” are required to be unfrozen and a current credit report with all bureaus unfrozen is required.

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**Tradeline Requirements**

- Minimum three (3) tradelines are required. The following requirements apply:
  - One (1) tradeline must be open for twenty-four (24) months and active within the most recent six (6) months.
  - Two (2) remaining tradelines must be rated for twelve (12) months and may be opened or closed.

**OR**

- Minimum two (2) tradelines are acceptable if the borrower has a satisfactory mortgage rating for at least twelve (12) months (opened or closed) within the last twenty-four (24) months and one (1) additional open tradeline.

Each borrower contributing income for qualifying must meet the minimum tradeline requirements; however, borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements. Authorized user accounts are not allowed as an acceptable tradeline. Non-traditional credit is not allowed as an acceptable tradeline. An International credit report is not permitted.

**Credit Score Requirements**

Each borrower must have a minimum of two FICO scores reporting.

- The representative score for each borrower is the middle of the three scores or the lower of the two scores reporting on the credit report
- The representative score for the loan transaction will be based on the lowest representative score for any borrower.

**Disputed Tradelines**

If a credit report reflects a disputed trade line, the accuracy of the disputed tradeline must be confirmed. All disputed tradelines must be included in the total expense ratio (DTI) if the account belongs to the borrower(s), unless documentation can be provided that authenticates the dispute.

Derogatory accounts must be considered in analyzing the borrower(s) willingness to repay debt. However, if a disputed account has a zero balance, and no late payments, it can be disregarded.

**Student Loans**

For all student loans, whether deferred, in forbearance, or in repayment, the monthly payment to be used is the greater of the following:

- 1% of the outstanding balance, or
- The actual documented payment

If the actual documented payment is less than 1% of the outstanding balance and it will fully amortize the loan with no payment adjustments, the lower fully amortizing payment may be used in qualifying.

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## *Departure Residence*

### **Departure Residence Pending Sale**

In order to exclude the payment for a borrower's primary residence that is pending sale but will close after the subject transaction, the following requirements must be met:

- A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared/satisfied.
- The closing date for the departure residence must be within 30 days of the subject transaction note date.
- 6 months liquid reserves must be verified for the PITIA of the departure residence.
- The transaction on the departure residence must be arm's length

### **Departure Residence Subject to Guaranteed Buy-out with Corporation Relocation**

In order to exclude the payment for a borrower's primary residence that is part of a Corporate Relocation the following requirements must be met:

- Copy of the executed buy-out agreement verifying the borrower has no additional financial responsibility toward the departing residence once the property has been transferred to the 3rd party.
- Guaranteed buy-out by the 3rd party must occur within 4 months of the fully executed guaranteed buy-out agreement.
- Evidence of receipt of equity advance if funds will be used for down payment or closing costs.
- Verification of an additional 6 months PITIA of the departure residence.
- The transaction on the departure residence must be arm's length

## *Co-Signed Loans*

The monthly payment on a co-signed loan may be excluded from the DTI if evidence of timely payments made by the primary obligor (other than the borrower) is provided for the most recent 12 months and there are no late payments reporting on the account.

## *Court Order*

If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided.

- Copy of court order.
- For mortgage debt, a copy of the document transferring ownership of property.
- If transfer of ownership has not taken place, any late payments associated with the repayment of the debt owing on the mortgage property should be taken into account when reviewing the borrower's credit profile.

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### *Assumption with No Release of Liability*

The debt on a previous mortgage may be excluded from DTI with evidence the borrower no longer owns the property. The following requirements apply:

- Payment history showing the mortgage on the assumed property has been current during the previous twelve (12) months or
- The value on the property, as established by an appraisal or sales price on the HUD-1/CD results in an LTV of 75% or less.

### *Tax Liability*

If the most recent tax return or tax extension indicates a borrower owes money to the IRS or State Tax Authority, evidence of sufficient assets to pay the debt must be documented if the amount due is within 90 days of loan application date.

### *Loans Secured by Financial Assets*

Loans secured by financial assets (life insurance policies, 401(k), IRAs, CDs, etc.) do not require a payment to be included in the DTI as long as documentation is provided to show the borrower's financial asset as collateral for the loan. Interest payments on margin loans and/or pledged asset loans or lines "are not" eligible for exclusion from the borrower's total liabilities.

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## Income Requirements

Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the borrower, MiMutual must determine that both the source and the amount of the income are stable. A two-year history of receiving income is required in order for the income to be considered stable and used for qualifying. When the borrower has less than a two-year history of receiving income, MiMutual will prepare a written analysis to justify the determination that the income that is used to qualify the borrower is stable. While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.

The following is required to establish stability of employment and income for the borrower(s) whose income is used to qualify:

- A minimum of 2 years employment and income history:
  - Any gaps in employment in excess of 30 days during the past 2 years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to include as qualifying income. Documentation must be provided to show a previous work history with prior W2s confirming similar income.
    - Extended gaps of employment (6 months or greater) require a documented two year work history prior to the absence
    - Exceptions may be considered on a case-by-case basis when the borrower is on the job less than 6 months, and the gap is less than 6 months
  - For a borrower who has less than a 2 year employment and income history, the borrower's income may be qualifying income if it can be documented that the borrower was either attending school or in a training program immediately prior to their current employment history. School transcripts must be provided to document.
- For borrowers of retirement age using asset distributions for income, see [Retirement Income](#) section for further requirements.
- Income may not be used for qualification if it comes from any source that cannot be verified, is not stable, or will not continue.

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## *Verification of Employment Requirements*

The requirements below apply when income is positive and included in qualifying income:

- Verbal Verification of Employment (VVOE) must be performed no more than ten (10) business days prior to the Note date. The VVOE should include the following information for the borrower:
  - Date of contact
  - Name and title of person contacting the employer
  - Name of employer
  - Start date of employment
  - Employment status and job title
  - Name, phone number, and title of contact person at employer
  - Independent source used to obtain employer phone number
- Verification of the existence of borrower's self-employment must be verified through a third party source and no more than 30 calendar days prior to the Note date.
  - Third party verification can be from a CPA, regulatory agency or applicable licensing bureau. A borrower's website is not an acceptable third party source
  - Listing and address of the borrower's business
  - Date of ownership of the company
  - Name and title of person completing the verification and date of verification
- Written Verification of Employment may be required for a borrower's income sourced from commissions, overtime and other income when the income detail is not clearly documented on W2 forms or paystubs. Written VOEs cannot be used as a sole source for verification of employment; paystubs and W2s are still required

## *Employees Paid via W2 / 1099*

- All paystubs must be computer generated
- W2s must be complete and be a copy provided by the employer
- If the borrower is paid hourly, the number of hours must be reflected on the paystub
- If overtime earnings are being used to qualify, they must be reflected on the YTD paystub
- If a written VOE is obtained, all sections must be completed. It must be sent directly to the employer, attention of the personnel department, and it must be returned directly to the lender

## *2106 Expenses*

Employee business expenses must be deducted from the adjusted gross income (for all income types)

## *Alimony/Spousal Support*

Alimony income requires a copy of the divorce decree, court order, or separation agreement confirming the income will continue for at least 3 years, and documentation the borrower has been receiving full, regular, and timely payments for the past 12 months. **If this income is the borrower's primary income source and there is a defined expiration date (even beyond 3 years), the income may not be acceptable for qualifying.**

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## Tax Returns

- All tax returns, whether personal or business returns, must be executed by borrower(s) on or before the closing date, regardless of whether 4506T results were obtained
- In all cases where self-employed income and/or losses are used to qualify the borrower(s), an acceptable Profit and Loss (P&L) and Balance sheet are required. These must be prepared and signed by the borrower (and preparer, if applicable) on or before the Note date, and may not be dated after the QM designation is made or exceed 90 days from the date of the Note.
- A 4506-T must be processed and income tax transcripts obtained (for each year requested) to validate all income used for qualifying, including personal federal tax return transcripts for all wage earner borrowers. The September 2015 version must be used for all loans closed on/after December 7, 2015, which includes the signatory attestation box.
- After the tax return extension expiration date, loan is not eligible without prior year tax returns
- In cases where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found". In these cases, an additional prior year's tax transcripts should be obtained and provided, along with a signed copy of the unverifiable returns (stamped as received and signed by the borrower's local IRS office), and evidence of either the refund received that matches the amount as stated on the returns and deposited into the borrower's account, or if the borrower owed the IRS, evidence the amount owed as stated on the return was paid along with a copy of the cancelled check used. Large increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case-by-case basis
- If the IRS rejects a 4506-T request and the reason for the rejection is either "Unable to Process" or "Limitation", the following conditions must be met in order to validate the borrower's income:
  - Copy of the IRS rejection with a code of "Unable to Process" or "Limitation", and
  - Record of Account for 2 years obtained by the borrower from the IRS. Adjusted Gross Income and Taxable Income on the Record of Account should match the borrower's 1040s

**OR**

  - Tax return transcripts for 2 years obtained by the borrower via mail from the IRS.
- When using tax returns to verify income, and loan closing is between the tax filing date and the extension expiration date (typically October 15<sup>th</sup>), the borrower must provide:
  - Copy of the filed extension
  - W2 forms
  - 1099s when applicable
  - Current year Profit & Loss Statement, executed by the borrower
  - Year-End Profit & Loss Statement for prior year, executed by the borrower
  - Balance Sheet for prior calendar year (all self-employment types)
  - Evidence of payment of any tax liability identified on the federal tax extension form

**NOTE:** *The total tax liability reported on IRS Form 4868 must be reviewed by the underwriter and compared to the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with the previous years may make it necessary for MiMutual to require the current returns in order to proceed.*

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## *Employment Income Sources*

*Unreimbursed Business Expenses reflected on the Schedule 2106 and/or Schedule A of the personal federal tax returns or tax transcripts must be deducted from income, regardless of the borrower's income type.*

### **Salaried**

An earnings trend must be established and documented. Large increases in salary over the previous two years must be explained and documented.

- W2 forms or personal tax returns, including all schedules, for prior two years
- Year-to-date paystub up through and including the most current pay period at the time of application and not earlier than 90 days prior to Note date (must document at least 30 days of income)
- If borrower is claiming overtime pay, it must be shown on the YTD paystub

### **Hourly and Variable Income**

An earnings trend must be established and documented. Stable to increasing income should be averaged over a minimum two year period. Declining income must be explained by the employer/borrower and a written determination by the underwriter will be prepared if declining income is used for qualifying.

- W-2 forms or personal tax returns, including all schedules, for prior two years.
- Year-to-date paystub up through and including the most current pay period at the time of application. Must document at least 30 days of income.

### **Part Time Income**

Borrower must have worked the part-time job uninterrupted for the past two years, and plans to continue. If the part-time income shows a continual decline, written sound rationalization for using the income to qualify will be prepared by the underwriter, or income may not be used.

- W-2 forms for prior two years.
- Year-to-date pay up through and including the most current pay period at the time of application

### **Commission**

Commission income must be averaged over the previous two years. If the commission income shows a continual decline, written sound rationalization for using the income to qualify must be provided, or income will not be used.

- W2 forms for prior two years if commissions are less than 25% of the total income
- Tax returns, including all schedules, and W2 form from the previous two years if commissions are  $\geq$  25% of the total income
- Unreimbursed Business Expenses (Form 2106) must be subtracted from income
- Year-to-date paystub up through and including the most current pay period at the time of application. Must document at least 30 days of income.
- Written VOE covering two full years with employer confirmation of commission income. Income cannot be used if VOE reflects the income is likely to cease.

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**Overtime and Bonus**

An earnings trend for bonus and overtime must be established and documented. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year. If either type of income shows a continual decline, written sound rationalization for using the income to qualify must be provided, or income should not be used.

- W2 forms and personal tax returns, including all schedules, for prior 2 years
- Year-to-date paystub up through and including the most current pay period at the time of application. Must document at least 30 days of income.
- Written VOE covering two full years with employer confirmation of overtime and/or bonus income. Income cannot be used if VOE reflects the income is likely to cease.

*Self-Employed Income Sources*

Self-employed borrowers are defined as those individuals who have 25% or greater ownership interest or receive a 1099 statement to document income. Borrowers who are employed by a family member are considered to be self-employed, regardless of the percentage of ownership, and self-employed documentation is required. Potential ownership by the borrower must be addressed.

Year-to-date is defined as the period ending as of the most recent tax return through the most recent quarter ending one month prior to the note date. For tax returns on extension the entire unfiled year is also required. For example: 2014 returns in file and note date is 7/14/2015 would require 2015 YTD documentation through Q1 or through March 31, 2015. Note date of 8/14/2015 would require YTD documentation covering Q1 and Q2 or through June 30, 2015.

All self-employed income is required to be analyzed on FNMA Form 1084.

**Sole Proprietorship**

- YTD through current quarter P&L and Balance Sheet
  - Tax returns for prior year are not a substitute for balance sheet if most recent quarter falls in previous tax year
  - YTD P&L and YTD Balance Sheet may be waived if the borrower is a 1099-paid borrower who does not actually own a business if all of the following requirements are met:
    - Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
    - Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a (Mortgage Interest), 20 (Rent/Lease), and 26 (Wages) must indicate the borrower does not have any expenses in these categories
    - Analysis of Blocks 17 (Legal and Professional Services) and Block 18 (Office Expense) indicate nominal or \$0 expense
    - Block C (Business Name) does not have a separate business name entity
    - YTD income in the form of a written VOE or pay history is provided by the employer paying the 1099. YTD income must support prior year's income.
- Personal tax returns, including all schedules, for prior two years
- See Tax Returns for additional requirements regarding unfiled prior year returns
- Stable to increasing income should be averaged for 2 years

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**Partnerships (General, Limited) / Limited Liability Companies / “S” Corporations / Corporations**

- YTD through current quarter P&L and Balance Sheet, signed and dated by the borrower (and preparer, if other than the borrower). Must be dated prior to or at the time the QM designation is made, and cannot be older than 90 days from the Note date.
- Personal tax returns, including all schedules, for prior two years.
- K-1s from prior two years, showing ownership percentage. K-1s are not required if the source is reporting positive income and the income is not used for qualification. If K-1s show a loss, they are required, regardless if they are used for qualifying purposes. If using capital gains, interest/dividend or W2 income from this source is used, K-1s are required.
- Business tax returns (1065/1120S/1120), including all schedules, for the prior two years are required if the borrower has an ownership percentage  $\geq 25\%$ ; they are not required if reporting positive income via a K-1, and the income is not used for qualification purposes. If the K-1s show a loss, then the applicable corporate returns are needed regardless if they are used for qualification purposes.
- All returns provided must confirm 12 months self-employed income for each year
- See [Tax Returns](#) for additional requirements regarding unfiled prior year returns

*Rental Income Sources***All Properties (Except Departing Primary Residence)**

- Lease agreements must be provided if rental income is used for qualifying purposes
  - Current lease for each rental property, including commercial properties listed in Part I of Schedule E of the 1040s. Rent rolls are not allowed
  - If the current lease amount is less than the rental income reported on the tax returns, justification for using the income from the tax returns must be provided and warrant the use of the higher income. If there is no justification, the lease amount less expenses will be considered for rental income/loss
- Personal Tax Returns – Two years
  - For properties listed on Schedule E, rental income should be calculated using net rental income + depreciation + interest + taxes + insurance + HOA divided by applicable months minus PITIA
  - If rental income is not available on the borrower’s tax returns, net rental income should be calculated using gross rents x 75% minus PITIA
  - See [Tax Returns](#) for additional requirements regarding unfiled prior year returns
- Net rental income may be added to the borrower’s total monthly income. Net rental losses must be added to the borrower’s total monthly obligations
- If the subject property is the borrower’s primary residence (one unit property or one unit property with an accessory unit) and generating rental income, the full PITIA should be included in the borrower’s total monthly obligations
- For loans with LTVs  $> 85\%$ , if the subject property is the borrower’s primary residence with two units, rental income may be included for the unit not occupied by the borrower as long as the requirements for a lease agreement and/or tax returns above are met.

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**Departing Residence**

If the borrower is converting their current primary residence to a rental property and using rental income to offset the payment the following requirements apply:

- Borrower must have documented equity in departure residence of 25%.
- Documented equity may be evidenced by:
  - an exterior or full appraisal dated within six (6) months of subject transaction
  - OR**
  - the original sales price and the current unpaid principal balance.
- Copy of current lease agreement.
- Copy of security deposit and evidence of deposit to borrower's account.

*Retirement Income Sources***Pension, Annuity, 401(k), IRA Distributions**

- Existing distribution of assets from an IRA, 401(k) or similar retirement asset must be sufficient to continue for a minimum of three (3) years.
  - Distribution must have been set up at least six (6) months prior to loan application if there is no prior history of receipt OR
  - Two (2) year history of receipt evidenced.
  - Distributions cannot be set up or changed solely for loan qualification purposes.
- Document regular and continued receipt of income as verified by any of the following:
  - Letters from the organizations providing the income.
  - Copies of retirement award letters.
  - Copies of federal income tax returns (signed and dated on or before the closing date).
  - Most recent IRS W-2 or 1099 forms.
  - Proof of current receipt with two (2) months bank statements.

If any retirement income will cease within the first three (3) years of the loan, the income may not be used.

**Social Security Income**

Social Security income must be verified by a Social Security Administration benefit verification letter (sometimes called a "proof of income letter", "budget letter", "benefits letter", or "proof of award letter") and one month bank statement evidencing receipt of SSI. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

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## *Other Income Sources*

### **Alimony, Separate Maintenance, and Child Support Income**

- Will be considered with a divorce decree, court ordered separation agreement, court decree, or other legal agreement providing the payment terms confirming that income will continue for at least three (3) years. If the income is the borrower's primary income source and there is a defined expiration date (even if beyond 3 years), the income may not be acceptable for qualifying purposes.
- Documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past 12 months.
- See [Non-Taxable Income](#) for child support income treatment.

### **Dividend/Interest**

Interest and Dividend income may be used as long as documentation supports a two-year history of receipt.

- Complete signed and dated individual federal tax returns for the prior two years
- Proof of sufficient assets to support the continuation of interest and dividend income for the next 3 years

### **Stock Options & Restricted Stock Grants**

Eligible as qualifying income, provided:

- The income has been received for 2 years as identified on the paystubs, W2s, and tax returns, **and**
- Documentation indicates continuance for a minimum of 3 years

A 2 year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the 52 week low for the most recent 12 months reporting at the time of closing. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule. Additional awards must be similar to the qualifying income and awarded on a consistent basis.

Borrower must be currently employed by the employer issuing the RSUs/stock options in order for the RSUs/stock options to be considered in qualifying income. Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.

### **Note Income**

- A copy of the Note must document the amount, frequency and duration of payments
- Regular receipt of note income for the past 12 months must be documented, and evidence of note income must be reflected on tax returns.
- Verification that income is expected to continue for a minimum of three (3) years

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**Trust Income**

Income from trusts may be used if guaranteed and regular payments will continue for at least 3 years.

- Complete signed and dated individual federal income tax returns for the most recent two years
- Regular receipt of trust income for the past 12 months must be documented.
- Two months asset statements for the source of the trust income
- A complete copy of the Trust Agreement or Trustee Statement showing:
  - Total amount of borrower-designated trust funds
  - Terms of payment
  - Duration of trust
  - Evidence the trust is irrevocable
  - The trust meets all secondary and state requirements
  - If trust fund assets are being used for downpayment or closing costs, the loan file must contain adequate documentation to indicate the withdrawal of the assets will not negatively affect income

**NOTE:** *If borrowers are using trust funds as an eligible asset, then trust income is ineligible for qualifying income*

**Foreign Income**

Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Use of foreign income requires:

- W-2 forms or personal signed and dated tax returns, including all schedules, for prior two years.
- Year-to-date pay stub.
- All income must be converted to U.S. currency.

**Foster Care**

Documentation from the foster agency must be provided to support continuation of income for a minimum of 3 years

**Non-Taxable Income (Including Child Support, Disability, Foster Care, Military, etc)**

Documentation must be provided to support continuation of income for a minimum of three (3) years. The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.

The percentage of non-taxable income that may be added *cannot* exceed the appropriate tax rate for the income amount. Additional allowances for dependents are *not* acceptable.

Documentation Requirements:

- Must document and support the amount of income *grossed-up* for any nontaxable income source, and
- The same tax rate the borrower used to calculate his/her income tax from the previous year must be used.
- Tax returns must be provided to confirm the income is non-taxable and the prior year's tax rate.

**Note:** If the borrower is not required to file a Federal tax return, the tax rate to use is 25%.

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### *Unacceptable Income Sources*

- Rental income received from borrower’s primary residence (one unit property or one unit property with accessory unit)
- Rental income received from a second home
- Income from trailing coborrowers
- Deferred compensation
- Retained Earnings
- Education Benefits
- Any unverified source
- Income that is temporary or a one-time occurrence
- Mortgage differential payments from an employer to subsidize an employee’s mortgage payments
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources is not allowed for qualifying:
  - Foreign shell banks
  - Medical marijuana dispensaries
  - Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
  - Businesses engaged in any type of internet gambling

### *Residual Income Calculation*

A residual income calculation is required for all LTVs greater than 85%. Residual income is the gross qualifying income less monthly debt (as included in the DTI), and must meet the requirements below.

# in Household	1	2	3	4	5
Req’d Residual	\$1,550	\$2,600	\$3,150	\$3,550	\$3,700
<i>*Add \$150 for each additional family member</i>					

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# Asset Requirements

## *Documentation Requirements*

All asset documentation must be dated within 90 days of the Note date. All sources of funds must be solely owned by the borrower(s). Assets used for cash to close must be liquidated and deposited into a US institution prior to close, and any non-liquid account requires terms of withdrawal. On an investment property transaction, a minimum of 50% reserves must be liquid (cash or cash equivalent: bank accounts, money markets, mutual funds, or publicly traded stocks).

### **Checking and Savings Accounts**

- The two most recent, consecutive months' statements (all pages) for each account are required
- Large deposits inconsistent with monthly income or other deposits must be explained and verified. Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan.

### **Marketable Securities / Stock Accounts**

Marketable securities include stocks, bonds, and other securities that are held in an account at a financial institution, and that a price can be readily verified through financial publications.

- Two most recent consecutive monthly stock/securities account statements, or one most recent quarterly statement are required
- 100% of the current value of stock accounts, bonds, and mutual funds can be considered in the calculation of assets available for closing and reserves
- Non-vested or restricted stock accounts are not eligible for use as downpayment or reserves

### **401(k) and Retirement Accounts**

- Most recent quarterly retirement account statement or two most recent consecutive monthly statements (all pages)
- Evidence of liquidation is required when funds are used for downpayment or closing costs, including terms of withdrawal confirming the borrower has unrestricted access (except for tax penalties) to the vested balance of the account
- If the borrower is > 59 ½ years old, 70% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves
- If the borrower is < 59 ½ years old, 60% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves
- Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves
- If the asset is being used as qualifying income, then it is an ineligible asset source

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## *Business Funds*

Business funds may be used for downpayment and/or closing costs, not for purposes of calculating reserves. The borrower must have access to the funds. Cash flow analysis required using 3 months business bank statements to determine no negative impact to business based on withdrawal of funds. Statements must not reflect any NSF's (non-sufficient funds) or overdrafts.

- The borrower must have access to the funds
- The borrower must be the sole proprietor or 100% owner of the business (or all borrowers combined own 100%)

**NOTE:** *This asset source is ineligible on investment property transactions, whether purchase or refinance.*

## *Sale of Real Estate*

100% of proceeds from the sale of a departure residence or other real estate owned, as well as assets from a tax-deferred "like-kind exchange", also known as an IRS 1031 Tax Exchange are eligible if the subject transaction is a second home or an investment property purchase transaction.

- Reverse 1031 exchanges not allowed
- Required documentation:
  - HUD-1/CD for both properties
  - Exchange Agreement
  - Sales Contract for exchange property
  - Verification of funds from the Exchange Intermediary

## *Gift Funds*

- Gift funds are permitted on purchase transactions after borrower has at least 5% own funds into the transaction (purchases)
- Gift funds cannot be used as reserves
- Gift funds not allowed on LTVs > 80%
- Gift funds not allowed on investment properties
- Donor must be an immediate family member, future spouse, or domestic partner living with borrower
- An executed gift letter with the gift amount, donor's name, address, telephone number, and relationship is required
- It must be verified that sufficient funds to cover the gift are either in the donor's account, or have been transferred to the borrower's account. Acceptable documentation includes the following:
  - A copy of the donor's check and the borrower's deposit slip
  - A copy of the donor's withdrawal slip and the borrower's deposit slip
  - A copy of the donor's check to the closing agent
  - A settlement statement showing receipt of the donor's check. When the funds are not transferred prior to settlement, MiMutual must document that the donor gave the closing agent the gift funds in the form of a certified check, cashier's check, or other official check.

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## Reserve Requirements

Beyond the minimum reserve requirements and in an effort to fully document the borrower’s ability to meet their obligations, borrowers should disclose and verify all other liquid assets.

- Reserves are required to be verified on all transactions. See table below for amount of required reserves that must be verified
- Gift funds cannot be used for reserves
- **All financed properties, other than the subject property, require an additional six months PITIA in reserves for each property.**
  - Max of 2 financed properties may be owned when the LTV is greater than 85%

Reserve Requirements (Number of Months of PITIA) for LTVs to 85%		
Occupancy	Loan Amount	Required Reserves <sup>1,2</sup>
Primary Residence	≤ \$1,000,000 with LTV < 80%	6
	≤ \$1,000,000 with LTV 80% - 85%	12
	\$1,000,001 - \$1,500,000	9
	\$1,500,001 - \$2,000,000	12
	\$2,000,001 - \$2,500,000	24
Second Home	≤ \$1,000,000	12
	\$1,000,001 - \$1,500,000	18
	\$1,500,001 - \$2,000,000	24
	\$2,000,001 - \$2,500,000	36
First Time Homebuyer	≤ \$1,000,000 with LTV ≤ 80%	12
	≤ \$1,000,000 with LTV 80% - 85%	18
	\$1,000,001 - \$1,500,000	15
Investment Property	≤ \$1,000,000	18

<sup>1</sup>For hybrid ARMs, add 3 months PITIA to minimum reserves required as noted above

<sup>2</sup>For additional 1-4 unit financed residential properties owned (if excluded from the count of multiple financed properties, reserves are not required), an additional 6 months PITIA must be documented for each property

Reserve Requirements (Number of Months of PITIA) for LTVs greater than 85%		
Transaction	DTI	Required Reserves <sup>1</sup>
First Time Homebuyer	≤ 38%	15
Non-First Time Homebuyer	≤ 38%	12
	38.01% – 43.00%	18

<sup>1</sup>Additional financed properties owned require an additional 6 months PITIA. The borrower may only own a total of two financed, 1-4 unit residential properties including the subject property for loans with LTVs greater than 85%

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## Collateral Requirements

- Full appraisals are required on all transactions (1004 or 1073). See table below for appraisal requirements.
  - Investment properties must contain a comparable rent schedule along with the URAR (single family), or be reported on the Small Residential 2-4 unit Income Property Appraisal (1025) for multi-unit properties
  - Appraisals must be completed for the subject transaction. Use of a prior appraisal, regardless of the date of the prior appraisal, is not allowed
- Appraisals must be ordered through Priority Appraisal USA (or your MiMutual-assigned AMC, if different) on all transactions, including correspondent.
- Transferred appraisals are not allowed.
- No recertifications of value are permitted
- Collateral Desktop Analysis (CDA) with accompanying MLS sheets ordered from Clear Capital is required to support the value of the appraisal (unless two full appraisals are obtained).
  - If the CDA returns a value that is 'indeterminate' or if the CDA indicates a lower value than the appraised value that exceeds a 10% tolerance then one of the following requirements must be met:
    - A Clear Capital BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation will be used for the appraised value of the property. MiMutual is responsible for ordering the BPO and the Value Reconciliation through Clear Capital
    - A field review or 2<sup>nd</sup> full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. MiMutual is responsible for providing the field review or second full appraisal
- Escrow holdback accounts are not eligible. Any repairs or improvements must be fully completed prior to closing, and evidence of satisfactory completion is required.
  - When two appraisals are required, and both appraisals are done "subject to" (1004D required), it is acceptable to provide only one 1004D
- Appraisals should not include comps greater than six (6) months old at the time of underwriting
- Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible
- When 2 appraisals are required, the following apply:
  - Appraisals must be completed by 2 independent companies
  - The LTV will be determined by the lower of the two appraised values as long as the lower appraisal supports the value conclusion. The final inspection and/or recertification of value must be for the appraisal with the lower value
  - The underwriter must review both appraisal reports and address any inconsistencies between the two reports. All discrepancies must be reconciled.
  - The appraiser that performed the appraisal with the lower value should complete the final inspection when applicable (two 1004Ds are not required, even if both reports were 'subject to')
- For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, additional requirements will apply:
  - Second full appraisal is required
  - Property seller on the purchase contract must be the owner of record
  - Increases in value should be justified and documented with commentary from the appraiser and recent paired sales

**NOTE:** *These requirements do not apply if the seller is a bank that received the property as a result of foreclosure or deed-in-lieu*

## Appraisal Requirements

For Loans with LTVs 85% or Less	
First Lien Loan Amount	Appraisal Requirement
<b>Purchase Transactions</b>	
≤ \$2,000,000	One (1) Full Appraisal
> \$2,000,000	Two (2) Full Appraisals
<b>Refinance Transactions</b>	
≤ \$1,500,000	One (1) Full Appraisal
> \$1,500,000	Two (2) Full Appraisals

For Loans with LTVs Greater than 85%	
All Purchase Transactions	1 Full Appraisal
All Refinance Transactions	2 Full Appraisals

A second or subsequent appraisal must not be ordered, obtained, used or paid for in connection with a mortgage financing transaction unless:

- there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the mortgage file or
- such appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or qualify control processors or underwriting guidelines, and so long as the seller/lender adheres to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value or
- a second appraisal is required by law or required per guidelines

## Eligible Collateral

Eligible collateral includes:

- 1-2 unit owner occupied properties
  - Only 1 unit, owner occupied properties are eligible for LTVs greater than 85%
- 1 unit second homes
- 1-4 unit investment properties
- Planned Unit Developments (PUDs)
- Modular homes (not manufactured)
- Condominiums, Fannie Mae Warrantable
  - CPM certificates allowed (full review required, warranty to FNMA guides)
    - Type S: Established Projects (non-site condo)
    - Type Q: Established Site Condominium Projects
  - Limited Review allowed only for detached condominiums. Site condos meeting Fannie Mae's definition/requirements do not require limited review
  - Florida condominiums limited to 50% LTV/CLTV/HCLTV on investment transactions
- Properties with ≤ 20 acres
  - Properties with 10.1 to 20 acres require:
    - Must be common and typical for the area, with a maximum 35% land-to-value ratio
    - No income-producing attributes

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## *Ineligible Collateral*

Ineligible collateral includes:

- Co-Ops
- Properties subject to leasehold
- Unique properties / log homes
- 3-4 unit owner occupied properties
- 2-4 unit second homes
- Model home leasebacks
- Non-warrantable condos
- Condotels
- Manufactured/Mobile homes
- Mixed use properties
- Any properties with > 20 acres. Appraiser must indicate total acreage. It is unacceptable to have the property appraised with only 20 acres in order to meet eligibility.
- Properties subject to existing oil or gas leases
- Working farms, ranches, or orchards
- Florida condos in new or newly-converted projects
- Properties for which the appraisal indicates a Condition Rating of C5 or C6, or a Quality Rating of Q6
- Properties without permanently affixed legal heating systems (ex: space heaters or fireplaces as the sole source of heat)
- Properties without water or public electricity connections to the site
- Properties with a private transfer covenant unless the covenant is excluded under [12 CFR 1228](#) as an excepted transfer fee covenant

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## General Provisions

### *FEMA Declared Disaster Area Policy*

The FEMA Declared Disaster Area Policy applies to all areas eligible for individual and/or public assistance due to a federal government disaster declaration.

#### **Effective Date of Disaster Policy**

The disaster-area policy becomes effective as of the incident period end date for the disaster/event. FEMA publishes the incident period along with the declaration date once the area is presidentially declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

- Disaster Incident Period:
  - Begin Date: January 15
  - End Date: January 17
- Disaster Declaration Date: February 2
- Effective Date for Disaster Procedures: January 17

Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.

The disaster policy will be in effect for transactions during an ongoing disaster and transactions with a Note date that is within ninety (90) days of the end date of the disaster incident period. The disaster policy is also in effect for loans with a post-closing disaster and prior to date of sale to investor.

#### **Appraisal and Re-Inspection Requirements**

To ensure the property value has not been impacted by the disaster, a post-disaster property inspection is required. The inspection may be performed by the original appraiser, another licensed appraiser, or licensed property inspection company.

#### **Appraisal Performed On or Before Disaster Incident End Date**

The property inspection must identify the following:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.

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**Standard Appraisal Performed After Incident Period End Date for Disaster**

Appraisal must include written certification by the appraiser that:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.

Please note that FEMA makes updates to their state lists. Closely monitor FEMA's online reference at <http://www.fema.gov/news/disasters.fema>.

*Power of Attorney*

Subject to the restrictions and requirements listed below, MiMutual will allow the use of a Power of Attorney (POA) to execute the security instrument, note and other closing documents on behalf of the borrower(s).

**Requirements**

- POA to be recorded along with security instrument in those states requiring recordation.
- The person(s) name(s) granting the power of attorney must match the name on the security instrument.
- The POA must be valid at the time the affected loan documents were signed.
- The POA must be notarized and unless otherwise required by applicable law, must reference the address of the subject property.
- Only relatives (as defined by FNMA), fiancé, fiancée or domestic partners of the borrower may be named to act as an attorney-in-fact.
- It must be confirmed that the POA complies with all state laws

**Restrictions on the Use of a Power of Attorney**

Except as required by applicable law, the following restrictions apply:

- Borrower(s) must sign at least the initial or final 1003.
- POAs not allowed on Cash Out transactions.

*Title Requirements*

Title to the subject property **must not** contain an unacceptable title impediment, including unpaid real estate taxes and/or survey exceptions. If surveys are not commonly required in a particular jurisdiction, an ALTA 9 Endorsement must be provided. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

The title commitment cannot be dated more than 60 days prior to the Note date. If the commitment expires, acceptable gap coverage or an updated commitment must be obtained.

Unless otherwise stated here, Fannie Mae title insurance guidelines should be followed.

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