



Non-Conforming Jumbo Underwriting Guidelines

Non-Delegated Product
Version W04.01.16

A decorative graphic at the bottom of the page consisting of several overlapping, semi-transparent geometric shapes in shades of blue and grey, creating a layered, architectural effect.

NON-CONFORMING JUMBO



Correspondent Lending

FCM NON-CONFORMING JUMBO UNDERWRITING GUIDELINES

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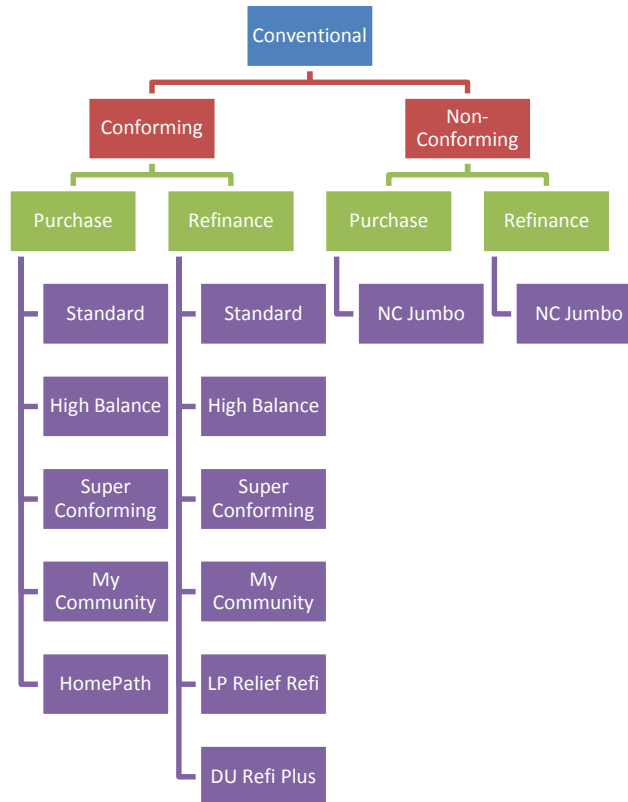
Non-Conforming Jumbo Underwriting Guidelines

Section 1.0 Program Overview

1.0 Program Overview

Conventional programs encompass both Conforming and Non-Conforming products. Fannie Mae and Freddie Mac both offer similar products which are often referred to as “agency” or Conforming loans. Products which fall outside of Fannie Mae or Freddie Mac’s offerings are considered Non-Conforming.

The intent of this guide is to outline the acceptable parameters for loan submissions of products which fall under the Non-Conforming or Jumbo category.



1.01.01 Multiple Risk Layering

Underwriters must take into account the file as a whole when evaluating any file for approval. Although the AUS findings are an essential tool in today's mortgage underwriting marketplace, in the end they are just that, tools to be used by the underwriter to help evaluate the overall risk tolerance for any given file. It will always fall back to the underwriter's experience and seasoned real-world skills in order to determine a file's creditworthiness and viability in the secondary marketplace.

That said, our underwriters are trained to assess the transaction for multiple layers of risk on any given file. Past performance has shown that individual risks and blemishes on a borrower's application may not pose a large potential for lack of repayment, however when multiple layers of risk are combined the performance levels drop significantly.

Some examples of these types of risks are:

- High Debt-To-Income Ratios
- Payment Shock
- Serious Adverse Credit
- Duration of Employment
- ARM Loans

Non-Conforming Jumbo Underwriting Guidelines

Section 1.02 Program Terms

1.02 Program Terms

1.02.01 Program Code

- NCF15: Non-Conforming Jumbo Fixed Rate Purchase or Refinance 15-Year Term
- NCF30: Non-Conforming Jumbo Fixed Rate Purchase or Refinance 30-Year Term
- NC5/1ARM: Non-Conforming 5/1 Adjustable Rate Purchase or Refinance
- NC7/1ARM: Non-Conforming 7/1 Adjustable Rate Purchase or Refinance

1.02.02 Terms

- 15 and 30 year terms are available

1.02.03 Rate Types

- Fixed Rate
- 5/1 LIBOR ARM with 2/2/5 Caps (Note that the borrower is qualified on the greater of the Note rate plus 2% or the fully indexed rate [margin plus current index value])
- 7/1 LIBOR ARM with 5/2/5 Caps (Note that the borrower is qualified on the Note Rate)

1.02.04 Loan Amounts

- Minimum Loan Amount: 1 Unit \$417,001
2 Units \$533,851
- Maximum Loan Amount: \$2,000,000
- Maximum Loan Amount: \$1,500,000 2 Unit Primary Residence
- Maximum Loan Amount: \$1,500,000 1 Unit Second Home
- First Time Homebuyer maximum loan amount is \$1,250,000

1.02.05 Transaction Types

1.02.05.01 Purchase

See Jumbo Loan LTV Matrix for Minimum Credit Score and LTV Requirements for purchase transactions.

- Seller Contributions are limited to 3%
- Excessive Commissions and Payouts are ineligible: Real estate commissions and marketing fee payouts are limited to 8% of the purchase price. Fees exceeding 8% must be deducted from the sales price.

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Section 1.02 Program Terms

Seller concessions greater than these must be treated as sales concessions and deducted from lower of the sales price or appraised value.

Seller must be owner of record for prior 12 months, a chain of title for the last 12 months is required.

1.02.05.02 Rate/Term Refinance

See Jumbo Loan LTV Matrix for Minimum Credit Score and LTV Requirements for Refinance transactions. Proceeds from a rate and term refi may be used for the following:

- To pay off a first mortgage regardless of age
- To pay off purchase-related junior liens
- To pay off non-Purchase Junior liens that are seasoned 12 months. In addition, if open-ended, verification of no cumulative draws greater than \$2000 have occurred in the last 12 months. Transaction history is sufficient documentation.
- To pay closing costs, prepaid items and no more than 1% or \$5,000 incidental cash back to the borrower.

(1) Rate and Term Requirements

- Must meet [Net Tangible Benefit Requirement](#)
- Property cannot have been listed for sale within the six months prior to loan application for rate/term refinances
- Properties owned less than 12 months, must use the lesser of the original purchase price or current appraised value.
- Must meet continuity of obligation requirements.
- A waiting period of 12 months must be met before a Rate and Term refinance may occur after a Cash Out refinance. Any refinance within 12 months will need to be documented by a copy of the HUD and a clear benefit to the borrower will need to be outlined by the underwriter in order to approve another refinance within 12 months.

1.02.05.03 Cash Out Refinance

- Primary Residence Only
- Borrower must have owned the property for at least six months and there must be six months seasoning since the most recent note date.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.02 Program Terms

- Property cannot have been listed for sale within the twelve months prior to loan application for cash out refinances.
- Properties owned less than 12 months, must use the lesser of the original purchase price or current appraised value.
- Must meet continuity of obligation requirements.
- **Maximum Cash-Out:**

Units	LTV/CLTV	Max Loan Amount	Min Credit Score	Max Cash
1	65%	\$1,000,000	720	\$500K

1.02.05.04 Ineligible Transactions

- Non Arm's Length Transactions are not eligible.
 - Sales between family members
 - Sales between business associates
 - Sales between business entity and a principal of that business
 - Sales involving builder/developer of subject property and their employee or affiliate
 - Borrower's acting as their own builder/contractor
- Sales Contract Assignments
- Life Estates
- Loans to FCM Employees, affiliates, subsidiaries or TPO business partners.
- Texas A(a)(6) refinances

1.02.06 Occupancy Type

- Primary Residence
- Second Home
 - 1 unit only
 - Reasonable distance away from borrower's primary
 - Suitable for year-round occupancy
 - Borrower must have exclusive control over property (including occupancy)
 - Cannot be a rental property or timeshare
- Investment Properties are not eligible.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.02 Program Terms

1.02.07 Secondary Financing

Subordination of existing financing is allowed.

New Secondary financing is allowed subject to maximum LTV limits as stated in the guide.

Secondary financing provided by the seller is not allowed.

Secondary financing must be fully disclosed in the file and must be clearly subordinated to the first mortgage.

Secondary Financing requirements:

- Mortgage/lien cannot have a maturity or call option date of less than five years
- Mortgage payments on subordinate financing must be included in housing and debt ratio analysis
- Payments on subordinate financing must be due at regular intervals and must be at least semi-annually and enough to cover the interest due.
- Subordinate financing must fully amortize during its term

Ineligible Secondary Financing features:

- Employer provided financing
- Subordinate mortgages held through a Community Second Mortgage/DPA Program
- Subordinate mortgages held by the seller
- Tax and judgement liens
- Subordinate mortgage liens subject to an interest rate buy-down plan
- Subordinate mortgages that allow negative amortization, contain a balloon feature, or a prepayment restriction/penalty
- Subordinate mortgages that have wraparound terms

Non-Conforming Jumbo Underwriting Guidelines

Section 1.03 Borrower Eligibility

1.03 Underwriting

Although all Non-Conforming Jumbo loans are manually underwritten the file must be submitted to Fannie Mae's Desktop Underwriter (DU) and receive an Approve/Ineligible. AUS findings must be retained in the loan file. Freddie Mac's Loan Prospector (LP) Feedback is not eligible for delivery.

1.04 Borrower Eligibility

1.04.01.01 Eligible Borrowers

- US Citizens
- Permanent Resident Aliens with proof of legal residence AND right to work with 24 month US work history.
- First Time Homebuyers (haven't owned a home in 3 years) – See Restrictions
- Revocable Living Trusts (subject to restrictions/review)

1.04.01.02 Ineligible Borrowers

- Non-Permanent Resident Aliens
- Non-Occupant Co Borrowers
- Borrower's owning 4 or more financed properties
- Foreign Nationals
- Non-Revocable Trusts
- Illinois Land Trusts
- Partnerships/Corporation

(1) First Time Homebuyers

First Time homebuyers are subject to additional requirements:

- Max Loan Amount: \$1,250,0000
- 1 Unit, Primary Residence Only
- VOR 0x12 Months
- 250% Payment Shock
- Must have 12 months reserves

Non-Conforming Jumbo Underwriting Guidelines

Section 1.04 Credit

1.05 Credit

1.05.01 Credit Report Requirements

- Residential Mortgage Credit Report or tri-merged file from all three repositories is required.
- Credit is Valid for 90 days from the note date.
- Minimum of 2 credit scores required.
- Credit improvement programs such as “Rapid Rescore” are not eligible. Re-pulling credit to remove disputes and erroneous information is acceptable.

(1) Minimum Trade Lines / Depth of Credit

Borrower should have a credit history that meets one of the following:

- 24 month (active and non-active) credit history with 3 open and active trade lines in the last 12 months trade lines
- OR
- 7 years of established credit history

Authorized user and non-traditional credit and foreign trade lines cannot be used to meet the required trade lines and are not considered acceptable.

(2) Bankruptcy/Foreclosure/Deed-in-Lieu/Short Sale/Mods

- Foreclosure: 7 years
- Deed-in-Lieu or Short Sale: 7 years
- Bankruptcy: 7 years
- Short Sale: 7 years
- Modifications: 7 years

(3) Mortgage History

- Maximum number of financed properties is limited to 4.
- Mortgage or Rental History must be 0 x 30 in the past 24 months.
- First Time Homebuyers must have a satisfactory VOR for at least 12 months.

(4) General Credit

- All judgments or liens affecting title must be paid before closing.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.04 Credit

- Charge-offs and collections are generally not acceptable, if outstanding and deemed acceptable, payoff prior to closing will be required. Payment plans/arrangements are not acceptable.
- Payoff of a revolving account in order to qualify the borrower is not allowed
- Borrower should not have current past due accounts.
- Borrowers with a history of collections are not acceptable.
- Any disputed tradelines must be resolved and put in a non-disputed status. Credit must be re-pulled with no tradelines showing in dispute.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

1.06 DTI, Income and Employment

1.06.01 Debt to Income

- Primary Residence Maximum Debt to Income is 43%
- Second Home Maximum Debt to Income is 40%

1.06.02 Age of Documents

- Income and Employment documents must be dated with 90 days of note date

1.06.03 Ineligible sources of income

- Boarder Income
- Capital gains Income
- Employer Mortgage Differential Payments
- Employment Assets as income or Asset Annuitization
- Government Assistance Programs (section 8, subsidy's paid to servicer)
- Homeownership subsidies
- Projected Income/Future Income
- Mortgage Credit Certificates
- Foreign Income
- Income deterrent to be temporary or one time in nature
- Retained earnings in a company/Stock Options
- Taxable forms of employment income not declared on personal tax returns (ie. Cash tips)
- Unverifiable income
- Trailing Co Borrower Income
- VA Education Benefits
- Income from: Gambling, Sources outside the US, subject property with land being leased to another party

1.06.04 Employment Income

All employment and income documentation are outlined in accordance with Appendix Q requirements.

Type of Employment Income	Required Documentation
Salary/Wage Earner	Full Verification of Employment VVOE for any past employer within 2 years.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<p>YTD Paystub covering at least 30 days 2 years W-2s 2 years signed and dated Tax Returns with all statements and schedules 2 Years Tax Transcripts VVOE 10 days prior to closing</p> <p>Analysis:</p> <p>Employment History Must verify last 2 full years of employment history. Explain any gaps greater than 1 month – if borrower has gap(s) greater than 30 days in previous 2 years, they must be employed in current position/employer for a minimum of 6 months to be eligible for financing. Allowances may be made for seasonal employment if properly documented. FCM will consider favorably the stability of a borrower’s income when frequent job changes occur, within the same line of work, and it is evident the borrower advanced in income and or benefits.</p> <p>Income Trending Income may not be used in calculating the borrower’s DTI ratio if it comes from any source that cannot be verified, is not stable or will not continue.</p> <p>Not Variable: Salaried borrowers do not have variable income - it should be verified that the salary is stable with slight trend upwards.</p> <p>Variable: Income that is variable in nature (hourly or wage variations) requires the trending to be analyzed:</p> <ul style="list-style-type: none"> • Stable/Increasing: Average • Declining/Increasing: Use lower of 2 years • Declining/Declining: cannot be considered effective
<p>Commission Income</p>	<p>2 years signed personal Tax Returns 2 years matching tax transcripts 2 years W-2s Most recent YTD paystub Full VOE (must break out commission income on a yearly basis and must indicate likely continuance) **Must have 2 full year average with same employer</p> <p>Requirements:</p> <ul style="list-style-type: none"> • Document a consecutive, recent, 2 yr history in the same line or work/position.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<ul style="list-style-type: none"> • Must be stable and/or increasing • Must document likelihood of continuance and sound rationalization for accepting commission income.
Bonus and Overtime Income	<p>2 years Tax Returns 2 years matching transcripts 2 years W-2s Most recent YTD paystub Full VOE (must break out bonus/overtime income on a yearly basis and must indicate likely continuance) **Must have 2 full year average with same employer</p> <p>Requirements:</p> <ul style="list-style-type: none"> • Document a consecutive, recent, 2 year history in the same position/line of work • Must be stable and/or increasing • Must document likelihood of continuance and sound rationalization for accepting bonus/overtime income.
Part Time/2 nd Job	Income from a 2 nd job or part time job is acceptable if the borrower can document 2 years of uninterrupted secondary employment/part time employment. Follow the same guidance as the income type (salary/wage, commission bonus) for the type received.
Part Time to Full Time	Borrower must meet 2 years receipt of income requirement. If borrower does not meet 2 year requirement and was previously in school or military, obtain transcripts/diploma or discharge papers to satisfy requirement.
Seasonal Income	May be acceptable if borrower has worked in same job or line of work for the most recent 2 years. All of the following is required: <ul style="list-style-type: none"> • Paystubs • 2 years W-2s • 2 years Tax Returns • Written confirmation from the employer that it is reasonably expected the employee will be rehired for the next season
Union Members	Verbal verification of Employment with Union or Current Employer <ul style="list-style-type: none"> • Most Recent Paystub from Current Employer • Last Paystub from each employer (if more than 1) for that year • 2 years W-2s • 2 years Tax Returns
Automobile Allowance	May be considered stable income if the income has been received for the past two years.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<ul style="list-style-type: none"> • Cash Flow OR Income and Debt Approach may be used • If NOT reported on 2106 use Income and Debt approach
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1.06.05 Self-Employment Income

<p>Self Employed - Sole Proprietor</p>	<p>Full 2 years signed and dated Tax Returns including all schedules 2 years matching personal Tax Transcripts Year to Date P & L statement signed and dated by the borrower within 90 days of note date.** Current Balance Sheet dated within 90 days of note date** 3rd party Verification of the Business/employment within 30 days of closing</p> <p>Analysis</p> <p>Self-Employment History Income from self-employment can be considered effective if the borrower has been self-employed for two or more years.</p> <p>Income Trending FCM will analyze 2 years full tax returns, YTD Profit and Loss and Balance Sheet. If income appears to be stable and/or increasing for all 3 time periods the income will be based on the average of the 2 years tax returns. Increasing income from a P & L is not to be used as verified income in analysis. If the income is trending downward, including the YTD P &L, the income will be averaged using the most recent tax return and P&L Statement. If the P&L shows a continuing decline (greater than 25% of previous 2 year average) the underwriter must determine the income ineffective for qualification.</p> <p>Income Calculation FCM's internal income calculation worksheet should be completed, however, only depreciation and depletion may be added back Adjusted gross income. Mileage and business use of home cannot be added back to income.</p>
<p>Self-Employed – Partnership (1065)</p>	<p>Full 2 years signed and dated Tax Returns Including all schedules 2 Years matching personal Tax Transcripts 2 Years K-1 statements 2 Years signed & dated Partnership Tax Returns (Form 1065) including all schedules 2 years matching Partnership Tax Transcripts</p>

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<p>Year to Date P & L statement signed and dated by the borrower within 90 days of note date.** Current Balance Sheet dated within 90 days of note date.** 3rd party verification of the business/employment within 30 days of closing</p> <p>Analysis</p> <p>Self-Employment History Income from self-employment can be considered effective if the borrower has been self-employed for two or more years.</p> <p>Income Trending FCM will analyze 2 years full tax returns, YTD Profit and Loss and Balance Sheet. Partnership Income as well as guaranteed distributions will be analyzed for increasing and decreasing trends. FCM will analyze 2 years full tax returns, YTD Profit and Loss and Balance Sheet. If income appears to be stable and/or increasing for all 3 time periods the income will be based on the average of the 2 years tax returns. Increasing income from a P & L is not to be used as verified income in analysis. If the income is trending downward, including the YTD P & L, the income will be averaged using the most recent tax return and P&L Statement. If the P&L shows a continuing decline (greater than 25% of previous 2 year average) the underwriter must determine the income ineffective for qualification</p> <p>Income Calculation FCM's internal income calculation worksheet should be completed, however, only depreciation and depletion may be added back to the adjusted gross income. Mileage cannot be added back to income. Income must be reduced by obligations payable by partnership in less than 1 year. Cash withdrawals from the partnership must be evaluated for negative impact on partnership operations. The partner's percentage of income from business is already considered in the K-1, adjustments to income should be added back at the partner's ownership percentage.</p>
<p>Self-Employed - Limited Liability or S Corp (1120S)</p>	<p>W-2's if Applicable (Noted on 1120S Line 7 – Compensation of Officers) 2 years signed and dated personal Tax Returns and schedules 2 years matching personal tax transcripts 2 years Corporate Tax Returns (1120S) all schedules 2 years matching Partnership Tax Transcripts Year to Date P & L statement signed and dated by the borrower within 90 days of note date** Current Balance Sheet dated within 90 days of note date** 3rd Party Verification of the business/employment within 30 days of closing.</p>

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<p>Analysis</p> <p>Self-Employment History Income from self-employment can be considered effective if the borrower has been self-employed for two or more years. The percentage of ownership in the corporation can be found on the corporate tax return, in cases where this is not listed, it must be verified with the corporation’s accountant along with verification the borrower is entitled to compensation.</p> <p>Income Trending FCM will analyze 2 years full personal and corporate tax returns, YTD Profit and Loss and Balance Sheet. Corporate Income as well as W-2s will be analyzed for increasing and decreasing trends. FCM will analyze 2 years full tax returns, YTD Profit and Loss and Balance Sheet. If income appears to be stable and/or increasing for all 3 time periods the income will be based on the average of the 2 years tax returns. Increasing income from a P & L is not to be used as verified income in analysis. If the income is trending downward, including the YTD P &L, the income will be averaged using the most recent tax return and P&L Statement. If the P&L shows a continuing decline (greater than 25% of previous 2 year average) the underwriter must determine the income ineffective for qualification. Cash withdrawals from the Corporation must be evaluated for negative impact on partnership operations</p> <p>Income Calculation FCM’s internal income calculation worksheet should be completed, however, only depreciation, depletion and or amortization may be added back to the adjusted gross income. Income must be reduced by obligations payable by the Corporation in less than 1 year.. After determining the adjusted corporate income the result may be multiplied by the borrower’s ownership percentage and considered in qualifying income.</p>
Self Employed – Corporation (1120)	<p>W-2’s if Applicable (Noted on 1120 Line 7 – Compensation of Officers)</p> <p>2 years signed and dated personal Tax Returns and schedules</p> <p>2 years matching personal tax transcripts</p> <p>2 years matching Partnership Tax Transcripts</p> <p>2 years Corporate Tax Returns (1120) all schedules</p> <p>Year to Date P & L statement signed and dated by the borrower within 90 days of note date**</p> <p>Current Balance Sheet dated within 90 days of note date**</p>

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<p>3rd Party Verification of the business/employment within 30 days of closing.</p> <p>Analysis</p> <p>Self-Employment History Income from self-employment can be considered effective if the borrower has been self-employed for two or more years. The percentage of ownership in the corporation can be found on the corporate tax return, in cases where this is not listed, it must be verified with the corporation’s accountant along with verification the borrower is entitled to compensation.</p> <p>Income Trending FCM will analyze 2 years full personal and corporate tax returns, YTD Profit and Loss and Balance Sheet. Corporate Income as well as W-2s will be analyzed for increasing and decreasing trends. FCM will analyze 2 years full tax returns, YTD Profit and Loss and Balance Sheet. If income appears to be stable and/or increasing for all 3 time periods the income will be based on the average of the 2 years tax returns. Increasing income from a P & L is not to be used as verified income in analysis. If the income is trending downward, including the YTD P &L, the income will be averaged using the most recent tax return and P&L Statement. If the P&L shows a continuing decline (greater than 25% of previous 2 year average) the underwriter must determine the income ineffective for qualification Cash withdrawals from the Corporation must be evaluated for negative impact on partnership operations</p> <p>Income Calculation FCM’s internal income calculation worksheet should be completed, however, only depreciation, depletion and or amortization may be added back to the adjusted gross income. Taxes due must be subtracted from taxable income. Income must be reduced by obligations payable by the Corporation in less than 1 year.. After determining the adjusted corporate income the result may be multiplied by the borrower’s ownership percentage and considered in qualifying income.</p>
<p>Self-Employment Losses</p>	<p>Regardless of “primary employment” or percentage in company/partnership – all self employment losses from Schedule C, E or K-1 will be deducted from borrower’s qualifying income.</p>

**P&L and Balance Sheet

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

All Profit and Loss and Balance Sheets must be prepared in accordance with GAAP standards. Acceptable formats would include:

- Quickbooks prepared P&L and Balance Sheet
- Non-Audited CPA/Bookkeeper prepared P&L and Balance Sheet
- Handwritten P&L and Balance Sheets will not be acceptable.

P&L's must cover the most recent quarter that ended one month prior to application date. If Tax Returns are not available for previous year, a P&L covering that year will also be required.

1.06.06 Non-Employment Income

Alimony, Child Support or Separate Maintenance	<p>Evidence of required payment (one of the following): Final Divorce Decree Legal Separation agreement Court Order</p> <p>Evidence payments are currently being made/received (one of the following that evidences 6 months): Cancelled Checks Deposit Slips Tax Returns Court Records</p> <p>To be considered effective it must meet the following: Has been received for 12 months Will be received for the next 3 years</p> <p>Income Calculation May be grossed up</p>
Retirement/Pension Income	<p>Existing distribution of assets from an IRA, 401K or similar retirement asset account must be sufficient to sustain income continuance for a minimum of five (5) years.</p> <ul style="list-style-type: none"> • Verification of the assets of the plan and verification of receipt of the distribution of at least six (6) months is required. <p>Note: Distributions from asset accounts cannot be set up, or changed, solely for loan qualification purposes</p>
Social Security Income	<p>Copies of most recent two months bank statements or check stubs SSA Award Letter</p>

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<p>If any benefits expire within first full three years of mortgage, income may not be used in qualifying .If SSA benefit verification letter does not indicate a defined expiration date within three years of loan origination, consider income effective and likely to continue. Pending or current reevaluation of medical eligibility for benefit payments is not considered an indication benefit payments are not likely to continue. SS Income may be non-taxable and could be grossed up. If borrower doesn't file tax returns a "No Return on Record" transcript should be obtained to determine borrower's non-taxable status and the income should be grossed up 125%. If borrower files tax returns the SS should be grossed up according to their appropriate tax bracket.</p>
Interest and Dividends	<p>2 years signed tax returns YTD Statement showing current earning trend of assets</p> <p>To be considered effective it must meet the following: Must have been received for previous two years Must be stable/increasing Is expected to continue for at least 3 years Is adjusted for any amount liquidated to complete the transaction</p> <p>Income Calculation Income should be averaged over 2 years and YTD and analyzed for decreasing trend.</p>
Royalties	<p>2 years personal income tax returns Most recent 12 months bank statements showing regular deposit</p> <p>To be considered effective it must meet the following: Have 2 year history of receipt as evidence by tax returns Must be expected to continue for at least 3 years</p>
Trust Income	<p>Copy of the Trust Agreement, must state the following:</p> <ul style="list-style-type: none"> • Amount of the Trust (Amount Specifically Designated for Borrower if multiple beneficiaries) • Frequency of Distribution • Duration of payments/distributions • Portion of Income that is not taxable <p>Copy of 2 years tax returns supporting trust income for past 24 Months</p> <ul style="list-style-type: none"> • Non-taxable trust income must include proof of distribution <p>To be considered effective it must meet the following: Must be constant guaranteed income payments. Must continue for at least first 3 years of the mortgage.</p>

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	NOTE: Assets from the trust may be used for the required cash investment if the borrower provides sufficient documentation that the depletion of assets will not have a negative effect on income.
Notes Receivable Income	A copy of the note to evidence amount of payment and duration Evidence the last 12 months payments have been made/received. (deposit slips, deposit receipts, cancelled checks, bank statements) Signed Tax Returns should support the receipt of note income. To be considered effective it must meet the following: Income must be supported by previous 2 years of Tax Returns Will be expected to continue for at least 3 years
Military Pay	The following additional benefits are acceptable as long as there is no indication the income will end: <ul style="list-style-type: none"> • Variable housing allowance • Clothing allowance • Flight or hazard pay • Rations • Proficiency pay

1.06.07 Deductions to Income

2106 Expenses	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income
Recurring Capital Loss	Capital Losses that are re-occurring must be considered when determining effective income. Three years tax returns are required to evaluate an earnings trend, if the trend consistently shows a loss, it must be deducted from income.
Rental Loss	**SHOULD BE TREATED AS A LIABILITY – NOT A DEDUCTION TO INCOME**

1.06.08 Rental Income

Rental Income from borrower Occupied property	2 years signed tax Returns, all schedules Current Lease Agreement* Analysis:
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Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	<p>Property must be multiple units. Income from a single family residence occupied by the borrower is not acceptable (boarder income). Income must be received for 24 months with no unexplained gaps. Projected rent from subject property may be used deducting vacancy and maintenance factor (25%) and may not be used to directly offset the mortgage payment.</p> <p>Income Calculation: Most Recent Schedule E: Add back depreciation, amortization to Rental Income/Loss. Line 18 + Line 21 = Annual Rental Income Loss) / 12 = Monthly Rental Income (Loss)</p> <p>Lease (may only be used if property is being acquire d or was acquired subsequent to most recent tax filing): Gross Lease Amount x 75% = Gross Monthly Rent – PITIA = Monthly Rental Income (Loss)</p>
<p>Rental Income from Investment Property other than subject property.</p>	<p>2 years signed tax returns, all schedules Current lease agreement*</p> <p>Analysis: Borrower must have 24 month history free of unexplained gaps on tax returns to show that rental income is stable and effective. If property was acquired subsequent to last tax filing the gross lease income may be used with the appropriate vacancy and maintenance factor below.</p> <p>Income Calculation: Most Recent Schedule E: Add back depreciation, amortization to Rental Income/Loss. Line 18 + Line 21 = Annual Rental Income Loss) / 12 = Monthly Rental Income (Loss)</p> <p>Lease (may only be used if property is being acquire d or was acquired subsequent to most recent tax filing): Gross Lease Amount x 75% = Gross Monthly Rent – PITIA = Monthly Rental Income (Loss)</p>
<p>Conversion of Primary Residence - Income from property being vacated.</p>	<p>Full or Exterior Only Appraisal on Home being vacated. New Executed Lease for at least 1 year term Copy of Security Deposit and/or First Month’s Rent</p> <p>Analysis: If property is being rented but borrower is not using rental income to qualify, document intent for property through an LOX and mark the property retained. If rental income is needed to qualify then obtain above documentation.</p>

Non-Conforming Jumbo Underwriting Guidelines

Section 1.05 DTI, Income and Employment

	Income Calculation: Gross Rental Amount x 25% (Vacancy Factor) = Gross Rental Income - PITIA = Net Rental Income for Qualifying.
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*Current lease agreements are always required if income from the property is used in qualification. "Rollover Leases" – leases that have met their original lease agreement and have rolled over into a month to month tenancy agreement are acceptable with copy of the lease showing it rolls into a month to month agreement and proof of current receipt of income.

1.06.09 Tax Transcripts

Tax Transcripts should be ordered for all tax returns in the file that are used for qualifying income. Tax Transcripts validate returns and are part of FCM's due diligence. If the borrower does not file taxes, a "No Record of Return" receipt must be received for each year non-taxable income is being considered. Tax transcripts must ALWAYS be obtained for borrowers with any self-employment income reported on their tax returns even if the SE income is not included in income qualification.

Tax Transcripts may not be used in lieu of full copies of borrower filed Tax Returns. IRS Transcripts may not be used in lieu of W-2s. Business transcripts may not be used in lieu of full business Tax Returns.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.06 Liabilities

1.07 Liabilities

1.07.01 Recurring Liabilities

All recurring liabilities are to be included in the computation of debt to income. Recurring obligations include:

- All Installment Loans
- Lease Payments
- Revolving Charge Accounts
- Real Estate Loans
- Alimony (Must be included as a liability – not a deduction to income)
- Child Support
- Negative Rental Income (Loss)

Debts lasting less than 10 months must be included in the debt to income ratio.

1.07.02 Revolving Account Monthly Payment Calculation

If the credit report shows any revolving accounts with an outstanding balance but does not list a payment then the payment must be calculated as the greater of:

- 5% of the balance or
- \$10

FCM may obtain directly from the lender evidence of the actual monthly payment. If evidence of the actual monthly payment is obtained that payment must be used in the debt to income ratio.

1.07.03 Open-End Accounts

In the absence of a monthly payment on the credit report or direct verification of the payment, the greater of 5% of the outstanding balance or \$10 can be considered to be the required monthly payment;

or

When the balance is equal to the monthly payment, the borrower may provide sufficient verified funds to pay off the outstanding account balance. The funds must be in addition to any funds required for down payment, closing costs, financing costs, prepaids/escrows or reserves, as applicable

Non-Conforming Jumbo Underwriting Guidelines

Section 1.06 Liabilities

1.07.04 Other Real Estate Owned

Documentation on other real estate owned is required regardless of whether or not the income is being used to qualify. The following documentation is required:

Properties that are currently financed:

- Current mortgage statement showing full payment and evidence of escrowed items. For all non-escrowed items, documentation is required. (Taxes, Insurance, HOA etc). Required regardless of whether shown on schedule E.

Properties that are free and clear:

- Provide documentation that each property is free and clear (ie. Title search, property profile/report from county etc) Required even if no expense is shown on Schedule E
- Provide current expense documentation on HOI, Taxes, HOA etc.

1.07.05 Contingent Liabilities

Contingent liabilities are debts for which the borrower is liable in the event of another party's default. Contingent liabilities must be included in the DTI unless the borrower can provide evidence the primary debtor has been making satisfactory payments for a minimum of 12 consecutive months and the account is current with no history of delinquency. The following types of debt may be considered contingent when another party other than the borrower is both obligated on the note and provides evidence they are paying the debt:

- A Car Loan
- A Student Loan
- A Mortgage
- Or any other obligation

The following documentation is required:

- Note evidencing payer as a debtor to the obligation
- 12 months Cancelled Checks or Bank Statements evidencing automated withdrawals

If the borrower is no longer obligated due to divorce or legal separation:

- Finalized and Recorded Divorce Decree/Separation Agreement

Non-Conforming Jumbo Underwriting Guidelines

Section 1.06 Liabilities

If the borrower has had a Mortgage assumed:

- A 12 month satisfactory payment history showing that the mortgage has been current during the previous 12 months or
- A release of Liability from the current servicer/lender of assumed mortgage

1.07.06 Student Loans

Deferred student loans must be included in the borrower's DTI. If the credit report has the payment that will be due when the deferment end, that payment may be used in qualification, if no payment is reported, documentation may be obtained to show what the payment will be. If no payment can be verified the payment will be calculated at 2% of the outstanding balance.

Student Loans under IBR payment plans will be calculated at 2% of the outstanding balance.

1.07.07 Authorized User Accounts

Authorized user accounts must be included in liabilities. Authorized user accounts may not be used to meet the minimum trade line requirements.

1.07.08 Projected Obligations

Debt payments such as student loans that are set to begin payment outside of 12 months from the note date do not have to be included in DTI. Balloon payments coming due within 12 months of note date must be considered in underwriting analysis.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.07 Assets

1.08 Assets

1.08.01 Documentation

All borrower funds, whether used for cash to close or reserves must be documented. All asset documentation must be dated within 90 days of note date. See Table for Documentation Required for Asset Type.

1.08.02 Large Deposits

Any non-salary payroll deposit(s) within 30 days that are greater than or equal to 25% of the borrower gross monthly income will be considered a large deposit and source documentation will be required. Payroll Bonus and Commission checks will be required if they exceed 25% of gross monthly income.

1.08.03 Cash to Close

Acceptable Sources:

Checking/Savings/Money Market Accounts	100% May be Used Documentation: 2 months Bank Statements or 1 month bank statement and VOD.
Earnest Money	All Earnest Money, builder deposits, upgrade fees and other monies held on deposit must be documented regardless of amount or percentage of transaction. Documentation: A copy of the cancelled check OR a copy of the un-cleared check and bank statement with proof of funds to clear.
Stocks, Bonds and Mutual Funds	100% of Liquidated value may be used. Documentation : Borrower's ownership of the account must be documented (account statements). Proof of liquidation and value at the time of liquidation. Proof of receipt of funds
Withdrawal from IRA/SEP/KEOGH/401K	60% of Vested Value minus any outstanding loans may be used towards cash to close.

Non-Conforming Jumbo Underwriting Guidelines

Section 1.07 Assets

	<p>Documentation: Asset Statement, Proof of Withdrawal and Terms of Withdrawal are required.</p>
Gift Funds	<p>Primary Residences only. Allowed after borrower meets 5% from their own funds. Loan Amounts restricted to \$1M.</p>
Business Funds	<p>Borrower must own 100% of Business – restricted to 50% of business assets. Borrower must be providing at least 5% of down payment from personal/non-business funds.</p> <p>Documentation: 3 Months Business Bank Account Statements for UW Cash Flow Analysis Letter From CPA with the following:</p> <ul style="list-style-type: none"> • The withdrawal will not have an adverse impact on the business • The borrower has access to the funds • The funds are not a loan <p>*The Accountant may not be related to the borrower or be an interested party to the transaction.</p>
Sale of Currently Owned Real Estate	<p>100% of May be used</p> <p>Documentation: Fully Executed HUD documented Net Proceeds, must be received before or simultaneous to new transaction.</p>
Trust Assets	<p>100% of funds available to borrower</p> <p>Documentation: Obtain documentation the borrower(s) has immediate access to funds. Obtain written confirmation of Trust account value (ie. Statement) Copy of the Trust or Certificate of Trust outlying terms/conditions distributions are available to borrower(s).</p>

1.08.03.01 Ineligible sources of cash to close:

- Restricted Stock or non-vested accounts
- 1031 Deferred Exchange Funds
- Cash-On-Hand
- Gift of Equity

Non-Conforming Jumbo Underwriting Guidelines

Section 1.07 Assets

- Personal Unsecured Loans
- Credit Card advances
- Sweat Equity
- Rent Credit from Rent to Own Transactions
- Donations
- Real Estate Commissions from the subject property transaction (even if borrower is agent)
- Custodial Accounts where borrower is not the beneficiary
- Pooled Funds - from a relative or person residing with the borrower

1.08.04 Reserves

Acceptable Sources:

Checking/Savings/Money Market Accounts	100% May be Used Documentation: 2 months bank statements or 1 month bank statement and VOD.
Stocks, Bonds and Mutual Funds	70% of value may be used Documentation : Borrower's ownership of the account must be documented (account statements). Proof of liquidation and value at the time of liquidation. Proof of receipt of funds
Withdrawal from IRA/SEP/KEOGH/401K	50% of Vested Value for Borrowers < 59 ½, 70% of vested value for Borrower ≥ 59 ½, minus any outstanding loans may be used towards reserves. Documentation: Asset Statement and Terms of Withdrawal are required.
Business Funds	May be used if the following can be met: <ul style="list-style-type: none"> • Borrower is 100% owner of business • Borrower files Schedule C • CPA can provide letter that withdrawal will not negatively affect the operation of the business
Trust Assets	100% of funds available to borrower Documentation: Obtain documentation the borrower(s)has immediate access to funds. Obtain written confirmation of Trust account

Non-Conforming Jumbo Underwriting Guidelines

Section 1.07 Assets

	value (ie. Statement) Copy of the Trust or Certificate of Trust outlying terms/conditions distributions are available to borrower(s).
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1.08.04.01 Ineligible sources of reserves

- Gift Funds
- Business Account Funds
- Restricted Stock or non-vested accounts
- Cash-On-Hand
- Personal Unsecured Loans
- Credit Card advances
- Donations
- Real estate commission from the subject property transaction
- Proceeds from the sale of real estate or other asset

1.08.04.02 Reserve Requirements:

Type / Units	Loan Amount	Months Reserves	Months Reserves First Time Homebuyer Requirement
Owner Occupied 1-2 Units (P, LCOR,C/O)	Up to \$1,000,000	6 months	12 months
	\$1,000,001 to \$2M	12 months	12 months (max 1.25 Million)
Second Home / 1 Unit (P, LCOR)	Up to \$1,000,000	8 month	NA
	\$1,000,001 to 1,500,000	14 months	NA
ADDITIONAL FINANCE PROPERTIES	Add 2 months subject property PITIA reserves for each additional financed property borrower owns.		
Current Residence Pending Sale or Conversion	Add 6 months reserves based on the PITIA of the retained (pending sale) property.		

Non-Conforming Jumbo Underwriting Guidelines

Section 1.08 Property

1.09 Property

1.09.01 Eligible Properties

- 1-unit Single Family Detached or Attached
- 2-unit Purchase or Rate/Term Primary Residence
- Townhomes
- Properties less than or equal to 10 acres

1.09.02 Ineligible Properties

- 3-4 unit properties on Primary Residences
- 2-4 unit properties on Second Homes
- 3-4 unit properties on Primary Residence Cash Out Transactions
- 2-4 Unit PUD Projects
- Warrantable/Non Warrantable Condos (Both Attached and Detached)
- Investment Properties
- Co-ops/Common Interest Apartments
- Manufactured Homes
- Properties with greater than 10 acres
- Unique Properties (berm homes, geodesic homes, historic and log homes)
- Properties with appraisal ratings in C5, C6, condition or Q6 quality of construction are not eligible.
- Leasehold Estates
- Cantilevered properties
- Working/hobby farms, ranches or orchards.

1.09.03 Appraisal Requirements

A Loan amount between \$1,500,000 and \$2,000,000 requires Two Full Appraisals (the lower of the two determines the LTV) and Automated collateral review (CDA).

A CDA will be required for loan amounts \leq \$1,500,000 if any of the following apply:

- LTV or CLTV > 75% for Purchase or Rate and Term
- LTV or CLTV > 65% for Cash-Out Refinance

Non-Conforming Jumbo Underwriting Guidelines

Section 1.08 Property

- Subject transaction is a flip – resale of property within 180 days and the subject sales price is more than 10% over the previous sales price. Appraisal must justify/comment on price increase.

CDA Findings:

- **CDA > 10% Below Appraisal:** Use CDA value as appraised value **or** obtain a BPO and Reconciliation of Original Appraisal, CDA and BPO to determine final value.
- **CDA Indeterminate Value:** Order a second full appraisal – lesser of two appraisals will be final appraised value for LTV calculation
- **CDA Supports Value within 10%:** use original appraisal value.

1.09.03.01 Declining Markets

If appraisal indicates that subject property is in a declining market the maximum LTV/CLTV is reduced 5% from the product matrix for the underlying product.

1.09.03.01 Rural Markets

If the appraisal indicates that the subject property is Rural and the transaction is a Cash Out Refinance, the maximum LTV from the product matrix is reduced by 5%.

1.09.04 Geographic Restrictions

State	Restrictions
Arkansas	PINE BLUFF (MSA FIP 38220) <ul style="list-style-type: none">• Maximum LTV/CLTV is reduced 5% from product matrix
Florida	ENTIRE STATE <ul style="list-style-type: none">• Maximum LTV/CLTV is lesser of 75% or product matrix
Illinois	DANVILLE (MSA FIP 19180) <ul style="list-style-type: none">• Maximum LTV/CLTV is reduced 5% from product matrix

Non-Conforming Jumbo Underwriting Guidelines

Section 1.09 Adjustable Rate Mortgage (ARM) Transactions

1.10 Adjustable Rate Mortgage (ARM) Transactions

First Community Mortgage offers three different types of adjustable rate mortgages for Conforming Products and two different types for Non-Conforming Jumbo products. Each has unique properties as outlined below but all are based off the London Interbank Offered Rate (LIBOR) index. ARMS are acceptable through DU OR LP.

1.10.01 Non-Conforming Jumbo ARMs

Program Code	ARM Type	Margins	First Adjustment Cap	Annual Cap after First Adjustment	Lifetime Cap	Qualifying Rate	INDEX
NC5/1ARM	5 Year ARM	2.25	2	2	5	Rate + 2%	LIBOR
NC7/1ARM	7 Year ARM	2.25	5	2	5	Note Rate	LIBOR

FIR = Fully Indexed Rate = Index + Margin.